

EFFECT OF LIBERALISATION ON INDIAN LIFE INSURANCE MARKET - AN OVERVIEW

By: Mr. A. K. Shukla
Former Chairman & M. D.
Life Insurance Corporation of India

"By providing financial protection against the major 18th and 19th century risk of dying too soon, life insurance became the biggest financial industry of that century....."

Providing financial protection against the new risk of not dying soon enough may well become the next century's major and most profitable financial industry"

Peter Drucker

"Innovate or die" in the Economist
25th September, 1999

Unlike the whole World:

- a. India happens to be first country in the World to launch an independent regulator exclusively for Pension Sector.
- b. Move over baby-boomers, Zippies have arrived. The World's youngest nation has 54 per cent of her people below 25 years of age. The Indian scenario is quite different from the whole world on many other counts too. Let's get them right.

This country of magic rope climbing still retains its element of mysticism for any policy maker and public policy determinator to take a second look at the fresh as flower working population. This population (15-59 age bracket) was 55.6 per cent in 1991. It grew up

to 59 per cent in 2001 and projections are 62 in 2006 and peaking at 63.4 in 2011 (about 747 million Indians). But if one wants to flesh out key information from this demographic statistics, you need an extra course of Indian curry from the Goldman Sachs BRIC (**Brazil, Russia, India, China**) Report. Here are some key points:

- Over the next 50 years, Brazil, Russia, India and China – The BRICs economies could become a much larger force in the World economy.
- If things go right, in less than 40 years, the BRICs economies together could be larger than the G6 in US dollar terms. By 2025 they could account for one half the size of G6. Currently they are less than 15 per cent.
- About two – thirds of the increase in US dollar GDP from the BRICs should come from higher real growth, with the balance through currency appreciation.
- While growth in the G6, Brazil, Russia & China is expected to slow significantly over the next 50 years, India's growth rate remains above 5% through out the period. India's GDP outstrips that of Japan by 2032. With the only population out of the BRICs that continues to grow

through out the next year, India has the potential to raise its US dollar income per capita in 2050 to 35 times current levels.

The euphoria is well earned as we look at the economic measures of liberalization initiated in insurance sector. Six years into competitive market, the Indian insurance industry has exhibited a healthy growth trend of new business and market share. From total premium underwritten of Rs. 34,898 Crore in the year 2000-01 to Rs. 66,287.93 Crore in 2003-04, followed by an aggressive achievement posted at Rs. 81,301.40 Crore in 2004-05, the life insurance industry has seen the new players stabilize their operations keenly matched by LIC and the premium numbers bring out the fact that the size of the insurance market has grown over the six years of liberalization.

But, in the economics of power, size (by various definitions) does matter. Today, if one looks at the share of World GDP at Purchasing Power Parity, standing tall at fourth (with 5.7 %) India is being looked up as a place of potential. India is about half the size of Chinese economy and China is still half of the U.S economy. Between the Dragon and the Elephant, insurance penetration still does not reflect the economic size of our country. The catchup potential is tremendous even if we are looking at the worldwide average. Insurance premiums as a percentage of GDP are only 2.9 % in India, far below the worldwide average of 8.1 %. With liberalization, India is penning the script of Insurance Convergence (catch-up) and not

Insurance divergence (falling behind). So, what is the star cast for the challenges ahead?

Create additional markets by enhancing the level of risk awareness

Since opening of insurance industry, as at 2003-04, private players have brought 21.87 % of their new business through referrals and direct business, a sure sign of harnessing the strengths of the captive market of the respective organization. It clearly indicates the comfort zone of operation of the players. But the real operational efficiency will emerge beyond the boundaries of comfort when they will try to expand the market share in the unfamiliar territory. As globalization is starting to treat the whole World as "ONE", insurance companies across the globe are looking at growth opportunities and risk diversification and we will be part of it.

Insurance business runs in numbers. It is imperative for all the players to look for new market in years to come, a very healthy sign in our industry.

