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Indian Insurance Industry and Competition Analysis

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Keywords

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Private players

Abstract

The purpose of this paper is to do an analysis of the ongoing competition between Life Insurance Council of India and the private life insurers and also the competition among the private companies themselves. This analysis has been done not only for the total life insurance market but also its sub sector which is the market for unit linked insurance products. To do this, secondary data was collected from public disclosures and annual reports of various life insurers and IRDA. The paper presents how the market share of LIC and the rest of the private players have changed since 1999, which private companies have emerged as the major players in the private sector, what is the composition of their portfolio in terms of the kind of policies they sell and their different strategies such as value versus volume based sales of insurance policies to grab the market share. As a result of the study, it was found that SBI Life Insurance Company, ICICI Prudential Life Insurance and HDFC Standard Life Insurance have emerged as the biggest private sector life insurers in terms of the market share held by them with LIC holding 70% of the market. Also, it has come to light that SBI Life and HDFC Standard have been conservative players whereas ICICI Prudential is a more aggressive when it comes to the kind of policies they sell, i.e. traditional versus unit linked and value versus volume based selling. This paper is useful to life insurance companies to know where they stand in competition to others and also to understand their strategies regarding the types of policies sold by them, participating, non-participating or unit linked.

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INTRODUCTION

LIC was the sole public sector life insurer till 1999 after which the sector was thrown open inviting private and foreign players. Since then private companies have not only eaten into the market share of LIC but are also trying to widen and deepen their reach and increase their market shares. Fifteen years after the liberalization of the industry the private sector now holds around 31% of the total life insurance market. In fact, in the year 2008-09 the private sector held as much as 39% of the total market. These fifteen years also saw the emergence of unit linked insurance product (ULIPs) which is an investment-cum-insurance product. ULIPs became very famous between the years 2006 to 2010 when more than 50% of the industry's new business premium (NBP) came from selling of ULIPs. This was the period during which the markets were going through a boom phase and hence ULIPs gave a high rate of return. Private life insurers used this opportunity to establish themselves as the major players in the ULIPs market. This is evident from the fact that major private players today were receiving 60% or more of their new business premium by selling ULIPs in 2010-11, with HDFC Standard Life earning 86% of its NBP from ULIPs. The private sector came out successful in its deliberation as today almost 100% of the ULIPs market is held by only private companies with ICICI Prudential Life being the market leader with 33% of the ULIPs market followed by HDFC Standard Life with 18% and SBI Life with 15%. LIC had 34% of the ULIPs market in 2008-09 however it has, gradually, been wiped out of ULIPs market by private players though now it is trying to acquire some share of this market. Therefore, ULIPs form a big playground for private sector companies and so competition analysis on this front is important.

1. Change In Market Share Over The Years

Since the liberalization of the insurance industry 23 private companies have entered the sector. This has of course affected the market share of Life Insurance Company (LIC). Prior to 2000 LIC was the only life insurance company in India.

From figure 1.1 below, we can see how the market share of LIC changed over the years. In the very first year of liberalization LIC lost 0.1% of its market share which decreased to a low of 60.9% in 2008-09. However, the graph showing growth in Gross Written Premium (GWP) tells us that ever since the opening of the insurance industry to private sector GWP has been growing. Therefore, it can be concluded that though LIC had to share the market with the private players the market itself had grown in size.

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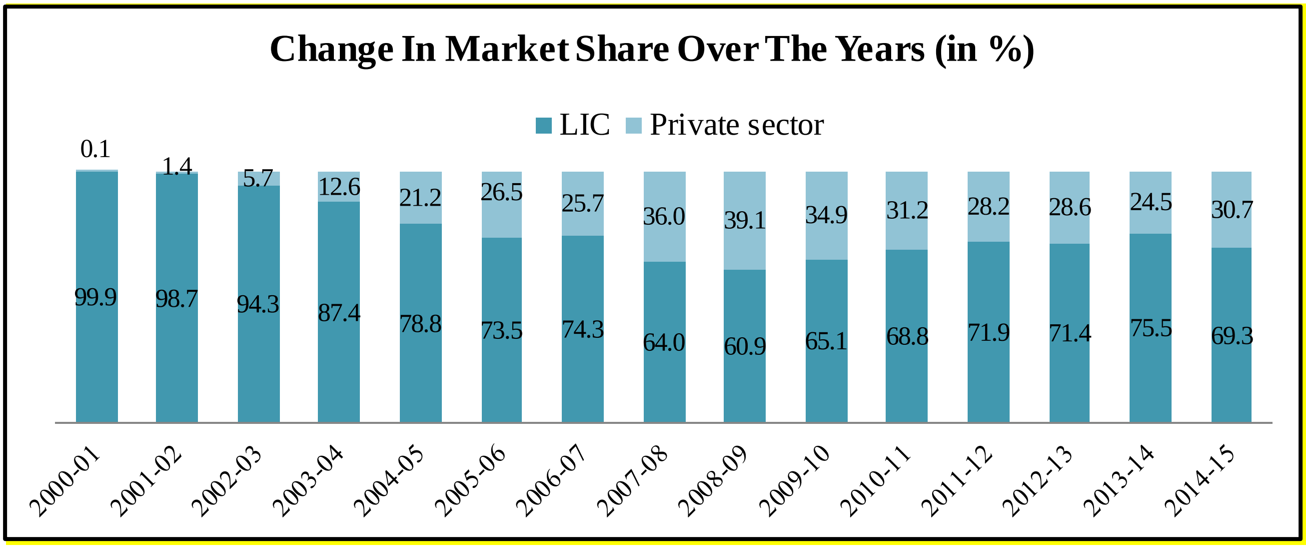

Figure 1.1 Change in Insurance Market Share from 2001 to 2015

Note: the market share shown is on the basis of New Business Premium (NBP) which is a sum of First year fist premium and single premium

