



# Impact Of Liberalization On Insurance Companies Of India

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## Abstract

Life Insurance Company (LIC) is one of India's leading life insurance companies in India offering a range of individual and group insurance solutions that meet various needs such as protection, pension, savings & investment, health and more. Since this paper aims to study the impact of liberalization on insurance companies of India, certain efforts have been invested, starting from problem formulation to overall impact measurement. After assessing the conceptual foundations and conducting an empirical testing of the present state of the insurance sector in India, conclusions point towards eighth dimensions of impact measurement. These eight dimensions are: service quality, perceived values, purchase intentions, repurchase intentions, market dynamics, exception handling, satisfaction and dissatisfaction on which the impact of liberalization can be measured. Finally, these eight dimensions taken for impact measurement are summed up into four measurements. The four measurements are sources of competence, behavioural intentions, contemporary dynamics and overall satisfaction. All the dimensions are statistically proved and having values on or above the acceptable limit. In other words it can be said that, the impact of liberalization has come in terms of these four variables.

Keywords: Liberalisation, impact, insurance companies, privatization.

## Introduction:

Insurance sector is one of the most powerful service sectors in the world economy. It is not only provides confidence against the risk but also the saving attitude among the people. As “Inclusive Growth” a 11<sup>th</sup> plan initiative of the Indian Government, Insurance Sector is the second largest wing next to the banking sector. From the beginning, the government insurance companies act a major role, now the trend shifted to government and private competition. The Indian insurance industry has experienced drastic transformations during the last two decades. From the nationalization of the Life Insurance corporation in the Assurance wing

in 1956 and General Insurance Company in Insurance wing in 1972, the government companies enjoyed monopoly in the insurance market. But the changes have been come in to existence with the entry of the private sector insurance business in the year 2000 as a result of Liberalization, Privatization and Globalization concept.

### **Impact of liberalization on Indian insurance companies**

After the Liberalization of the insurance sector in India, the insurance sector grew massively by exploring new markets and targeting unexploited segments of the population. So the liberalization of insurance sectors provided ample opportunities to both existing insurance companies like LIC, etc. In the year 2000, the Indian government liberalized the insurance sector, but beyond the urban domains, it was not much expanded during that time. The insurance sectors today are the most developing sector of India. The capping of FDI increased to 49% in the year 2015 and later on in the year 2017 the reinsurance sector was also liberalized (Naina Bhardwaj, 2021)<sup>1</sup>. The word reinsurance means when an insurance company insures its business – they cannot do insurance from a normal insurance company rather they go for a reinsurer. During fiscal 2018, gross premiums grew 11.5% to 6.1 lakh crore rupees bringing the 5-year CAGR to 11%. The Indian government liberalized the insurance sector because the government aims to make the insurance sector more active which enables the overall economic growth of a country in the post-liberalization period. In the case of the insurance sector, setting up of IRDA was done by the Malhotra Committee to keep the trust of the people in private insurance sectors; the IRDA act was passed in the year 1999 and came into effect in the year 2000. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014 and further increased to 74% in the Union Budget (Feb'21) (ibef.org)<sup>2</sup>.

### **Literature review**

Amish Patel and Dwivedi (2019)<sup>3</sup> in their research journal on 'A Comparative Study of Public and Private Sector Life Insurance Companies in India: Post Liberalization Span' noticed that insurance is a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for money compensation known as premium. With the entry of private life insurance companies in the year 2000-01, the competition is becoming cutthroat. Nimit Gupta,

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<sup>1</sup> Naina Bhardwaj (2021). India Raises FDI Cap for Insurance Sector to 74%, Ownership Restrictions Eased. India Briefing, March 31, 2021.

<sup>2</sup> Indian Brand Equity Foundation (IBEF), 2021), Insurance Industry Report.

