

A COMPARATIVE STUDY OF PUBLIC AND PRIVATE NON- LIFE INSURANCE COMPANIES IN INDIA

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ABSTRACT

With the privatization of insurance, monopolistic competition of public sector insurance companies came to an end, giving wider opportunities to the customers to select their insurers as per their requirements. In today's hyper competitive environment, insurers are operating under shrinking premiums, growing customer expectations and tightening regulations which are narrowing their margins. Falling investment returns, tougher competition, rising operational costs, managing risks, supporting multiple distribution channels, complying with regulatory changes and shifting customer preferences are sticky areas any insurance company has to tread on, at any time. With the entry of private players, the competition is becoming intense. In this paper, an attempt is made to analyze the performance of public and private non-life insurance companies in India.

KEYWORDS: Insurance Penetration, Insurance Density, Non- Life Insurance

INTRODUCTION

The insurance industry today functions in a highly competitive environment, with increasing private participation and an expanding product portfolio. In this changing landscape, insurers have to invent ways to offer more value than ever before. The various components of non- life Insurance or general insurance are fire, marine, motor, engineering, health and aviation. Chart 1 shows the Insurance industry in India. There are 24 non-life insurance companies operating in India, of which four are under public sector, three standalone health insurers and the two specialized institutions.

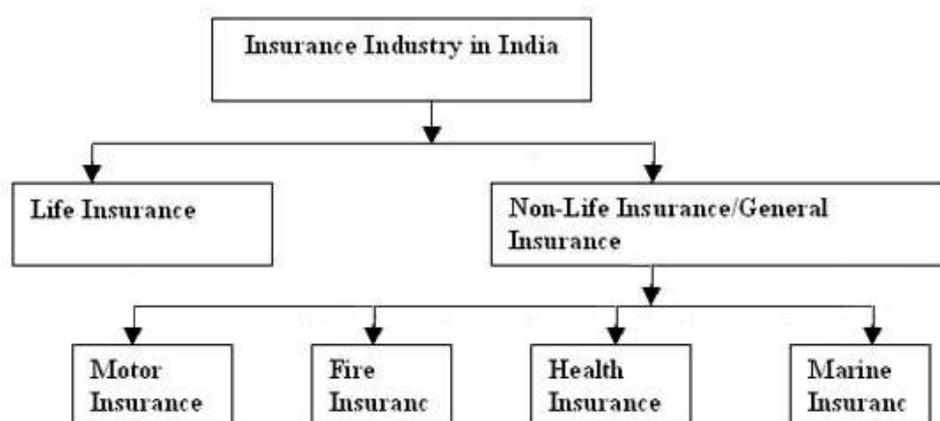


Figure 1

The general insurance industry is estimated to grow by over 18 percent to reach a size of Rs 100,000 crore by 2015 and Rs. 2, 50,000 crore by 2020. The current size of the non-life industry is Rs. 58,344 crore growing at the rate of 23.16%. In terms of penetration general insurance in India is 0.60 percent of GDP against the world average of 2.14 percent. The huge market largely remains untapped in both rural and urban India as 70 percent of the population is still not touched by insurance companies.

OBJECTIVE

The objective of the present study is to compare the performance of public and private non-life insurance companies in terms of certain parameters.

HYPOTHESES

For the purpose of this study, the following null hypotheses are formed:

- There is no significant difference in the growth of number of new policies issued among public and private non-life insurance companies
- There is no significant difference in the growth rate of gross direct premium income between public and private non-life insurance companies.
- There is no significant difference in the growth rate of net incurred claims among public and private non-life insurance companies.

RESEARCH METHODOLOGY

The data is basically secondary in nature collected from the annual reports of IRDA, from the various journals, research articles and websites. An attempt is made to analyse whether there is any significant difference in the growth of number of new policies, gross direct premium collected and net incurred claims among public and private non-life insurance companies or not. For this purpose, Mann-Whitney – U- Test was applied. Mann-Whitney U Test is a non-parametric test. This test is used to determine whether two independent samples have been drawn from the same population.

PERIOD OF STUDY

The present study covers a period of 9 years from 2002-03 to 2010-11.

