A Decade of Competition (2001-02 to 2010-11) LIC is the Clear Winner- II

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How would one rate the performance of the private companies in this first decade of competition in the Life Insurance Industry especially those eleven Companies which entered the fray ten years back? As against LIC's performance of 86444.72 crores in 2010-11, the performance of the No.2 Company i.e. ICICIPRU was only 7860.98 crores and that of the next company in the pecking order i.e. SBI LIFE 7570.72 crores only. The performance of all other companies is much lower. The market share of LIC was 68.70% while that of ICICIPRU,SBILIFE and HDFCLIFE- the first three amongst the private insurers – was 6.25% and 3023% respectively. These figures would enable one to get an idea of the enormous gulf that separates the Number 1 company (LIC) from the rest. The fact that after ten years of operations (some may have worked for less) there are only nine out
of twenty two private companies with a performance of over one thousand crores of first year premium, seems to indicate that the going has not been very smooth for these companies. The performance of the remaining 13(most of whom have been around for five years or more) is less than 900 crores and of 6 (out of 13) less than even 500 crores.

The performance of the private players in respect of number of new policies
Sold year to year and in 2010-11 shows how far ahead is LIC other companies. Out of a total number of 4.81 crore(individual) new policies sold 76.91% or 3.70 crores were LIC policies. The gap, and it is a huge gap, is Evident from the fact after LIC, it is Reliance Life and Bajaj Allianz which occupy 2nd and 3rd positions with 19.02 lakhs and 15.42 lakhs respectively. Tow other companies only sold more than ten lakh policies (ICICIPRU and Birla Sunlife) while four more (SBI Life, HDFC Life, Max New York Life and Tata AIG) and over 5 lakh policies to their credit, as many as 11 companies sold less than two lakh policies and there were another 3 in the 2-3 lakh category. One needs to keep in mind here that some of these companies have been around for several years now and their inability or

perhaps even disinclination to raise the scale of their operations induces doubts of the situation improving much, for most of these companies in the next few years. Can one therefore infer that competition though good and healthy for the LIC and the life insurance industry has not exactly seen the private players performing at levels that was expected of them and giving LIC a run for its money?

As a matter of fact the fortress of LIC looks more impregnable than ever Before. It does appear that the post competition scenario in the life insurance industry has not unfolded in the manner in which it has in other sectors of Financial services and industry in the country. In, perhaps, no other business Sector does one entity continue to hold on to over 60% (and over 70% in policies) of the market share after ten years of fierce competition. There could be several explanations for the continuing success of LIC and the less than expected performance of its competitions. One could be that the life insurance industry is different from other businesses including financial services where trust, relationships and post sales service and connectivity count for much more than any where else. Another is the continuity of practices and personnel at the highest level to that of the agent in the LIC that provides a feeling of comfort to those who deal with it and are its customers. Thirdly but perhaps most importantly is the manner in which LIC has transformed itself to combat the challenge of competition. Its use of technology in providing the best possible services to its policy holders together with personalized service from its marketing team including agents and office staff backed up by some very good advertising, give LIC a competitive edge and advantage, that private companies find extremely difficult to contend with. It would appear that at present, there is no aspect of the functioning of a life insurance company, in which the private insurers' performance-geographical spread of agents and points of service, large variety of innovative and regularly updated products, technololgy supported and personalized servicing and very importantly the personalized servicing and very importantly the perception and the actuality of LIC being an insurance company that delivers what it promises in making quick
payment of claims esp. death claims – can match that of LIC . There is also a perception, at least amongst the middle aged the middle class, that by representing LIC, an ordinary agent feels confident of having an edge over his competitor from any other life insurance company.

Most companies have been spending considerable amounts on advertising esp. in the electronic media. This has contributed to creating awareness about life insurance generally and to some extent about the company and its products also, but in the business of life insurance it needs more than advertising to sell market a life insurance product. Esp. if you are competing with LIC whose brand is strong and whose offices and sales representatives are ubiquitous. On top of this there is continuity in LIC and its practices and an uninterrupted effort to improve its products and services that provide it a huge advantage over its competitors who suffer from flight of talent from the highest level to that of the insurance agent and the branch executive. Despite so many odds stacked against it, LIC (being a large public undertaking with all attendant characteristics) has been, quite surprising actually, able to hold on to its people and its practices much more successfully than its competitors, who may compensate their officials and staff much more handsomely but are not able to retain loyalty in the same measure as LIC. It needs also to be realized that life insurance is a business despite the changes taking place in Indian society- of long steady relationships. Without doubt, many of the private insurers are associated with strong business groups (domestic and foreign) which have an excellent track record to boast of in areas of banking and financial services. Realization must certainly have come to them after more than ten years of experiences that life insurance is a very different cup of tea altogether – different from the cups of tea they may have tasted elsewhere till now. A seemingly good performance in the new business area is no guarantee of its quality and while money may come quite quickly from one source it can go twice as quickly from another as many companies would have experienced high lapses, massive premature surrenders and early death claims can play havoc with the financial well being and reputation of a life insurance company. The very perceptible slide in the new business performance of several companies reflects their concern and understandable disinclination to pursue topline at the expense of the bottom line. To be able to retain business is apparently assuming greater urgency, as it should, in their revised scheme of things . This is indeed a formidable challenge for private insurers – reasonable increase in sales combined with retention of business reflected in growth of new premium as well as renewal premium – as they enter the second decade of competing with each other and LIC.

