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Life Insurance in India

by K.S. Gopalakrishnan

Editor's Note: Any views expressed in this article are purely those of the author.

The Past

Life insurance in its present form came to India with the establishment of a British firm, Oriental Life Insurance Company, in 1823. The first Indian-owned life insurance company, the Bombay Mutual Life Assurance Society, was set up in 1871. The Indian Life Assurance Companies Act, 1912, was the first statutory measure to regulate the life insurance business. The concept of life insurance, thus, is not a new concept to the country of a little over one billion people with a total land area of over 3.2 million square kilometers.

In 1956, India had an entirely privatized life insurance industry with 245 insurers, primarily writing business in the cities and for the better-off segments of the society. Though the Insurance Act of 1938 provided the legislative framework, the large number of insufficiently regulated insurers provided for an increased potential for abuse. The government of India, in September 1956, took over the management of all life insurers and created a nationalized monopoly in the form of the Life Insurance Corporation of India (LIC).

	Life Insurance Company	Foreign Insurer Joint Venture Partner
1	LIC of India	None (Government-owned)
2	ICICI Prudential	Prudential of UK
3	Birla Sun Life	Sun Life Financial (Canada)
4	Aviva	Aviva
5	MetLife	MetLife
6	ING Vysya	ING
7	AMP Sanmar	AMP
8	Tata AIG	AIG
9	SBI Life	Cardiff
10	Kotak Life	Old Mutual
11	Max New York Life	New York Life
12	HDFC Standard Life	Standard Life
13	Bajaj Allianz	Allianz
14	Sahara India Life	None (fully Indian-owned)

The Exciting Present

The wheel turned one full circle when the government, as part of financial sector reforms, opened up the insurance industry for the private sector in 1999. The legislation paved the way for an independent autonomous regulatory body called the Insurance Regulatory and Development Authority (IRDA). Foreign companies, are however, not allowed to own more than 26 percent in the private insurance companies. The IRDA quickly came out with regulations covering several areas including licensing of intermediaries, appointed actuary, financial reporting, solvency and investments. The first private sector life insurance company opened for business in December 2000. Unlike in some other countries, a license to write life insurance business in India allows companies to do business across the country and also write all types of life insurance business.

As of April 2005, there were 14 life insurance companies, including the LIC (see chart in the left column).

It is reported that more foreign insurers are keen on setting foot on India but are perhaps deterred by the maximum of 26 percent they can own. The government has been indicating that the 26 percent could go up to 49 percent, but the timing of this depends to a great extent on how quickly a consensus is arrived at amongst the leading political parties.

The Market

The entry of new players has seen a paradigm shift in the market. The new companies ventured into different distribution channels such as selling through banks. This channel has become so successful in a short span of time that it accounts for almost one-third of the business for the key new players. The approach to selling life insurance, too, underwent a major change when it was made mandatory for every sale to be preceded by a standardized sales illustration.

Until the advent of new players, traditional participating endowment type products ruled the market. The new players brought in contemporary unit-linked (variable universal life) products and also introduced protection products in the form of term products and critical illness riders. The popularity of unit-linked products forced every other player to take another look at their market strategy. In fact, every player now not only has unit-linked products, but also gives greater attention to sales from this product line. Birla Sun Life can claim credit for being the first private player to launch this product line. Interestingly, this company is the only company that does not write any participating business in India. The success of unit-linked products can be seen in that it accounts for a major part of the business for the two leading private players—almost 80 percent for the number one private sector player, ICICI Prudential and almost 100 percent for the number two private sector player, Birla Sun Life.

The potential for life insurance in India is estimated to be huge as the share of life insurance premium to GDP was a low 2.26 percent (2003). A fast growing economy (over 6 percent p.a.), a burgeoning middle class (over 300 million), high per capita savings and low penetration of insurance point toward the opportunities that exist for growth of life insurance.

Four years after the entry of new players, LIC continues to dominate the market but has surprisingly lost market share faster than anticipated. From a 100 percent market share of new premium in the year 2000, the LIC's share has dropped to 78 percent (for the period April 2004 to February 2005). The sheer size of LIC can be seen from these impressive statistics—27 million new individual policies sold in 2003-2004, 157 million in-force individual policies as of March 31, 2004, more than one million agents, over 2000 branches and assets under management of Rs. 3,218 billion (approximately USD 73 billion) as of March 31, 2004.

The Actuarial Profession

A growing actuarial profession in India stagnated after the nationalization in 1956. A single government employer market offered limited career prospects, forcing those qualifying as actuaries to migrate to other countries. The liberalization of financial markets has now revived interest in the actuarial profession.

The profession in India is organized under the Actuarial Society of India (ASI) since 1944. The ASI was primarily a body for research and discussions until 1989 when it started its own examinations leading to qualification as an actuary. The ASI works very closely with the U.K. actuarial profession. As of 31 August 2004, the ASI had 3,769 members, of whom 205 were fellows.

The IRDA regulations have made the appointed actuary system mandatory for life and P&C companies. This move has strengthened the role of actuarial advice within these insurance companies. Further, the government is in the process of liberalizing the pensions market. Efforts are also under way to promote health insurance in the country. All these present tremendous opportunities for actuaries to grow and contribute.

The ASI has become a vibrant body in the last couple of years by coming out with professional guidance notes on various areas, changing its examination course in line with international trends, signing mutual recognition agreements with the United Kingdom and Australia, organizing seminars and actively encouraging research work.

Conclusion

India is a country of several commonalities and contradictions. The wide disparity in income levels of its people is a good example of this. However, as the economic reforms unlock its true potential, it is expected that the country will soon emerge as an economic powerhouse. A high propensity for Indians to save, growing economy and low insurance penetration indicate a huge potential for the life insurance industry. The current shortage of experienced actuarial skills makes it even more attractive for the actuarial profession! ☐

Useful Web sites:
www.irdaindia.org
www.actuariesindia.org

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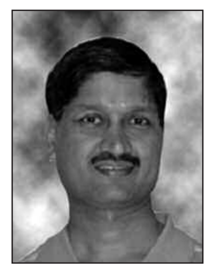

K.S. Gopalakrishnan, FIA, ASA, FCIA, FIII, FASI, is an actuary with Birla Sun Life Insurance Company in Mumbai, India. He has been actively involved in the Actuarial Society of India for more than 10 years in various activities. He can be reached at gopalakrishnan@birlasunlife.com.