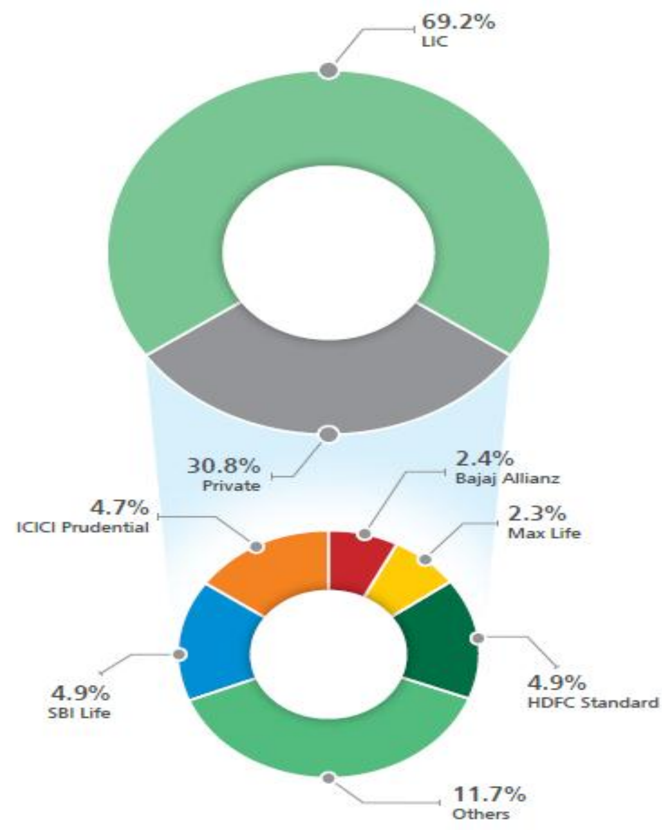

Figure 1.1: Insurance Market Share at the end of year 2014-2015

Source: Life Insurance Council New Business Report

Figure 1.2 shows that LIC is the biggest player in life insurance industry controlling 69.2% of the market share. The rest 30.8% of the market is divided between 23 private companies.

Among the private players, SBI Life and HDFC Standard Life are the market leaders' having 4.9% of the total market share each followed by ICICI Prudential Life with 4.7% of the total market. These are followed by Bajaj Allianz and Max Life. The calculation of market share is done on the basis of New Business Premium earned by the companies in the year 2014-15.

1.2 Trend in Gross written Premium

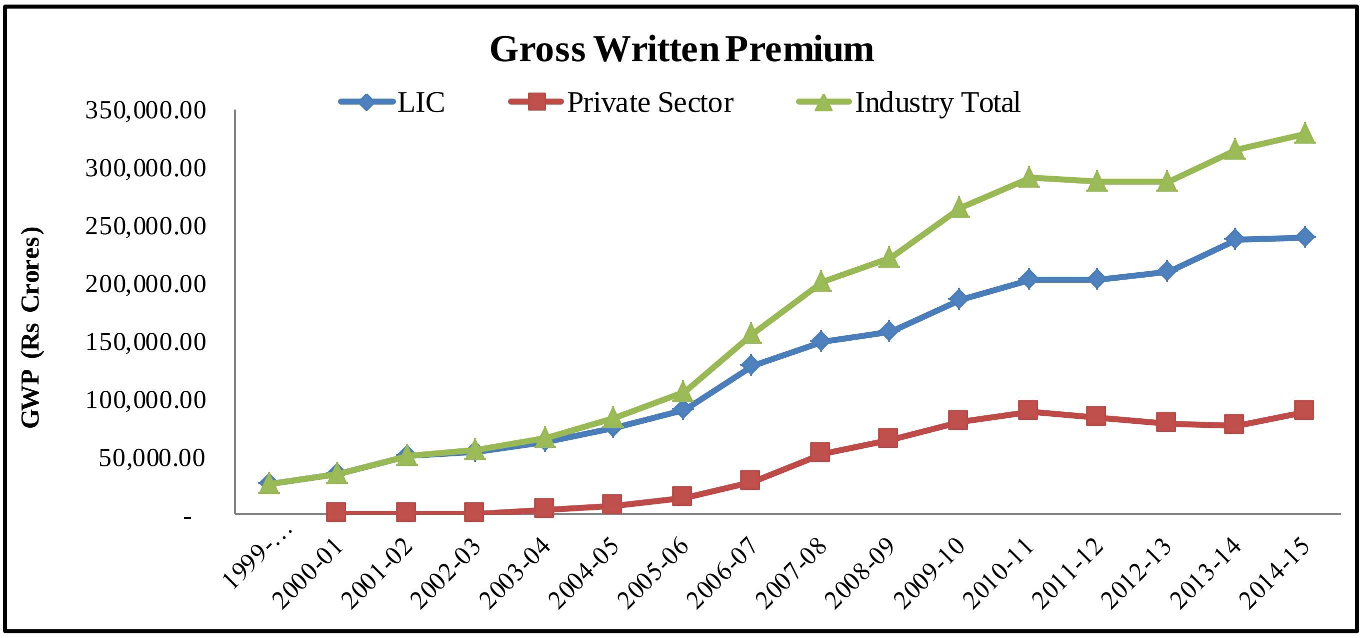

Figure 1.2.1: Gross Written premium Growth over the Years

Figure 1.2.1 shows that immediately after opening of the insurance industry private sector got a positive response from insurance consumers. Not only did LIC see a steady growth in GWP in the first five years from 2000 to 2005 but also the private sector. The industry experienced a GWP growth of 43.54% in 2000-01.

The growth of gross written premium was gradual until 2004-05 after which the growth was dramatic. In the year 2005-06 the gross written premium grew by 27.78% and in 2006-07 it grew by 47.41%. Trend continued until 2007-08 when the growth again slowed. Finally, in 2011-12 the gross written premium showed a de growth of 1.57%. The reason for this trend attributed to the sudden fame of linked policies during 2005 to 2009. Huge amounts of premium flowed to ULIPs. However after the market crash in 2008 and IRDA coming out with regulations regarding distribution of ULIPs the sale of ULIPs declined. For this reason the gross written premium shows a negative growth in 2011-12.

This phenomenon is substantiated using the New Business Premium (NBP) data. New business premium showed a negative growth of 9.9% and 5.8% in the year 2011-12 and 2012-13 respectively. To further understand why new business premium showed a de growth we need to look at its composition over the years.

