

Paradigm Shift of Insurance Sector in India: Role of Joint Ventures

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Received: July 11, 2018

Accepted: August 25, 2018

ABSTRACT

A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture (JV), each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate and apart from the participants' other business interests. JV arrangements are not just restricted in manufacturing and marketing sectors, but have fruitful endeavour in service and IT sector also. Insurance sector was solely confined to Public sector companies till 2003. After opening up the market to foreign investment in February 2015, the insurance sector in India has been witnessing a greater number of Joint Ventures Insurance Companies with a growing business. Presently, among the 10 leading insurers in India, five are joint venture companies. Out of the 24 life insurance companies registered in India, 15 are joint venture companies soundly exists with alarming growth rate. In the general insurance sector also 18 joint ventures function in India among the total 28 companies in the sector. The growth rate of joint venture insurance sector according to IRDA is 18-22 per cent in place of average growth of 15-20 per cent is recorded in the insurance sector. Insurance penetration in India seems to be 4-5 percent in 2008-09 and increased to 8-9 percent in 2014-15. This shows that ample opportunity exist to the private players especially joint venture firms in insurance sector. The present study is descriptive in nature mainly based on secondary data and analyses the growth of new policies, premium collected and capital growth of Public sector and joint venture insurance companies in our country for a period of six years from 2008-09 to 2015-16.

Keywords: Joint venture insurance, public sector insurance companies, premium, annual growth, private players.

Introduction

Insurance penetration in India is comparatively lower than many countries of the world. A high business opportunity exists both in the life insurance and general insurance sectors of the country. The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two specialised insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

The market size of insurance sector considering the premium of the policies registered is huge in size. During April 2015 to March 2016 period, the life insurance industry recorded a new premium income of Rs 1.38 trillion (US\$ 20.54 billion), indicating a growth rate of 22.5 per cent. The general insurance industry recorded a 12 per cent growth in Gross Direct Premium underwritten in April 2016 at Rs 105.25 billion (US\$ 1.55 billion).

India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to seven per cent by 2020. The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US\$ 60 billion. During this period, the life insurance market is slated to cross US\$ 160 billion.

Significance of the Study.

The general insurance business in India is currently at Rs 78,000 crores (US\$ 11.44 billion) premium per annum industry and is growing at a healthy rate of 17 per cent. The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of

the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years. During last few years most of the new private sector companies in the insurance sector are working as joint venture firms to absorb the market potential by clubbing their core competencies.

The growth rate of joint venture insurance sector according to IRDA is 18-22 per cent in place of average growth of 15-20 per cent is recorded in the insurance sector. Insurance penetration in India seems to be 4-5 percent in 2008-09 and increased to 8-9 percent in 2014-15. This shows that ample opportunity exist to the private players especially joint venture firms in insurance sector. The study is significant to understand the present status of the growth of insurance sector as the industry consists of both the players in public and private sector. Insurance is the only sector in India where private sector having joint ventures co-exist with the public sector at a competing scenario.

Statement of the Problem

In Indian context, co-existence of public sector firms with private sector business houses has found very difficult though it was seemed a beautiful philosophy in mixed economy. Though the life assurance and general insurance sectors had been in the public sectors with huge backing of government support and profit, slowly a few private firms creped in to the sector, they later formed joint ventures with foreign counterparts in the sector and presently witnessing a high competition with the public sector firms. The problem under study is assessing the healthiness of both the public sector firms and private joint venture firms in terms of capital invested, profit, number of policies, etc. so as to have a systematic prediction on the co-existence in future.

Objectives of the Study

The study 'Paradigm Shift of Insurance Sector of India: Role of Joint Ventures' has following objectives

1. To have an overview of the changing scenario of the insurance sector of India
2. To compare the growth of the insurance industry between the public and the private joint venture companies in India

Methodology and Sampling

The present study is descriptive in nature. The study is mainly based on the secondary data collected from the websites of IRDAI, insurance companies and other published sources. Insurance companies have diversified their products and activities during the last decade.

Overview of Insurance Business

A lot of giant corporations and companies were engaged in the insurance business, which was considered as fourth largest business in the world. In India also their business was nearly 1.45 trillion Indian rupees in 2017-18, which is largest in the number of policies and in turnover. Berkshire Hathway Insurance company is the leader of insurance business in the world. In India which the Life Insurance Corporation of India.

