A Reflection on the Evolving Premium Trend in the Indian Life Insurance Industry

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The liberalisation of the Indian insurance markets in 2000 has led to the entry of the largest insurance companies in the world, who have taken a strategic view on India being one of the top priority emerging markets (KPMG, 2013[i]). The life insurance industry is expected to exhibit a 12-15% compounded annual growth rate (CAGR) in FY 2015-16 (ICRA Research Services, 2016[ii]).

Our paper aims to identify major changes in the new business premiums, in particular, the composition of Individual and Group premiums across the Indian life insurance industry. For individual premiums, the paper also provides an insight into some related important aspects, e.g. movement of 'Average premium per policy' and 'Persistency rates' over the past few years. For the purpose of our analyses, we obtained data of 'New business premium' and 'Number of policies' from Insurance Regulatory and Development Authority of India (IRDA) for the Financial Year (FY) 2010-11 to FY 2015-16 and for the half-year ended September 30, 2016. One of the major highlights of our paper is to appreciate the increasing proportion of Group premiums over the recent historical period, and to identify the important drivers that may have been responsible for this trend. We also state some plausible drivers likely to reinforce this trend in the future.

The paper does not address other important issues like detailed profitability analysis of 'Individual premium' products as compared with 'Group premium' products. Although not technical in nature, this paper attempts to appreciate the growing importance of Group premium as a segment, and the important role it will play in the Indian life insurance industry in the years to come.

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1. Introduction

We drive into the future using only our rear-view mirror ... Marshall Mcluhan

And it is this insight we intend to lean on as we try to appreciate the evolving premium composition of the Indian life insurance industry and its expected trend.

Life insurance, is the second most preferred financial instrument in India which would contribute to an estimated 35% of total savings in the next seven years, as compared with 26% in 2010 (Kaur, 2015[iii]). The life insurance penetration (life insurance premiums expressed as % of GDP) has consistently increased from 2.15 % in 2001 to 4.6 % in 2009, before declining to 4.4 % in 2010 (Parekh, 2015[iv]) and is currently at 3.9 % in 2016 (Financial Services in India Snapshot, 2016[v])

In light of the evolving Indian life insurance industry and its many emerging facets, this paper attempts to glance at the broad first year premium mix of the insurance industry over the past six years. In order to better understand the composition and to discern the trends, this paper considers the Indian life insurance universe to comprise three broad categories, namely *a) Private Sector-Largest three players, b) Private Sector-Others, and c) National insurer Life Insurance Corporation of India (LIC).*

The first segment comprises the three largest players (by first year gross premium) namely ICICI Prudential Life Insurance Company (ICICI Prudential), HDFC Standard Life Insurance Company (HDFC Life) and SBI Life Insurance Company (SBI Life). We believe that this classification is reflective of the fundamental differences (like size, balance sheet strength, profitability and persistency rates) within the private sector and relative to the LIC.

Further, the analyses pertains to the trends in the two sources of premiums namely insurance premium paid by individuals (*hereafter referred to as 'Individual premium' or 'Individual premiums'*) and insurance premium paid for group insurance (*hereafter referred to as 'Group premium' or 'Group premiums'*). Individual premiums are paid by individual policyholders for the insurance policies that are mostly sold by agents, brokers or banks and through direct channels like the internet and insurer's direct marketing. Group premiums are usually sourced directly by the insurance company or through brokers, where group insurance is defined as insurance that covers a defined group of beneficiaries of a policyholder, for example the members of a society or a professional association, or the employees of an employer.

In the following sections, as we attribute the trend of Individual premiums to regulatory changes and to a few individual companies, we also appreciate the increasing share of Group premiums as a proportion of total premiums.

Traditionally, Group premiums which have been paid scanty importance relative to Individual premiums have increased over the past six years. These now comprise a significant portion of the life insurance industry's gross first year premiums. Their share stood at 58% of the gross first year premiums for FY2015-16 as compared with 34% for FY 2010-11 (refer Table 1).

As we remark on the incentives (e.g. the growth in credit term insurance) that noticeably contributed to this trend, we also reflect on the government-initiated social insurance schemes responsible for this significant change in the composition of the Indian life insurance industry. Supplemental information like the number of lives covered under Group premiums over the past six years has also been included for a deeper insight into the trends of inclusivity and reach.

This is followed by elaborating on the possible drivers of Group premiums in the near future. These pertain to the plausible factors that would impact the Group premiums in light of the evolving economic conditions, either directly or indirectly.

2. Evolving Individual Premium Composition

The total new business premium growth from FY2010-11 to FY 2015-16 exhibited a CAGR of 2%. Over this period, the proportion of the Individual and the Group business changed remarkably. Group premiums demonstrated a significant CAGR of 13% compared to Individual premiums that declined at a CAGR of 7% over the same period. The data for the first six months of 2016-17 also depicts an increasing trend for Group premiums.

LIC Individual premiums declined at a CAGR of 9% over the period. However, despite LIC comprising over 50% of the total premiums over the past six years, Individual premiums across the market declined at a CAGR of 7%. This was due to a better performing Private sector that experienced a CAGR decline of 3%. This was primarily driven by a relatively better performing 'Private Sector-Largest three players' category which did not decline significantly. The Private sector life insurers now contribute Rs 254,943 million in FY 2015-16 (44% of the total Individual premiums), as against Rs 304,510 million (37% of the total Individual premiums) in FY 2010-11.

It is noteworthy that till FY 2015-16, LIC on one hand earned more individual and group new business premiums than the entire Private sector. Results are produced in Table 1.

Table 1: New Business Premium [Individual and Group]

Insurer		New Business Premium [Individual and Group] (in Rs million)						CAGR	HY Sep 2016
		FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16		
Private Sector-Largest three players	Individual premium	137,037	92,902	95,159	92,048	118,924	139,931	**0%**	**65,924**
	Group premium	57,935	61,478	49,117	36,607	44,622	63,671	**2%**	**46,288**
	Total Premium	194,972	154,380	144,276	128,655	163,546	203,602	**1%**	**112,212**
	Individual / Total	70%	60%	66%	72%	73%	69%		59%
	Group / Total	30%	40%	34%	28%	27%	31%		41%
Private Sector-Others	Individual premium	**167,473**	**127,457**	**107,908**	**99,802**	**106,931**	**115,012**	**-7%**	**51,386**
	Group premium	**31,369**	**45,347**	**55,296**	**66,718**	**77,923**	**91,217**	**24%**	**47,132**
	Total Premium	**198,842**	**172,804**	**163,204**	**166,520**	**184,854**	**206,229**	**1%**	**98,518**
	Individual / Total	84%	74%	66%	60%	58%	56%		52%
	Group / Total	16%	26%	34%	40%	42%	44%		48%
Private Total	Individual premium	**304,510**	**220,359**	**203,067**	**191,850**	**225,855**	**254,943**	**-3%**	**117,310**
	Group premium	**89,304**	**106,825**	**104,413**	**103,325**	**122,545**	**154,888**	**12%**	**93,420**
	Total Premium	**393,814**	**327,184**	**307,480**	**295,175**	**348,400**	**409,831**	**1%**	**210,730**
	Individual / Total	77%	67%	66%	65%	65%	62%		56%
	Group / Total	23%	33%	34%	35%	35%	38%		44%
LIC	Individual premium	**522,037**	**424,673**	**419,338**	**417,776**	**327,862**	**327,891**	**-9%**	**175,156**
	Group premium	**342,411**	**390,472**	**345,538**	**488,670**	**455,165**	**648,853**	**14%**	**376,476**
	Total Premium	**864,448**	**815,145**	**764,876**	**906,446**	**783,027**	**976,744**	**2%**	**551,632**
	Individual / Total	60%	52%	55%	46%	42%	34%		32%
	Group / Total	40%	48%	45%	54%	58%	66%		68%
Grand Total	Individual premium	**826,547**	**645,032**	**622,405**	**609,626**	**553,717**	**582,834**	**-7%**	**292,466**
	Group premium	**431,715**	**497,297**	**449,951**	**591,995**	**577,710**	**803,741**	**13%**	**469,896**
	Total Premium	**1,258,262**	**1,142,329**	**1,072,356**	**1,201,621**	**1,131,427**	**1,386,575**	**2%**	**762,362**
	Individual / Total	66%	56%	58%	51%	49%	42%		38%
	Group / Total	34%	44%	42%	49%	51%	58%		62%

