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Rise And Fall Of Ulips In Indian Life Insurance Market

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ABSTRACT

Reforms in the insurance sector were introduced much later in fact almost a decade later with the enactment of the Insurance Regulatory and Development Authority Act 1999, which facilitated the liberalization and opening of the insurance sector. There were two options before the Government of India to privatize insurance sector viz. (a) selling of two public sector insurance companies (LIC and GIC) to private and (b) allowing private sector to enter into insurance market and compete with the LIC and GIC. The Government took the latter route to open the insurance sector in 2000 and LIC and GIC were left untouched. Indian private companies entered the market as joint ventures with some of world's largest insurance companies. Coexistence of private and public companies heightened competition and Indian insurance sector witnessed several significant changes such as a large number of new innovative products, improved distribution channels and the introduction of world class regulatory and supervisory standards. The most significant product innovation in the life insurance segment is the introduction of unit linked products (ULIPs). Unit linked plans offer long term investment option plus life coverage. In fact ULIPs are combination of both investment and insurance.In this research paper an attempt is made (a) to examine the rise and fall of ULIPs across the private insurers and LIC in the Indian insurance market by analyzing the distribution of first year premium during 2003-14 . The materials in the form of data and information are gathered from the Annual Reports of IRDA and Reports of Economic Survey of India of various years. The data and information collected were processed presented and analyzed using SPSS version 20. Mann Whitney Test Z value (equivalent to Wilcoxon's rank sum z test) is also used in addition to the calculation of growth rate and percentage contribution of ULIPs to the total premium.

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1.INTRODUCTION

Reforms in the insurance sector were introduced much later, in fact, almost a decade later with the enactment of the Insurance Regulatory and Development Authority Act 1999, which facilitated the liberalization and opening of the insurance sector. There were two options before the Government of India to privatize insurance sector viz., (a) selling of two public sector insurance companies (LIC and GIC) to private and (b) allowing private sector to enter into insurance market and compete with the LIC and GIC. The Government took the latter route to open the insurance sector in 2000 and LIC and GIC were left untouched. Indian private companies entered the market as joint ventures with some of world's largest insurance companies (vidyavathi 2014). Coexistence of private and public companies heightened competition and Indian insurance sector witnessed several significant changes such as a large number of new innovative products, improved distribution channels and the introduction of world class regulatory and supervisory standards (vidyavathi 2015). The most significant product innovation in the life insurance segment is the introduction of unit linked products (ULIPs) (vidyavathi 2015). Unit linked plans offer long term investment option plus life coverage. So ULIPs are combination of both investment and insurance. However ULIPs are not simple to understand as their cost structure is complicated with several charges such as policy administration charges, premium allocation charges, mortality charges, fund management charges etc.,

Premiums received from the customers less the various charges are used for investing in assets like bonds, equities, government securities etc., at the prevailing prices on the basis of predetermined option of the customers. Several options are available to a customer who can select a debt fund or a balanced fund or an equity fund. Companies like Birla Sun Life and ICICI Prudential have definitely procured a big chunk of their new business premium from the ULIPs and there is no doubt that the all private insurers increased their market share from 2.01 percent in 2002-03 to 30.23 in 2010-11with the domination of ULIPs and their market share declined thereafter to 29.32 in 2011-12 27.30 in 2012-13 and to 24.61 in 2013-14 with the fall of ULIPs in the Indian insurance market (vidyavathi 2015).

LITERATURE REVIEW

A Comparative Study On Public Vs Private Sector In Life Insurance In India by Vineet Kumar and Poonam Kumari(2012) pointed out that the insurance industry has contributed significantly to the growth of Indian economy in the recent years. With the re-entry of private insurers, the insurance industry has undergone a makeover, offering more choice, better services, quicker settlement, tighter regulation and greater awareness. They in their study appraised the comparative performance of the Insurance industry in India in terms of insurance penetration, density and growth in the first year premium.

Harpreet Singh Bedi and Preeti Singh(2011) in An Empirical Analysis Of Life Insurance Industry In India analyzed the overall performance of Life Insurance Industry of India between pre- and post economic reform era. The study revealed that the tremendous growth in the performance of Indian Life Insurance industry and LIC happened due to the policy of Liberalisation, Privatisation and Globalisation. Emergence of private companies as joint ventures with foreign players also contributed a lot to the growth in the Indian Insurance industry.

