



INVESTMENT PATTERN OF PRIVATE LIFE INSURANCE COMPANIES IN INDIA

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Abstract

In India life insurance market was nationalized in 1956 and with this Life Insurance Corporation emerged as state monopoly in life insurance sector doing insurance business in India and abroad. With the advent of liberalization, privatization and globalization in 1991, the productivity enhanced. The wave of LPG has influenced the insurance market globally. Foreign players also entered through the joint venture path. The entry of private players in financial year 2001 has created tough competition in the market which ultimately resulted in better quality products, better customer service, price of the products improved and as a result there has been expansion and growth of insurance which ultimately changed the rules of the game. The paper focuses on the performance of private life insurance companies for the period from 2002 to 2014 on the basis of investments behavior by these companies along with their influence on companies' performance. The determinants affecting investment behaviour are fund options, total investments made and income from investments is studied. The sample for this study includes 5 Indian life insurers and it analysis the data of 13 years from 2001-2002 to 2013-2014.

Introduction

Life insurance is a contractual agreement between a policyholder and a life insurance company where the company agrees to pay the named beneficiaries a sum of money and thereby safeguard from the financial impact of the death of the insured.

Investment is a commitment of allocating the funds in order to achieve future benefits in the form of income received from the interest, dividends and appreciation in the value of securities. A life insurance company invests its funds to provide policy benefits as well as post-retirement benefits to its customers. Investment has always been an important part of all forms of life insurance. Right asset management strategies along with regulations adopted by the life insurers have provided attractive and reasonable returns to the policyholders. Insurance is a long-term contract with average tenure of 15 years. Insurance companies generate funds from the insurance premium collected by them and thereby help in developing the economy. They should follow principle of safety of capital in making investments, as their primary business is to pay claims, as and when they arise. There should also be a proper coordination between two elements i.e. safety and yield. The funds should be invested in such a way that they give at least that rate of interest which has been presumed while arriving at net premium.

Performance Evaluation of Top 5 Private Life Insurance Companies (PLIC's)

In the study, performance evaluation is done of Top 5 PLIC's namely SBI Life, ICICI Prudential, HDFC Life, Bajaj Allianz and Reliance Life based on their general market share capacity. Various investment indicators are identified and studied. On the basis of which, suggestion will be given for the future improvements.

Review of Literature

Sabera (2007) in his study 'Privatization of Insurance Industry in India – The Growth' reviewed to look at the business strategies of Private Life Insurance Companies & future expectations. The researcher found that Indian Life Insurance Industry was still underdeveloped one, as 80 per cent of Indian population was still not under insurance cover & majority of LIC's business was procured by their only 20 per cent of ill-trained agency force which highlight that private players need to enter. These private players were mainly concentrating on consumer service. The study concluded that with the entry of more private players, the competition was likely to become very high in life insurance segment.

Kannan and Thangavel (2008) in their paper "Overview of Indian Insurance Sector" analysed the market share of Indian Insurance Industry from the year 2001 to 2008. They highlighted that though share of LIC is more still private sector is competing and with its coming, market share of LIC is decreasing as private sector is providing new variety of products according to the choice of the customers.

Suresh (2009) in his study 'Recipe for Successful life insurance business' assessed the importance of distributor playing the role of first level professional in life insurance business. Treating the customer fairly is a new management initiative that looks beyond mere customer satisfaction. He emphasized that insurer should ensure that though customer is fully satisfied with services but if not treated fairly on account of ignorance of what was actually due to him it would demand change in practice.



Need of the Study

With the coming up of private companies in life insurance sector the industry has become highly competitive due to its aggressive advertising campaigns, improved products, increasing awareness of life insurance has increased. But till now no serious attempt has been made to study this impact of these new & growing private players in India. Hence, an attempt is made to evaluate & appraise the business performance of PLIC's in India.

Limitations of the Study

1. The data collected for the study relies on published financial statements of these private companies which may have its own drawbacks.
2. The study merely confined to very less number of variables of investment pattern.

Objectives of the Study

The present study made an attempt to examine the performance of top five life insurers in Indian insurance industry.

- To study the investment portfolio of top five private life insurers.
- To study the impact of these investment fund patterns on the life insurers performance.

