

Decade after Privatization In Life Insurance Sector: Challenges Of Competition And Future Scenario

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Abstract-*The impact of privatization in life insurance business in India has showed tremendous transformation from monopoly business to a vibrant sector with mushrooming companies promoting wide range of policies and increasing customer penetration rate. The growth in the life insurance sector has showed new heights and the executions of the private companies has given tough challenge to the Life Insurance Corporation of India(LIC). The entire sector has started to show significant changes right from increasing insurance penetration to changing the customer mindset about the life insurance. Creative practices in marketing and innovative policies have changed the entire dimensions of the life insurance sector. The present research aims at bring out the evolution and advancement of private sector in life insurance business, challenges and competition ahead for future scenario of life insurance sector in India. The research is based on the empirical study. The research paper provide critical analysis on the issues on the changing practices in life insurance business and the various developments in the past decade.*

Key words: Bancassurance, Customized benefit illustrator (CBI), i-plans, lapsation, Unit Linked Insurance plans(ULIPs).

1.0). Introduction

Insurance Industry is one of the driving forces for the economic development of the country and is considered to be the backbone of country's risk management

system. It not only benefits the nation's growth, but also primarily aimed at sharing the risk of the insurance holder. Insurance is a defensive measure used against future conditional losses to hedge the possible risks of the future. It is a legal contract that protects a person from contingent risk of losses through financial means and provides a means for individuals and societies to handle some of the risks faced in daily life. These contracts of insurance are called policies and are provided by insurance companies. The insurance is primarily classified based on the compensation to be paid to a person for an anticipated loss to his life, business or an asset. Insurance is broadly classified into Life Insurance and General Insurance. Together with these two types of insurance, it is providing to the welfare of many families with variety of policies (insurance products) which are tailor made to the needs and expectations of the people. Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums.

The journey of life insurance has showed very slow growth till the achievement of Independence. The first 150 years were marked mostly by turbulent economic conditions. It witnessed, India's First War of Independence, adverse effects of the World War I and World War II on the economy of

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India, and in between them the period of world wide economic crises triggered by the Great depression. However, the new hope of success for life insurance business got its seed after achievement of independence in 1947. Nationalization of the life insurance business in India was a result of the Industrial Policy Resolution of 1956, which had created a policy framework for extending state control over at least seventeen sectors of the economy, including the life insurance. The first half of the 20th century also saw a heightened struggle for India's independence. The aggregate effect of these events led to a high rate of bankruptcies and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover. The Life Insurance Corporation of India was the only life insurance company grabbed the entire life insurance market in India till 2000. But, the LIC not able to manage to increase the size of the policy holders in India.

Since, 1991, Indian economy has been going through euphoric financial reforms. Consequent to the implementation of landmark reforms in the financial sector, the insurance sector in India is going to witness sea change. The Government of India appointed a committee on reforms in the insurance sector in April, 1993 under the chairmanship of Shri. R.N.Malhotra, former finance secretary and R.B.I. Governor. The Government implemented major reforms as envisaged by the landmark report of Malhotra Committee. Based on the outcome of the report, the Government of India enacted Insurance Regulatory Development Authority (IRDA) Act,1999. Later, the IRDA became the regulatory body for the insurance companies and the recommendations of IRDA resulted in the entry of private companies in the life insurance and as well as in the General Insurance sector.

Over the last decade(period of 10 years from 2000 to 2010), since the life insurance sector was privatized, the industry has shown a remarkable and impressive

development in the sector. Liberalization of the life insurance sector has helped in bringing out several positive developments as the emergence of a large number of private and foreign players in life business is expected to bring in global best practices at the choice in terms of greater product innovation, proliferation of distribution network both at retail and corporate level. Many joint ventures in life insurance started innovative marketing practices which has highlighted the sector to reach one of the emerging service industries in India.