As we have seen, the year 2010-11 witnessed a performance that saw a decline in the number of policies and a modest increase in premium income. The modest growth in premium income was primarily on account of a good performance by LIC, especially in the earlier months of year before the IRDA regulations governing sale of ULIPs kicked in the middle of the year. Post September 2010, the journey for most companies was downhill .The buzz and the heightened activity that one usually associated with the month of March in the life insurance industry was conspicuously missing this year. As these measures prescribe greater transparency in the sale of ULIPs and are in the larger interests of policyholders one hopes that life insurance activity will be able to regain its innate and inherent vitality considering that in terms of penetration ratio and coverage of insurable population and also because India's economy is stated to grow at 8% plus for the next several years there is huge potential for growth of life insurance business in India. It is also hoped that IRDA the regulator is concerned and takes pragmatic and timely measures to halt this decline and to put the development of the industry once again on the fast track while protecting the interests of the policyholders

Channel wise(%) of distribution of new business (First year premium)
(2009 --- 2010)

Individual	Agents Banks	Corp.Agents	Brokers	Direct	Sales
LIC	97.62	1.62	0.70	0.06	
Private Insurance	50.89	23.99	9.42	3.48	12.22
Industry	80.38	9.87	3.92	1.32	4.51

Source - IRDA REPORT

As the IRDA statement for new business performance of companies provides information in 10-11 amongst the private companies which have historically shown less inclination for single premium business are not yet clear. It remains, however, to be seen whether LIC will continue to procure more than half of its first year premium through single premium business as it does till now.

The Indian insurance market is maturing but in its own unique way. The first Years of competition – and this trend continues till now - saw the flowering of ULIPS and the almost complete decimation of the sale of traditional products but another trend is now visible. There are indications (not statistically confirmed yet) that traditional non ULIPS for long the staple diet of LIC and its agents are staging some kind of a comeback with term insurance products which historically comprised a minisule percentage of LIC , premium income finding greater acceptance amongst the young and sophisticated sections of Indian society. Insurance companies in India need to take note of tow factors that have the potential only about single and non-single premium business no comment can be made, yet, of the manner in which customer preference for specific products may be changing or evolving . However, what we do know is that while for LIC the distribution of new business between single and non-single premium has remained unchanged in the years 09-10 and 10-11 (52.9%), it has increased significantly for the private insurers from 9092% in 09-10 to 27.10% in 10-11 and for the industry from 36.31% to 43.40% (Annexure VII). The reason for the increased preference for single premium business to transform the entire complexion of the life insurance industry- one is the demographic shift taking place with the median age of an Indian now reported to be less than thirty and the other being a huge increase in the population that is either self-employed or working with organizations that have no provision for post retirement benefits and pension. The challenge and opportunity for Insurance companies would be to devise innovative products that satisfy the need of a young and aspirational population for protection that comes at not Too high a price and assured regular income in times when one is no longer able or willing to work. As India grows younger before it gets older and more prosperous , it is difficult to visualize the continued popularity of high priced low cover traditional money back products. Pure term and pension products are likely to be more popular with the younger insurance prospect while the traditional non ULIPS may continue to be sold, although in decreasing numbers, for some more time. With young well to do Indian parents keen to provide the best and professional education to their children-in India and even abroad also witness a surge in the popularity of children's insurance products.