Figure 1.2.2 below shows how new business premium was divided between linked and non-linked products. As is evident from the chart, during 2008-09 and 2009-10 more than 50% of the new business premium came from linked policies however, this trend was suddenly reversed in 2010-11 when the premium from ULIPs declined to 42.4% from 54.5% in 2009-10.

The change could be attributed to change in regulations by IRDA. This trend was abruptly reversed. The share of ULIPs in NBP continued to decline and reached a low of 7.2% of NBP in 2013-14. However, after the macroeconomic situation bettered in the year 2014-15 and political stability was gained after the general election in May 2014, the markets started performing good again so, the share of linked product in the new business premium went up to 11.7% in 2014-15.

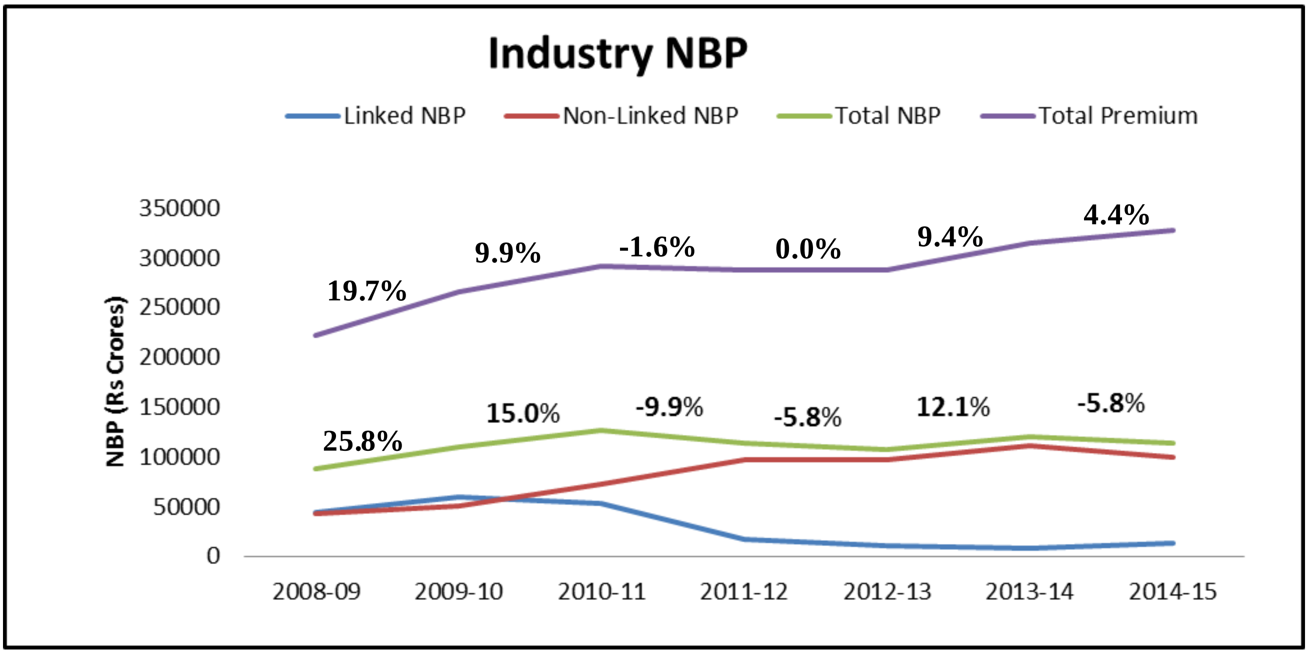

Figure 1.2.2: Trend in Industry NBP and its Division between Linked and Non-Linked NBP over the Years

The next section gives a detailed report on the competitive situation within the ULIP market.

2. Competition In The ULIPS Market

2.1 Division of Industry NBP between Linked and Non-linked Products

Figure 2.1.1 shows that during 2008 till 2012, ULIPs had gained sudden fame. However, suddenly after this they lost their sheen. In 2008-09 and 2009-10, NBP from linked product formed 51.1% and 54.5% of the total industry NBP, respectively. In fact even in 2010-11, NBP from linked product formed 42.4% of the total industry NBP. This happened because ULIPs being linked to market gave better returns prior to market crash in late 2008. In 2010, IRDA came out with regulations which altered commission payout for the distribution of ULIPs apart from other changes. This discouraged the sales of ULIPs.

In 2011-12 the share of premium from ULIPs suddenly plummeted to just 15.3% and reached the low of 7.2% in 2013-14. Only when the markets started to show the signs of improvement in mid-2014 did ULIPs again start selling.

We further analyze major players in ULIPs market and their product mix.