ANALYSIS OF THE DATA

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. In December, 2000, the subsidiaries of the General Insurance Corporation of India (GIC) were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Table 1 shows the details of non-life insurance companies operating in India both in public and private sector.

As on 31st March, 2011, 24 general insurance companies had been granted registration for carrying on non-life insurance business in the country. Of these, six are in public sector and the rest are in private sector. Of the private sector insurers, 3 have been granted registration to carry on operations in the health segment. Among the public sector companies, the four public sector insurance companies i.e., New India, national Insurance, Oriental Insurance, United India Insurance carry on multiline operations, there are two specialised insurance companies: one for credit insurance 'Export Credit Guarantee Corporation Ltd' (ECGC) and the other for crop insurance 'Agriculture Insurance Company' (AIC).

TABLE 1			
NON-LIFE INSURANCE COMPANIES OPERATING IN INDIA			
Insurers	Foreign Partners	Date of Registration	Year of Operation
PUBLIC SECTOR			
New India Assurance	---	1919	1919-20
National Insurance	---	1906	1906-07
Oriental Insurance	---	1947	1947-48
United India Insurance	---	1919	1919-20
PRIVATE SECTOR			
Royal Sundaram	Royal Sun Alliance, UK	23.10.2000	2000-01
Reliance General	---	23.10.2000	2000-01
IFFCO-TOKIO	TOKIO Marine Asia Pte. Ltd, Japan	04.12.2000	2000-01
TATA AIG	American International Group (AIG), USA	22.01.2001	2001-02
Bajaj Allianz	Allianz, Germany	02.05.2001	2001-02
Cholamandalam MS	Mitsui Sumitomo, Japan	15.07.2002	2002-03
ICICI Lombard	Fairfax Financial Holding Ltd, Canada	03.08.2001	2001-02
HDFC ERGO	ERGO, Germany	27.09.2000	2002-03
Future Generali India	Participatie Maatschappij Graafsschap Holland NV, Netherlands ("Generali")	04.09.2007	2007-08
Universal Sampo	Sampo, Japan	16.11.2007	2007-08
Shriram General	Sanlam, South Africa	08.05.2008	2008-09
Bharti AXA General	AXA Holdings, France	27.06.2008	2008-09
Raheja QBE	QBE, Australia	11.12.2008	2008-09
SBI General	Insurance Australia Group Limited (IAG), Australia	15.12.2009	2009-10
L & T General	---	12.07.2010	2010-11
HEALTH INSURERS			
Star Health & Allied Insurance	Individual Promoters, UAE	16.03.2006	2006-07
Apollo Munich	Munich Re	03.08.2007	2007-08
Max Bupa	Bupa Finance PLC, UK	26.02.2010	2009-10
SPECIALISED INSURERS			
Export Credit Guarantee Corporation	---	1957	1957-58
Agriculture Insurance Company	---	2003	2003-04
REINSURER			
General Insurance Corporation of India	---	2001	2001-02
Source: Handbook on Indian Insurance Statistics 2009-10			

The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., Insurance Penetration and Insurance Density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP). Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD). The insurance penetration was 2.32 per cent (Life: 1.77 per cent and Non-life: 0.55 per cent) in the year 2000 when the sector was opened up for private sector. It increased to 5.10 per cent in 2010 (Life: 4.40 per cent and Non-life: 0.70 per cent). The insurance density stood at USD 64.4 in 2010 (Life: USD 55.7 and Non-life: USD 8.7) from USD 9.9 in 2000 (Life: USD 7.6 and Non-life: USD 2.3). The non-life insurance sector witnessed significant growth of 8.1 per cent during 2010. Its performance is far better when compared to global non-life premium, which expanded by 2.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium increased slightly to 0.58 per cent, thereby improvising its global ranking to 19th in comparison to 26th rank. Table 2 shows the details of market share of public and private non-life insurance companies for the years 2009-10 and 2010-11. .