Another area towards which there can be a shift, along with increased popularity of term and children's insurance and pension products, is group insurance and micro insurance. It is heartening to see that in the year 2010-11, the Group portfolio contributed 43171.42 crores i.e. 34.3% mentioned and emphasized

Number of Pols (individual) Plus Number of Lives (Group)
(2010 – 2011)

Annexure V

Insurer	Pols (Ind)	Lives(Group)	Total
Private insurers	1,11,09,013	4,76,65,636	5,87,74,649
Lic	3,70,12,277	3,56,60,199	7,26,72,476
Industry	4,81,21,290	8,33,25,835	13,14,47,125

Note :

Normally one should not be combining no. of lives with policies . Because one life or person can have (and do have) more than one policy on their lives.The purpose behind the above statement is to give a more holistic(though not entirely accurate) idea of the coverage provided through individual policies and group schemes. As would be seen the combined figure comes to13,14 crores but amore realistic number would be around 11-12 crores which is very impressive. For the first time the private sector has overtaken LIC in no. of lives covered through group schemes largely because of good work done by Bajaj Allianz.

One is that during the year the total number of individuals who were extended life insurance security through both individual policies and group schemes was quite impressive i.e.4.81cr. pols plus 8.33cr. lives. Assuming that every individual policy does not mean a life covered, the approximate number of individuals who were provided the insurance cover last year may have been over 11 crores out of which the group schemes accounted for 8.33crs. or 75.7% of the total . The second aspect therefore that needs to be highlighted, and which often does not get the attention it deserves, is the role that group insurance schemes are playing in making life insurance affordable. It goes without saying that the large number of people who are today able to avail of the which is indicative of the greater acceptability of Group Insurance products. The contribution of group insurance in providing cover and security to a large number of individuals who may find individual policies expensive and unaffordable and ev en unnecessary is evident from the fact that in 2010-11 the number of lives insured through group schemes was 83325835 (8.33cr.) i.e. nearly twice as much as the number of individual policies sold (the number of lives would be less) in the year (4.81cr.) Annexure V Here two things need to be benefits of life insurance are in a position to do so because of group insurance schemes. Certainly the contribution of group insurance in improving insurance penetration and expanding coverage of insurance population deserves to be highlighted. Here a word about the performance of LIC and the other companies would be in order. While in new premium LIC accounted for 34241.08crs.out of a total industry performance of 43171.43crs(79.3%) in respect of number of lives insured it is the private sector with 4.76 crore lives-an exceptional performance by Bajaj Allianz (2.01cr.lives) which has not done too well in the individual insurance area - that has done better – perhaps for the first time – than the LIC(3.56cr lives). The good performance by LIC in group insurance has not only enable a satisfactory industry performance, it has also helped LIC close 2010-11 on a relatively high note with a total first year premium of 86444.72crs. out of which is the group premium contribution was 34241.08 crs (39.6%) . Group insurance in India has historically been a small part of overall operations of life insurance companies but the performance of LIC establishes that as the economy grows and with expansion in urbanization and industrialization the potential and the possibilities for group insurance products low price with high cover- are enormous. Actually the excellent performance in the Group portfolio, especially by LIC in the premium area and by both the private insurers and LIC in covering large number of lives has endowed the performance figures a certain respectability which standalone individual performance figures may have lacked.

As a huge chunk of business for the industry (over 86%), and especially for LIC (98.32%) comes through the individual agency channel a few work need to be mentioned about how this channel is evolving the post competition scenario. The industry witnessed substantial accretions in the number of individual agents till the end of 08-09 when it reached the figure of 2983290 from 2520492 in the earlier year . (an increase of 4.62 lakhs) During the year 09-10,apparently because of some though measures taken by IRDA with the objective of streamlining the process of recruitment of agents, the number of new agents that were being added every year as a regular feature came to a virtual halt. The number of agents as at the end of March 10 was 3029562-an addition of 46272 in the entire year – which was just 10% of the number added in the previous year. Although agency figures for 10-11 are not available, the pace of recruitment throughout the year for all companies including LIC is reported to be quite slow and therefore the number of agents as at March2011 is expected to be lower than as at March 2010

It needs also to be reiterated that restrictions on recruitment of individual agents hurts LIC the most-more than other companies- because of its overwhelming dependence on individual agents. Interestingly, the productivity of individual agents in LIC is far higher considering that though the number of agents in LIC and private companies may be around the same (in 09-10 LIC had 14,21,077 agents against 16,08,485 with private companies) the total business done by the former is much more than such agents working with the latter. This is another area-the average productivity of the individual agents – where contrary to popular perception, LIC does much better than its competitors

In severeal areas the life insurance industry, in the last ten years, has undergone a complete metamorphosis. These include the switching over from traditional products to ULIPS, greater use of technology and some very imaginative and aggressive advertising . Another change relates to the proliferation of distribution channels. While LIC has always depended on and continues to do so, almost wholly, on the individual agency channel private companies, finding the individual agency channel experience tough and expensive are resorting to other channels to remain in business. As against 98.32% of policies and 97.62% of premium in LIC in the year 09-10 coming through individual agents the private insurers procured only half their new business (45.86% policies and 50.89% premium) through individual agents

Growth in First Year Premium in last ten years
(2001-02 to 2010-11)

Annexure : VIII

	2010-11	2001- -02	Increase(in crores)	Increase (%)

LIC	86444.72	19855.95	66855.95	341.29
Industry	125826.03	19857.28	105968.75	533.65

Note : LIC's share in growth is 63.09% of growth of industry.

