

Pricing of life insurance product in India: A performance analysis

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Abstract

The study on 'Pricing of Life Insurance Products in India-A performance analysis' was undertaken at National School of Insurance Education and Research (NASIER). The insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language. The projects highlights the performance of Life insurance sector vis a vis Non-Life insurance sector as well as the overall performance of Life Insurance products in India. Life insurance is a contract providing for payment of a sum of money to the person assured or failing him to the person entitled to receive the same, on the happening of certain event. Life insurance products contribute not only to the economic development of the country but also to its social development, hence it is important to analyze and understand the different aspects of Life insurance products including the premium.

Keywords: policyholder, insurance products, performance, non-life insurance sector

1. Introduction

Insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of loss, from one entity to another, in exchange for payment.

An entity which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or pre-existing relationship. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated. The amount of money charged by the insurer to the insured for the coverage set forth in the insurance policy is called the premium. Everyone that wants to protect themselves or someone else against financial hardship should consider insurance. This may include:

- Protecting family after one's death from loss of income
- Ensuring debt repayment after death
- Covering contingent liabilities
- Protecting against the death of a key employee or person in your business
- Buying out a partner or co-shareholder after his or her death
- Protecting your business from business interruption and loss of income
- Protecting yourself against unforeseeable health expenses, etc.

2. Research Methodology

2.1 Statement of the Problem

The Life Insurance market in India was an under developed market that was only tapped by the state owned LIC till the entry of private insurers. Insurance industry, as on 1.4.2000, comprised mainly two players: the state insurers – Life Insurance Corporation of India and General Insurers, the General Insurance Corporation of India. In India, insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits. Even to this day, Life Insurance Corporation of India dominates Indian insurance sector. With the entry of the private insurers the rules of the game have changed. Private sector players backed by foreign expertise have made the Indian insurance market more vibrant. Therefore the main problem is to analyze the contribution of both the public and the private sector in the growth of the life insurance sector in India.

2.2 Objectives of the Study

- To analyze the performance of Life insurance Vis a Vis Non-Life insurance companies.
- To assess the pricing of Life insurance products.

2.3 Type of Research

The type of Research used in the study is Analytical Study.

2.4 Data Collection

The data, which is collected for the purpose of study, is divided into 2 bases:

- Primary source: The data is collected based on the personal enquiry with the staff of the organization.
- Secondary source: The secondary data various websites such as Insurance Regulatory and Development Authority of India website.

2.5 Data Analysis

The data is analyzed on the basis of suitable tables by using mathematical techniques. The technique used is bar technique.

2.6 Limitations of the Study

- Lack of information. Insurance Companies, both private and public do not disclose all the information needed for conducting a thorough research.
- The study is mainly based on secondary data.

3. Data Analysis and Interpretation

Pricing of Insurance Products

The insurance industry faces the problem of production cost. While most industries know the cost of materials, labor and profit margin to calculate the price of their products, insurers do not know the cost of the product when it is sold. Insurers looking to implement a price optimization strategy must consider these essential components:

A) **Information management:** Key to the success of using price optimization is the quantity and quality of the

available data, especially claims and customer data.

- B) **Data exploration:** The emergence of business analytics software, like data exploration and visualization tools, helps insurers refine their analysis and evaluation of certain risk elements.
- C) **Predictive modeling:** Insurers must use analytical tools to perform what-if simulation and scenario testing to forecast future behavior and improve the underwriting performance of the insurance company.
- D) **High-performance analytics:** To process the large data quantity and perform complex analytical calculations, insurers need an in-memory or distributed computing environment.
- E) **Competitive intelligence:** Price optimization requires an in-depth understanding of the competitive landscape, industry wide pricing strategies, and customer demographics and buying preferences.