Among Public sector undertakings market leader and public sector giant New India Assurance stood with 16.75 per cent market share, followed by United India. In the private sector ICICI Lombard is the leader as far as market share is concerned. Till March 2009, private players were growing faster than their public sector counterparts, but after wards registered a low market share. Non-Life insurers contributed to the extent of only 5 per cent of total investments held by the insurance industry. The total investments of the sector, as on 31st March, 2011, stood at Rs. 82,520 crore. During 2010-

11, the net increase in investments was Rs. 16,148 crore (24.33 per cent growth over previous year), up from Rs. 66,372 crore in 2009-10.

**Table 2: Market Share of Public and Private Non- Life Insurance Companies
(In per cent)**

Insurance Companies	2009-10	2010-11
Private Sector		
Royal Sundaram	2.67	2.71
Reliance General	6.04	3.98
IFFCO Tokio	4.22	4.18
TATA AIG General	2.53	2.79
Bajaj Allianz General	7.25	6.79
ICICI Lombard	9.81	10.2
Cholamandalam General	2.37	2.31
HDFC Ergo	2.69	3.35
Future Generali	1.10	1.45
Universal Sompo	0.51	0.68
Shriram General	1.18	1.81
Bharti AXA General	0.08	1.29
Raheja QBE	-	0.01
SBI General	-	0.08
L&T General	-	0.02
Public Sector		
United India	14.88	14.96
Oriental Insurance	13.53	12.48
National Insurance	13.41	14.15
New India Insurance	17.74	16.75
Total	100.00	100.00

Source: IRDA Annual Report 2010-11

Number of New Policies Issued

During 2010-11 the non-life insurers have issued 793 lakh new policies, out of which 506 lakh policies are issued by public sector and the private sector has issued 287 lakh policies. While public sector reported an increase of 16.52 percent (-3.84 percent in 2009-10) in the number of policies issued over the previous year, the private sector insurers reported a decline of 9.86 percent (19.44 percent increase in 2010-11) in the number of new policies issued. Overall the industry witnessed a 17.56 percent increase (0.64 percent in 2009-10) in the number of policies issued.

Table 3 displays the details of number of new policies issued by public and private non-life insurance companies from 2002-03 to 2010-11.

Table 3: Non-Life Insurers: Number of Policies Issued

									(Rs in Lakhs)
Insurer	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Public Sector	505.76	434.04	451.37	385.47	339.72	421.93	446.34	384.27	418.85
	(16.52)	(-3.84)	(17.09)	(13.47)	(-19.48)	(-5.47)	(16.15)	(-8.26)	-
Private Sector	287.652	240.84	219.23	187.03	126.92	89.48	51.45	32.99	16.77
	(19.44)	(9.86)	(17.21)	(47.36)	(41.85)	(73.92)	(55.96)	(96.72)	-
TOTAL	793.41	674.88	670.60	572.50	466.64	511.41	497.79	417.26	435.62
	(17.56)	(0.64)	(17.13)	(22.69)	(-8.75)	(2.74)	(19.30)	(-4.21)	-

Note: Figure in bracket indicates the growth over the previous years in per cent
Source: IRDA Annual reports

Gross Direct Premium Income of Non-Life Insurers

The premium income of public insurers increased from year to year. It was Rs. 13,337 crore in the year 2003-04 and was increased to Rs. 25,152 crore in 2010-11. The growth rate was 4.77 percent 2004-05 and it was increased to 8.41 percent in 2006-07 and again it decreased to 3.52 percent in 2007-08. Compared to the previous year, it was increased by 21.84 percent in 2010-11. In private sector also there is a continual increase in the direct premium income during the years from 2003-04 to 2010-11. The premium underwritten by 15 private sector insurers (other than the insurers carrying on exclusively health insurance business) in 2010-11 was Rs. 17,425 crore as against 13,977 crore in 2009-10. It was Rs.2,257 crore in 2003-04 and was increased to Rs. 17,425 crore in 2010-11. The rate of growth of private sector also shows the fluctuating trend. The growth rate of growth was 55.36 percent in 2004-05 and recorded highest growth rate of 61.24 percent in 2006-07 and it was decreased to 24.67 percent in 2010-11. Table 4 displays the details of gross direct premium income by public and private non-life insurance companies from 2003-04 to 2010-11.