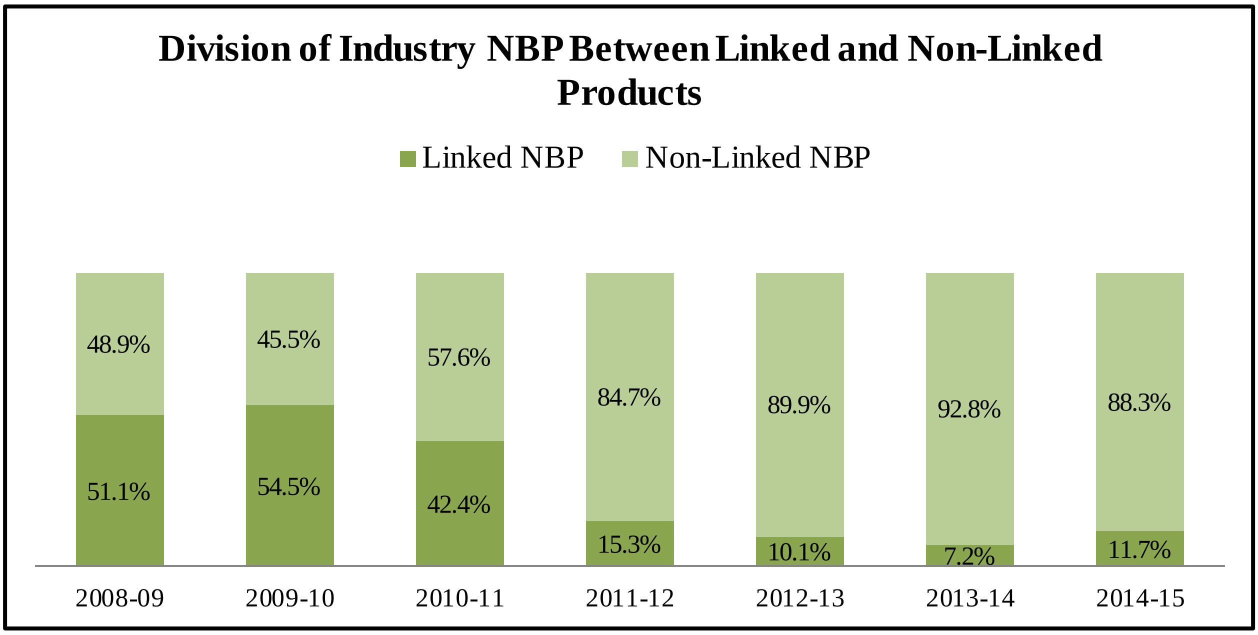

Figure 2.1.1: Division of Industry between Linked and Non-linked NBP

Figure 2.1.2 shows the division of total ULIPs market between LIC and the private companies. It is evident that private companies pushed their ULIPs more than LIC. However, at least between 2008 to 2011 LIC still held a big chunk of the ULIPs market (33.9% in 2008-09, 46.9% in 2009-10 and 49.9% in 2010-11). But after 2011, private players held the majority of the ULIPs market. Today, almost 100% of the ULIPs market is held by the private players indicating that LIC is driving its sales mostly from traditional plans. However, LIC is now launching ULIPs to regain its share in ULIPs.

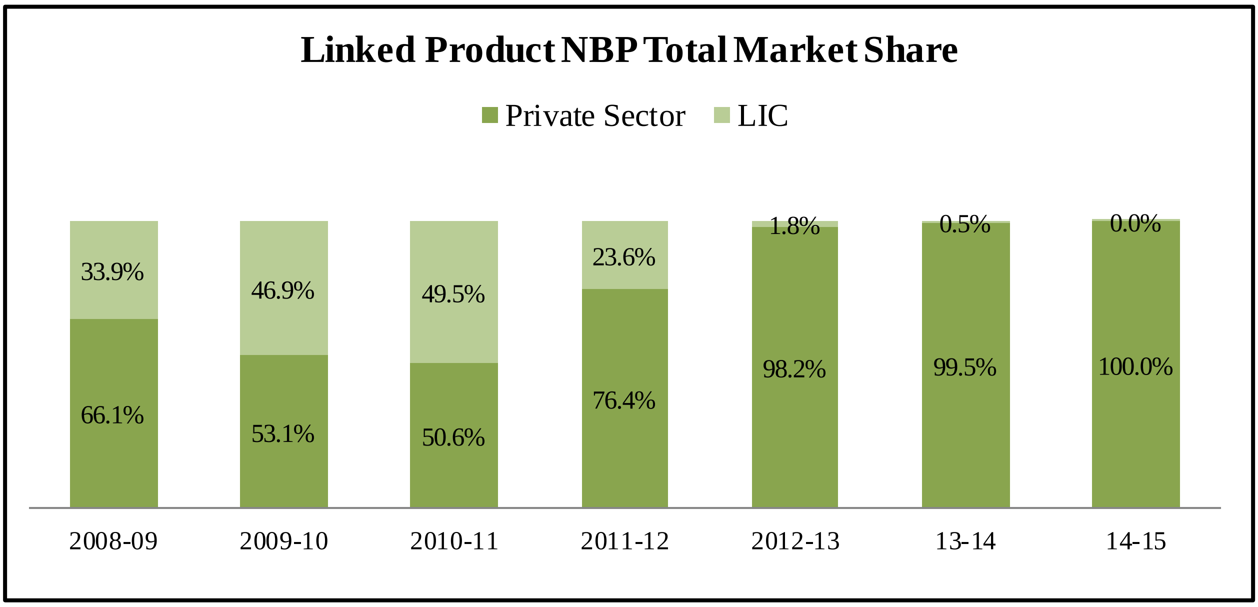

Figure 2.1.2: Market Share of LIC and Private Companies based on NBP from Linked Product

After realizing that private players are the major players in the ULIPs market it becomes important to look at the market share of the various private players in the ULIPs market.

Figure 2.1.3 shows that ICICI is a clear winner in the ULIPs market having 33% of the total ULIPs market. It is followed by HDFC standard with 18% of the market and, then SBI Life with 15% of the market. The other emerging players are Birla Sun Life, Max Life and Reliance.