(Annexure VIII) Amongst the alternate distribution channels that have contributed maximum volumes of business is bancassurance which accounted for 9.87% (premium) and 3.20% (policies) of the industry's performance but 23.99% (premium) and 11.52% (policies) of the private insures' performance in 09-10. This is not surprising as three companies-Canara HSBC, Star Union Dai-Chi and IndiaFirst – did their entire business through the bancassurance channel while in the case of a few other companies- IDBI Fortis, Met life, HDFC Life, SBI Life, Kotak Mahindera Life, ICICI Pru and ING Vysya – substantial amounts of business were procured though the bancassurance channel.

Another interesting development – unimaginable ten years back- is the sale of the life insurance products through direct selling. While LIC has not done any business through direct selling till 2009-10 (a modest beginning has been made in this direction in 2010-11 with a premium of 144.04 crores from 50962 policies), the private companies procured 13.60% of their policies and 12.23% of their premium though this channel. The companies which have resorted to direct selling in a big way are Aegon Religaire, Aviva, Reliance life, Shri Ram Lfe, Bajaj Allianz and to a lesser extent but yet quite significantly are Future Generali, ICICI Pru, ING Vysya and Kotak Mahindra Life. The age old belief that life insurance could only be sold through personal interface may no longer be true but further analysis of data is required about the products sold via the direct selling channel before a comment can be made on this trend and whether it can strengthen in the days ahead. As of now over 80% of the industry's business comes from the individual agency channel and in the case of LIC over 97% (09-10). It is quite possible that the entry of alternate channels in the industry has enabled the industry to grow and expand faster than it would have done other wise.

After a decade of competition, LIC stands tall and formidable. Its market share is on the rise and it has contributed to the expansion of the life insurance business in the country without any parallel. Its name even today is synonymous with life insurance. If today it has to compete with anybody, it is with itself only. The organization has been given excellent leadership and its employees in all positions and cadres and agents have worked hard to bring it to this position of unassailable supremacy . At the same time its most ardent admirers will aqree that LIC, despite its great achievements, has yet to achieve its full potential.

LIC has today a numerically strong work force – in the number ot its administrative staff, over twenty thousand Development officers and twenty thousand Development Officers and around fourteen lakh agents – which has consistently delivered on performance. The fact that LIC has stood upto competition in a decade and continues to occupy a major share of the market space is a testimony to the commitment of its employees and agents and to the quickness with which it has adapted to the changing environment. LIC's performance in all spheres thus has been excellent. However a closer scrutiny would reveal that performance is not uniform across sections, particularly amongst the marketing force and the huge variation in productivity is a cause for concern. Appropriate HRD interventions and training can help raise the overall level of performance. Training initiatives can be evaluated to ensure that results are in sync with the effort, the numbers and expense. It is important that the administrative teams and marketing teams work with greater cohesion and activities are carried out with due co ordination. It is felt that it LIC is able to realize these two objectives of focusing on the bottom of the pyramid and making its operating units even more customer centric and agent friendly, the results can be phenomenal and will enable LIC to continue to outwit and outmaneuver its competitors and improve further (this is indeed possible) its market share.

A mention has been made earlier of the changing demographics of the country which will see crores of young and educated individuals, like never before, seeking protection for their families in times of youth, and financial security for themselves in times of extended and stretched post retirement existence and stretched to such challenges in today's Indian society has to come from the financial services sector-including innovative insurance and pension products and especially from insurance companies and LIC.The product development wing of LIC needs to devise products that keep in mind the changing customer preference and indeed the customer profile. The products of yesterday have served their purpose and may continue to do so for some time more but the bells heralding change have started ringing in low tones today to become inevitably louder tomorrow. This would certainly imply greater use of updated sophisticated technology but would also mean using agents and staff – certainly in the bigger cities first but everywhere quickly – who can relate to the needs of such customers and can speak their language. The rules of the game are changing fast and all companies, including LIC need to act quickly to remain in sync with the changed reality.