2). Review Of Literature

Dr. Anand Bansal(2005), in his research titled "Insurance sector: Is privatization non the right track" focused on the evolution of private sector and the competitive environment in the insurance sector. His study focused on the regulation of invested funds and the challenges ahead for the sector to target on. S. Krishnamurthy(2005) in his article titled "Insurance sector: Challenges of competition and future scenario" touched on the evolution of private sector in life insurance business. His article focused on need of better distribution channels like bancassurance and product offering and market scenario in life insurance sector. Prof. D. Sakriya & Prof. K. Raji Reddy(2006), in their research article titled " Changing scenario of life insurance business in India" focalized on the changing environment in the life insurance business in terms of number of companies and type of policies that have emerged after the entry of private sector. The article focused on various trends in life insurance and the future scenario of life insurance sector. G.V. Rao(2008) in his research article titled " Managing risks in 21st century –role of insurance industry" touched on the various risks that the companies has to focus upon in order to bring quality services for long term. Abhay Johory (2010) in his article "A strategic gain in insurance – Data warehousing" discussed that data warehousing is assuming increasing significance in insurance companies, in order

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that customer service is given the utmost importance. His article focused on the need of data warehousing which is highly relevant and critical to insurers, combines the data from multiple and usually varied sources into one comprehensive and easily manipulated database. Kamesh Goyal(2010), in his article “Defining strategies for the future – innovations and developments in insurance” studied that customization of products for the clientele, in tune with their growing demands and global exposure, has been the hallmark of the Indian insurance industry in the post liberalized regime. Paresh Parasnis(2010) in his article titled “creating multi-pronged strategies in tune with innovations and developments” focused on the need of innovative distribution channels and matching of the customer with creative distribution channels that can fetch the better results”.

3). Significance Of The Study

The life insurance sector is considered to be one of the very promising service sectors in India which is contributing more than 4% to GDP. Presently, the life insurance business in India is valued 75,000 crores. The life insurance sector has begun during the period of britishers, yet the sector was lacking the growth till the private sector has took place in the business. Ever since, the entry of private sector has changed the facet of the life insurance business. Healthy competition between the companies made them to introduce innovative tailor made plans which are aimed at targeting the customers. The decade from the period 2000 to 2010 showed the entry and advancement of private sector. The present research paper is aimed at analyzing various issues that took place in the last decade in the life insurance business. The present paper critically examines the significant changes that were took place in the last 10 years. The paper also contributes to some of the challenges ahead for the life insurance sector in coming period and the paper also throw light on the future scenario with the help of statistical technique.

4). Objectives Of The Study

The study is proposed to achieve the following objectives.

1. To study the evolution of private sector entry in Indian life insurance business.
 2. To examine the impact of privatization on life insurance sector.
 3. To elucidate the trends in life insurance sector after the entry of private sector.
 - 4). To crystalize the challenges of competition for the private sector in the market
- Finally, to provide conclusions and suggestion on the basis of analysis.

5). Research Methodology

The present research paper is an empirical one. The statistical figures for the study have been collected from the annual reports of IRDA and the branches of life insurance companies. The primary data has been collected from the policy holders and the representatives of the life insurance companies. For the purpose of analyzing the future scenario of life insurance market share, the regression analysis has been used separately for the market share of LIC and the private sector. The data in most of the cases comprise of 10 years (decade) from the period 2000 to 2010. Percentages and averages were used where ever appropriate.

6). Evolution Of Private Sector Entry In Indian Life Insurance Business

Before,2000, LIC was the monopoly in the life insurance business in India. Later, the 21st century beginning has brought its impact with the entry of private life insurance companies in India. With in a period of 10 years, the Indian companies made tie ups with the foreign companies through joint ventures and operated its life insurance services to the Indians. The following table shows the entry of private companies’ year wise.

6.a). Before Liberalization

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Period: 1956 – April 1st 2000:

- Life Insurance Corporation of India

6.b).After Liberalization

After liberalizing the insurance sector in India, many new private life insurance companies started its operations by having joint venture with foreign companies. The IRDA and its regulations encouraged many private insurance companies to start life insurance businesses in India. The following is the list of companies.