Source: Authors' own analyses using data from IRDA (Insurance Regulatory and Development Authority of India, 2010-2016[vi])

In order to better understand the Individual premium composition, it is appropriate to attribute the source to the two major types-Single premium and Regular premium. Besides the intention of a granular attribution of the emerging trend, the nature of Single premium and Regular premium business is quite different. The annualised premium equivalent (APE) of the Single premium is usually considered to be $1/10^{th}$ of the Single premium for it to be comparable with the Regular premium business. The underlying presumption is that an average term of a Single premium policy would be around 10 years.

Insurers over the recent past have veered toward selling Regular Individual premium policies as compared to Single premium policies.

The tax related implications for a policyholder are also favourable for a Regular premium policy than for a Single premium policy. Under a Single premium policy, the policyholder can avail of the tax deductibility up to the ceiling only once. For the Regular premium policy, the policyholder can claim deductibility throughout the premium paying term.

Moreover, for a Unit Linked Policy, which is marked-to-market, the policyholder would be exposed to a higher risk by investing bulk amount through a Single premium policy. By opting for a Regular premium policy, the policyholder would also reap the benefit of averaging the cost of his investment in different market cycles.

2.1 Private Sector Performance in Individual Premiums

As depicted in Table 2, LIC's Regular Individual premiums and the life insurance industry's total Regular Individual premiums declined at a CAGR of 4% and 2% respectively over the six year evaluation period.

This was due to a better performing Private sector whose Regular Individual premiums experienced a flat growth over the period. This was primarily driven by a relatively better performing 'Private Sector-Largest three players' category which exhibited a CAGR of 6%. The Private sector now comprises 53% of the total Regular Individual premiums and stands at Rs 223,964 million as against a 47% market share in FY 2010-11 when it contributed Rs 221,976 million to the total Regular Individual premiums.

Table 2: New Business Premiums [Individual]

Insurer		Individual premiums-New Business (in Rs million)							
		FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	CAGR	HY Sept 2016
Private Sector - Largest 3 players	Individual Total (A)	1,37,037	92,902	95,159	92,048	1,18,924	1,39,931	0%	65,924
	Single premium (B)	44,546	18,336	7,638	8,527	13,434	15,737	-19%	8,440
	Regular premium(C)	92,491	74,566	87,521	83,521	1,05,490	1,24,194	6%	57,484
	B/A	*33%*	*20%*	*8%*	*9%*	*11%*	*11%*		*13%*
	C/A	*67%*	*80%*	*92%*	*91%*	*89%*	*89%*		*87%*
Private Sector-Others	Individual Total (D)	1,67,473	1,27,457	1,07,908	99,802	1,06,931	1,15,012	-7%	51,386
	Single premium (E)	37,988	31,820	19,866	13,049	15,372	15,242	-17%	7,901
	Regular premium (F)	1,29,485	95,637	88,042	86,753	91,559	99,770	-5%	43,485
	E/D	*23%*	*25%*	*18%*	*13%*	*14%*	*13%*		*15%*
	F/D	*77%*	*75%*	*82%*	*87%*	*86%*	*87%*		*85%*
Private Total	Individual Total (G)	3,04,510	2,20,359	2,03,067	1,91,850	2,25,855	2,54,943	-3%	1,17,310
	Single premium(H)	82,534	50,156	27,504	21,576	28,806	30,979	-18%	16,341
	Regular premium (I)	2,21,976	1,70,203	1,75,563	1,70,274	1,97,049	2,23,964	0%	1,00,969
	H/G	*27%*	*23%*	*14%*	*11%*	*13%*	*12%*		*14%*
	I/G	*73%*	*77%*	*86%*	*89%*	*87%*	*88%*		*86%*
LIC	Individual Total (J)	5,22,037	4,24,673	4,19,338	4,17,776	3,27,862	3,27,891	-9%	1,75,156
	Single premium(K)	2,76,202	1,33,862	1,39,465	1,47,306	1,33,470	1,26,885	-14%	85,463
	Regular premium(L)	2,45,835	2,90,811	2,79,873	2,70,470	1,94,392	2,01,006	-4%	89,693
	K/J	*53%*	*32%*	*33%*	*35%*	*41%*	*39%*		*49%*
	L/J	*47%*	*68%*	*67%*	*65%*	*59%*	*61%*		*51%*
Grand Total	**Individual Total (M)**	8,26,547	6,45,032	6,22,405	6,09,626	5,53,717	5,82,834	-7%	2,92,466
	Single premium(N)	3,58,736	1,84,018	1,66,969	1,68,882	1,62,276	1,57,864	-15%	1,01,804
	Regular premium(O)	4,67,811	4,61,014	4,55,436	4,40,744	3,91,441	4,24,970	-2%	1,90,662
	N/M	*43%*	*29%*	*27%*	*28%*	*29%*	*27%*		*35%*
	O/M	*57%*	*71%*	*73%*	*72%*	*71%*	*73%*		*65%*

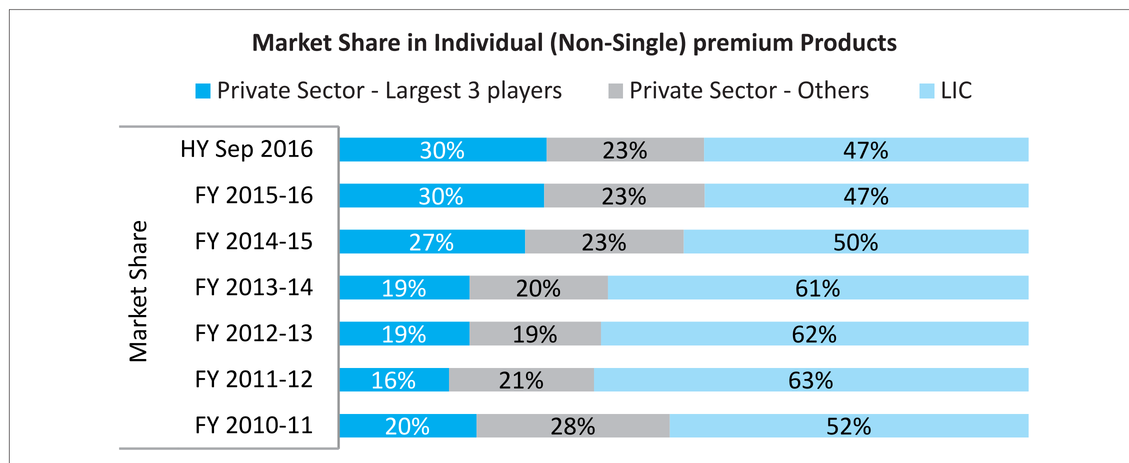
Source: Authors' own analyses using data from IRDA 2010-2016

2.2 Higher Market Share for Private Insurers in Regular (non-single) Individual Premiums

The three largest insurers in the Private sector gained a market share of 10% in the Regular Individual premium segment over the six year evaluation period and comprise30% of the total Regular Individual premium segment in FY 2015-16.