Santosh Anagol, Shawn Cole and Shayak Sarkar(2013) in their study Understanding the Advice of Commissions-Motivated Agents:Evidence from the Indian Life Insurance Market evaluated the quality of advice provided by life insurance agents in India. They found that agents overwhelmingly recommend unsuitable, strictly dominated products, which provide high commissions to the agent. Agents in majority cases mis sell the products to the in informed consumers. Agents usually recommend those products which bring them high commission rather than recommending a product suitable to the needs of customers.
G. Prabhakara(2010) in the study The Evolution of Life Insurance Industry in the last decade (2000 – 2010) traced the evolution of life insurance in India during the period of 2000-2010 with special reference to the role of the IRDA in regulating and guiding the industry. The study reviewed the various regulatory initiatives taken by the IRDA both to contain mis selling and also to enhance transparency at various stages of the sales process.

OBJECTIVES:

In this research paper an attempt is made (a) to examine the rise and fall of ULIPs across the private insurers and LIC in the Indian insurance market by analyzing the distribution of first year premium from 2003-04 to 2013-14 .

HYPOTHESES:

1. Distribution of total first year premium (2003-14) is same between the private insurers and LIC of India
2. Distribution of first year premium from linked policies (2003-14) is same between the private insurers and LIC of India
3. Distribution of first year premium from non linked policies (2003-14) is same between the private insurers and LIC of India.

MATERIALS AND METHODS:

The materials in the form of data and information are gathered from the Annual Reports of IRDA and Reports of Economic Survey of India of various years. The data and information collected were processed presented and analyzed using SPSS version 20. Mann Whitney Test Z value (equivalent to Wilcoxon's rank sum z test) is also used in addition to the calculation of growth rate and percentage contribution of ULIPs to the total premium.

RESULTS AND DISCUSSION :

Following the IRDA Act the monopoly enjoyed by LIC and GIC came to an end and the Indian insurance industry was opened for free market competition. IRDA granted license to seven private companies in the life insurance segment during the financial year 2000-2001. HDFC Standard Life Insurance company was first private company to receive the license in October 2000. (vidyavathi 2015).

Table 1- First Year Premium of LIC of India and Private Insurers from Linked Products

	First year premium of Linked products		Total First year premium (Rs in Crores)		First year Premium (Rs in Crores)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year	LIC	Private	LIC	Private	Industry	% of Linked In the first year Industry Premium
2003-04	397.26 [2.3]	1215.96 [49.82]	17347.62	2440.71	19788.33	8.5
2004-05	4479.65 [21.7]	3966.43 [71.28]	20653.06 (19.05)	5564.57 (127.99)	26217.63 (32.49)	32.5
2005-06	8486.32	13389.93	28515.87	16269.66	44785.53	41.8

	[29.8]	[82.3]	(38.07)	(192.38)	(70.82)	
2006-07	26037.13 [46.3]	17211.9 [88.75]	56223.56 (97.17)	19393.69 (19.20)	75617.25 (68.84)	56.9
2007-08	37383.86 [62.3]	30455.62 [90.33]	59996.57 (6.71)	33715.95 (73.85)	93712.52 (23.93)	70.3
2008-09	15122.57 [28.4]	29537.74 [86.5]	53179.08 (-11.36)	34152.01 (1.29)	87331.09 (-6.81)	51.1
2009-10	28086.25 [39.3]	31839.19 [68.7]	71521.9 (34.49)	38372.01 (12.36)	109893.9 (25.84)	54.5
2010-11	26502.18 [30.5]	27040.45 [83.0]	87012.34 (21.66)	39368.64 (2.60)	126381 (15.00)	42.4
2011-12	4107.39 [5.0]	13298.44 [41.4]	81862.24 (-5.99)	32103.78 (-18.45)	113966 (-9.82)	15.3
2012-13	191.96 [0.3]	10677.31 [34.7]	76611.5 (-6.41)	30749.58 (-4.22)	107361.1 (-5.80)	10.1
2013-14	43.85 [0.05]	8564.83 [29.0]	90808.79 (18.53)	29510.88 (-4.03)	120319.7 (12.07)	7.2

Source: Annual Reports of IRDA

Note: 1. Brackets in columns (2) & (3) show the percentage share of ULIPs in the total first year premium of LIC and Private insurers.

Note: 2. Brackets in columns (4) (5) & (6) show the percentage change over the previous year.