The following statistics shows that within a period of 10 years, 22 new private life insurance companies entered in life insurance market. This suggests that, the regulations of IRDA benefited private firms to operate in insurance market. The following table also suggests that out of total 22 private life insurance companies, 20 companies are joint ventures. It suggests that IRDA’s decision of 26% of FDI in insurance business benefited many Indian companies to start private life insurance business in India. From this we conclude that before liberalization of Indian insurance business, LIC is the monopoly in life insurance business in India. But, when the reforms took place in insurance, it resulted in establishment of IRDA and the IRDA gave life to many private life insurance companies in India. Within a short span of time, IRDA has done a very good job of ensuring a smooth transition from a single player market to a competitive one. It will continue to have a major role to play in the years to come in ensuring that each and every Indian citizen is approached with the right advice to cover the risk to his/her life and protect the family from adverse financial circumstances.

| | | |
|-----|---|-----------------------------------|
| | Ltd. | |
| 4 | Om Kotak Life Insurance Co. Ltd. | Old Mutual, So |
| 5 | Birla Sun Life Insurance Co. Ltd. | Sun Life, Cana |
| 6 | Tata AIG Life Insurance Co. Ltd. | American Int Co.,USA |
| 7 | SBI Life Insurance Co. Ltd. | BNP Parbas AS |
| 8 | ING Vysya Life Insurance Co. Ltd | ING Insuranc Netherlands |
| 9. | Bajaj Allianz Life Insurance Co. Ltd. | ING Insuranc Netherlands |
| 10 | Metlife India Insurance Co. Ltd. | Met Life Intern USA |
| 11 | Reliance Life Insurance Co. Ltd.(Earlier AMP Sanmar Life Insurance Co. Ltd. | ----- |
| 12 | AVIVA Life Insurance Co. Ltd. | Aviva Internati |
| 13 | Sahara Life Insurance Co. Ltd. | ---- |
| 14 | Shriram Life Insurance Co. Ltd. | Sanlam, South |
| 15 | Bharti AXA Life Insurance Co. Ltd. | AXA Holdings |
| 16 | Future Generali India Life Insurance Co. Ltd. | Pantaloons Reta Network Pvt.Lt |
| 17 | IDBI Fortis Life Insurance Co. Ltd. | Fortis, Netherla |
| 18. | Canara HSBC OBC Life Insurance Co. Ltd. | HSBC, UK |
| 19. | Aegon Religare Life Insurance Co. Ltd. | Religare, Nethe |
| 20. | DLF Pramerica Life Insurance Co. Ltd. | Prudential of A |
| 21. | Star Union Dai-ichi Life Insurance Co. Ltd., | Dai-ichi Mutua |
| 22. | IndiaFirst Life Insurance Company Ltd. | Legal and Gene |

Source: IRDA Handbook

7). Impact Of Privatization On Life Insurance Sector

The privatization has made tremendous impact on the total life insurance sector. The development in the life insurance sector significantly in the last decade. Some of the achievements in the life insurance sector have given below.

**Table No.1
List Of Life Insurance Companies After Liberalization**

| S.No. | Insurers | Foreign Partners | Year of Operation |
|-------|---------------------------------------|----------------------------|-------------------|
| 1 | HDFC Standard Life Insurance Co. Ltd. | Standard Life Assurance UK | 2000-01 |
| 2 | Max New York Life Insurance Co. Ltd. | New York Life, USA | 2000-01 |

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7.a).Life Insurance Penetration& Density In India

The measure of life insurance penetration and density reflects the level of development of life insurance sector in the country. While life insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian life insurance for private participation, India has reported increase in both insurance penetration and density. The increase in the total insurance penetration has shown that the increase has been almost entirely contributed by the life insurance sector.

7.b). Fund Wise Growth Of Life Insurance Products After Privatization Of Life Insurance

The following table shows the growth of life insurance products, a comparison between traditional funds & ULIP funds. From the table it is clear that, ever since from the introduction of ULIP funds, the growth percentage has shown almost more than double than the traditional funds. And also, the table gives clear picture of the value of the traditional funds and ULIP funds from the period 2004-05 to 2009-10.