Table 4: Gross Direct Premium Income in India of Non-Life Insurers (Rs in Lakh)

Year	Public	Growth Rate in %	Private	Growth Rate in %
2003-04	1333708	-	225773	-
2004-05	1397296	4.77	350764	55.36
2005-06	1499706	7.33	536266	52.89
2006-07	1625890	8.41	864657	61.24
2007-08	1683184	3.52	1099189	27.12
2008-09	1803075	7.12	1232108	12.09
2009-10	2064345	14.49	1397700	13.44
2010-11	2515183	21.84	1742463	24.67

Source: IRDA Annual Reports

Net Incurred Claims

Table 5 indicates that in the case of the private insurers, the net incurred claims were Rs. 911.72 crore as against Rs.543.36 crore in 2003- 04. Overall, the incurred claims ratio was 51.16 per cent as against 50.97 in 2003-04. The net incurred claims of the non-life insurers stood at Rs. 29,536 crore in 2010-11 as against Rs.22,229 crore in 2009-10. The incurred claims exhibited an increase of 32.87 per cent during 2010-11. While the public sector insurers reported growth at 30.95 per cent in the incurred claims, while for private insurers it was 36.83 per cent. However, the overall the growth in incurred claims during 2010-11 is 32.87 per cent which was significantly higher than 12.74 per cent recorded during the previous year. Both public and private sectors have continuous increase in claims except for public sector in the year 2006-07 (-0.29 percent growth rate, which increased to 30.95 percent in 2010-11). Compared to public sector companies, the growth rate of net incurred claims of private non-life insurance companies was high.

Table 5: Net Incurred Claims of Non-Life Insurers (Rs in Lakh)

Year	Public	Growth Rate in %	Private	Growth Rate in %
2002-03	769114	-	29225	-
2003-04	825330	7.31	54336	85.92
2004-05	907540	9.96	91172	67.79
2005-06	1056985	16.47	154822	69.81
2006-07	1053875	-0.29	250289	61.66
2007-08	1212481	15.05	424631	69.66
2008-09	1363779	12.48	607967	43.18
2009-10	1496723	9.75	726249	19.46
2010-11	1959914	30.95	993731	36.83

Source: IRDA Annual Reports

RESULTS AND INTERPRETATION

In order to know whether there is any statistically significant difference in the growth rates of public and private non-life insurance companies in terms of the parameters like number of new policies issued, gross direct premium income and net incurred claims, Mann-Whitney-U-Test was used. For testing the null hypothesis, which is laid down, the U value was calculated. The results of Mann-Whitney-U- Test is given in table 6

Table 6: Results of Mann-Whitney - U- Test

Hypotheses	Particulars	Tabulated U Value	Result
H ₀ 1	Number of new policies issued	0.001	Rejected
H ₀ 2	Gross Direct Premium income in India	0.003	Rejected
H ₀ 3	Net incurred claims	0.000	Rejected

Source: Calculated Value

H₀1: The tabulated probability for $n_1 = 8$, $n_2 = 8$ and $U = 4$ is 0.001, which is less than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is rejected. That means there is a significant difference in the growth rates of number of new policies issued by public and private non-life insurance companies.

H₀2: The tabulated probability for $n_1 = 7$, $n_2 = 7$ and $U = 4$ is 0.003, which is less than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is rejected. That means there is a significant difference in the growth of gross direct premium income among public and private non-life insurance companies.

H₀3: The tabulated probability for $n_1 = 8$, $n_2 = 8$ and $U = 1$ is 0.000, which is less than 0.05 (5 % level of significance) hence, the null hypothesis framed for this study is rejected. That means there is a significant difference in the growth of net incurred claims among public and private non-life insurers.

CONCLUSIONS

Comparatively public sectors firms have done well mostly because of their aggressive pricing and the retention of business. New India Assurance in PSU companies and ICICI Lombard in private companies will continue to hold the leadership position for the next few years. The Indian general insurance market is relatively underdeveloped. Compared to the other countries it is still at a budding stage, which indicates the potential opportunities available for the players. Higher disposable incomes, rising aspiration of the people and growing awareness about need for insurance are some of the factors that would continue to drive the growth of the insurance sector in India in the coming decade.

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