Analysis of Life Insurance Sector Vis A Vis Non-Life Insurance Sector

Table 1: Table Showing Premium Underwritten By Life Insurers in India

PREMIUM UNDERWRITTEN: Life insurers(Rs Crore)					
Insurer	2010-11	2011-12	2012-13	2013-14	2014-15
LIC	203473.4	202889.28	208803.58	236942.3	239667.68
Private sector	88165.24	84182.83	78398.91	77359.36	88433.49
Total	291638.64	287072.11	287202.49	314301.66	328101.14

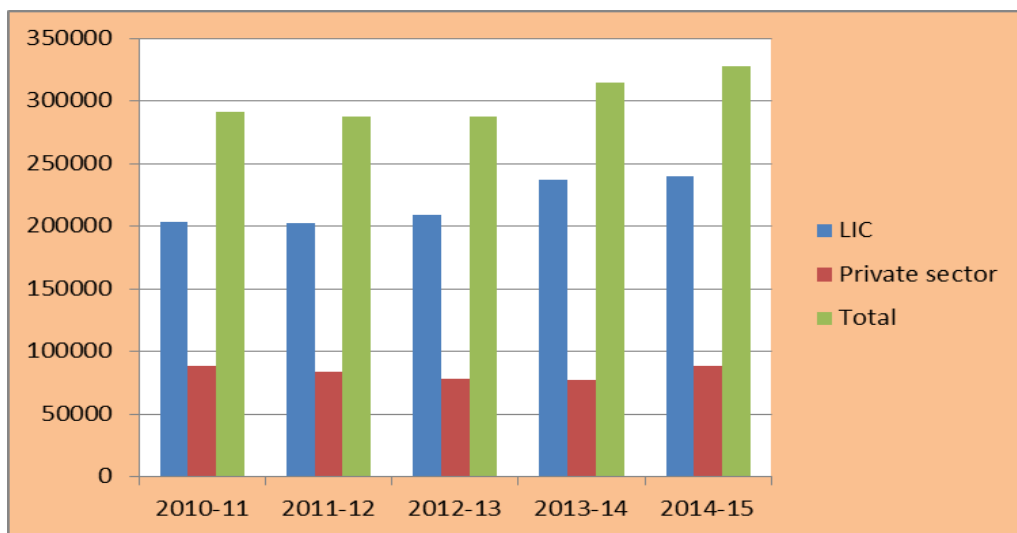


Fig 1: Illustrating the Premium Underwritten By Life Insurers in India

Since the year 2010, LIC is more dominant in underwriting of Life Insurance premiums than the private sector companies. In the year 2010-2011 there was a difference of Rs115308.4 Crore

which continued to rise throughout the years. In the financial year 2014-15, LIC more than doubled the underwritten premium of the private sector with Rs 2, 39,667 Crore.

Table 2: Showing Premium Underwritten by Non-Life Insurers

PREMIUM UNDERWRITTEN: NON-LIFE(RS crore)					
Segment	2010-11	2011-12	2012-13	2013-14	2014-15
FIRE	4555	5430	6659	7392	8057
MARINE	2519	2875	3029	3154	3020
MOTOR	18173	24239	29630	33824	37379
HEALTH	9943.93	11777	13975	15663	22636
OTHERS	7386	8556	9680	10577	13592
Total premium	42576	52876	62973	70610	84684