Table No.2
Life Insurance Sector Density And Penetration In The Past Decade

| Year | Life Insurance sector | |
|------|-----------------------|---------------------|
| | Density(US Dollars) | Penetration (% age) |
| 2001 | 9.1 | 2.15 |
| 2002 | 11.7 | 2.59 |
| 2003 | 12.9 | 2.26 |
| 2004 | 15.7 | 2.53 |
| 2005 | 18.3 | 2.53 |
| 2006 | 33.2 | 4.1 |
| 2007 | 40.4 | 4 |
| 2008 | 41.2 | 4 |
| 2009 | 47.7 | 4.6 |

Source: IRDA annual reports

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 47.7 in 2009. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.60 per cent in 2009. From the above statistics it is evident that the entry of private sector has boosted the growth of the sector. The increase has reached 7 times better than the 2001 which shows that the private sector entry in second half of 2000 has made the sector a vibrant one.

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7.c). Fund Wise Growth Of Life Insurance Products, A Comparison Between Traditional Funds & Ulip Funds

The following table shows the fund wise growth of life insurance products, i.e., Traditional funds and ULIP funds growth.

(The values in total column indicates in Crore Rupees)

Table No.3

Fund Wise Details Of Life Insurance Products(A Comparison Of Traditional & Ulip Funds)

| Name of the Fund | 2004-05 | | 2005-06 | | 2006-07 | | 2007-08 |
|---|-----------|------------------------------|----------|------------------------------|----------|------------------------------|---------|
| | Total | Increase% over previous year | Total | Increase% over previous year | Total | Increase% over previous year | Total |
| Life Fund | 366219.85 | 19.17 | 397188.6 | 8.46 | 465555.3 | 17.21 | 541630 |
| Pension & General Annuity & Group Fund | 54704.62 | 51.13 | 64073.92 | 172.73 | 71574.71 | 28.21 | 91262 |
| Traditional(A) = Life Fund + Pension & General Annuity & Group fund | 420924.47 | 70.3 | 461262.6 | 181.19 | 537130 | 45.4 | 632892 |
| Unit Linked Funds (B) | 7527.44 | 345.86 | 25888.14 | 243.92 | 67049.8 | 159 | 133077 |
| Total (A+B) | 428451.91 | 21.5 | 487150.7 | 13.7 | 604179.8 | 24.02 | 765969 |

Source: Annual Reports of IRDA, 2000-01 to 2009-10

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From the above table, it is clear that Unit Linked fund's growth is quite inconsistent. The Unit linked fund has started to grow rapidly since its inception, as a result, the 2004-05 and 2005-06 showed tremendous growth for the Unit Linked fund. In the same period, the growth in the traditional funds has been steady. The financial year 2006-07 showed the increase in the Unit Linked funds again with a staggering growth of 150% and in the same period the traditional funds showed 45.4% of growth. The period between 2008 and 2009 showed the impact of recession and its influence on the life insurance market growth. During the era of crisis, the life insurance market growth suffered with the low sales of life insurance policies. The year 2007-08 showed declining growth of the both funds. And the year 2008-09 showed further decline especially in the Unit Linked Plans. The period 2009-10 has showed increase in the ULIP funds growth and slight decline in the traditional funds growth. Hence, from the statistics, it is to be observed that the growth in ULIPs is increasing than the traditional funds growth and the impact of recession is evident in the growth of ULIPs. Overall, the above statistics are clearly showing the impact of the crisis on the life insurance market. When it comes to total growth percentage which include traditional and Unit linked plans, the 2008-09 period showed declining growth percentage due to the impact of crisis on the life insurance market.

