CURRENT PERSPECTIVES ON LIFE INSURANCE IN INDIA

Present Scenario: There are three distinctive phases of Life Insurance in India. The First phase was the period from 1818 to 1956, when Insurance Companies starting from Oriental Insurance were in operation in an open era. Second Phase was Nationalized Insurance from 1956 to 2000, when almost 243 companies were merged and nationalized. **The Third phase is the current opening up of the Insurance sector. This was an initial period of high New Business growth, and a proliferation of a number of innovative products. The Insurance Regulatory and Development Authority, brought in a number of Regulations, to tightly regulate the market and also foster balanced growth. The Institution of Appointed actuaries was adopted.** The Regulations covered a wide area; including solvency margins explicitly.A distinction in the treatment of sharing of Distributable Surplus between Policyholders and shareholders for participating policies of 90:10 was prescribed. For Non participating policies 100 percent of the distributable surplus was allowed to be taken by Shareholders as they bore the Insurance risk. Soon the Industry introduced Unit Linked Policies under Non Participating Business, in line with the trend in Developed countries. These products caught the imagination of the sophisticated Insuring public with the euphoria of a booming Stock market in the early period 2001-2008.Life Insurance Companies, product portfolios were heavily tilted to ULIP business. In fact in some companies almost 90% of the New Business was from ULIP policies. From 2008,the Global economic crisis had its very disturbing effect on the Indian Economy in general and the Indian Stock Market in particular.Net Asset values deteriorated and the Insuring Public woke up to a very volatile market. As expected, there was a downturn in the growth of New Business. To meet Customers expectation new innovative products with capital protection and minimum interest guarantees were introduced. The Mutual Fund industry, which was in competition with ULIP business, wanted restrictions on these products from SEBI.This resulted in a number of restrictions and New Product Regulation from IRDA for both Linked (already introduced) and Non linked business, which will come into effect from October 2013.

The present phase is marked by intense competition not only between Life Insurance companies, but also between different Investment and Savings Streams, Mutual Funds, Securities market, Debt market, Government Securities, Corporate Bonds, Provident Funds, Pension Schemes of PFRDA, National Savings Schemes etc. In this Scenario, Life Insurance has to compete with its traditionally higher expense costs and high Lapse Experience .For long, Life Insurance was looked at as a reliable source of systematic savings coupled with substantial Tax Relief both at the initial and Claims Stage. Currently, it appears there are considerable restrictions including service tax which affect the returns on Life Insurance Policies. **Earlier returns to policyholders could be stated as around two percent less than the yield on the Life Fund. Now perhaps the cost of Insurance cover and expenses would reduce the yield to policyholders by around 4%.**

There are at present a number of Regulators namely RBI, SEBI, IRDA, PFRDA and the Government. **It is a fact that all products regulated by these Regulators are Financial products, with perhaps a distinguishing unique feature, like Protection or Cover for Life Insurance Products. At the same time Life Insurance has traditionally been sold as a systematic savings plan with substantial cover for the Family. Hence the Life Insurance Industry should devise and continue to market products with both Savings and Protection, within the new framework of the new product regulations and the new tax laws.** However with new innovative products the distinct lines between Regulators do get blurred.

About the Author

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Global Environment: In UK, Australia, Singapore there are Regulators for the entire financial services market. This brings about certain advantages to customers who now have the benefit of fairly consistent regulations and perhaps packaged products which cover Insurance, Banking (savings), Mutual funds, Pension etc. **In UK, the Appointed Actuary system has given way to a Regulatory system with Product Actuary, Regulatory Actuary and the With profits Actuary. This With Profits Committee system is now being adopted by IRDA this year.** Commissions are being replaced by Fees paid by customers in UK. In India, the traditional commission rates would continue to hold sway as Insurance is generally sold and not bought. The Fee system in UK is perhaps a reaction to the traditionally high initial commission rates in Life Insurance.

Prudential Regulations are in force in all Developed countries. Solvency regimes insist on Risk Based Capital, with Solvency margins ensuring possibly a 99.5% probability with a horizon of one year. **Solvencies II, Economic Capital, Enterprise Risk Management are the New Buzzwords in the Regulatory Framework. Stochastic Modeling is in vogue. Economic Scenario Generators are necessary tools for the Actuary to model, analyse and prognosticate.** With the increasing power of the Computer, more sophisticated techniques are prevalent. Shareholders are interested in Embedded values and profit projections. All these complexities are in the Actuary's domain. **More important is the skill to communicate to Top Management and the Board the Financial implications and the assumptions on which they are based. To many Laymen, it appears as a Black Box, not fully understanding the intricacies and the probability statements involved .As on economist stated, most of the projections are extrapolations based on historical data. However in Real Life, Economic Behavior is affected by global as well as local factors and is hard to accurately predict. Still the Actuary does have an understanding of the various risks involved and is possibly well equipped to strategies' for top Management and the Board.**

