

# Impact of Liberalization on the Indian Insurance Industry

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**Abstract:** This study examines the impact of liberalisation on the Indian insurance industry by examining it in terms of its efficiency characterised by functional performance. Data of 552 respondents from Indian life insurers was used for the empirical examination. Statistical method of variance (MANOVA) was conducted to check the hypotheses that the linear combinations of impact of liberalisation on the Indian life assurance industry characterised by marketing mix, service quality and insurance awareness might differentiate between groups characterised by gender, place of residence, sorts of relationship with life assurance Corporation (LIC), sorts of employee positions in LIC, and kinds of relationship with private players. The results reveal a positive impact of liberalisation on the Indian life assurance industry.

**Keywords:** Life Assurance Liberalisation IRDALIC of India, Competition, Liberalisation, Service Sector.

## 1. Introduction

The Indian life assurance industry has transitioned from an open competitive sector to a protected regime then back to being a liberalised insurance sector in its 360-degree journey over a period of quite 100 years. Nationalisation of the life assurance sector happened on 1st September 1956, with issuance of ordinance by Government of India (GoI) to dissolve 245 units (154 Indian insurers, 16 non-Indian insurers and 75 provident societies) into an enormous, government-owned, autonomous entity, namely, life assurance Corporation of India (LIC) (IRDA, 2007). The aim of the nationalisation of the life assurance sector was to extend the penetration of life assurance within the country, particularly within the deep rural areas so as to supply adequate life assurance cover at an inexpensive cost to all or any insurable individuals. However, with the passage of your time, it's been observed that the protected regime within the insurance sector has resulted in low insurance penetration and density. A mass of insurable individuals has remained without insurance cover. within the year 1993, the GoI found out the Malhotra Committee to gauge the Indian insurance sector in terms of examining its structure, assessing its strengths and weaknesses, and reviewing the prevailing regulatory provisions so as to suggest reforms. Recommendations of the Malhotra Committee laid the inspiration for the entry of personal players (Rao, 2008). With the passage of the Insurance Regulatory Development Authority (IRDA) bill in March 2000, the protected Indian insurance sector was opened and therefore

the entry barriers were removed for personal players. The IRDA allowed entry of worldwide insurance players, only with their domestic partners and with a limit of 26% FDI cap. Thus, the age of competition began, and it's wrought a transition within the Indian insurance industry.

Foreign players with their domestic partners brought innovative products, superior ways of customer service and greater use of data technology (IT). Increased competition has witnessed easy market access, increased insurance awareness and education on financial planning, competitive premium rates, wider choice of products, alternative channels, multiple premium payment gateways, visually appealing physical evidence, aggressive promotional strategies, training initiatives, job opportunities then on. successively this transition has contributed to the nation's economic process and development. While there are numerous benefits resulting from the liberalisation of the Indian insurance sector, it's posed some challenges to LIC of India. Therefore, it's essential to gauge the Indian life assurance sector so as to live the impact of liberalisation.

## 2. Literature Review

Most of the studies have focussed on one or two dimensions; a couple of studies like Garg and Verma, 2010, Ghosh, 2013, Kshetrimayum, 2011, Rajendran and Natarajan, 2010, and Chaudhary et al. (2014) have tried to analyse the great content of the impact of liberalisation on the Indian life assurance industry on the idea of research on methodological applicability. they need used cross sectional data which present evidence on one or more aspects that prove a positive or negative impact of liberalisation.

In the insurance industry generally, product, price war, channel, promotional strategies, customer services, and IT initiatives command much attention. Several studies have also focussed on customer satisfaction, buying behaviour, service quality, and therefore the comparison between LIC and personal players.

Some of the studies reveal contradictory results, like the contradictory view on alternative channel within the studies of Rao (2007) and Jampala and Rao (2007). Such contradictions necessitate further study to enhance the body of data and present a transparent view on the subject. Thus, a notable research gap

has existed within the comprehensive measurement of the impact of liberalisation on the Indian life assurance industry.

There has been a considerable amount of debate on the impact of liberalisation on the Indian life assurance industry; however, there has been little specialise in the examination of its key components like productivity and efficiency. Productivity may be a quantitative aspect in terms of monetary performance whereas efficiency may be a qualitative aspect that depicts the general functional performance of the insurers characterised by sales and communication strategies, innovation in products and repair delivery, channel, pricing, service quality, IT initiatives, process reengineering, insurance awareness (penetration and density) then on. the most purpose of this study is to look at the impact of liberalisation on the Indian life assurance industry in terms of efficiency characterised by functional performance.

### 3. Research Methodology

The main purpose of this study is to look at the impact of liberalisation on the Indian life assurance industry in terms of overall functional performance by extracting change factors and measuring their main effects and interactions.