7.d). Fund Wise Asset Managed By The Top 5 Life Insurance Companies In India

Table No.4
Fund wise assets managed by Top 5 life insurance companies in india

| Sl. No. | Name of the Company | Type of fund | | | | | |
|---------|---------------------|-----------------------|-----------------|--|------------------|-----------------------|------------------|
| | | Life Fund(Rs. Crores) | | Pension & General annuity & Group Fund(Rs. Crores) | | ULIP Fund(Rs. Crores) | |
| | | 31st March, 2009 | 31st March-2010 | 31st March,2009 | 31st March, 2010 | 31st March,2009 | 31st March, 2010 |
| | LIC | 606487 | 699475.45 | 107135 | 130884.76 | 85792 | 15667.77 |
| | HDFC Standard | 2536.6 | 4451.08 | 575.35 | 655.02 | 7184.1 | 15305.36 |
| | ICICI Prudential | 3109.73 | 4326.29 | 967.12 | 1167.53 | 28614 | 51469.25 |
| | SBI | 3644.43 | 4800.63 | 4351.5 | 6688.65 | 6444 | 17087.31 |
| | Bajaj Allianz | 2945.69 | 4582.34 | 152.55 | 438.30 | 14065 | 28414.62 |

Source: Annual Report of IRDA, 2009-2010

Analysis

The above table shows that the asset managed by the top 5 life insurance companies. The top 5 companies are selected based on the total premium achieved by the life insurance companies in the annual reports of IRDA. From the table & graph, it is to be understood that except the Life Insurance Corporation of India (LIC), remaining top 4 private life insurance companies were obtained majority of the asset through the ULIP funds rather than the traditional funds. From this, it is to be concluded that except LIC, the remaining private life insurance companies are heavily depended on the ULIP funds for their business. As the ULIP funds are associated with the performance of market, the impact of crisis is heavy on the market which resulted in the decline in the sale of the ULIP funds during the period of recession.

8). Trends In Life Insurance Sector After The Entry Of Private Sector

The private sector entry has made the life insurance market a competitive one. The monopoly position of the LIC has replaced with cut throat competition between the companies from the year 2000. During the last decade, many transformations has resulted in type of life insurance plans, the marketing practices, customer relationship management. And more importantly, the market share of the private sector and LIC has shown the advancement of private sector from the last decade.

8.a).Market Share Of Life Insurance Companies From 2001-02 To 2009-10

The following table shows the market share of LIC compared with the private sector life insurance companies from the period 2001-02 to 2009-10. Here, the market share is based on the total premium.

**Table No. 6
Market Share Of Life Insurance Companies From 2002-2010**

| Insurer | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| LIC | 99.41 | 97.91 | 95.32 | 90.7 | 85.75 | 81.92 | 74.39 | 70.92 | 70.10 |
| Private sector | 0.54 | 2.08 | 4.68 | 9.93 | 14.25 | 18.08 | 25.61 | 29.08 | 29.90 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: IRDA Annual Report from 200-01 to 2009-10

From the table, it is evident that, the share of LIC is decreasing ever since from the entry of private sector. The private sector started to attract many customers as a result, together with 22 private life insurance companies, the private sector has send a strong message to the LIC that the competition may further increase in the coming years. With in a span of decade, the private sector has successfully achieved 29.90 percent which means, the private sector has shown the remarkable advancement in the life insurance business.

8.b). Future Ahead

The regression analysis technique is used to predict the future scenario of the life insurance sector.

i). Market Share Of Lic By 2020

X values are taken as year and Y values are taken as market share of LIC, then

1. The regression equation of Y on X => $\sum X = 18054, \sum Y = 765.83, \sum XY = 269353.35, \sum X^2 = 36216384, \sum Y^2 = 66217$, Means of X = 2006, Mean of Y = 85.09

$b_{xy} = 4.14$

Regression Co-efficient of Y on X => $b_{yx} = -4.15$

(i). Regression Equation of Y on X =
$$Y - \bar{Y} = b_{yx}(X - \bar{X})$$

$$Y = -4.15X + 8409.99$$

Projection for the year = 2020 is given by:

Expected Market share of LIC = $-4.15 (2020) + 8409.99$
 = 26.99

Analysis

By applying the technique of Regression Equations, the projections for the years 2020 is made for the LIC. From the above calculations, the projection market share for LIC in the year 2020 found to be 26.99. From the statistics, we conclude that the LIC is showing the tendency of downfall with the entry of private sector in India. Hence, it is to conclude that LIC is having a tough competition with the entry of private sector.