Research Methodology

Data is collected from secondary sources. The secondary data is collected from relevant annual reports of Insurance Regulatory and Development Authority (IRDA), annual reports of PLIC, monthly IRDA Journals, various issues of Life Insurance Today, Insurance Times. The data is also collected by visiting Libraries of various Universities. Besides, a few websites have been consulted. Annual growth rate (AGR), means of AGR, coefficient of variation, standard deviation and CAGR has been computed. Results have been computed by using SPSS.

Sample Size: Top 5 PLIC's on basis of highest market share as on 31st March 2011.

Analysis and Interpretation

I. Fund Options

Life insurance companies offer different fund options to the policyholders to choose. The total premium underwritten by the life insurers will be invested in funds like life fund, pension and general annuity fund and unit linked fund.

• Life Fund

For a life fund, security of the capital is very important. Earning the highest possible interest, subject to safety of capital, is the basic requirement of investment of life insurance fund (Karve, 2009). The funds of the life insurers are often invested into less risky long-term instruments such as government bonds and treasury bills. These instruments often give reasonable returns at maturity. Life funds, because of their long-term nature, constitute an important factor governing capital markets in most countries.

Investment Regulation of Controlled Fund or Life Fund

	Type of investment	Percentage
i)	Government Securities	25 per cent
ii)	Government Securities or other approved securities (including i) above	Not less than 50 percent
iii)	Approved Investments as specified in Schedule-I i.e.	Not less than 15 percent Not exceeding 20 percent
	a) Infrastructure and Social Sector b) Others to be governed by Exposure / Prudential Norms	
iv)	Other than in Approved Investments to be governed by Exposure / Prudential Norms	Not exceeding 15 percent

Source: Gazette of India Extraordinary Part III Section 4, IRDA (Investment) Regulation 2000.

Table 1: Life Fund of Top Five Private Life Insurers (in Crores)

Year	Life Fund				
	ICICI Prudential	SBI Life	BAJAJ Allianz	HDFC Life	RELIANCE Life
2001-2002	-	-	-	-	-
2002-2003	424.21	200.81	191.23	216.22	-
2003-2004	658.45	367.84	18.33	305.43	-
2004-2005	970.63	960.89	89.74	480.77	-
2005-2006	1314.09	1545.91	277.75	910.53	163.98



2006-2007	1832.53	2107.49	762.47	1383.73	288.02
2007-2008	2735.49	3374.25	1587.43	2220.16	479.18
2008-2009	3109.73	3644.43	4351.53	2536.60	754.08
2009-2010	4326.29	4800.63	6688.65	4451.08	886.92
2010-2011	6562.38	4714.12	10864.03	5360.12	1309.77
2011-2012	8954.20	6129.05	8157.16	7463.93	2693.74
2012-2013	12354.71	8349.89	10961.22	10385.80	5115.74
2013-2014	16474.86	12062.24	13869.82	12331.57	7142.07
CAGR	37.16	25.86	59.01	38.73	58.76

Source: IRDA Annual Reports from 2002-2014

From table 1, an increasing trend of life insurance fund is seen which is a clear indication of growth of business. The overall growth of life fund in Bajaj Life is 59.01 per cent during the study period and is the maximum among the companies chosen. On the other hand SBI Life has minimum growth rate of 25.86 per cent.

• **Pension and General Annuity Fund**

The life insurers have also showed interest to innovate new schemes and develop their pension and annuity market. With this there was a tremendous growth in the amount available for investment under the pension and general annuity fund.

Investment Regulation on Pension & General Annuity Fund

	Type of Investment	Percentage
i)	Government securities	Not less than 20 percent
ii)	Government securities or other approved securities inclusive of (i) above.	Not less than 40 percent
iii)	Balance to be invested in approved investments to be governed by exposure / prudential norms.	Not exceeding 60 percent

Table 2: Pension and General Annuity Fund of Top Five Private Life Insurers (in Crores)