Table 1. Leading insurers of the world

| Sl.No | Name of the Company | Capital in \$ |
|-------|------------------------------|---------------|
| 1 | Berkshire Hathway Insurance | 224 billion |
| 2 | China Life Insurance | 80 billion |
| 3 | American International Group | 78.48 billion |
| 4 | Pin an Insurance | 65 billion |
| 5 | Met life | 63 billion |
| 6 | AXA | 61.55 billion |
| 7 | AIA group | 52.3 Billion |
| 8 | Zurich Insurance | 45.4 billion |

Insurance Business in India.

The insurance industry of India consists of 54 companies, among them 7 are in Public sector and 47 in private sector. There are 24 companies working in the life insurance sector, LIC of India is the largest one both in the market share and profit. In the non-life insurance sector we have 30 companies.

Following are the leading insurers in India:

1. Life Insurance Corporation of India
2. Tata AIG General Insurance

3. Bajaj Allianz General Insurance
4. New India Assurance
5. ICICI Prudential Life Insurance
6. IFFCO TOKIO General Insurance
7. ICICI Lombard General Insurance
8. Oriental Insurance
9. Birla Sun Life Insurance
10. HDFC Standard Life Insurance

Role of Joint Venture in the Insurance Industry of India.

In the insurance sector of the country, joint venture companies has increased to 27 among the 54 companies working in the sector. Indian companies have business arrangements/ collaborations with foreign companies mainly had experience in the insurance sector.

Major joint venture firms in the insurance sector of India are:

1. **Star Union Dai-ichi Life Insurance Co. Ltd. (SUD Life)** is a joint venture of Bank of India, Union Bank of India and Dai-ichi Life, which is a leading life insurance company of Japan.
2. **ICICI Prudential Life Insurance Company (ICICI Prudential Life)** is a joint venture of ICICI Bank, which is India's largest private sector bank, and Prudential plc, which is a leading international financial services group with its headquarters in the United Kingdom.
3. **Cholamandalam MS General Insurance Company (Chola MS)** is a joint venture between the Murugappa Group, an Indian conglomerate, and the Mitsui Sumitomo Insurance Group (MSIG), which is a Japanese assurance company.
4. **Future Generali Life Insurance** is a joint venture of three leading groups: Future Group – a leading retailer of India ;Generali Group – a global insurance group which features among the top 50 largest companies of world and the Industrial Investment Trust Limited (IITL) – a leading investment company.
5. **ICICI Lombard General Insurance Company Limited** is a joint venture between the ICICI Bank Limited, India's second largest bank and the Fairfax Financial Holdings Limited, which is a Canada based diversified financial services company.
6. **IFFCO Tokio General Insurance** is a joint venture between the Indian Farmers Fertiliser Cooperative (IFFCO) and the Tokio Marine and Nichido Fire Group.
7. **Tata AIG General Insurance Company Limited** is an Indian general insurance company. Which is a joint venture between the Tata Group and the American International Group (AIG). The Tata Group holds 74 % stake in the insurance venture with AIG holding 26 %.
8. **HDFC Life** -It is a joint venture between the Housing Development Finance Corporation (HDFC), which is one of India's leading housing finance institution and the Standard Life plc., which is a leading provider of financial savings & investments services in United Kingdom. HDFC Ltd. holds 72.37 percent and Standard Life (Mauritius Holding) Ltd. holds 26 per cent of equity in this joint venture, while rest is held by others.
9. **IDBI Federal Life Insurance Co. Ltd.**(formerly known as IDBI Fortis Life Insurance) is a joint venture between three financial companies – Industrial development and commercial bank (IDBI Bank) which is India's public sector bank ; Federal Bank and the European insurer Ageas (formerly Fortis). In this joint venture, IDBI Bank owns 48% equity while Federal Bank and Ageas owns 26 per cent equity each.
10. **India First Life Insurance Company** is a joint venture between two of India's public sector banks – the Bank of Baroda (44 per cent) and Andhra Bank (30 per cent), and United Kingdom's financial and investment company Legal and General (26 per cent).

Discussions and Results

Considering the new policies, premium collected, number of offices, joint venture insurance shows a comparatively high performance than our public sector insurance business in the country. The analysis in this respect is given below.