8.c). Market Share Of Private Sector By 2020

X values are taken as year and Y values are taken as market share of private sector, then

1. The regression equation of Y on X $\Rightarrow \sum X = 18054, \sum Y = 134.15, \sum XY = 269353.35 \sum X^2 = 36216384, \sum Y^2 = 3050.57, \text{Means of } X = 2006, \text{Mean of } Y = 13.41$

$b_{xy} = 4.14$

Regression Co-efficient of Y on X $\Rightarrow b_{yx} = 4.14$

(i). Regression Equation of Y on X =

$$Y - \bar{Y} = b_{yx}(X - \bar{X})$$

$$Y = 4.14X - 8291.43$$

Projection for the year = 2020 is given by:

$$\begin{aligned} \text{Expected Market share of Private sector} &= 4.14 (2020) - 8291.43 \\ &= 71.37 \end{aligned}$$

Analysis

By using the technique of Regression Equations, the expected market share of private sector by the year is 2020 is 71.37. With the predictions, we can conclude that by next 9 years, the private sector is going to capture the market share of more than half in Indian market and it is going to overtake the Life Insurance Corporation of India. As the projections are clearly favouring the private sector, we conclude that with the entry of private sector, the LIC is facing a tough competition by the private life insurance companies in India

8.d). Innovative Policies And Marketing Practices

The past decade also shown inspiring life insurance policies which are innovative perfectly tailor made plans to the customers. The introduction of market based Unit linked insurance plan(ULIP) is one of the great achievements happened in the life insurance sector. Today, the Indian life insurance market is riding high on the unit linked insurance plans.

8.e).Ulips And Its Features

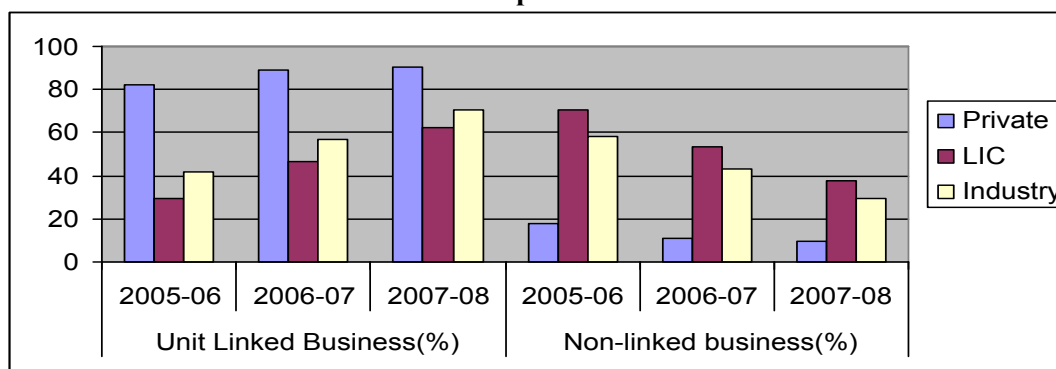
Unit linked insurance plans(ULIPs) are insurance plans that combine the benefit of investment with insurance. They give the investor an option to put apart of their premium in various investment portfolios and derive the benefits depending upon the performance of the funds chosen by them. ULIPs were launched at an opportune time when stock markets had just taken off. ULIPs have gained high acceptance due to the attractive features they offer which include flexibility to choose sum assured, premium amount and option to change level of premium even after the plan has started. Apart from that the fund options, liquidity and transparency has made the ULIP as hot cake in the market. After opening up of the insurance sector, ULIPs have become increasingly popular. Analysis of figures for the last three years indicates the growth pattern of unit linked business.