The most significant increase for the largest three Private insurers in the Regular Individual premium category occurred in FY 2014-15, when Regular Individual premiums increased by 26% over the previous year to stand at Rs 105,490 (Table 2). The market share for these players correspondingly increased from 19% to 27% while those for the other Private players, it increased from 20% to 23%over the previous year. Figure 1 shows the changes in market share of a) the largest three Private sector insurers, b) other Private sector insurers and c) the LIC, through the evaluation period. These market shares were unchanged in the first half of FY 2016-17.

Figure 1: Market share for Regular Individual premium Products



Source: Authors' own analyses using data from IRDA2010-2016

This sizeable shift in market shares was associated with a regulatory change. The Indian regulator IRDA issued new guidelines in 2013 that made Unit-linked Insurance Products (ULIPs) an attractive proposition for policyholders. Incidentally, LIC did not have a ULIP portfolio till the end of FY 2014-15. This was the primary reason for LIC losing its market share to the Private sector in the Regular Individual premium segment.

> *"It is noteworthy that LIC has witnessed a significant decline in new business premium collections and lost sizeable market share to Private players in FY2014-15 (as highlighted*

in the Industry Statistics section) which has been largely attributed to absence of unit-linked products from its portfolio until the end of the financial year." (Willis Towers Watson, 2015[vii]).

Besides this aspect, the increased marketing effort on selling Individual premium policies has also been responsible for the improved market share for the Private sector.

It is important to realise that the Regular Individual premium business enjoys better margins as compared with group business.

2.3 Average Growth in Individual Premiums

Average premiums per policy affect the quality of business - a policy with a higher premium is likely to demonstrate greater persistency than a policy with a lower premium.

The healthy growth in average Regular Individual premiums in the Private sector as compared to LIC contributed to an increased market share for the Private sector. For LIC, the average premium of the Regular Individual premium business witnessed a CAGR of 6% over the six year evaluation period. While the average Individual premiums of the largest three players in the Private sector witnessed an increase similar to LIC's, the remaining players witnessed a much higher increase at 14%.The average Regular Individual premiums continued their growth as at HY ended September 2016 over the March 2016 comparatives.

Table 3: Average Premium per Policy (Regular Premium)

Insurer	Average Regular Individual Premium (Average Rs Per Policy)						CAGR	HY Sept 2016
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16		
Private Sector - Largest 3 players	35,260	30,912	33,606	34,055	44,268	46,844	**6%**	51,261
Private Sector-Others	17,183	17,911	20,247	24,424	30,642	32,570	**14%**	35,333
LIC	7,595	8,649	8,044	8,283	10,515	10,399	**6%**	11,922

Source: Authors' own analyses using data from IRDA 2010-2016

Persistency improved significantly over the past six years for SBI life and ICICI Prudential relative to HDFC Life and LIC, which experienced a small decline (refer table 4). The persistency improvement was primarily as a result of better selling practices and also probably due to the improvement in the average premium per policy. A policy with a higher premium usually translates

in to a better persistency as it usually depicts a policyholder having a better appreciation of risk, and higher financial literacy than the average policyholder.

Table 4: Persistency Ratios

Company	13 Month Persistency Ratio (Based on Premiums)	
	FY 2010-11	FY 2015-16
ICICI Prudential	76%	83%
HDFC Life	81%	79%
SBI Life	69%	78%
LIC	67%	65%

Source: Information gathered from the financial statements/websites of insurers[viii]

"We have observed that big tickets policies don't tend to lapse as customers are more conscious of surrender costs. And given they are investing huge sums of money, they take time to understand the policies," said Vighnesh Shahane, whole time director and chief executive officer, IDBI Federal Life Insurance (Bhaskaran, Life insurers selling policies that die early, 2016[ix]).

Also, the higher tax benefits for the policyholder (subject to the ceiling) associated with a higher premium would also drive persistency in order to avail of the tax benefits in each year over the premium paying term

Insurers such as Shriram Life Insurance Co. Limited attribute poor persistency to the fact that it sells primarily to rural areas where ticket sizes are small and incomes irregular (Bhaskaran, Life insurers selling policies that die early, 2016[ix]).

2.4 Individual Premiums' Year-on-Year (y-o-y) Growth

The industry-wide Individual premiums declined over the period till FY 2014-15 at 22%, 4%,2% and 9% year-on-year, respectively (Refer Table 5).

In FY 2014-15, despite the Private sector growing at 18% over the previous year, this was offset by a decline of 22% in the LIC Individual premiums in the same year. In FY 2015-16, Individual premiums depicted a year-on-year growth of 5% driven by a 13% growth in Private sector Individual premiums and a flat growth in LIC Individual premiums.

In both these years, the three largest Private sector players displayed a much higher growth than the smaller Private players. Table 5 demonstrates the premium growth rates of Individual premiums.

Table 5: Year-on-Year growth of New Business Premiums

Insurer		Individual premiums-New Business (Y-O-Y Growth Rate)				
		FY 2011-12	FY 2012-13	FY 2013-14	FY 2013-14	FY 2013-14
Private Sector-Largest 3 players	Single Individual premium	-59%	-58%	12%	58%	17%
	Regular Individual premium	-19%	17%	-5%	26%	18%
	Individual Total	**-32%**	**2%**	**-3%**	**29%**	**18%**
Private Sector-Others	Single Individual premium	-16%	-38%	-34%	18%	-1%
	Regular Individual premium	-26%	-8%	-1%	6%	9%
	Individual Total	**-24%**	**-15%**	**-8%**	**7%**	**8%**
Private Sector Total	Single Individual premium	-39%	-45%	-22%	34%	8%
	Regular Individual premium	-23%	3%	-3%	16%	14%
	Individual Total	**-28%**	**-8%**	**-6%**	**18%**	**13%**
LIC	Single Individual premium	-52%	4%	6%	-9%	-5%
	Regular Individual premium	18%	-4%	-3%	-28%	3%
	Individual Total	**-19%**	**-1%**	**0%**	**-22%**	**0%**
Grand Total	Single Individual premium	-49%	-9%	1%	-4%	-3%
	Regular Individual premium	-1%	-1%	-3%	-11%	9%
	Individual Total	**-22%**	**-4%**	**-2%**	**-9%**	**5%**

Source: Authors' own analyses using data from IRDA 2010-2016

As we attempt to decipher the y-o-y growth rates of the individual new business, it is necessary to understand the contribution of ULIPs to total Individual premiums. ULIPs constituted 41% of the total individual new business premium at the year ended March 31, 2009 which declined to 37% by the year end March 31, 2011 and further reduced to 17% by end of March 31, 2013 (IRDA annual reports, 2008-09[x]). The favourable stock market growth till 2008 and an attractive commission structure for the distributors meant that ULIPs were then perceived favourably. While customers assumed the strong stock market growth to continue, the distributors also indulged in selling malpractices.