New products to take care of unattended or inadequately addressed risk exposures

All of us have the objective of introducing new products according to the needs of the customer. As of now, the trend has been like an architect building his own house first. To ensure growth based on our strengths, most of the players have encashed the alternate channels of selling i.e., bancassurance. The key product has been ULIP which showed itself in single premium policies where in Private players have posted 3 digit growths in the last 3 years. But the

point to be borne in mind is that ULIP serves only the short term goals of the customer and that to a minisection of consuming class. We require aggressive product placement to cater to the long term needs of the customer. It is believed that the market has enough to offer, enough desire to consume as the consumer is ready and waiting to be served. But this offers challenges as consumer generally have high benefit expectations but modest prices. This means real innovation will be rewarded and marketing hype may get ignored. India is growing young hence challenge will be in surmounting to keep the Brand relevant as well as trendy.

Parallel thoughts take us to the notable views of personalities like Prof. C. K. Prahlad and Sri N. Vittal who have expressed their views on Social obligations. They have voiced, "If 26% of our population are below the poverty line, can they themselves become a new market?!!" IRDA as a regulator wants that the 5% of business of the companies should come from the rural areas in the first year which should go up to 15% as the business matures. In addition, taking its developmental role the IRDA has floated a concept paper on micro insurance and I believe that all of us can take the responsibility to the higher ground in days to come. LIC has been working on it quite actively.

A more pragmatic approach towards health insurance (by both the Insurer and the Regulator)

Health insurance as such has been a non-starter since the opening up of Industry. Most of us have introduced

health-wise benefits in the form of riders in the policy but a lot of ground has to be covered in making the field business worthy. Absence of regulations to regulate health services, condition of health services, awareness even about hygiene, non-availability of health and health service related data, lack of experience in the field of health insurance, underwriting and product pricing are a few issues which are to be addressed to ensure a healthy beginning of health insurance. The IRDA is likely to soon come out with a white paper on the health insurance and its promulgation. Special educational tools and awareness programs assume greater importance as all concerned need to be made aware of these issues.

Furthering market reforms vis-à-vis Insurance Industry

Life insurance industry, by its very nature is capital intensive. As of now none of the new insurers have been able to generate surplus on their Revenue Account. Further, majority of them have injected Capital to bridge deficits but in the long run these companies taking into account market opportunities coupled with present low penetration will become self sustainable. Government is keenly examining the upward revision of limit of foreign players but besides that option, private sector will have to give a renewed thrust towards mobilizing the revenue through long term plans of insurance selling. In business, more so in sales, things happen only with pressure of course without compromising ethics.

Perhaps, IRDA may have to keep the tab on, keeping the option of upward

revision of limit as a later option of conscious choice.

Pension reforms and the role of players in it

Mere look at the demography and consumer psychographics of our country complemented with increasing longevity makes all of us excited about the tremendous potential waiting to be tapped in the pension market. Across the globe, all the insurance companies are fixated on only one line of product named "Defined contribution". There seems to be a dearth of ideas on product innovation on this front.

Even now the temptation of erstwhile products based on defined benefit is so huge that many companies in foreign soil are reverting to demiguarantee of minimum annuity if contribution does not match up to the expected level.

On one side we have the risk of dying early, towards which most of the customers do not make a willing agreement. But when it comes to the risk of living long, each and every soul on this World strongly associates himself with it. The need is there, the risk is understood but it seems, potential products are yet to be developed.

The insurance industry as well as the research community has to join together and brainstorm on this front to take the Pension reforms towards the Woodstock of Indian annuity. There is an ancient dictum in Rig Veda: *Let noble ideas come to us from every side.*

Insurance, its selling and marketing is more like a dialogue now (thanks to

liberalization) to provide long term solutions to the customer incorporating every feature he considers critical and valuable. Archimedes remarked, ***"Give me a lever long enough and I shall move this world"***. In LIC, our ideas are fast becoming habits that customers trust us for and I am sanguine that we are the long lever that will move this world. I hope all the other players in the market are ready to give us a run for our money in the Insurance market.

WE KNOW INDIA BETTER ■

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