Table No.7
Share Of Ulips In Different Sectors Of Life Insurance

| Type of sector | Unit Linked Business(%) | | | Non-linked business(%) | | |
|----------------|-------------------------|---------|---------|------------------------|---------|---------|
| | 2005-06 | 2006-07 | 2007-08 | 2005-06 | 2006-07 | 2007-08 |
| Private | 82.3 | 88.75 | 90.33 | 17.7 | 11.25 | 9.67 |
| LIC | 29.76 | 46.31 | 62.31 | 70.24 | 53.69 | 37.69 |
| Industry | 41.77 | 56.91 | 70.3 | 58.23 | 43.09 | 29.7 |

Source: IRDA annual reports 2005-06 to 2007-08

Graph No.1



As reflected in the business figures and the above chart it is the unit linked business which is driving the growth of premiums over the last 3-4 years. While the private players have taken the lead in this segment, LIC has also made strong strides in the sale of ULIPs during the last 4 years.

8.f). Changing Pattern Of Life Insurance Services By The Marketers

Customer is the king and customer services are the key to the success. Especially for the life insurance industry, protecting and providing better care to the customer is one of the main objectives. Presently, the companies are taking much care in providing presale service and as well as post sale service. The presale services include making the customer well aware of right product that can be chosen with the help of need analysis. The companies are presently using the special service like Customized benefit illustrator (CBI) to make the customer well aware of all the needy information of the policy.

8.g). Pre-Sale Services Through Customized Benefit Illustrator (Cbi)

Once having decided to go in for a particular product, which is based on the outcome of the need analysis, the customer would be given a CBI which clearly demonstrates the true picture of the policy and how it would run over its entire tenure. This typical CBI would include all the required information like the premium amount payable, tenure, the periodicity/mode of premium, survival benefits payable, if any, death claim etc. In case of an investment plan, it would also give an indicative return at a predetermined rate of 6% and 10 p.a.(mandated by Regulator). It would also

show the mortality risk, cover charges, administration charges, policy servicing charges, service tax, etc., that would be deducted at regular intervals from such investment.

8.h). Post Sales Service

In the normal post sale service, issues like change in nomination, assignment of the policy, reassignment of the policy, address change etc., are taken care of. Some of the other services include SMS alerts to the customer and giving information or certain reminders like sending birthday/anniversary greetings, details of the additional requirements, policy delivery details, lapse intimation, ECS activation/deactivation etc. Apart from that presently the companies today have designed and developed interactive customer service portal where in the customer can transact their business with the insurance company. And the grievance redressal mechanism governed by IRDA and the companies as well are also giving trusted services to the customers.

8.i). Online Plans & Services

Presently, all the life insurance companies including LIC started to offer 24/7 services to the customer through own websites. And private companies took one step ahead by introducing i-plans to give the customer unique advantage of taking the policy completely online. New policies like i-term plan by Aegon Religare life, iProtect plan by ICICI Prudential life insurance gave new dimensions in attracting more customers. Policy locator is another feature launched by the companies to give variety of general and policy information to the customers.

8.j). Innovative Distribution Channels

Life insurance companies started to build innovative distribution channels in order to increase its customers. Bancassurance is one of the emerging concepts benefited many companies in the 21st century. Bancassurance refers to the sale of insurance policies through the bank's established branch network. It is basically selling insurance products and services leveraging the large customer base of a bank and fulfilling, both, the banking and insurance needs of the customer at the same time. With the entry of private players in the Indian insurance market, bancassurance emerged as an important channel of distribution for insurance products. Within four years since the end of 2000, life insurance companies secured approximately 50 bancassurance relationships, over 550 relationships with corporate agents in addition to the emergence of other smaller channels, such as Non-government Organizations('NGOs') and voluntary bodies. Even LIC has followed suit, with over 12 bancassurance relationships and 4 corporate agency tie-ups. Banks have emerged as the preferred alternative distribution channel in the last 3 to 4 years. India has close to 69,000 bank branches spread over rural and urban locations, offering a good network for potential insurance penetration.

8.k). Telecassurance

The use of telephone as the distribution channel has increased in the recent past. Especially by using the tele calling services, the companies are performing their best in making the customer informed about the policies and benefits. The emerging concept will definitely is going to play a strategic role in the coming years.