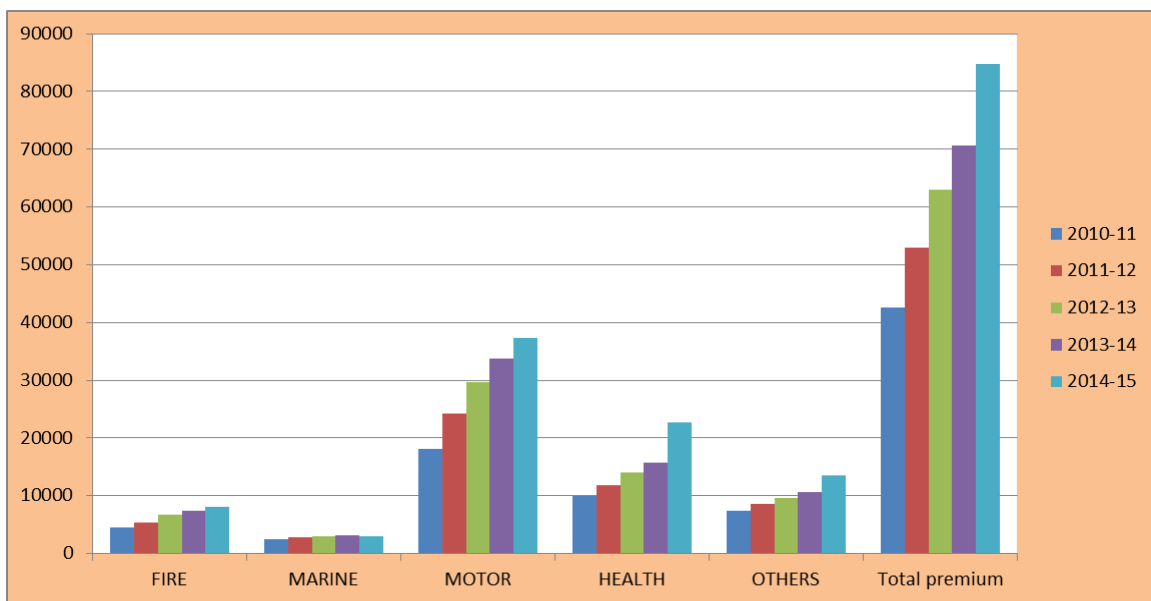


Fig 2: Showing Premiums Underwritten by Non-Life Insurers

Premiums underwritten by non-life insurers are segmented into Fire, Marine, Motor, Health and others. Since the Government of India has made third party motor vehicle insurance mandatory, its premium underwritten is as compared to others.

Table 3: Showing the Number of New Policies Issued by both the Life Insurers and Non-Life Insurers

NEW POLICIES ISSUED: LIFE INSURERS(IN LAKH)					
Insurer	2010-11	2011-12	2012-13	2013-14	2014-15
LIC	370.38 (-4.70)	357.51 (-3.47)	367.82 (2.88)	345.12 (-6.17)	201.71 (-41.55)
PRIVATE SECTOR	111.14 (-22.61)	84.42 (-24.04)	74.05 (-12.28)	63.60 (-14.11)	57.37 (-9.79)
Total	481.52 (-9.53)	441.93 (-8.22)	441.87 (-0.01)	408.72 (-7.50)	259.08 (-36.61)

Number of new policies issued by Non life insurers(In lakh)					
Insurer	2010-11	2011-12	2012-13	2013-14	2014-15
Public SECTOR	505.76 (16.52)	528.14 (4.43)	689.68 (30.59)	600.06 (-12.99)	677.82 (12.95)
Private Sector	287.65 (19.44)	329.30 (14.48)	380.56 (15.57)	424.47 (11.54)	504.97 (18.96)
Total	793.41 (17.56)	857.44 (8.07)	1070.24 (24.82)	1024.52 (-4.27)	1182.79 (15.44)

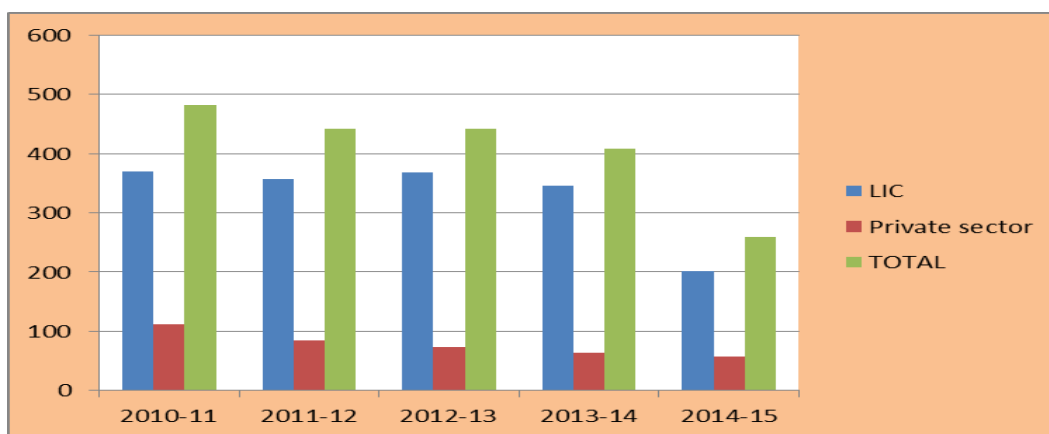


Fig 3: Illustrating the Number of New Policies by the Life Insurers

During 2014-15, life insurers issued 259.08 lakh new policies, out of which LIC issued 201.71 lakh policies (77.86 per cent of total new policies issued) and the private life insurers issued 57.37 lakh policies (22.14 per cent of total new policies issued). While the private sector registered a decline of 9.79 per cent with a slight improvement (against the decline of 14.11 per cent in

2013-14) in the number of new policies issued against the previous year, LIC registered a significant decline of 41.55 per cent (6.17 per cent in 2013-14) in the number of new policies issued. Overall, the industry witnessed a 36.61 per cent decline (7.50 per cent decline in 2013-14) in the number of new policies issued.