Investors were often sold ULIPs in the guise of three year savings plans, when the three year period was in reality the lock-in period. The key information of the uncertainty of higher benefits (if they were to hold the policy till maturity) was not appropriately conveyed.

To counter customer grievance, the IRDAI imposed a series of measures to correct the malpractices.

As per the IRDA Circular No. IRDA/ACT/CIR/ULIP/102/06/2010 the three year lock-in period for all ULIPs was increased to a period of five years (including top up premiums), charges on ULIPs were to be apportioned over a longer period, commissions were capped, and the minimum death benefit was increased. Charges were now to be allocated over a five year period as compared to a two year period earlier. The distributor's commission was reduced from approximately 50% of the first year premium earlier to 7-10%. Also, a minimum life cover of ten times the first year's premium was made mandatory.

Although, these regulations did render the product more policyholder friendly, it reduced the incentive for distributors to sell these plans. This resulted in the reduction in Individual premiums over the following few years (some regulatory changes were also introduced in 2013). As a result, the contribution of ULIPs in insurance companies' portfolios has reduced relative to the pre-2010 era. According to IRDA's FY2011 annual report, almost 60% of the first-year business was concentrated in traditional plans (also known as non-linked business). This increasing shift towards traditional plans could be largely attributed to consumers preferring the certainty of guaranteed returns that traditional plans offer.

The average commission in traditional plans as a percentage to premium for the Private sector has also increased from around 8.47% in FY2009 to 12% in FY2011. Short-term policies of less than 10 years have low commissions of up to 15%, but longer term policies typically up to 20 years have a higher commission of up to 35%. This is because of the small average ticket size of long-term policies and the increased effort in selling long-term products relative to short term products (Bhaskaran, With ULIP costs capped, insurers charge more for traditional plans, 2013[xi]).

3. Group Premium Trends

In order to understand the premium trends in Group business, we refer to Table 1. First year Group premiums recorded higher growth than Individual premiums across the three categories: Private Sector-Largest three players, Private Sector-Others, and LIC.

Over the 6-year evaluation period, LIC recorded a CAGR of 14% as compared with the Private sector's CAGR of 12%; while Individual premiums exhibited a negative CAGR of 9% for LIC, as against a negative CAGR of 3% for the Private sector.

As a result, for LIC first year Group premiums now constitute 66% of its gross first year premiums in FY 2015-16 as compared to 40% in FY 2010-11. On the other hand, the Private sector first year Group premiums now constitute 38% as compared to 23% in FY 2010-11.

For FY 2015-16, LIC Group premiums stood at Rs 648,853 million as compared with Rs 154,888 million of the Private sector insurers. Although comparatively smaller in size, the growth in first

year Group premiums in the past five years in the Private sector has been noticeable. The CAGR of 12% for the Private sector has been primarily driven by a 24% CAGR by the 'Private Sector-Others' category that constituted Rs 91,217 million of the total Private sector first year Group premiums. In comparison, the largest three Private sector players witnessed a CAGR of 2% over the same period to stand at Rs 63,671 million.

For the 'Private Sector-Others' category, Group premiums now constitute 44% of its total premiums in FY 2015-16 as against 16% in FY 2010-11; while for the 'Private Sector-Largest three players' category Group premiums now constitute 31% as compared to 30% in FY 2010-11. In the 'Private Sector-Others' category, four firms viz. DHFL Pramerica Life Insurance Company Limited, Edelweiss Tokio Life Insurance Company, Bharti AXA Life Insurance Company and Exide Life Insurance Company constituted around 10% of the Group premiums for this category. These four companies displayed CAGRs ranging from 66% to 1078% over the six year period. The data for the first half of FY 2016-17 is also consistent with this trend.

Practice of Group Premium Recognition

A cursory understanding of Group premium accounting is pertinent in the context of this paper. Group insurance policies are usually written on a yearly renewable basis. Premiums are not level or contracted for the duration beyond one year. Example, a Group term insurance policy is re-quoted at the next renewal and a group pension policy can accept contribution to be determined at the next actuarial valuation (Please refer section 3.1.1).

3.1 Major Sources of Group Premiums

First year Group premiums over the past six years could be largely attributed to these main sources:

1. Employers' contributions
2. Government initiatives
3. Credit term insurance

3.1.1. Employers' Contributions

Indian employers contribute to a fund which enjoys certain tax incentives (elaborated later) in order to be able to meet the promised benefit payments to their employees. The Group premiums contributed by an employer primarily comprise two elements: a) *the risk premium, and b) the fund or investment premium*. The risk premium or the life insurance premium is for the sum insured to be paid to the employees' dependents in the event of their demise during period of service. On the other hand, the fund premium is largely invested to meet the promised employee benefit obligations at exit from service (accumulating investment component).

Although the majority of Group premiums would be towards the accumulating investment component of the fund, the bifurcation of Group premiums into these two elements is not disclosed by insurance companies. The bifurcation is not specified likely because the monthly business figures reporting format of the Indian regulator does not insist. An explicitly stated bifurcation will also increase the transparency of reporting and enable an analyst to gauge the fairness of the risk premiums charged. Risk business, being of a different nature, is not comparable with the fund business, and thus capturing data at this level would greatly aid the profitability analysis of the group business for insurers.

Group Insurance Policies are usually renewable each year and hence the Group premiums captured by insurance companies as new business do not provide a further bifurcation between new policies and pre-existing ones. The Group premiums of pre-existing policies are also classified as new business for each of the years following the first, because Group premiums are typically not level across each of the years. For example, the Group premiums contributed to a pre-existing gratuity fund would vary in each of the years depending upon variable factors like the number of new employees during the year, the salary escalation during the year, the desired funding level of the employer, besides other drivers. These are not in the nature of renewal premiums which are often known in advance. Hence, the trend analysis of Group premiums was constrained to the extent that we could not attribute these trends to renewal business and to new business growth.

Also, there could be a classification disparity of Group premiums into Regular and Single premiums across insurance companies. Although group policies being largely one year renewable policies, the associated premiums are often categorised in to the 'Regular premium' category by some insurance companies while others consider it as 'Single premium'. The lack of uniformity in this classification means that comparability across insurers is compromised to that extent.

Contributions to a group fund could also be made by affinity groups, whose members have a commonality apart from employment (unlike an “employer-employee” group). For example, deposit holders of a bank. Although it would be interesting to understand the contributions of each of these groups to the total Group premiums, the absence of such data limits this insight.