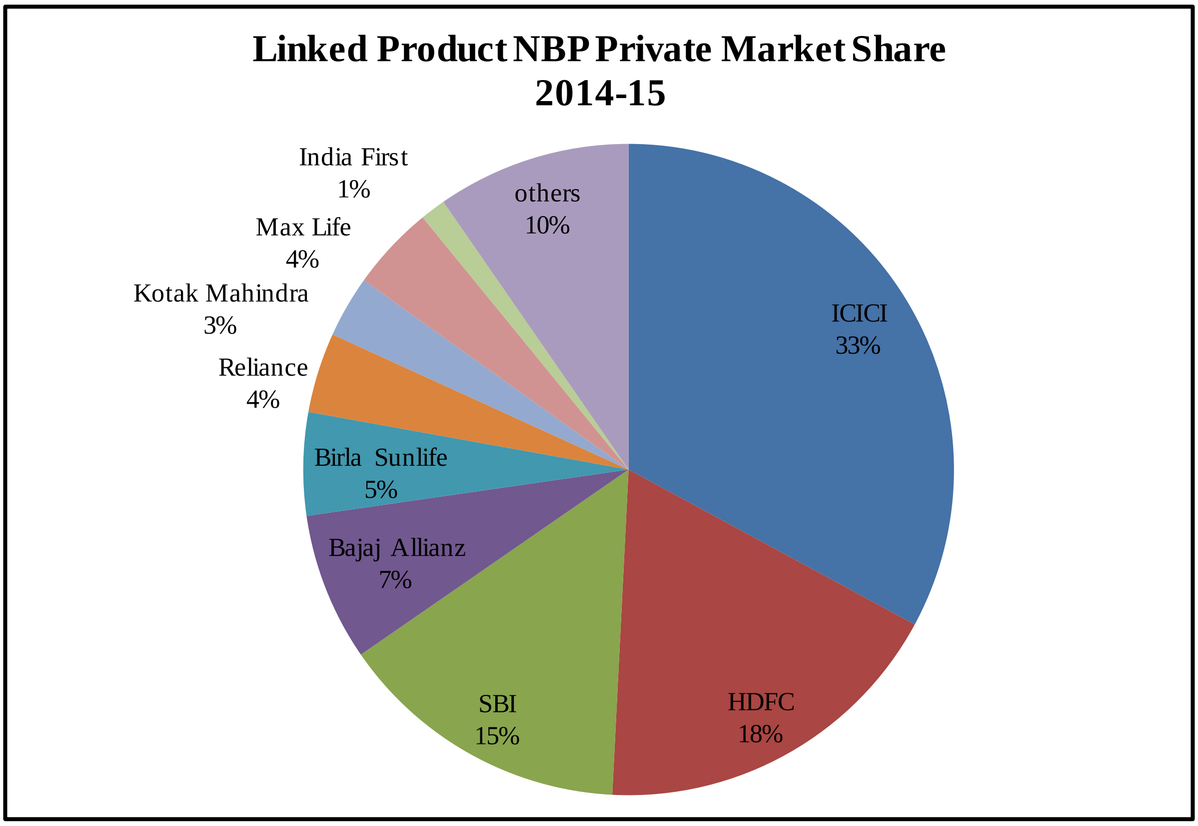

Figure 2.1.3: Market Share of Private Companies based on Private NBP from Linked Products

Figure 2.1.4 shows that ICICI Prudential holds merely 5% of the non-linked market on the basis of NBP but it is still one of the three major private players in the life insurance industry. This is because ICICI focuses the most on linked products; SBI life and HDFC Standard Life are more into non-linked insurance products.

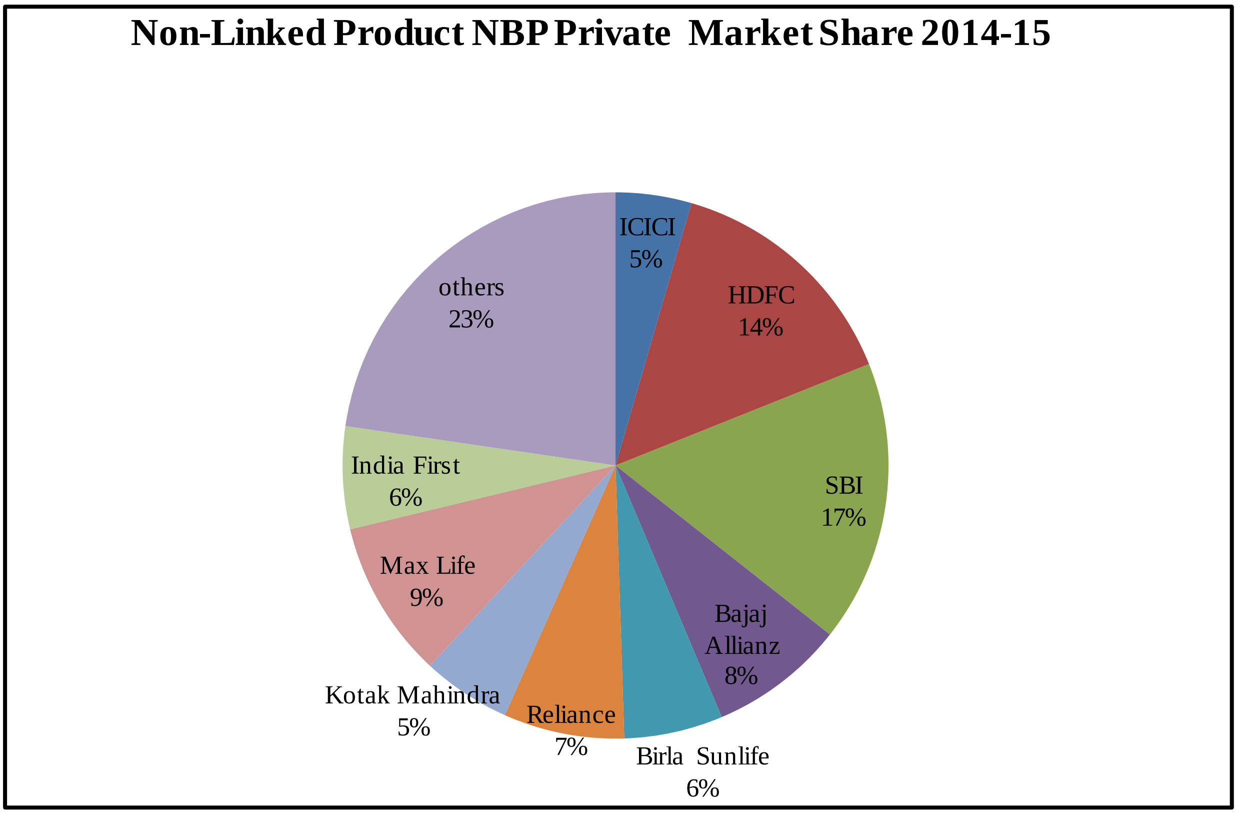

Figure 2.1.4: Market Share of Private companies Based on Private NBP from Non-linked Products