Growth of joint ventures insurance companies in new insurance policies

The number of policies owned by the joint venture firms in India has increased and has reported a considerable hike in the turnover from policies, which all shows their active presence and a sudden growth in the country, which may have a decline in the public sector insurance business.

Table 2 - A comparison of Public sector firms and Joint venture firms in the number of new insurance policies.

| Year | New policies of Public sector insurers | Annual growth rate in percentage | New policies of joint venture insurers | Annual growth rate in percentage |
|---------------------------|--|----------------------------------|--|----------------------------------|
| 2010-11 | 37612599 | 4.52 | 13261558 | 13.19 |
| 2011-12 | 39112678 | 3.99 | 19276266 | 45.35 |
| 2012-13 | 39219126 | 0.27 | 21427123 | 11.16 |
| 2013-14 | 39422131 | 0.52 | 24628644 | 14.95 |
| 2014-15 | 39941237 | 1.32 | 27016443 | 9.70 |
| 2015-16 | 40455129 | 1.29 | 38914667 | 44.05 |
| Average Growth Rate -CGAR | | 1.99 | | 23.06 |

Source: IRDAI

The average growth rate of new policies of Public sector insurance companies is very low (1.99 per cent) compared to the joint venture companies for the last six years (23.06%)

Annual Premium collection- a comparison between public sector insurance companies and Private Sector Joint Venture insurance companies.

Table 3 - Premium collected by public and joint venture firms in insurance sector (Rs in cores)

| Year | Premium collected by Public sector insurers (Rs in crores) | Growth rate in percentage | Premium collected by JV insurers (Rs in crores) | Growth rate in percentage |
|---------------------|--|---------------------------|---|---------------------------|
| 2010-11 | 36265.36 | 10.23 | 27679.18 | 4.52 |
| 2011-12 | 40194.54 | 10.83 | 29040.78 | 4.92 |
| 2012-13 | 42288.62 | 5.21 | 33781.87 | 16.33 |
| 2013-14 | 44678.92 | 5.65 | 37986.89 | 12.44 |
| 2014-15 | 47894.21 | 7.19 | 40114.57 | 5.60 |
| 2015-16 | 47943.52 | 0.01 | 46785.55 | 16.63 |
| Average growth rate | | 6.52 | | 10.07 |

Source :IRDAI

Table 3 shows the annual and average increase in the premium growth of Public sector insurance and Private sector joint venture companies. The average growth rate of JV(10.07) companies is higher than public sector insurance companies (6.52). The fast growth rate in the premium collected by joint venture insurance companies over the public sector companies is a symptom of the high growth of the former than the later.

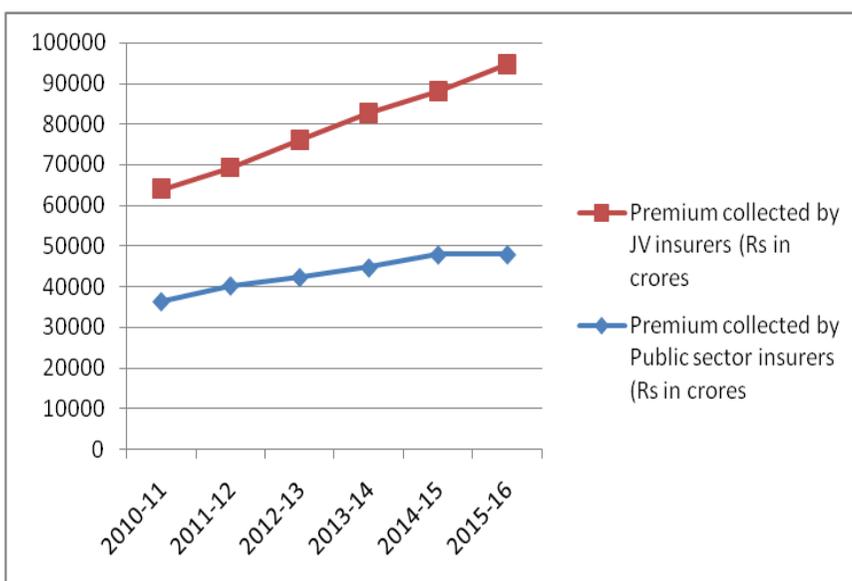


Figure 1: comparison of amount of policy premium collected by JV insurance companies and Public sector insurance companies in India from 2010 to 2016