Graph: First year Premium from ULIPs for the period 2003- 2014

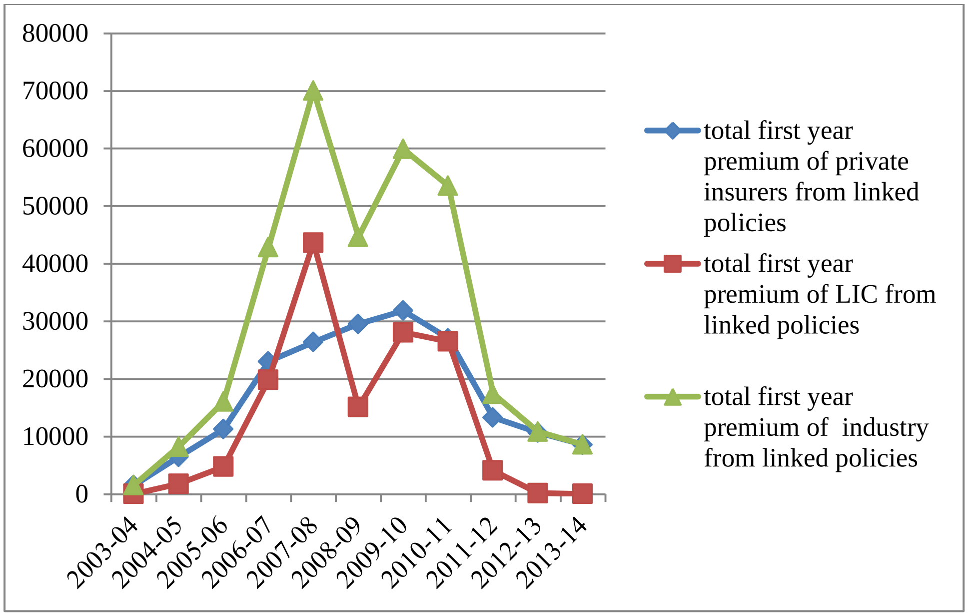

Table -2 Comparison of first year premium of Private and LIC during 2003-14

Variable	Insurer	N	Min	Max	Mean	Std deviation	Median	Mann Whitney Test Z value	P Value
Total first year premium	Private	11	17347.6	59996.6	35181.2	13123.1	32103.8	-2.528	.011 Reject H_0
	LIC	11	2440.7	90808.8	48943.7	34344.9	53179.1		
Premium from linked policies	Private	11	1543.3	31839.2	17243.3	10535.4	13298.4	-1.149	.250Accept H_0
	LIC	11	36.2	43654.1	13107.1	14742.4	4779.7		
Premium from non linked policies	Private	11	1224.8	20946.1	8585.8	7925.2	4614.3	-3.447	.001Reject H_0
	LIC	11	16173.4	90764.9	44808.6	27216.3	38056.5		

Source: IRDA Annual Reports.

However many of these new companies did not underwrite business immediately but concentrated on setting up agency force and infrastructure facilities. Reports indicate that LIC now being in a competitive market adopted a market savvy approach and sold some of its money-back products and assured return products like Bima Nivesh much more the traditional whole life and endowment policies and introduced new policies and products like unit linked policy called Bima Plus in the market and recorded a growth of 65 per cent in the last quarter of 2000-2001 as compared to the same period previous year. Subsequently most of the guaranteed return policies were withdrawn from the market as per the directions of IRDA. Companies like Birla Sun Life entered the market with policies giving investment-linked returns (IRDA 2000-2001). All the new companies like ICICI Prudential, Max New York Life (now Max Life) and HDFC Standard Life etc., adopted very novel and aggressive marketing practices (IRDA 2000-2001). The private insurers collected a premium of 7.12 crores and captured market share of 0.02 percent in 2000-01.

The year 2001-02 was the first full year operation for Birla Sunlife, ICICI Prudential, Max New York and HDFC Standard Life and by the end of the financial year there were 11 private insurers who launched their products at different points of time in the financial year. In the increasingly competitive environment the life insurers offered a variety of products in the traditional and ULIPs providing protection and benefits towards child, endowment, capital guarantee, pension and group solutions. - Comprehensive packaged products were made popular with features of whole life polices, endowment plans, money back policies, pension plans, term policies, single premium, regular premium, rebate in premium for higher sum assured etc., together with riders to the base products. Unit linked policies are also made available to the customers along with riders.

The financial year 2002-03 was the second full year of operations for most of the private insurers and there were 12 companies and their market share went up from 0.54 percent in 2001-02 to 1.99 percent in the year 2002-03. The year 2002-03 also witnessed a shift in the products from nonlinked to linked products. Unit linked products were offered at times when the stock market was showing a rising trend and hence became attractive to customers. And the shift towards ULIPs became crystal clear during the financial year 2003-04, as a big chunk of premium came from unit linked policies and the number of insurers increased to 14. LIC which was a leader in traditional life insurance products too introduced more number of unit linked products in the market.