<sup>3</sup> Amish Patel and Prin. V. J. Dwivedi (2019) "A Comparative Study of Public and Private Sector Life Insurance Companies in India: Post Liberalization Span", International Journal of Research in all Subjects in Multi Languages, Vol. 7, Issue: 4, April: 2019 (IJRSML) ISSN: 2321 – 2853.

et al. (2016)<sup>4</sup> in this study on ‘Impact of liberalization on the insurance sector in India’ concluded that with liberalization Life Insurance was looked at as an investment option rather than an instrument to avoid risk. Factors that led to this change were a healthy growth rate of the population, age-mix favorable for life insurance, increased consumerism and higher risk appetite. The surge in demand for credit for home loans and vehicle loans resulted in increased borrowing, leading to higher off take of life insurance cover as collateral. Vikas Gairola (2016)<sup>5</sup> in a research journal on ‘A comparative study of public and private life insurance companies in post liberalization era’ revealed that in terms of new policies issued, total premium income and market share. This study shows private life insurers put efforts to improve its performance year after year and affected the LIC in many ways. To overcome and compete with this situation LIC introduced new and attractive insurance plans, put efforts for better customer relationship management and effective advertising. There is very huge potential in life insurance sector as the population of India is very huge and still there is untapped life insurance market. DuttaSubit (2010)<sup>6</sup> in his study on ‘Marketing strategy of Life Insurance Corporation of India in the context of Liberalisation of Insurance sector’ found that insurance marketing strategies of the public sector giant after liberalisation leads to increased customer awareness on insurance products and also the efficiency of marketing of these products by the Corporation is also augmented due to increased competition from private insurance players. Mohmed Amin Mir (2010)<sup>7</sup> in his study on ‘Growth pattern of Foreign Direct Investment in India since Liberalization: A case study of Indian Insurance Sector’ reveals that many private insurers welcomed the move as it raises their capital base. This helps maintain adequate solvency margin and bears the escalated initial operation costs low. Shendey and Neelkant Rao (2010)<sup>8</sup> in their article on ‘Trends in insurance industry in India since 21st Century’ find that the entry of new players has enabled up the spread of life insurance the total life insurance premium of an Indian Insurance Industry has increased four-folds since liberalization of insurance industry. LIC has been taking measures to increase its policyholder base through various new schemes like children education, pension plans and constant monitoring of these policies. Shveta (2010)<sup>9</sup> in her study on ‘Changing face of Insurance Sector in India with special reference to Health Insurance’ asserts that the growth in the sale of health insurance policies of the insurers after liberalization of the insurance sector and the increased health-

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<sup>4</sup> Nimit Gupta, Sudhir Rana and Arpan Anand (2016). Impact of liberalization on the insurance sector in India, Journal of Services Research, Volume 16, Number 2 (October 2016 - March 2017)

<sup>5</sup> Gairola, V. (2016) “A Comparative Study of Public and Private Life Insurance Companies in Post Liberalization Era”, IJMBS Vol. 6, Issue 4, Pp.15-18.

<sup>6</sup>DuttaSubit, “Marketing Strategy of Life Insurance Corporation of India in the context of Liberalisation of Insurance Sector (A Study With Special reference to Silchar Division)”, Ph.D. Thesis submitted to Department of Commerce, Assam University, Silchar, 2010.

<sup>7</sup>Mohmed Amin Mir, “Growth Pattern of Foreign Direct Investment in India since Liberalisation: A Case Study of Indian Insurance Sector”, Ph.D Thesis submitted to the Department of Commerce, Aligarh Muslim University, Aligarh, 2010.

<sup>8</sup>Shendey, B.K. and NeelkantRao, “Trends in Insurance Industry in India since 21<sup>st</sup> Century”, Southern Economist, December 15, 2010, p.24.

<sup>9</sup>Shveta, “The Changing Face of Insurance Sector in India with Special Reference to Health Insurance”, Ph.D. Thesis submitted to the Department of Commerce, MaharshiDayanand University, Rohtak, 2010.

consciousness of our population has virtually changed the face of Indian insurance industry accompanied by some related challenges. Narasimha Rao (2001)<sup>10</sup> in his study on 'Performance of the public sector - An overview of Insurance Industry' critically analysed that liberalisation and privatisation cannot solve the basic problems of a developing country like India. Privatisation of life insurance after liberalization would only add the possibility of corruption and fraud and weaken the gains that the economy has already experienced from the expansion of this sector.