9). Challenges Ahead

The private sector has contributed huge to the development of the insurance business in India. But yet, some of the practices of the life insurance companies are creating tough challenges to tackle with. These include:

9.a).Increasing Life Insurance Policy Lapsation

Lapsation is the discontinuance of payment of premiums by the policy holder during the term of the life insurance policy in violation of his obligations set out in the terms of the policy contract. The phenomenon has emerged as a major bane of the life insurance sector in view of the large number of policies falling into lapsation at different time point of the contracts. Lapsation is one of the most major sources of leakage of revenues for an insurer. The insurers' cash inflow projections are upset due to non-materialization of expected renewal premium revenues, in turn affecting the expense ratios and profits.

The following statistics shows the lapsation details for the fiscal year 2008-09.

Table No.8
Lapsation Details For The Fiscal Year 2008-09

| Name of the company | No. of policies lapsed/forfeited | Sum assured linked to the lapsed policies(in Rs. crore) | Lapse ratio (in %) |
|---------------------|----------------------------------|---|--------------------|
| LIC | 7,373,000 | 52,926 | 4 |
| ICICI Prudential | 777,000 | 25,269 | 53 |
| Max New York Life | 198,000 | 25,269 | 53 |
| Reliance Life | 91,000 | 679 | 40 |
| HDFC Standard Life | 76,000 | 1,524 | 6 |
| ING Vysya life | 61,000 | 998 | 16 |
| Birla Sun Life | 45,000 | 808 | 9 |
| Aviva Life | 32,000 | 166 | 59 |
| Kotak OM Life | 31,000 | 1,180 | 19 |
| Shriram Life | 16,000 | 366 | 41 |
| Bharti AXA Life | 11,000 | 596 | 46 |

Source: Annual reports of IRDA 2008-09

In the fiscal year 2008-09, due to the recession and its impact, the life insurance sector has suffered from the blow of the lapsation. Policies worth about Rs.1 trillion lapsed in fiscal 2009. The above statistics clearly suggesting that the increase in the lapsation in the life insurance companies is one of the tough challenges to tackle with. Some of the other findings, where the life insurance companies are to tackle with are:

- i. Bancassurance tie ups in the more recent times demand a high upfront payment owing to the supply-demand dynamics, creating problems for the insurer in terms of capital requirement which is already quite high in India.
- ii. The current emphasis on selling ULIPs and incentive generated for insurance intermediaries may be acting to the detriment of the industry as widespread cases of mis-selling may emerge. There may be strong linkages with the adopted sales strategy which insurance companies need to identify for themselves.
- iii. Repudiation of claims is one of the problems ahead especially for the private companies. The fraud in life insurance especially false claims has been increasing steadily in the last decade.

- iv. Creating efficient database for long term storage is tough task for the companies in recent years as the I.T. solution underpinning the data challenges.
- v. Increased awareness and importance of insurance among public especially in urban areas compels more customized products and pricing methodology as per the needs of the customers.
- vi. Competition in bringing new clients; and retaining the existing ones.
- vii. Dearth of highly qualified distributors who convert the prospects to insureds.
- viii. Need of quality data warehousing that can improve business profitability analysis, including underwriting, claims performance, persistency, cross-selling penetration and fraud detection.
- ix. Developing risk management systems that can support extensive risk modeling and data analysis, including asset and liability management.

10). Findings And Recommendations Of The Study

Ever since from the entry of private sector, the concept of life insurance has changed from protection plan to investment plan. The FDI limit of 26% has benefited the companies to form joint venture and enter into the life insurance sector. The life insurance density has increased tremendously with in a span of 10 years. The private companies are especially benefited with ULIP plans as the assets under private sector companies are clearly suggesting that the ULIP is the plan in which they are focusing upon. The market share of LIC has decreased to 70% which indicates the advancement of private sector. Though the sector is developing rapidly, yet the problems like increasing lapsation especially in private sector, dearth of highly qualified distributors and need of better risk management system that can reduce the fraud in life insurance business is highly needed to fulfill the gap and for the long term development and achievement of life insurance business. Investing in equity derivatives, advanced plans and better policy framework for the marketing and as well as low priced and multiple benefit product development will certain give fruitful results for the life insurance sector.

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