H01: there's no significant effect of sort of gender on the linear combinations of impact of liberalisation on the Indian life assurance industry.

H02: there's no significant effect of sort of place of residence on the linear combinations of impact of liberalisation on the Indian life assurance industry.

### 4. Aims and Objectives

The transformation of the Indian life assurance industry within the post liberalisation landscape has been observed in various studies, expert reviews and scholarly articles. Most studies have focused on one or two aspects of transformation like customer satisfaction, buying behaviour, service quality, or comparison of performance of personal players and LIC. However, to the simplest of our knowledge, there's no comprehensive study that measures the impact of liberalisation by extracting change factors induced by liberalisation within the area of functional performance; such change factors might be strategies, innovation, distribution channel, pricing, and repair quality, use of technology, simplified processes, and insurance awareness.

The main purpose of this study is to look at the impact of liberalisation on the Indian life assurance industry in respect of overall functional performance.

*Our study addresses the subsequent research questions by empirical enquiry.*

1. What are the change factors induced by the impact of liberalisation on the Indian life assurance industry?
2. What's the impact of liberalisation in respect of overall functional performance?

The main objective of the study is to elucidate the impact of the liberalization in Indian Insurance Sector. the opposite

objectives are,

- to analyse the business profile of the Indian insurance business before the liberalization
- to throw light the importance of the Insurance sector within the Indian economy
- to suggest policy prescriptions for efficient and progressive Indian insurance sector.

The study also aims to know and measure the perception of the impact of liberalisation on the Indian life assurance industry across groups characterised by gender, place of residence, sorts of relationship with LIC, sorts of employee positions in LIC, and kinds of relationship with private players.

*Impact of liberalisation in respect of functional performance: The Advent of Insurance Sector Liberalization and Growth of Insurance Industry in India:*

Following the recommendations of the Malhotra Committee report, in 1994, the Insurance Regulatory and Development Authority (IRDA) was incorporated as a statutory body in April 2000 to market competition, to reinforce customer satisfaction through increased consumer choice and lower premiums and most significantly to make sure the financial security of the insurance market. The IRDA opened the market in August 2000. Foreign companies were allowed ownership of up to 26 per cent. The Authority has the facility to border regulations under Section 114A of the Insurance Act, 1938. The liberalization of life assurance sector was closely followed by restructuring of the subsidiaries of the overall Insurance Corporation of India as independent companies in December 2000. The GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July 2002. Today there are 28 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life assurance companies operating within the country.

Life insurance sector was liberalized after tons of heated deliberations among the policy makers, political parties, and various pressure groups. Has the expansion of the world, the entry of foreign firms and therefore the privatization and liberalization benefitted the life assurance industry? Is that this benefit matching up to the expectations at the time of implementing this path-breaking policy reform? Is India ready for this type of competitive life assurance market? This study strives to seek out answers to those key questions.

### 5. Population and Participants

The population for the study and therefore the sample frame were selected from amongst intermediaries, customers and employees of LIC of India also as private players across the country. They were considered because the proper strata to draw samples from as they're representative of Indian life insurers. Thus, the result obtained from these samples are often generalised. Representative sampling method with disproportionate stratification was applied alongside convenient sampling.

## 6. Determination of Sample Size and Formula

Sample size within the present study decided supported Godden's (2004) guideline; the population was found to be infinite therefore supported the 95% confidence level (Z value), sample size formula was used to reach a representative number of respondents. Data of 552 respondents from Indian life insurers was used for the empirical examination.

## 7. Instrumentation

Secondary data was collected through rigorous literature review and first data on various elements of the study were collected from the sector by survey method. A comprehensive questionnaire was utilised because the instrument.

## 8. Procedures

Prior approval was obtained from LIC for the proposed study. Library resources of the Sales Training Centre, LIC, Ahmedabad; social insurance Academy, Pune; and IIM Ahmedabad were utilised to strengthen the literature review. Personal interviews were conducted through interviewer-administered questionnaire also as web-based survey to gather responses. The questionnaire was uploaded on [www.surveymonkey.com](http://www.surveymonkey.com) and invitation to go to the web site was sent through phone calls, SMS, emails, and social media (What's App, Facebook, and LinkedIn). Personal follow up was administered through phone calls and emails so as to deal with respondent queries and incomplete questionnaires.

*Trends in life assurance Sector within the Post-liberalization Period:*

The globally accepted indicators of measuring the expansion of life assurance sector are the life assurance penetration and density. The life assurance penetration is defined because the ratio of gross premiums to the GDP. This shows the expansion of life assurance as compared to the economic process. Another common measure of the event of life assurance sector is that the density of life assurance is that the ratio of life assurance premium to the entire population of the country. India's insurance sector showed very low levels of both these indicators, as compared to the worldwide levels. The liberalization of life assurance sector was expected to end in a better level of growth of the world in terms of both insurance penetration and density.