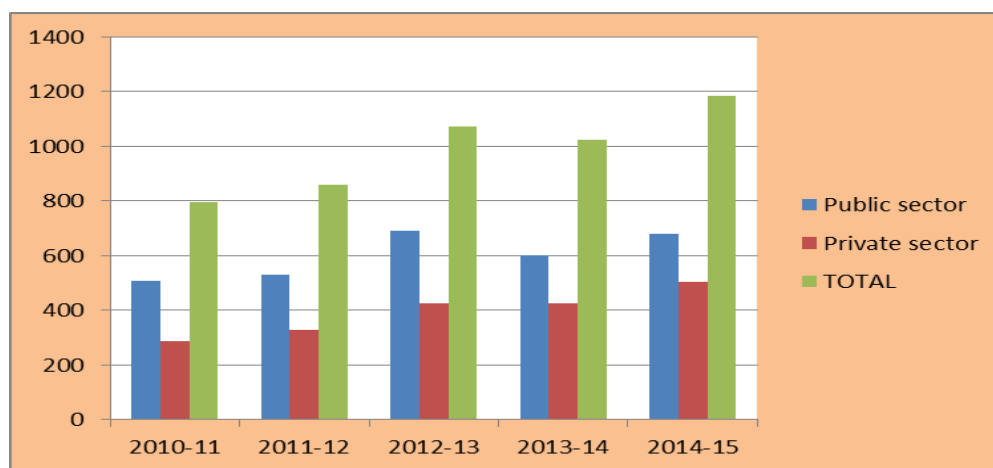


Fig 4: Illustrating the Number of New Policies Issued by the Non-Life Insurers

The same applies in the non-life sector where the public sector including GIC is dominant in issuing more policies yearly than the private sector companies. The public sector insurers witnessed considerable increase in the number of policies issued. They reported a 12.95per cent increase in number of

policies issued during the financial year 2014-15 as compared to a 12.99 decrease in financial year 2013-14. The private sector insurers reported a growth of 18.96 per cent in the number of policies issued in the financial year 2014-15 (11.54 per cent in the financial year 2013-14).

Table 4: Showing Expansion of Offices of Life Insurance Sector

Number of life insurers (as on 31/03/2015)									
Insurer	2007	2008	2009	2010	2011	2012	2013	2014	2015
Private	3072	6391	8785	8768	8175	7712	6759	6193	6156
LIC	2301	2522	3030	3250	3371	3455	3526	4839	4877
Total	5373	8913	11815	12018	11545	11167	10285	11032	11033



Fig 5: Showing the Expansion of Offices of Life Insurance Companies

The decreasing trend of number of life insurance offices (which had continued until 2012-13) had reverted from 2013-14 and there is a marginal increase in 2014-15 at 11033 from 11032 of the previous year. LIC has been increasing its offices extending more in the semi-urban and rural areas. Whereas the private insurers having been decreasing their offices especially in the rural areas of India.

4. Findings and Suggestions

- Just like any other industry, insurance industry has to keep innovating and keeping up with the recent trends in the market, hence issuing new and innovative products.
- In the year 2013-2014 the life insurance sector issued 409 policies and non-life insurance sector issued 1025 new policies whereas in 2014-2015, life insurance sector issued 259 new policies and non-life insurance sector 1183 new policies. This shows that the non-life sector leans towards innovation more than the life insurance sector.
- Life insurance companies should regulate their operating expenses in order to avoid increasing prices or premiums of their products
- Life insurance companies should ensure better training and educating of salesman and agents in order to achieve their organizational goals.
- Insurance Regulatory and Development Authority of India should regulate more the working of the different insurance companies so as to fight against unethical practices present in the Industry.

5. Conclusion

Even though India has the largest number of life insurance policies in the world, still around 80% of the Indian population

does not have any kind of life coverage. Life insurance is a necessity for everyone for covering the risk of life in future security. Insurance should be more promoted in India in order to ensure economic development as well as social development.

6. Bibliography

The above data was collected from various information provided by Insurance Regulatory and Development Authority(IRDA) website and books/manuals published by Life Insurance Corporation of India(LIC).

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