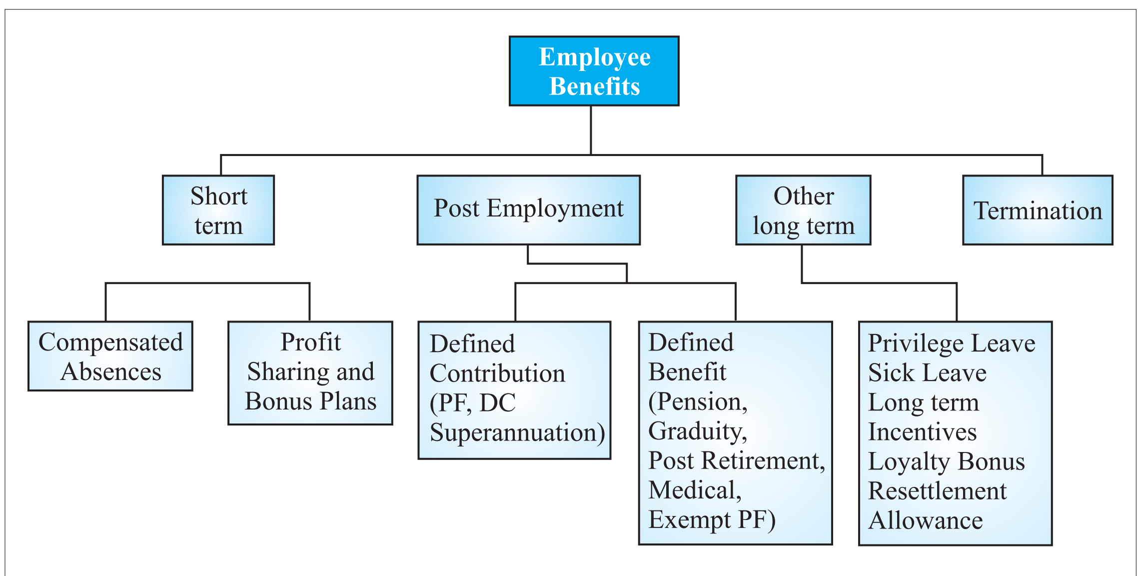
3.1.1.1 Incentives for funding the liability (i.e. Employers' Contribution)

Group premiums are dependent on the local tax and related regulation and also on employers' policies toward funding of pension liabilities. Higher traction of liability growth of pension plans is seen in markets where salary growth is higher and the workforce younger.

The employee benefits' liability, also called the 'Defined Benefit Obligation' (DBO) represents the amount of actuarially calculated value of employee benefits arising from the employer's obligation to the employee at the time of the employee's separation from the services of the company. They are termed as defined benefit obligations since the payment is associated with the remuneration drawn at that point in time i.e. the ultimate benefit is unequivocally defined.

The following depiction in Figure 2 states the gamut of employee benefits offered by Indian employers.

Figure 2: Employee Benefits under AS15 (R)



Source: (Accounting Standards Board, 2005[xii])

The employers' contributions largely comprise the contributions to the defined contribution plans (e.g. Provident Fund, Pension not linked to the final salary) and also the contributions to fund the defined benefit liabilities (e.g. Gratuity, Pension linked to final salary etc). Although, some employers fund the 'Other Long Term Benefits' (e.g. privilege leave), there is no tax deductibility for such contributions and hence a large proportion of the employers' contributions would comprise the contributions toward post-employment benefits, which have tax related incentives.

Whilst the development of pension liabilities is one issue, its funding is quite another. There are four main reasons for funding pension liabilities: (1) Regulation; (2) Benefit Security; (3) Tax incentives for the sponsor or members; and (4) Corporate cash flow management (Gordon, et al., 2015[xiii])

I. Regulation

In some countries, there prevails regulation regarding funding of employee benefits e.g. the Minimum Funding Requirement (MFR) introduced in the UK in 1997.The aim of MFR was to set a minimum amount of assets that a defined benefit pension scheme should hold in order to fund its promised benefits. If a scheme did not hold sufficient assets, the pension scheme was required to achieve the minimum level within a given time scale. This was replaced by a statutory funding objective to adapt more flexibly to individual schemes' circumstances but at the same time protecting members' benefits.

These mandatory funding requirements have never been a feature of Indian Pensions. Despite this being the case, many employers choose to fund their defined benefit obligation (DBO).This is due to the following three reasons.

II. Benefit Security/Sponsor Covenant

Sponsor Covenant is an agreement between trustees and employers to protect a scheme and its members. It is indicative of the willingness and the ability of the employer to support the scheme.

Although, it is not an area which has been granted much importance in India, the mere formation of a fund overlooked by trustees is indicative of an employer's willingness to meet his promised obligations.

This fund is set up as an irrevocable trust with no access to an employer for meeting any other liability. The security of these post-employment benefits translates in to an assurance of payment of the benefits as they fall due. This is likely to aid the retention of employees for a longer period of time and a heightened sense of economic well-being. The funded status of the plan will also be tracked by credit rating agencies as an indicator of the financial health of an employer (48 out of the NIFTY 50 companies have funded gratuity plans).

In particular, funding would be an important aspect for Indian public sector undertakings which have sizeable employee benefit liabilities.

III. Tax Benefits

Approved funds under the Income Tax Act comprise Provident Fund (PF), Superannuation (Defined benefit and Defined contribution) and Gratuity.

Provident Funds are 'defined contribution' in nature where in the employer contributes a certain percentage of the employees' remuneration in to the fund. The ultimate payout is not guaranteed and depends upon the investment returns earned on the fund.

Provident funds in India are not allowed to be managed by Insurers. They are either managed in-house or managed by the Employee Provident Fund Office (EPFO). Hence, the increase in Group premiums is not attributable to this factor. However, the contribution is tax deductible and the investment returns are tax free as well.

These tax benefits extend to Superannuation funds and gratuity funds as well. These serve as an incentive to form a fund. There are certain investments allowed under the Income Tax Act.

To consider the example of the gratuity benefit, the investments of an approved gratuity fund could be as follows:

Post Office Savings Bank Account in India, Current/Savings Account in any Scheduled Bank, LIC or any other insurer, remaining under sub rule (2) of Rule 67.

For a loss making entity though, tax minimisation is not relevant. Hence, the formation of a gratuity fund could be delayed. Although, the prevalent corporate tax rate of 28% percent is still lower than tax rates (in some developed nations), it is sizeable enough for prioritising investment through tax saving vehicles.

These tax subsidies are viewed by governments as a good investment for the tax payer, since the taxes foregone are expected to be more than offset by lower tax support needed in the future to support pensioners.

IV. Corporate Cash Flow Management

Another possible reason for funding is to pay benefits from a designated pool of assets, to avoid disrupting the underlying business by smoothing out cash flow requirements. In the presence of other funding constraints (e.g. minimum funding levels), a smooth funding policy is one that will maintain a cushion above these constraints (Gordon, et al., 2015[xiii]).

In addition to the above, there are a few additional benefits. The risk premium borne by an individual member of a group policy is lesser than that paid for an individual policy. This is because of lesser administration costs due to economies of scale. Members covered under a group policy need not undergo medical underwriting because the adverse impact of anti-selection is less when risks are pooled. (Anti-selection is a phenomenon in which persons with the most dangerous lifestyles or careers are most likely to buy life insurance policies). This reduced expense could translate into lower premiums.

R M Vishakha, CEO of India First Life Insurance explains in an article of Business Standard dated July17, 2016:

"In group business, there is no expense, as it is a direct business. Ticket sizes being larger, policy administration costs are lower. Selling and switching costs are also lower. Taken as a percentage, expenses become insignificant because of the large ticket sizes. In retail, because of the smaller ticket sizes, expense as a percentage looks higher." (Nair, 2016[xiv])

3.1.1.2 Fund Manager Decision in Funding the Employer Liability

The approved funds could be self-managed in nature or could be outsourced to an insurer. The following are some aspects that weigh on the decision to either self-manage the assets or turn them over to an insurer.

I. Administration Expenses

The administration expenses associated with self-managing the fund e.g. trust audit, preparation of trust accounts, fair value calculations of investments at valuation dates etc., require significant involvement of resources. These expenses would render the self-management of small fund sizes uneconomical and hence can be minimised by outsourcing fund management to an insurer. The insurer could pass on economies of scale to the company in the form of lower costs for periodic actuarial valuation, lower service charges beyond a specified fund size, etc. as he reaps the benefit of managing a large number of funds.