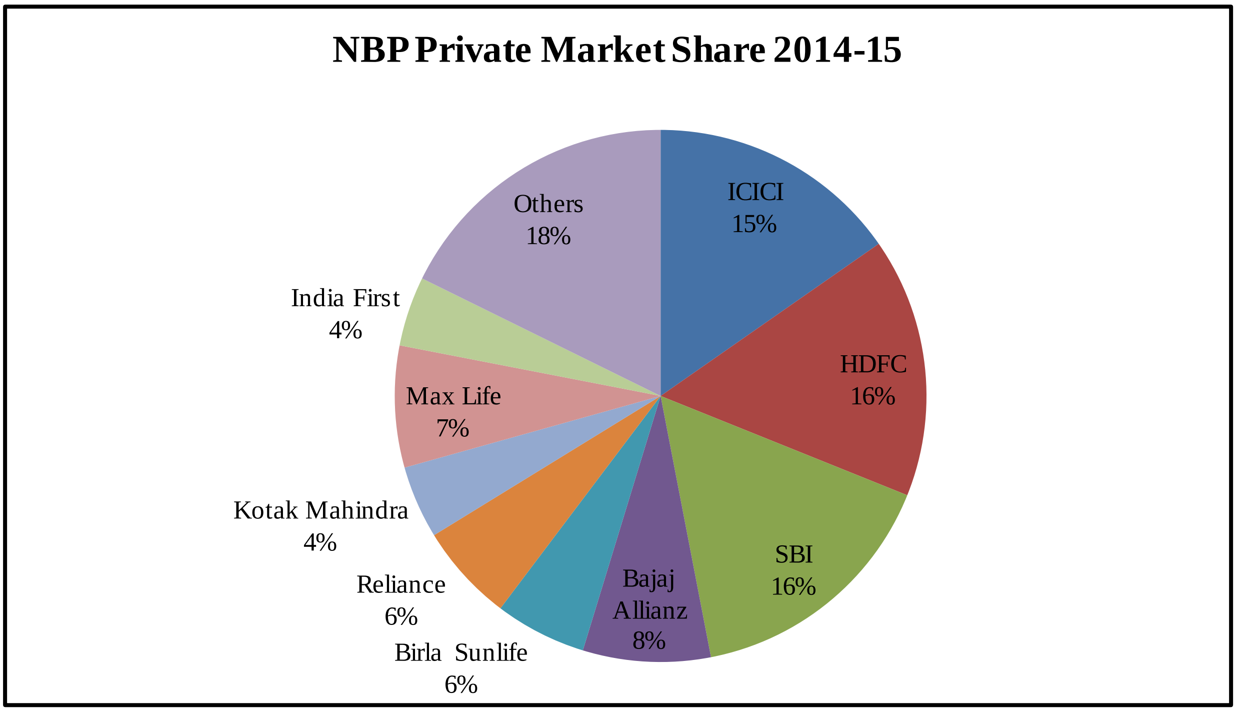

Figure 2.1.5: NBP Private Market Share at the End of 2014-15

2.2 Product Mix-New Business Premium Of Top Private Players

The following graphs show the product mix of the top private players (based on NBP) between participating policies, non-participating policies and unit linked policies.
Figure 2.2.1 shows that SBI Life's ULIPs sales have increased over the past two years. They, however, have maintained a balanced portfolio. By the end of 3rd quarter 2015-16, 43.2% of its NBP came from ULIPs and the rest from non-linked products.

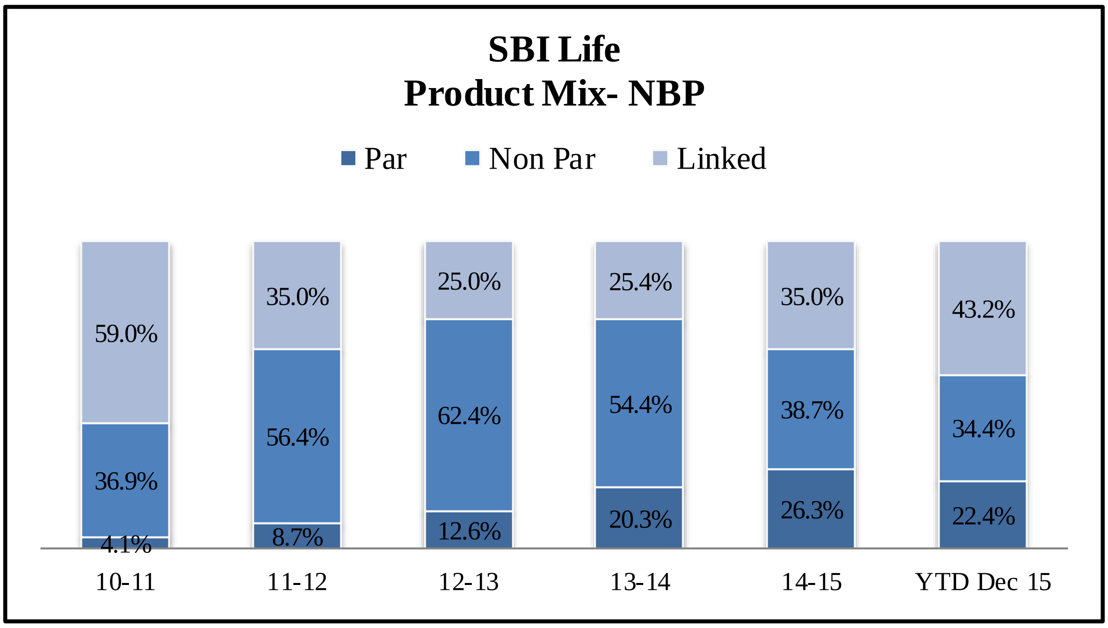

Figure 2.2.1: Product Mix in NBP of SBI Life over the Years

ICICI (Figure 2.2.2), on the other hand, relies mostly on the sale of ULIPs follows. Even between the years 2011-12 and 2013-14 when most of the life insurance companies were earning most of their NBP from non-linked products ICICI was had more than 50% of its NBP coming from ULIPs. In 2014-15 and in 2015-16 (up to quarter 3), the NBP from ULIPs formed 81.9% and 84.9% of their total premium respectively.
HFDC Standard Life (Figure 2.2.3) also seems to be following the balanced portfolio path. Between 2011-12 and 2013-14 more than 50% of its NBP came from ULIPs. In 2014-15 and 2015-16 (up to quarter 3) the share of ULIPs in NBP was 43.3% and 47.6% which is almost the same as SBI Life's portfolio.