Products: Currently the New Product Regulations for Linked and Non Linked products is engaging attention of Actuaries and Management. Restriction on Non Linked products, for both participating and non participating products have been imposed on Minimum Sum assured.. Briefly for Single Premium products ,it is 125% or 110% depending on ages below 45 and above 45.For Annual Premiums ,it ranges from 5times to 10 times depending on term and age. There are more conditions of not less than Minimum Guaranteed sum at Maturity as given in the new regulations. This would impact new Business, as products have to made compliant with new Regulations. It is not clear as to the rationale for these restrictions. Here it has to emphasize that Life Insurance is and always has been a Protection and Savings Product. Hence any artificial restrictions to the savings element will come in the way of growth of the business. Life Insurance Funds has always been a big generator of Long term Funds, which can profitably be employed for growth of the economy. **In fact at present the Assets under Management in the Life Insurance Industry is well above fifteen Lakh crores. It has been traditionally the bedrock savings for the family with the added protection element. The IRDA should look at the Development aspects of the Life Insurance Industry.**

With Profit Pensions: ULIP policies have been very popular when the Stock market was booming. Now it is quite dull, and companies are looking at traditional par and non par products. **The inability to predict the future economic scenarios in general and the long term interest rate in particular, has made ULIP policies popular with both Customers and Management of Life Companies. With Customers bearing the Investment Risk, Life Companies were left with the easier option of Managing Mortality Risk. With increasing longevity, this risk was easily contained. However with increasing longevity, the Pension Business has come into the Limelight. Here Actuaries find it difficult to meet the Longevity and Investment risk. The challenge for Actuaries is to reinvent the Annuity business.** Definitely ULIP type Pension Products are necessary to meet inflation and increasing longevity. Further it may be necessary to have a basic pension element and a variable addition depending on Investment Experience. At an extreme end there is almost a banking product with an annuity and return of initial amount at death. At the other end a regular life annuity, where the entire corpus is exhausted. Many variations in between are possible and should be explored. This leads us also to the need for Mortality of Pensioners to be investigated.

Participating Business: Traditional Par Products with a basic sum assured and a bonus element have been in the past very popular. The upside of the Investment experience, with mortality and expenses is shared with the Policyholder. With the current downfall in ULIP policies, it is worth exploring ways and means to revive Par policies. Perhaps it requires some changes in IRDA regulations and possibly some Tax changes by Government. **The moot point is that the Customer does provide some capital through bonus loadings. Hence there is a case for relaxation relief in solvency capital requirements .Here it is to be stressed that such relaxations/relief could revitalize this business and provide a rich source of long term funds.**

Health Insurance: Health Insurance is a growing area. It used to be in the Non Life domain, till recently. However rightly now the Heath Insurance sector is also open to Life Insurance Companies. **Here Claim experience and customer satisfaction in receipt of the claims is very important. Complaints are that the fine print is used to delay or avoid claims. IRDA and Companies have a role to play to allay customers reasonable expectations and fulfill the promises made in the contract.**

Distribution Channels: In addition to the main tied agents Distribution Channel ,a number of alternate avenues have developed fairly rapidly, like Bancassurance, Brokers, Referrals, Direct marketing, Internet, Micro business agents, NGOs,web Aggregators. This has assisted in extending penetration of life Insurance. **However in this present competitive industry, a major issue is the high rates of lapses and the poor persistency of Business .The IRDA investigations have raised legitimate concerns. Some of the reasons are misselling, economic downturn, competition between products, channels and companies, large turnover of Marketing personnel, and possible lack of follow-up and keeping in touch with customers.** It is necessary that Managements take steps to arrest this trend. IRDA can also take proactive steps through the Life Insurance councils advocating good corporate governance and educating customers .Web Aggregators is a new developing channel. However they also have to be monitored as comparison of products depends on many factors including rates, benefits, Bonus systems, and riders.

Public Interest Role of Actuaries: It is important that Actuaries as expert Professionals play a very proactive public Interest role. Within the company, they can look at products, pricing, benefit illustrations, terms and conditions, claim settlements keeping a long term view on Customer protection. **They should look at equity between different classes of policyholders and ensure that Participating customers get their proper Asset share at Maturity through fair Bonus systems. Non participating policyholders would reasonably expect their premium rates to be fairly priced, reviewed more frequently in line with current experience.** The Appointed Actuary has a further onerous role to comply with regulations and assist the regulators, through fair, unbiased reporting . Further they can play a vital role in stratagising, Enterprise Risk Management and in developing good corporate governance .They should develop good communication skills in interaction with Marketing personnel and the public customers including well written brochures and prospectuses.

The Institute of Actuaries has a very great role to play in taking a balanced Professional view on various issues confronting the profession and the Life Insurance Industry. These should be communicated whenever necessary to the Life Council, the IRDA and the Government. The Institute should develop strong ties with fellow professionals, like Chartered Accountants, Company Secretaries, Insurance Lawyers, Doctors (medico actuarial investigations).

Future Perspectives: Life Insurance has and always should be the first choice for both family protection and systematic savings for every Breadwinner. This would require that Life Insurance Industry in general and the Life Companies in particular develop strong brand equity through good Corporate Governance and keeping Customer protection paramount.

In the competition between various Savings media, the unique feature of protection should be stressed with Savings as an additional concomitant. **The Industry in particular should address the issues of High Expenses and Low persistency. As seen in Markets elsewhere, the trend would be to have fairly well managed companies with a strong consolidated base of Assets under Management. Shareholder Value, Good Corporate governance and Customers Reasonable Expectations should be the major objectives.** With IRDA and the Government playing a pro active role the Life Insurance Industry, should grow at a very healthy rate in the years ahead.