Year	Pension, General Annuity & Group Fund				
	ICICI Prudential	SBI Life	BAJAJ Allianz	HDFC Life	RELIANCE Life
2001-2002	-	-	-	-	-
2002-2003	62.40	0.81	0.00	38.85	-
2003-2004	127.59	18.33	4.76	101.68	-
2004-2005	166.64	89.74	10.55	151.91	-
2005-2006	244.55	277.75	31.94	267.63	89.58
2006-2007	539.73	762.47	52.76	386.82	0.00
2007-2008	750.12	1587.43	74.43	491.91	0.00
2008-2009	967.12	4351.53	152.55	575.35	0.00
2009-2010	1167.53	6688.65	438.30	655.02	0.00
2010-2011	2323.97	10864.03	751.76	814.79	50.82
2011-2012	3331.63	13930.95	1296.39	1403.83	167.06
2012-2013	3494.97	16921.12	2520.19	1724.48	294.57
2013-2014	3614.17	17535.69	3455.41	4008.32	858.13
CAGR	40.11	68.03	87.27	34.44	+

+: Some of the values are non-positive or zero, hence equation cannot be estimated

Source: IRDA Annual Reports from 2002-2014

From table 2 it can be seen that there has been a significant change in pension, general annuity and group insurance fund. The overall growth of pension fund in Bajaj Life is 87.27 per cent during the study period and is the maximum among the companies chosen. On the other hand HDFC Life has minimum growth rate of 34.44 per cent.



• **Unit-Linked Fund**

In unit-linked insurance policies (ULIP's), the policyholders opt for higher rate of returns and hence the life insurers have to invest in equities which contain more risks. In the case of unit linked life insurance business, every insurer is required to invest as per the pattern of investment offered to and approved by the policyholders, with a provision that total investment in 'other than approved category shall at no time exceed 25 percent of the fund. (Babu, 2012)

Table 3: Unit Linked Fund of Top Five Private Life Insurers (in Crores)

Year	Unit Linked Fund				
	ICICI Prudential	SBI Life	BAJAJ Allianz	HDFC Life	RELIANCE Life
2001-2002	-	-	-	-	-
2002-2003	-	-	-	-	-
2003-2004	780.07	0.00	28.61	60.91	-
2004-2005	2337.16	3.54	369.24	290.67	-
2005-2006	5926.86	211.33	2569.32	1418.13	99.34
2006-2007	11926.47	1645.75	4770.00	3205.13	916.81
2007-2008	22912.71	5064.04	10266.59	6817.28	3589.65
2008-2009	28613.94	6444.03	14065.31	7184.14	5552.38
2009-2010	51469.25	17087.31	28414.62	15305.36	12765.00
2010-2011	58826.54	24529.08	32884.17	20322.89	16486.40
2011-2012	57817.38	26468.15	29983.83	23385.90	15917.79
2012-2013	57520.83	26547.86	24496.57	27997.55	12787.39
2013-2014	60310.43	28597.28	21287.60	33913.51	10284.05
CAGR	31.81	72.22	31.34	46.0	66.34

Source: IRDA Annual Reports from 2002-2014

From table 3 it can be seen that the overall growth of unit linked fund in SBI Life is 72.22 per cent during the study period and is the maximum among the companies chosen. On the other hand Bajaj Life has minimum growth rate of 31.34 per cent. Hence, they occurred a very fast growth in this fund during the study period.

II. Growth of Total Investments

The annual growth of total investment of shareholders & policy holders of top five insurance companies and their overall compounded annual growth rate (CAGR) during the study period is furnished in the table given below:

Table 7: Total Investment of Top Five Life Insurers and Annual Growth (in Percentage)