*Impact on liberalisation:*

- The spread of insurance is measured in terms of insurance penetration and measure of density. To ascertain the expansion and opportunities within the insurance sector in any country, insurance penetration, insurance density, premium. Income and growth in premium should be measured. India is geographically large and has the world's second largest population, i.e., 1.13 billion in 2007.
- The life assurance density of India was 9.1 percent within the year 2000-01 when the private sector was opened. It

increased to 52.2 percent in 2009-10. India's life assurance density is extremely low as compared to the developed countries and developing countries, in spite of India being the second most populous country within the world. This shows that there's much scope for all times insurance sector to develop in India. The life assurance penetration of India was 2.15 percent within the year 2000-01 when the private sector was opened. It increased to 4.90 percent in 2009-10. Since opening from Indian Insurance sector for personal participation, India has reported a rise life assurance penetration. But compared to UK, France, South Korea, Japan and South Africa, India is much behind. Among developing countries, it stands second to South Africa. there's much scope for the life assurance sector to develop in India.

- In 2000, the Insurance sector has liberalized and Insurance Development regulatory agency has found out . The private players are allowed to work together with the foreign insurance companies. Initially the foreign Direct Investment in insurance sector was restricted to 26% which was lifted to 49% in 2012. After liberalization the private companies has been making waves. they need been penetrating their business more and more form year to year and has been increasing their market share and presence.
- Indian life assurance industry is one among the sectors that's still observing good growth. it's the changing trends of Indian insurance industry only that has made it to deal with the changing economic environment. Indian insurance industry has modified itself with the passage of your time by introducing customized products supported customers' need, through innovative distribution channels, Indian life assurance industry searched its path to grow.
- Changing government policy and guideline of the regulatory agency, IRDA have also played a really vital role within the growth of the world. Though the world is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the world features a great potential to grow. to realize this objective, this sector requires more improvement within the insurance density and insurance penetration.
- Development of products including special group policies to cater to different categories should be a priority, especially in rural areas. The life insurers should conduct more extensive marketing research before introducing insurance products targeted at specific segments of the population in order that insurance can become more meaningful and affordable. By adopting appropriate strategy alongside proper government support and able guidance of IRDA, India will definitely become the new insurance giant in near future.

### 9. LIC of India vs. Private Insurance Companies

#### *A Case Study with East Godavari District*

The study reveals that life assurance Corporation of India captured major role within the insurance business. 95% of the agricultural people agree that Government Insurance companies' have greater impact instead of private companies. Only Urban and highly educational people have knowledge on Private insurance companies.

#### *Rural Class & Illiterate*

The Opinion of the agricultural & illiterate class people have positive opinion on Traditional Government Insurance Companies. most the agricultural sections are familiar with Traditional Policies and don't accept as true with Private Insurance Companies. Also they fear about the private management and their genuineness.

#### *Urban and Literates*

The opinion of the urban and highly qualified business people is additionally positive on Government insurance companies. But majority of them access with private agencies and innovative policies. They're accepting only innovative and profitable policies. They opined that there are many business opportunities in Indian both for state and personal agencies.

### 10. Conclusion

The Indian life assurance industry transitioned from a non-protective, open market one to a state-owned protected market after nationalisation and thereafter to an open competitive market post liberalisation. The GoI liberalised the insurance sector in March 2000 with the passage of the IRDA bill. Most studies have indicated a positive impact of the liberalisation on the Indian life assurance industry. However, only a few studies have extracted the change factors induced by liberalisation. Most researchers have observed impact in terms of innovative products, development of channel, technology development, increased penetration and density, improved service quality,

technological advancement, growing employment opportunity, increased productivity, and so on, which present evidence on one or more aspects that proves a positive or negative impact of liberalisation. However, none of those studies provide an entire picture of changes that have occurred over the last decade. This study has examined the impact of liberalisation on the Indian life assurance industry in terms of efficiency characterised by overall functional performance. it's provided an entire and clear picture of changes that have occurred over the last decade. Three major areas of functional performance designated as Marketing Mix, Service Quality and Insurance Awareness were measured across demographic and psychographic groups. the many results manifest the positive impact of the liberalisation on the Indian life assurance industry. However, Service Quality and Insurance Awareness were found weaker than Marketing Mix and this is often perceived as a challenge. While there was an appreciable growth within the new business, the penetration and density had not increased needless to say consistent with the recommendations of the Malhotra committee. Therefore, we conclude that while there's a positive impact of liberalisation on the Indian life assurance, there's an excellent challenge in respect of providing world class service quality and increasing penetration and density.

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