III. Investment Restrictions on Self Managed Plans

The investment pattern for self-managed gratuity funds has been specified in Rule 67(2). As per the pattern specified, defined benefit plans would be permitted to have an exposure up to a maximum of 15 % as an asset class. Pension liabilities are real in nature and exposure to equity would act as a hedge to the real liabilities. The long duration of the pension liabilities would also mean that the company would be able to withstand the volatility pertaining to this asset class without jeopardising the benefit payments.

Insurer Managed investments have no such restriction pertaining to equity investment and employers with a strong covenant and a robust balance sheet could potentially invest in Unit linked equity plans of insurance companies. Employers with a desire to invest a high proportion in equities could opt for an insurer managed plan than a self-managed one.

III. Duration Matching

Also, an increasing awareness of Asset Liability Management would imply a greater inclination to match the interest sensitivity of assets to those of the underlying employee benefit obligations. The

disclosure of fund durations (that depict interest rate sensitivity of assets) in the monthly fact sheets by insurance companies would enable employers to ensure that the appropriate fund is chosen, that minimises the Asset-Liability mismatch.

3.1.2 Government Initiatives

The Indian government introduced the "Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)" scheme in February 2015. The scheme provides a term insurance cover (i.e. sum assured payable in the event of death) of Rs. 2 lakhs at a nominal premium of Rs. 330 for people in the age bracket of 18 yrs to 50 years. Any individual holding a savings bank account is eligible for this policy. In essence, it is a group term insurance policy where the participating bank would be the master policyholder (Pradhan Mantri Jeevan Jyoti Beema Yojana[xv]).

This led to a sizeable increase in group business and as at February 2016, the total collection of premiums for PMJJBY amounted to over INR 9,700 million (Willis Towers Watson, 2016[xvi]).Till October 12, 2016, a total of 3.05 crore lives were enrolled under the scheme (Dhawan, 2016[xvii]).

The Group premiums are likely to be driven by sizeable volumes as the value per policy is miniscule. Although, PMJJBY will contribute to the increase in Group premiums in the years to come, the fund based employer contributions would likely become the main premium growth driver. While factors like a sizeable GDP growth and a commensurate salary growth would drive fund based employer contributions, it is expected that the improvement in credit growth will also lead to higher Group premiums in the future.

3.1.3 Credit Term Insurance

The primary contributors to credit term insurance are Microfinance Institutions (MFIs), Banks and Non- Banking Financial Companies (NBFCs) that grant credit facilities toward housing, vehicles, education, personal loans etc.

Credit term insurance is a life insurance policy that protects the lender against loan default in the event of borrower's demise. The family of the borrower is relieved from repaying the loan, allowing them to retain the asset (e.g. house or car).The credit life insurance is basically a life insurance product falling under the option of group policy (Modi, et al., 2012[xviii]). The scope for anti-selection is less in credit term insurance as the insurance is not voluntarily opted by the borrower and is associated with the loan amount. Also, the primary reason for taking the loan is not the insurance cover (Sai, et al., 2006[xix]).

Large insurers like HDFC Life sell credit term insurance which is associated with the high value home loans of HDFC Bank and HDFC (NBFC).

The Indian Microfinance Sector reported an overall growth of 23% (annualised) in H1FY2016 (31% in FY 2015) with the overall market size nearing Rs 1.1 trillion (including Bandhan Bank) as on September 30, 2015(ICRA Research Services, 2016[xx]). Also, the overall permissible debt levels per borrower have been increased to Rs. 100,000 (from Rs. 50,000 earlier).

3.2 Lives Covered Under Group Insurance

Over the evaluation period, the largest three companies in the Private sector witnessed the highest CAGR in the number of lives covered by group insurance as compared to LIC and other Private players. These three players witnessed the greatest increase in FY 2015-16. Of the 23 million lives covered by this cohort in FY 2015-16, 14 million lives were covered by HDFC Life alone.

As per HDFC Life's Annual Report of FY 2015-16

"In Group business, the Company maintained its No. 1 rank amongst Private players, with market share of 18.3% in FY 2016, versus 17.8% in FY 2015 (rank no. 1) based on new business received premium. Company focused on selling protection oriented products, even within this segment through multiple partners. The New Business sum assured under the Group category increased from Rs 95,197 Crs to Rs 1,65,655 Crs, covering 1.4 Crs lives during FY 2016"

The 'Private Sector-Others' category witnessed a sharp decline in the number of lives covered in FY 2011-12 under group insurance. Of the sizeable decline of around 20 million lives, 10 million lives could be attributed to Bajaj Allianz Life Insurance Company, 6 million to Max Life Insurance Company and 1 million to PNB Met Life Insurance Company Limited and the rest to others.

Table 6 (on next page) presents a snapshot of the number of lives covered over the recent past.

3.3 Future Drivers of Group Insurance Premium

3.3.1 Credit Growth

According to ICRA's estimates, the potential size of the microfinance market (which comprises the Self Help Group Bank linkage and Microfinance Institutions) is as large as Rs. 2.8-3.4 trillion at penetration levels of 50-70% and ticket size of Rs. 60,000 per household. Further, given that MFIs have the scope to lend 30% of their portfolio towards non-qualifying (i.e., non-microfinance) loans, they could grow their microenterprise loans/micro housing loans by an additional Rs. 400-500 billion (ICRA Limited, 2016[xx]).

Insurance companies sell policies with a sum assured equal to the amount of loan. This protects the lender in the event of the borrower's demise. These loans being of a small ticket size (as compared to a home loan, say) do not attract a sizeable premium.

Table 6: Number of Lives Covered (New Business)

Insurer		No. of lives covered – New business (in millions)						5 Yr CAGR	HY Sept 2016
		FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16		
Private Sector - Largest 3 players	Individual Total	3.12	2.73	2.87	2.70	2.64	3.00	**-1%**	1.22
	Group Total	5.36	5.07	4.26	4.52	6.84	23.37	**34%**	11.24
Private Sector-Others	Individual Total	7.99	5.71	4.52	3.65	2.80	3.18	**-17%**	1.26
	Group Total	42.30	22.81	30.17	42.40	63.75	86.04	**15%**	77.67
LIC	Individual Total	37.01	35.72	36.76	34.48	20.14	20.52	**-11%**	8.05
	Group Total	35.66	37.86	43.68	47.09	52.27	62.62	**12%**	20.3

Source: Authors' own analyses using data from IRDA 2010-2016

However, the volumes that insurance companies will be able to access due to the reach of established MFIs, would make it an attractive market. Assuming a premium charged of 0.5% for every Rs 100 Sum Assured, it could result in a sizeable incremental Group premium.

The 'Private Sector-Others' category experiencing lower persistency as compared to 'Private Sector – Largest 3 Players' in their Individual premium business, would likely focus on this segment more in order to boost their top line. In particular, those without a banking partner will want to capitalise on the reach of MFIs to serve a wider base of the population, thus countering the prevalent distinctive advantage that LIC enjoys at the moment. For example, over the past six years, the maximum growth witnessed in the 'Private Sector-Others' category was steered by DHFL Pramerica Life Insurance Company Limited, Edelweiss Tokio Life Insurance Company, Bharti AXA Insurance Company and Exide Life Insurance Company which do not have a substantial business routed through the banking channel. This could also be viewed as an opportunity to cross sell the insurance companies' individual products as time progresses.