When the industry was opened up to the private players, the first year life insurance premium was Rs. 6996.95 crore (excluding single premium) which increased to Rs 19788.33 crore in 2003-04 recording a growth of 182.81 per cent. Table 1 shows the first year premium of LIC and private insurers from linked products and their percentage share in the total first year premium of LIC private insurers and industry as a whole from 2003-04 to 2013-14 . During the years from 2004-05 to 2007-08 linked products dominated the business underwritten by life insurers especially the private insurers. LIC, the public sector insurer, too underwrote significant business in the linked products.

During the period from 2003-04 to 2007-08 the average growth of premium underwritten under linked categories by LIC of India was 341.87 percent and thereafter there was a declining trend in the premium collected from ULIPs and the average growth recorded for the period from 2008-09 to 2013-14 was negative at 39.41 percent. In case of private insurers for the period from 2003-04 to 2007-08 the average growth was 142.32 per cent and the negative average growth recorded for the period from 2008-09 to 2013-14 was at 16.77 percent.

During the period from 2003-04 to 2007-08 the average growth of premium underwritten under non linked categories by LIC of India was 11.21 percent and thereafter the average growth recorded for the period from 2008-09 to 2013-14 was more than a double at 27.88 per cent. In case of private insurers for the period from 2003-04 to 2007-08 the average growth was 33.99 per cent and the average growth recorded for the period from 2008-09 to 2013-14 increased to 39.24 percent.

During the same period i.e. from 2003-04 to 2007-08 the percentage share of linked premium in the total first year premium underwritten by the life insurance industry went up from 8.5 to 70.3 and thereafter it started falling and fell to 7.2 percent in 2013-14 from 51.1 per cent in 2008-09. The data in the table 1 shows the year 2007-08 was the golden year of ULIPs where in both LIC and private insurers underwrote a major chunk of premium on the strength of unit linked products.

The Indian stock market which was doing well in 2003-04 continued to do well in 2004-05 because of the structural reforms by the government, good corporate performance, investor friendly regulatory framework which attracted investments by the foreign institutional investors. The first year premium underwritten by the industry increased by 32.49 percent in 2004-05 over the previous year. Indian stock markets witnessed unprecedented buoyancy during 2005-06 and the first year premium underwritten by the industry increased by 70.82 percent driven by a significant jump in ULIPs, innovative products, smart marketing and aggressive distribution In fact premium under ULIPs grew by 94.73 percent while the nonlinked premium growth was only 16.02 percent over the previous year.

During the years from 2005-06 to 2007-08 strong macro economic fundamentals like over 9 per cent GDP growth rate, gross domestic saving of over 33 per cent, moderate inflation of 4 percent, robust corporate results, positive investment climate, sound business outlook and continued foreign institutional investment supported by the active participation of Indian mutual funds drove the bullish trend in the Indian stock market.(IRDA) favored the sale of ULIPs. In 2007-08 real GDP growth rate came down to 9 per cent from 9.4 per cent in the previous year. Investment in ULIPs continued in the background of bullish stock market even though global economy experienced many uncertainties. The overall good performance of the economy has its high influence on the performance of the insurance industry too.

The year 2008-09 witnessed the global economic crisis which increased unemployment and slowdown in the economic growth. Indian stock market crashed, GDP growth rate fell to 6.7 percent and the inflation in terms of consumer price index remained high in the range of 8-9.7 percent. Insurance premiums recorded a negative growth in India . financial crisis across the globe and meltdown in the stock markets shifted the preferences away from ULIPs (the share of ULIPs in the total first year premium fell to 51 percent) and insurers designed traditional products with good incentives. The average growth of first year premium from 2003-04 to 2007-08 works out to be 42.15 per cent much higher than 5.08 per cent in the succeeding years i.e. from 2008-09 to 2013-14

In 2009-10 GDP growth was 7.4 percent lower than the pre-global crisis growth of 8.9 percent during 2003-08 and inflation was high at 11 percent towards the end of 2009-10. First year premium registered a growth of 25 % over the previous year's negative growth of 6.8. In 2009-10 54.5 per cent of first year premium was underwritten in linked segment(with the recovery of stock market) as against 51.1 percent in the previous year. The IRDA prescribed several guidelines such as [1] minimum lock in period being increased from 3 to 5 years with the stipulation being applicable to even top-ups; [2] charges on ULIPs have been mandated to be spread evenly over the lock in period [3] ULIPs other than single premium products to have a minimum premium paying term of 5 years. [4] individual products to have a minimum policy term of five years. ULIP pension/annuity products shall offer a minimum guaranteed return of 4.5% per annum or as specified by IRDA from time to time. All ULIPs other than pension and annuity products must provide the prescribed minimum mortality/health cover. The slow down in the economy from 2009 and IRDA's guidelines on ULIPs in July and with modification in September 2010 impacted the sale of ULIPs (vidyavathi 2015).

