AN EMBRICAL STUDY ON PUBLIC AND PRIVATE SECTOR GENERAL INSURANCE COMPANIES IN INDIA

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Abstract

The insurance sector, along with other elements of marketing, as well as financial infrastructure, have been touched and influenced by the process of globalization in India. The customer is the king in the market. With the entry private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative products to attract customers. In this research paper an attempt is made to analyse the performance of public and private general insurance companies in India.

Introduction

The Sweeping changes in the form of commoditization, globalization, deregulation and the rapid technological advancements all over the world have changed the market scenario for financial services, In the process of integrating the Indian economy with global economy, Indian initiated liberalization through which it has opened up the insurance sector to the private insurance sector as well as with the main objectives of providing better coverage to the Indian citizens and augment the flow of long-term financial resources to finance the growth enabling India reaching to level of the developed countries of the world in the penetration of insurance.

As on June 2005, only 20 percent of the total insurable population of India is covered under various life insurance schemes and the penetration rates of health and other non-life insurances in India is also below the international level. To day, there are number of private general insurance companies. The competition from these companies were threatening to the existence of public sector. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India.

Objective

The objective of the present study is to compare the performance of public and private life insurance companies.

Hypotheses

For the purpose of this study, the following null hypotheses are framed:
1. There is no significant difference in the growth rate of direct premium between public and private general insurance companies.
2. There is no significant difference in the growth of number of new policies issued among public and private general insurance companies.

Tools employed

An attempt is made to analyse whether there is any significant difference in the growth of new policies issued among public and private life insurance companies or not. For this purpose, mann-whitney –U –Test was applied. It is a non – parametric test. It makes it possible to work with very small samples. It requires less restrictive assumptions concrruing the level of data measurement. It is used to determine whether there is any significant difference between the two independent samples, and each from one population is used.

$$U = \frac{n_1 n_2 + n_1 (n_1+1) - s_1}{2}$$

$$U = \frac{n_1 n_2 + n_2 (n_2+1) - s_2}{2}$$

For the values of n_1 and n_2 mann- whitney - U- test table values provide probability associated with the calculates values of U.

General Insurance in India –An overview

In December 1999, a bill was passed in the parliament with the passage of insurance Regulatory and development Authority for its reform process. The government has deregulated the sector by opening it for the private players – with the set of IRDA.

As a global sweet spot, India attracts the attention of every major insurer. The insurance density of non – life insurance sector had gone up from USD 2.4 in 2001 to USD 8.7 in 2010. Similarly, insurance penetration had gone up from, 0.56 per cent in 2001 to 0.71 per cent in 2010. Since 2000, a total of 15 non life insurance companies have set up operations in India. Most major multinational insurers are represented through joint ventures.

On the basis of gross premium income, the market share of public companies declined in 2003-04 to 58.34 per cent in 2011-11. Accordingly, the market share of private insurers had gone up marginally from 14.48 per cent in 2003-04 to 41.66 per cent in 2010-11.

Table1: Market Share (In Per Cent)

YEAR	PUBLIC	PRIVATE
2003-04	85.52	14.48
2004-05	79.93	20.07
2005-06	73.66	26.34
2006-07	65.28	34.72
2007-08	60.49	39.51
2008-09	59.41	40.59
2009-10	59.63	40.37
2010-11	58.34	41.66

Source: Annual report of IRDA

Gross direct premium

The gross direct premium of general insurance of public sector was increased from year to year. It was Rs. 13337.08 crore in 2003-04 and was increased to Rs. 25151.83 crore in 2010-11. But the growth rate of public sector companies show the fluctuating trend. The growth rate was 6.08 per cent in 2003-04 and it was increased to the highest growth rate of 21.84 per cent in 2010-11.

Table 2: Gross Direct Premium

YEAR	PUBLIC	Growth Rate (Per cent)	PRIVATE	Growth Rate (Per cent)	TOTAL
2003-04	13337.08	6.08	2257.83	67.27	15594.91
2004-05	13972.96	4.76	3507.62	55.35	17480.58
2005-06	14997.06	7.33	5362.66	52.88	20359.72
2006-07	16258.9	8.41	8646.57	61.23	24905.47
2007-08	16831.85	3.52	10992	27.12	27824
2008-09	18030.73	7.12	12321.09	12.09	30351.82
2009-10	20643.45	14.49	13977	13.43	34620.45
2010-11	25151.83	21.84	17424.63	24.66	42576.46

Source: Annual report of IRDA

In private sector there is continusal increase in the direct premium from 2003-04 of Rs. 2257.83 crore and rose to Rs. 17424.63 crore in 2010-11. In initial

stage of private upto 2006-07 the growth rate was tremendous (i.e) in 2003-04 the growth rate of gross direct premium was 67.27 per cent and in 2010-11 it was lowered to 24.66 per cent. Compared to public sector, the growth rate of gross direct premium was high for the private sector in earlier stage but after 2008-09 almost the growth rate of private sector was almost equal. Table 2 shows the details of gross direct premium collected by public and private general insurance companies from 2003-04 to 2010-11.

New policies issued

During the year 2010-11, general insurers had issued 41726031 new polices, out of which public sector issued 38427204 polices and the private sector issued 3298827 polices. Public players reported 16.52 per cent growth over the previous years also with decline few years.

Table 3: Number of New Policies issued

YEAR	PUBLIC	Growth Rate (Per cent)	PRIVATE	Growth Rate (Per cent)	TOTAL
2003-04	38427204	6.08	3298827	67.27	41726031
2004-05	44634047	16.15	5144755	55.95	49778802
2005-06	43945284	-1.54	8946916	73.90	52892200
2006-07	33972092	-22.69	12692053	41.85	46664145
2007-08	38547040	13.47	18703219	47.36	57250259
2008-09	45137000	17.09	21922000	17.21	67059000
2009-10	43404000	-3.84	24084000	9.86	67488000
2010-11	50576000	16.52	28765200	19.44	79341200

Source: Annual report of IRDA.

The private sector players doesnot reported a decline over the previous years and reported a growth of 19.44 per cent in 2010-11. They showed a highest growth of 73.90 per cent in the year 200-06.

Comparative analysis

In order to know whether there is any statistically significant difference in the growth rates of public and private general insurance companies in terms of gross direct premium, number of new policies issued and total general insurance premium, mann-whitney-U-Test was used. For testing the null hypothesis, the U value was calculated. The results of mann-whitney-U-Test is given in Table 3.

Table 4: Results of mann whitney; U-Test

Hypothesis	Particulars	Tabulated U value	Result
$H_0 1$	Gross direct premium	0.0102	Rejected
$H_0 2$	Number of new policies issued	0.009	Rejected

Source: Calculated Value.

$H_0 1$: The tabulated probability for n_1 = 8, n_2 = 8 is 0.0102 which is less then 0.05 (5% level of significance) hence, the null hypothesis framed for this study is accepted. That means that there is significant difference in the growth rates of gross direct premium in Public and private life insurance companies.

$H_0 2$: The tabulated probability for n_1 = 8, n_2 = 8 is 0.009 which is less than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is accepted. That means that there is significant difference in the growth of number of new policies issued among Public and Private life insurance companies.

Conclusion:

Insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. Though privatization of the insurance sector is feared to affect the prospects of public sector, the study shows that the Public sector continues to hold the market share. Private sector insurance companies also tried to insurance their market share.

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