However, the short term nature of these loans might result in the MFIs shopping around for competitive premiums. This 'cherry picking' along with a sizeable number of insurance players might translate in a downward pressure on the premiums. Also, any slowdown in the MFI sector or an increase in default rates will adversely impact Group premiums.

Besides MFIs, a major contributor to Group premiums is the term insurance premiums associated with the retail loans disbursed by Non-Banking Finance Companies (NBFCs) and Banks.

"Insurance cover on retail loans sold through NBFCs means big money for insurers as they are paying less than 25 paise towards claims against every Re 1 received as premium. The claim to premium ratio in other life insurance products is as high as 70%" (Bondyopadhyay, 2007[xxi])

The combined market capitalisation of the top 10 NBFCs (Rs 1.27 lakh crore) is now twice that of mid- and small-sized government banks (Rs 635,000 million). This gives these NBFCs larger fundraising capacity than government-owned banks (Kant, 2015[xxii]). On an average, the sector witnessed a CAGR of 22% during the period between March 2006 and March 2013 with NBFCs experiencing a faster growth than banks during most of the years. NBFC credit witnessed a CAGR of 24.3% during the period between March 2007 and March 2013 as against 21.4 % by the banking sector.

Globally, the size of non-bank financial intermediation was equivalent to 117% of GDP as at the end of 2012 for 20 jurisdictions and the euro area. In absolute terms, total assets of non-bank financial intermediaries remained at around $ 70 trillion as at end 2012. USA has the largest system of non-bank financial intermediation with assets of $ 26 trillion, followed by the euro area ($ 22

trillion), the UK ($ 9 trillion) and Japan ($ 4 trillion) (Bhaskar, 2014[xxiii]).The total NBFC retail in India managed credit of Rs. 2.96 trillion as on March 31, 2012(ICRA Research Services, 2012[xxiv]).The NBFC sector in India is growing swiftly and in 2015 accounted for more than 12% of the country's GDP(Top 10 Non Banking Financial Companies (NBFC) in India, 2015[xxv]). The total retail credit of NBFCs in India stood at Rs. 5.0 trillion as on March 31, 2016 registering an annual growth of about 19.9% against 14.8% in FY2015 and 9.8% in FY2014(ICRA 2016 report[xxvi]).

NBFCs play a vital role in the country's economy by offering financial services to rural areas, where about 70% of the population of the country resides (Top 10 Non Banking Financial Companies (NBFC) in India, 2015). With the stressed balance sheets of public sector banks due to mounting bad debts, their ability to lend (especially in rural areas is likely to deteriorate; this will be an opportunity for NBFCs to increase their presence (Pwc & ASSOCHAM[xxvii]).

Also, the total mortgage market in India is a little less than 10% of the size of its economy even as the overall bank credit market is about 50% of the GDP. While the Chinese mortgage market is about 20% of its GDP, the UK and the US has a ratio of 88% and 81% (Bandyopadhyay, 2015[xxviii]). A low mortgage-GDP ratio provides room for ample growth to the housing finance industry and banks (Modi, et al., 2012[xviii]).

As the term insurance is clubbed with the loan amount,the growth of NBFCs in India will translate in to higher Group premiums for the insurance industry.

3.3.2 Rule 17 (D) for Life Insurers

One aspect of insurance regulation that deserves a special mention is Rule 17D of the Insurance Rules, 1939.Rule17D specifies the caps on expenses of life insurance companies for a particular class of insurance product, whereas section 40B of the Insurance Act, 1938, restricts the expenses of insurance companies according to the rules specified in 17D (Bhaskaran, Irda wants insurers to curb excess expenses, 2014[xxix]).

Indian insurers must not incur management expenses in any calendar year in excess of the prescribed limits which would depend on the size and age of the insurer (The Insurance Act, 1938). Rule 17D prescribes the limit to be calculated as a percentage of the premium (first-year and Regular premium) and size of the business. Usually, it is capped at 90% of first-year premiums and 15% of renewal premiums if the company is in operation for 10 years and its in-force business is Rs 10 crore or above. These management expenses are part of the premium rates of insurers. (Saraswathy M, et al., 2014[xxx])

Life insurance companies, especially in the first five years of their business, have higher overhead and new business strain. This is due to expansion in the business, recruiting of staff and establishing new branches, along with marketing expenses.

Group premiums are classified usually as first year premiums and the amount of Group premiums is generally in the form of a much larger lump sum than an average Individual policy premium. Also, the IT, administrative and actuarial costs of maintaining group policies are lesser than for individual policies. Thus, a higher focus on group insurance by companies would improve their chances of passing the test of Rule 17D.

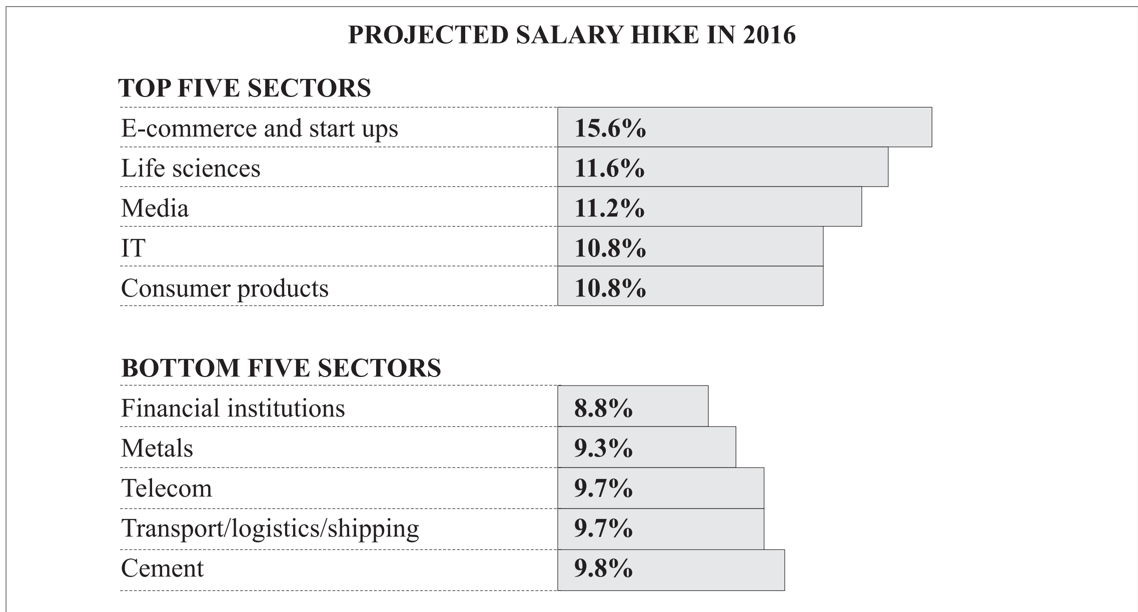
3.3.3 Salary Growth and its Impact of Funding

In India, employee benefit obligations that are termed as 'defined benefits' are the obligations where benefit payable is linked to the employee's last drawn salary or to any of its components at retirement. Thus, the related provision is directly proportional to the salary growth rate- historical and forecasted.

In order maintain the funding ratio (Assets: Liability), employers would need to increase contributions in line with the increasing provisions. Thus, employers who choose to fund this provision would be concerned about a high salary growth rate.