GDP of India grew at the rate of 8.5 per cent 2010-11 largely due to the good performance in the agricultural sector. However the high level of inflation remained one of the biggest concerns in the economy. (Economic survey of India). The life insurance sector in terms of first year premium grew by 15 per cent much lower than the previous year's growth. Premium from ULIPS registered a negative growth and their contribution to the total first year premium came down to 42 percent.

Indian economy recorded a growth rate of 6.5 per cent in 2011-12. Tighter monetary policy, lower demand, subdued business confidence, uncertainty in the global economy contributed to poor performance of Indian economy (Economic Survey). The slowdown originated mainly in Europe as a result of sovereign debt crisis problems in the banking sector and fiscal consolidation efforts of various governments spread to major emerging economies like India, China, Brazil too (IRDA). The recession suffered by the European economy affected the advanced economies. Lack of demand from advanced economies and uncertainty in Euro zone has caused the slow down in emerging and developing economies as well. Poor economic performance reflected in the insurance sector too. Global life insurance premium dropped by 2.7 percent.(Swiss Re) Indian life insurance industry recorded a negative growth of 9.8 percent in the first year premium collection and penetration has slipped down further to 3.4 percent from 4.4 percent 2010-11 and 4.6 percent in 2009-10.

The slow down in the economy continued and the GDP grew at the rate of 5 percent in 2012-13 mainly because of a persistent high inflation with tighter monetary policy, lower domestic and global demand, recessionary environment, euro zone crisis and to some extent weaker monsoon. Globally insurance premium grew by 2.3 per cent. Insurers faced a big challenge as the household sector is left with lesser savings because of a high inflation and the first year premium in India declined by 5.8 percent. ULIPs witnessed a decline of 38 percent in premium collection and their share in the total has come down to 10 percent.

India's economy registered a modest growth rate of 4.7 per cent during 2013-14. Inflation in terms of consumer price index eased a bit to 8 percent during December 2013 to February 2014 and remained above 9 percent during other time. Growth in the global life insurance premium slipped down to 0.7 percent (Swiss Re). However in India the first year premium registered a growth of 12.07 per cent as against the decline of 5.78 per cent during 2012-13. The first year premium income of ULIPs declined by 21 per cent and the share of ULIPs in the total first year premium fell down drastically to 7 percent. Penetration slipped in the consecutive fourth year on account of either negative or slower rate of growth in life insurance premium. The penetration for the year 2013-14 was 3.1 percent.

Mann Whitney Test

Non parametric test viz. Mann Whitney Test (equivalent to Wilcoxon's rank sum z test) is also used to know whether the total first year premium first year premium from linked as well as non linked products collected by private insurers and LIC of India are same or not. The results of the test are shown in the table 2 which shows that distribution of first year premium from linked policies for the 11 year period from 2003-04 to 2013-14 is same between private insurers and LIC of India i.e. when there was a bullish trend in the stock market both LIC and private insurers underwrote a major chunk of premium on the strength of ULIPs and with the slow down in the economy from 2009 both LIC and private insurers shifted away from ULIPs and designed more and more traditional products with good incentives.

Conclusion

ULIPs emerged as one of popular products in India after the opening up of the market. ULIPs are combination of investment and insurance and provide attractive benefits as well as risks to investors and capital related advantages to life insurance companies. ULIPs were launched at times when the stock market was showing a bullish trend. Further at the time of sale all the features of ULIPs particularly their return depends on the performance of capital market were not disclosed to the clients. So long as the macro economic fundamentals were strong and the market was doing well companies sold more and more number of policies and there has been a steady growth in the premium from ULIPs. The problem started with financial crisis across the globe and meltdown in the stock market made the people to realize that investing in ULIPs is not risk free and large number of policy holder ether lapsed or surrendered their policies in large numbers. In this process policy holders lost a substantial portion of their premium paid in addition to the loss of life cover. The slowdown in the economy and IRDA's guidelines on ULIPs made the industry to shift away from linked to traditional products.

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