Growth Rate of branches of JV insurance companies

Table 4. Growth of the No.of Offices of Insurance companies in India

| Year | No. of Offices Public sector Insures | Percentage | No. of offices of JV insurers | Percentage |
|---------|--------------------------------------|------------|-------------------------------|------------|
| 2010-11 | 8768 | 72.65 | 3250 | 27.35 |
| 2011-12 | 8175 | 70.8 | 3371 | 29.2 |
| 2012-13 | 7712 | 69.06 | 3455 | 30.94 |
| 2013-14 | 7714 | 57.6 | 5678 | 42.4 |
| 2014-15 | 7718 | 49.49 | 7875 | 50.54 |
| 2015-16 | 7722 | 43.63 | 9976 | 56.37 |

Source: IRDAI

Table 4 shows the changing pattern of branches of Public and Private Joint venture Insurance companies in India (2011-2016). It is seen that number of business centres of joint venture companies in insurance sector has increased at a higher rate than public sector insurance companies over last five years.

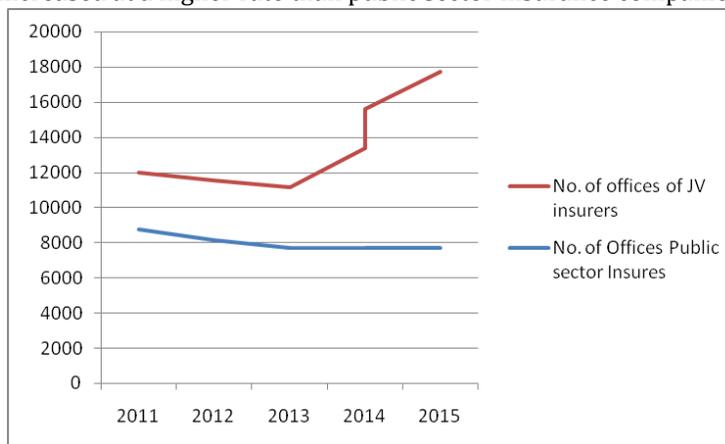


Figure 2 Increase in the No. of offices between JV Insurance companies and Public sector insurance companies in India

Number of offices of the joint venture companies in India has increased from 27.35 per cent to 56.37 percentage in India during the period from 2010-11 to 2015-16.

Major Findings of the Study.

1. Leading Insurance companies in India in the order of quantity of business are 1) Life Insurance Corporation of India 2) Tata AIG General Insurance 3) Bajaj Allianz General Insurance 4) New India Assurance and 5) ICICI Prudential Life Insurance.

2. Structure of Indian Insurance sector. The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers, but their market share decreases during the last 5 years.

3. Leading Joint venture insurance companies in India are 1) Star Union Dai-ichi- Life Insurance Co. Ltd. (SUD Life), 2) ICICI Prudential Life Insurance, 3) Cholamandalam MS General Insurance Company (Chola MS) 4) the Mitsui Sumitomo Insurance Group (MSIG) 5) Future Generali Life Insurance ICICI Lombard General Insurance Company Limited Fairfax Financial Holdings Limited, which is a Canada based diversified financial services company 6) IFFCO Tokio General Insurance and 7) Tata AIG General Insurance Company Limited.

4. Growth rate of Joint venture insurance business in India. The CGAR of new policies acquired by joint venture companies is 23.06 per cent whereas the CGAR of Public Sector Insurance companies in the country is only 1.99 percent during the period from 2010-10 to 2015-16.

Conclusion.

Joint venture firms in the insurance sector of India shows a considerable growth in capital formation in the form of FDI as well as in the growth rate of the number of new policies, premium collection and number of offices across India. Their growth rate is comparatively more than the public

sector giant insurers of our country. They have crossed public sector insurance companies with new products and ambitiously captured the minds of the insurance investors in our country. All these shows a tough competition exist and will be in future between the public sector insurance companies and insurance with the joint venture companies as the latter have attractive products and features than the former. The co-existence of both type of firms is one of the healthy symptom in an economy like India. For this public sector companies have to revamp and reorient their products, policies and approach in the near future.

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