Period	ICICI		SBI		BAJAJ		HDFC		Reliance		Total Private	
	Total inv(in crores)	Agr (%)	Total inv	Agr (%)	Total inv	Agr (%)	Total inv	Agr (%)	Total inv	Agr (%)	Total inv	Agr (%)
2001-02	18417	-	11396	-	11342	-	12747	-	0	-	118743	-
2002-03	45808	148.7	18081	58.7	16380	44.4	21904	71.8	8694	-	184955	55.8
2003-04	79302	73.1	37922	109.7	22667	38.4	40390	84.4	9436	8.5	296878	60.5
2004-05	112549	41.9	104056	174.4	38388	69.4	70722	75.1	10469	10.9	533443	79.7
2005-06	169993	51.0	180208	73.2	75470	96.6	130759	84.9	16690	59.4	900753	68.9
2006-07	249883	47.0	290958	61.5	155873	106.5	193126	47.7	28852	72.9	1450803	61.1
2007-08	366032	46.5	486339	67.2	139937	-10.2	275121	42.5	47516	64.7	1698463	17.1
2008-09	407842	11.4	776372	59.6	309123	120.9	344443	25.2	73736	55.2	3003849	76.9
2009-10	574160	40.8	1161581	49.6	500761	62.0	497202	44.3	89576	21.5	4346978	44.7
2010-11	919366	60.1	1563378	34.6	644580	28.7	603495	21.4	136887	52.8	5991264	37.8
2011-12	1258777	36.9	1830947	17.1	943350	46.4	1388468	130.1	284881	108.1	8230288	37.4
2012-13	1620695	28.8	99945	-94.5	1345726	42.7	1207088	-13.1	540200	89.6	11170933	35.7
2.13-14	1980948	22.2	2767734	2669.3	1734670	28.9	1632186	35.2	804380	48.9	14481891	29.6
CAGR		43.9		46.8		55.3		49.3		54.1		50.0

Calculated from IRDA Annual Reports



It is seen from the above table that the annual growth percentage of total investment in ICICI Prudential Life ranges between 11.4 to 148.7 percent during the study period and the overall growth rate is 43.9 per cent. In SBI Life it ranges between -94.5 to 109.7 percent and the overall growth rate is 46.8 per cent. In Bajaj Life the annual growth rate ranges between -10.2 to 120.9 percent and the overall growth rate is 55.3 per cent. In HDFC Life the annual growth rate ranges between -13.1 to 130.1 per cent and the overall growth rate is 49.3 per cent. In Reliance Life the annual growth rate ranges between 8.5 to 108.1 per cent and the overall growth rate is 54.1 per cent. From the table it is clear that, the overall growth percentage of investment of Bajaj Life was highest during the study period even greater than total private sector growth.

III. Investment Income

The profitability of Life Insurance Company depends heavily on the different categories into which the company invests the amount collected from shareholders and policy holders. The yield income from investment of top five insurance companies during the study period is summarized by means of min. value, max. Value, mean, Standard deviation (SD) and coefficient of variation (CV). The coefficient of variation indicates the consistency of the variable under study.

Table 8: Yield Income from Investment (Policyholders +Shareholders)(in Lakhs)

Companies	Min. Val	Max. Val	Mean	Sd	Coe. Var (%)	% To Total Private
ICICI	-611184	960646	192,932.6	385764.2	199.9476	32.3
SBI	-444384	597681	70,400.54	260765.2	370.4022	11.8
BAJAJ	-313017	1003864	139,590.2	316175.7	226.5028	23.4
HDFC	-169021	695281	133,725.3	246699.4	184.4822	22.4
RELIANCE	-95191	347987	60,423.23	128921.6	213.3644	10.1
TOTAL	-1351794	2991465	597,071.8	1124825	188.3902	100.0

It is seen from the above table that the mean yield income from investment ranged between 70,400.54 to 1,92,932.60 among the companies during the period of study and is higher in ICICI Prudential Life whereas it is least in SBI Life. The least coefficient of variation in HDFC Life which is 184.48 per cent shows the consistent performance in the income from investments among the chosen companies. The percentage share of each life insurance company to total private sector income is highest in ICICI Prudential Life whereas the least share is seen in Reliance Life.

Conclusion of the Study

The study has aimed to evaluate the performance of top five private life insurance companies through analyzing the determinants of the investment portfolio. Measuring the performance of insurance companies has been gaining lot of importance because they are not only the source of saving money and transferring risk but thereby helping in channelizing funds in an appropriate way from surplus economic units to financially deficit economic units so as to support the investment activities in the economy. The study found that in total investments made the huge deviation from the growth path is seen in the year 2007-08 for the private life insurance sector. This can be interpreted as the effect of global meltdown upon the life insurance investment in India. It is quite distinct from the analysis that if the rate of increase in various insurance funds is progressive, it undoubtedly leads to a significant increase in life insurance business which is a clear indication of the growth of the private life insurance sector in India.

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