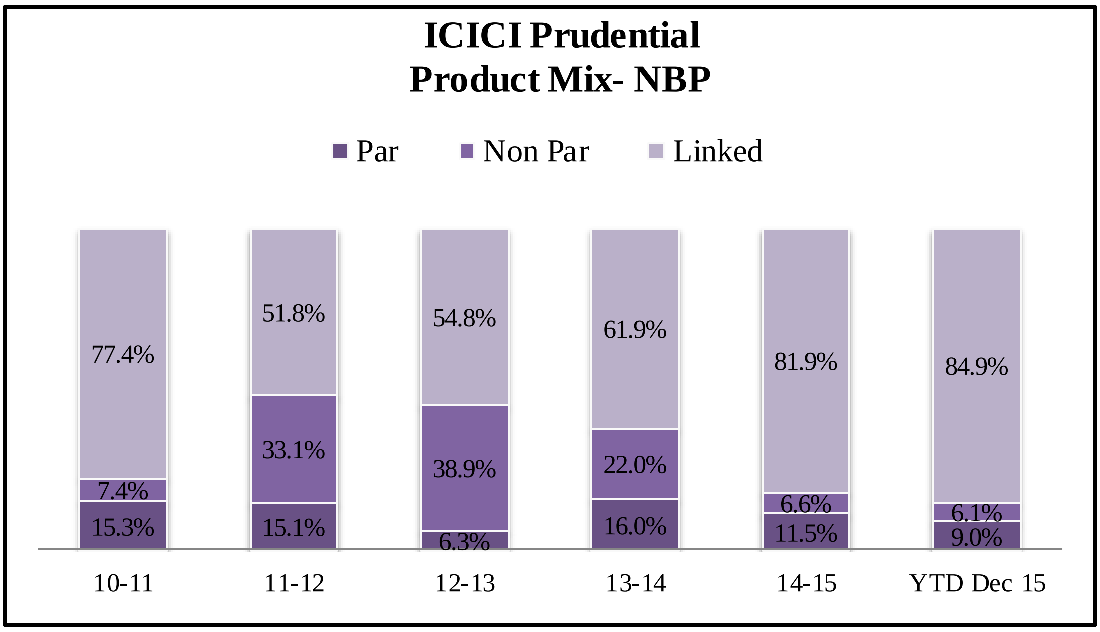

Figure 2.2.2: Product Mix in NBP of ICICI Prudential life Over the Years

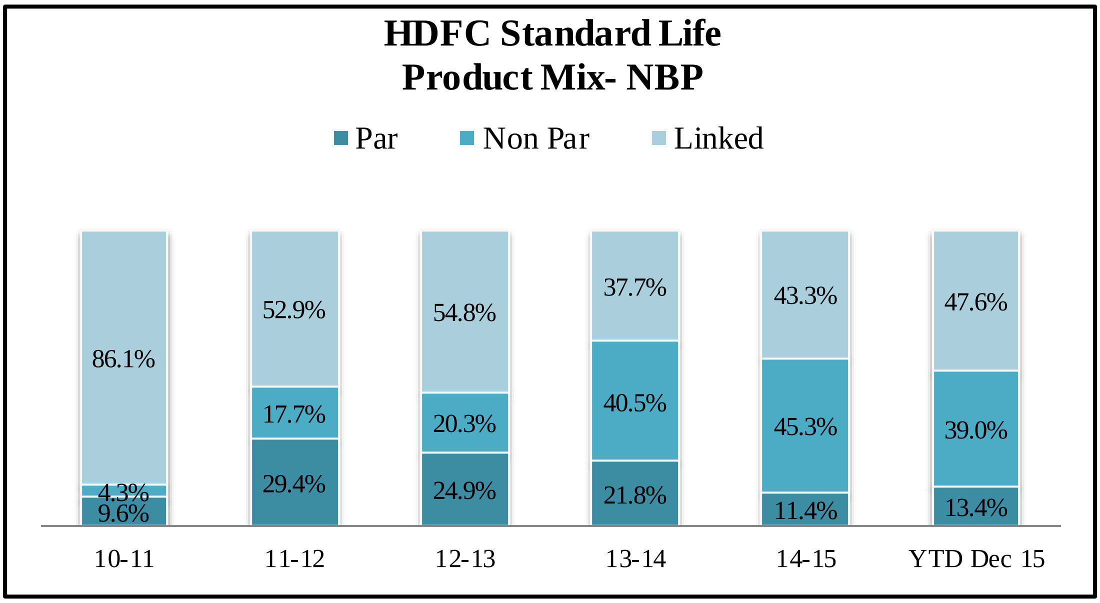

Figure 2.2.3: Product Mix in NBP of HDFC Standard Life over the Years

Max Life (Figure 2.2.4) follows a very conservative strategy by having less than 20% NBP coming from ULIPs. Another point to notice is that premium from participating policies form the major share of their NBP.

Bajaj Allianz (Figure 2.2.5) also plays safe by having just around 30-35% NBP coming from ULIPs.