The outstanding performance of LIC in the last decade raises hopes of its continued supremacy in the next decade also. LIC has amply shown that it has attributes of resilience and ability to adapt to changing situations quite quickly. It has shown more successfully than perhaps any other Govt. controlled company that is competing with the best and the biggest in the private sector that it is possible to protect your turf and even expand it, despite all the handicaps that accompany the working of public sector organizations, if you have the right policies and practices built over the years and a certain modesty combined with some justified pride at being at the no, one slot in the business from the beginning –when there was no competition – till now – when there is plenty of competition- and to be holding the trust of over 30 crore of its policyholders – a singular achievement with few parallels in the history of organizations anywhere in the world.

While the outlook for the life insurance industry in India in the long term is very bright, considering its growing economy and its expanding middle class together with its young population, the prospects for the year 2011-12 appear uncertain in view of rising interest rates, untamed inflation and a relative showdown in demand and the manufacturing sector. Along with these external factors are the difficulties that insurance companies are facing in recruiting and retaining agents . Admittedly the private insurers, though not so much the LIC, have been forced to take recourse to distribution channels other than individual agents but the volumes of business generated through such channels is still not very significant. What seems to be happening is that insurance companies have started looking at niche markets where they think they are strong and take on competition more confidently. The entry of banks owned life insurance companies with their entire business coming through bancassurance is a pointer in this direction. To what extent these companies can make a very significant impact at the macro level through such strategies is open to question.

The growth of micro insurance largely at the initiative of IRDA in making life insurance affordable to the less affluent sections of society is another development that needs to be taken note of where the role of the traditional individual agent is peripheral. However here also, the volumes are not very significant and except for LIC and a few other companies the progress is at best uneven and even patchy. The inference that the individual agent is centric to the growth of the life insurance industry in India for the next few years is therefore inescapable. It appears that as customers become more aware and knowledgeable the less professional amongst the agents will get weeded out. It also appears inevitable that the agents who survive the initial hiccups will be more professional and much more productive but until that happens the industry needs new blood in the agency force to bring a larger portion of the insurable population within the fold of life insurance it is open to debate whether a populous country like India with a growing economy and a young population needs thirty lakh agents or more or less. As competition and market forces eliminate the unprofessional and the weak, the vaccum created needs to be filled up by the new entrants whose numbers seem to be declining now. We have already talked about the development oriented approach that the regulator needs to take on the issue. Certainly between the IRDA and the insurance companies a middle path can be thought of which enables the insurance companies to tap the enormous potential for life insurance in the country conjoined with the industry objective of reducing terminations, enhancing productivity and improving professionalism in the individual agency channel.

It is expected that in these less than best of times LIC will fare better than its competitors and should continue to grow by focusing on launching of new products that are in synic with the aspirations of a young India and by making their operating units and agents particularly those with lower productivity realize the implications of the shirts in the economy and demographics that will have far reaching consequences on the future prospects of the life insurance industry. LIC has successfully weathered the storm of competition in the last decade and has emerged a clear winner. It is expected that it will continue to provide the lead in the second decade of competition also but in order to do that it must look within and introspect if its good performance was on account of its own inherent strengths or was it merely because of its big and taste success start harboring, perhaps inevitably, feelings of complacency, smugness and even hubris . If LIC has to graduate from a good to a great organization lit will have to develop and strengthen mechanisms that provide authentic feedback to the policy framers in the organization about the reality of the experience of the average policyholder and the common agent in the operating offices that can become the basis for formulating policies, products and strategies which in turn will contribute to the greater satisfaction of the customer and the agent alike. Although LIC , as we have seen continues to occupy a major share of the market even after ten years of competition it will be instructive for it to learn about individuals who have performed not to insure with LIC.- whether it was the profile and personality of the agent or the brand of the company or the quality of the product or the expectation of better sales service and also very importantly the age and the educational profile of the customer that made him or he chose the company over LIC

It would be interesting to see how the life insurance industry and the LIC, confronts the challenges that face them in 2011-12. The stress, in the private sector at least, is discernible, restructuring and even downsizing is in the air, agency recruitment has showed down regulatory interventions have started to make their impact felt and inflation is beginning to bite affecting disposable incomes. The silver lining is that a new and sizable constituency of first time young customers with changing product preferences and service expectations is visible on the horizon. The year 2010-11 witnessed the industry scraping through with a modest growth because of a robust group insurance performance will the individual insurance portfolio fare better this year, despite the challenges, or will the industry witness the expansion of the Group Insurance and Pension business portfolio. Possibly, we are passing through a tunnel and light will emerge as we approach the close of the year. We will keep our fingers crossed and hope for the best.

Reference: YOGAKSHEMA Vol – 55 NO – 8 August – 2011.