### **Objectives of the Study:**

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

1. to analyze the earlier studies of various authors on impact of liberalization on Indian insurance companies
2. to throw light the significance of the Insurance sector in the Indian economy after liberalization
3. to study the trends and impact liberalization of Indian Insurance Sector

### **Methodology of the Study**

The data to be used in the study are proposed to be collected only from secondary sources like annual reports of IRDA, Journals of IRDA. The methodology adopted for the study includes a detailed analysis of secondary data related to Indian insurance sector . Annual Reports of National Sample Survey Organization, Hand book of statistics on Indian Economy, Reports of IRDA, Statistics of Census of India-2001 and 2011 are used.

### **Trends and Impact:**

Malhotra Committee recommended to the Government to change the face of the industry and to give it a more meaningful direction. Regarding the liberalization of the insurance industry, the Committee strictly recommended to allow the Private sector to enter in the insurance business. As per the government decision plenty of the private owned companies enter in the insurance sector. Also FDIs are allowed up 49% of the share in the Indian Private Insurance companies is a major change to uplift the business as well as control the monopoly of the Government Insurance companies.

The spread of insurance is measured in terms of insurance penetration and measure of density. To see the growth and opportunities in 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.

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<sup>10</sup>NarasimhaRao .C, "Performance of Public sector - An Overview of insurance Industry", Southern Economist, Vol.40, No 11, October 2001, pp.12-13.



The life insurance density of India was 9.1 percent in the year 2000-01 when the private sector was opened up. It increased to 52.2 percent in 2009-10. India's life insurance density is very low as compared to the developed countries and developing countries, inspite of India being the second most populous country in the world. This shows that there is much scope for life insurance sector to develop in India. The life insurance penetration of India was 2.15 percent in the year 2000-01 when the private sector was opened up. It increased to 4.90 percent in 2009-10. Since opening up of Indian Insurance sector for private participation, India has reported an increase life insurance penetration. But compared to UK, France, South Korea, Japan and South Africa, India is way behind. Among developing countries it stands second to South Africa. There is much scope for the life insurance sector to develop in India.

In 2000 the Insurance sector has liberalized and Insurance Development Regulatory Authority has set up. The private players are allowed to operate in collaboration 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 have been penetrating their business more and more form year to year and has been increasing their market share and presence.

Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers' need, through innovative distribution channels, Indian life insurance industry searched its path to grow. Changing government policy and guideline of the regulatory authority, IRDA have also played a very vital role in the growth of the sector. Though the sector is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the sector has a great potential to grow. To achieve this objective, this sector requires more improvement in 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 market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

### **LIC of India Vs Private Insurance Companies**

The study reveals that Life Insurance Corporation of India captured major role in the insurance business. 95% of the rural people agree that Government Insurance companies' have greater impact rather than private companies. Only Urban and highly educational people have knowledge on Private insurance companies.

## Rural Class & Illiterate

The Opinion of the Rural & illiterate class people have positive opinion on Traditional Government Insurance Companies. Almost all the Rural sections are familiar with Traditional Policies and do not agree 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 also positive on Government insurance companies. But majority of them access with private agencies and innovative policies. They are accepting only innovative and profitable policies. They opined that there are plenty of business opportunities in Indian both for Government and Private agencies.

## Conclusion:

Previous studies in this field are looking at the impact of liberalization on specific aspects. For example, policy holders, number of customers, number of companies, and total business of the insurance sector in India etc. In general, the overall impact of liberalization on the insurance sector and LIC, is seeking the attention of researchers and so it will be rational to explore the same. The present study will act as bridge to address multiple dimensions under one umbrella, such as industry aspects, LIC related aspects and customer related aspects. Thus, Insurance Sector is not an exception to this. Before privatization in this sector there are only limited policies and business opportunities in the country. With privatization, there is a tremendous response and penetration is observed. Any innovation will take time to absorb in the economy. But we should not neglect the business opportunities to develop the economy. Allowing FDI is creating some agony in insurance field, but they could not be continued. Finally we can say allowing private insurance companies from Indian origin as well as from FDI will not create any problem but create many opportunities to Indian citizen not only in the developmental face but also in the security aspect.

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