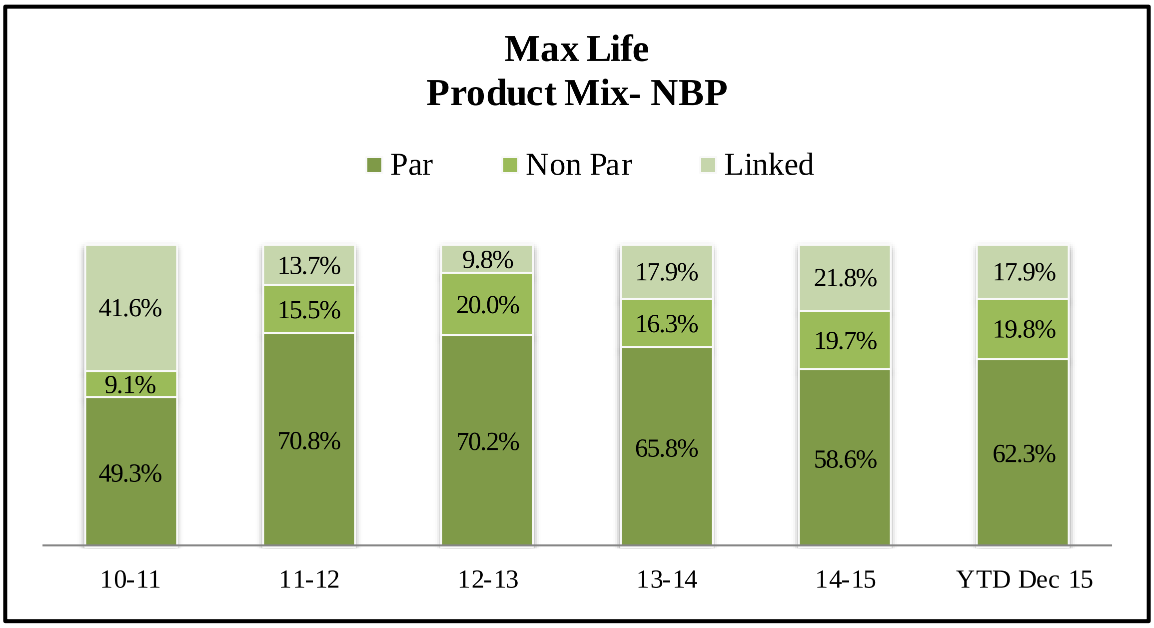

Figure 2.2.4: Product Mix in NBP of Max Life over the Years

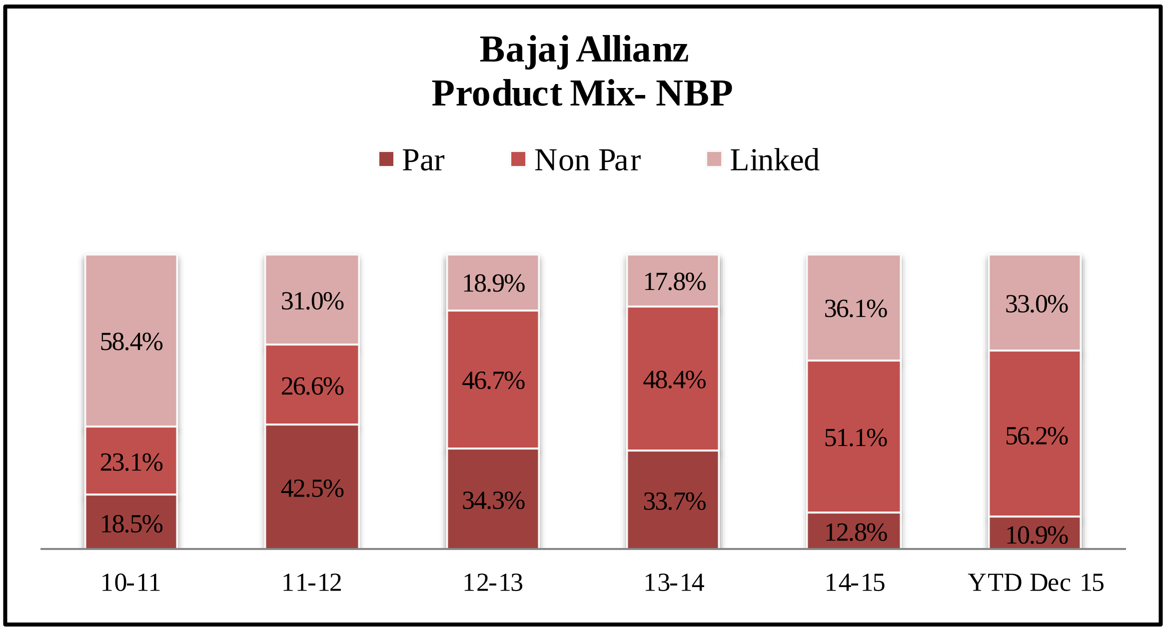

Figure 2.2.5: Product Mix in NBP of Bajaj Allianz over the Years

Table 1: Ticket Size

	Ticket Size	(in Rs)
SBI Life	HDFC Standard Life	ICICI Prudential Life
31,526.61	36,328.56	72,778.14

Table 1 shows ticket size of SBI Life, HDFC Standard Life and ICICI Prudential Life. The data shows that premium earned per policy by ICICI Prudential is more than double that of SBI Life and HFDC Standard Life. This means that ICICI Prudential focuses on value based sales whereas, SBI Life and HDFC Standard life focus more on volumes of policies sold.

CONCLUSION

1. From the study it can be concluded that private life insurers are giving tough competition to LIC. The life insurance market can be broadly categorized into linked and non-linked products market. The private sector has almost thrown LIC out of linked products market. However, LIC still holds 69.2% of the total market share. From this two things are clear:
   a. Life insurance buyers still trust LIC the most when it comes to buying a traditional non-linked policy and,
   b. Life insurance buyers prefer private players when it comes to buying unit linked policies. This may be happening because private players have better fund managers to themselves.
2. In the private sector the major players are SBI Life Insurance, ICICI Prudential Life and HDFC Standard Life. In the non-linked products market SBI Life is the biggest private player having 17% of the market followed by HDFC Standard. Whereas the major private player and in fact the biggest player in linked products market is ICICI Prudential with 33% of the market. This highlights the fact that ICICI Prudential is an aggressive seller of ULIPs. It is also evident from the fact that even when markets crashed after 2008 the policies that it sold still comprised of more than 55% of ULIPs. In contrast to ICICI Prudential, SBI Life and HDFC Standard are more conservative players as they sell more of non-linked policies than they sell the linked ones.
3. Another point to be noted is that among the top 5 private players (according to their market size), Max Life Insurance has a very peculiar product portfolio. For the past five years i.e., between 2011 and 2015, almost 60-70% of the policies sold by it are participating policies whereas hardly any of the other four is seen practicing this strategy. This could be a strategy of Max Life to grab market share.
4. The data on ticket size shows that premium earned per policy by ICICI Prudential is more than double that of SBI Life and HFDC Standard Life. This means that ICICI Prudential focuses on value based sales whereas SBI Life and HDFC Standard life focus more on volume of policies sold.

RECOMMENDATIONS

1. Since the markets are again performing well, the conservative life insurers can bank on the opportunity and sell ULIPs to increase their profits. ICICI Prudential, which has almost the same market share as does SBI Life, has double the profits as compared to SBI Life because it has an aggressive product portfolio where the returns are higher and the expense is low.
2. One of the reasons for the success of private companies in linked products market is that they have better fund managers generating higher returns apart from providing insurance. However, the success, the supply and the demand for such products change depending on market conditions and IRDA regulations. Therefore, private players must also try to have a strong foothold in non-linked products market. But this will happen only when consumers understand the need to buy insurance protection apart from just looking at it as another investment instrument.

ACKNOWLEDGEMENT

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