Given the context, India is expected to see an overall projected salary increase of 10.8% as per Towers Watson 2015-16 Asia-Pacific Salary Budget Planning Report. Research also shows that across employee levels, the 'top performers' get higher increases averaging 12.5% while 'above average' and 'average' performers get 11% and 9.7% raises, respectively(India to see a 10.8% salary increase in 2016: Towers Watson, 2015[xxxi]). Deloitte's annual compensation and benefits trends survey FY 2015-16 has also projected a similar rate of 10.7% for 2016 across sectors (Deloitte, 2015[xxxii]). Although the forecast pertains only to the current year, this higher salary is associated with all the past years of service and hence has a significant upward pressure on the provision for defined benefit plans. A high salary growth is expected to persist for some years consistent with a favourable expected GDP growth. Aon Hewitt's India Salary Increase Survey (Figure 3) displays the salary growth rates for ten sectors in 2016.

Figure 3: Projected Salary Hike in 2016 Across Top and Bottom 5 sectors



PROJECTED SALARY HIKE IN 2016

TOP FIVE SECTORS	
E-commerce and start ups	15.6%
Life sciences	11.6%
Media	11.2%
IT	10.8%
Consumer products	10.8%

BOTTOM FIVE SECTORS	
Financial institutions	8.8%
Metals	9.3%
Telecom	9.7%
Transport/logistics/shipping	9.7%
Cement	9.8%

Source: (Nanda, 2016[xxxiii] and edited by authors)

The same survey also states that the attrition has declined from 20% five years ago to 16.3% at present (Nanda, 2016[xxxiii]). Defined employee benefits that are linked to the employee's vintage in an organisation will also be higher to the extent that there is a higher possibility of the employee being eligible for these benefits. The funding could increase in tandem.

In the public sector, the impact of wage revisions (e.g. seventh pay commission) on employee benefits' provision is likely to be significant. For example, an employee drawing a minimum pay of Rs 7,000 would now be eligible for a higher pay of Rs 18,000 as per the Seventh Pay commission. One could approximate the impact of this salary revision on the provision related to the gratuity benefit. For an employee who has rendered five years of service till date, the accrued gratuity liability would stand at Rs 20,192 (i.e. 15/26*5*7,000). At the end of the following year, this accrued gratuity would increase to Rs 62,308 (i.e. 15/26*6*18,000). Thus, although the salary revision has only been 2.57 times, the actual increase in accrued gratuity has been 3.08 times (7th Pay Commission: Govt publishes notification, relief to lakhs of central govt employees, 2016[xxxiv]). Assuming other parameters unchanged across the two years, the provision which is directly proportional to the accrued gratuity, would display a similar increase. Employers would hence need to contribute much more to the fund in order to maintain the funding ratio.

In the context of Indian Public Sector Undertakings (PSUs), the salary escalation assumption employed in actuarial valuation of the enterprises' employee benefit liabilities is around 5-6% per annum. This is in contrast to the much higher salary escalation growth witnessed by these organisations over a sizeable historical period. For example, the actual salary increase in public sector banks shows a CAGR of 11.5% in the last decade (Gupta, et al., 2016[xxxv]). This divergence between the actual and the assumed rate would result in a substantial under-provisioning for the liabilities.

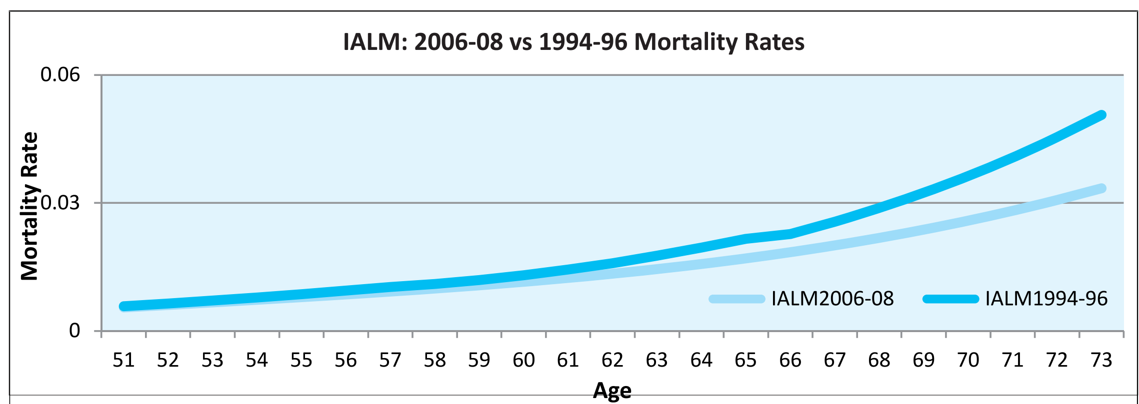
An attempt to even partially remedy this under-provisioning, by increasing the salary escalation assumption to reflect the historical experience, would translate into higher group insurance premiums.

Moreover, a large number of PSUs consider the 'Indian Assured Lives Mortality (1994-96)' table for the mortality assumption in actuarial valuations. These rates are higher than the current mortality table 'Indian Assured Lives Mortality table (2006-08)' [IALM 2006-08 Ultimate]. As a result of improved longevity over time, the older rates result in an under-provisioning in the liability. This is true especially for pension annuities since lesser payments need to be provisioned for in case of a higher mortality assumptions.

A 20% improvement in mortality rates may result in an increase in liability by more than 10% (ignoring impact of salary growth rate and discount rate) (Gupta, et al., 2016[xxxv]).This impact will be even more pronounced, once a revised table reflecting the most recent mortality rates replaces the 'IALM 2006-08 Ultimate'.

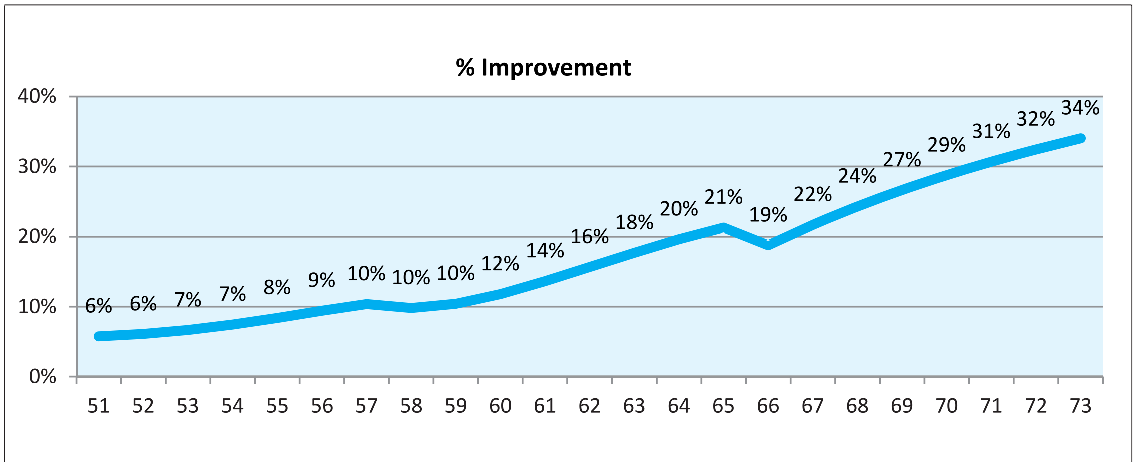
Assuming that PSUs would be desirous of maintaining a similar funding ration, Group premiums are likely to increase.

Figure 4: Indian mortality rates comparison



Source: (Gupta, et al., 2016[xxxv])

Figure 5: Mortality improvement between mortality tables



Source: (Gupta, et al., 2016[xxxv])

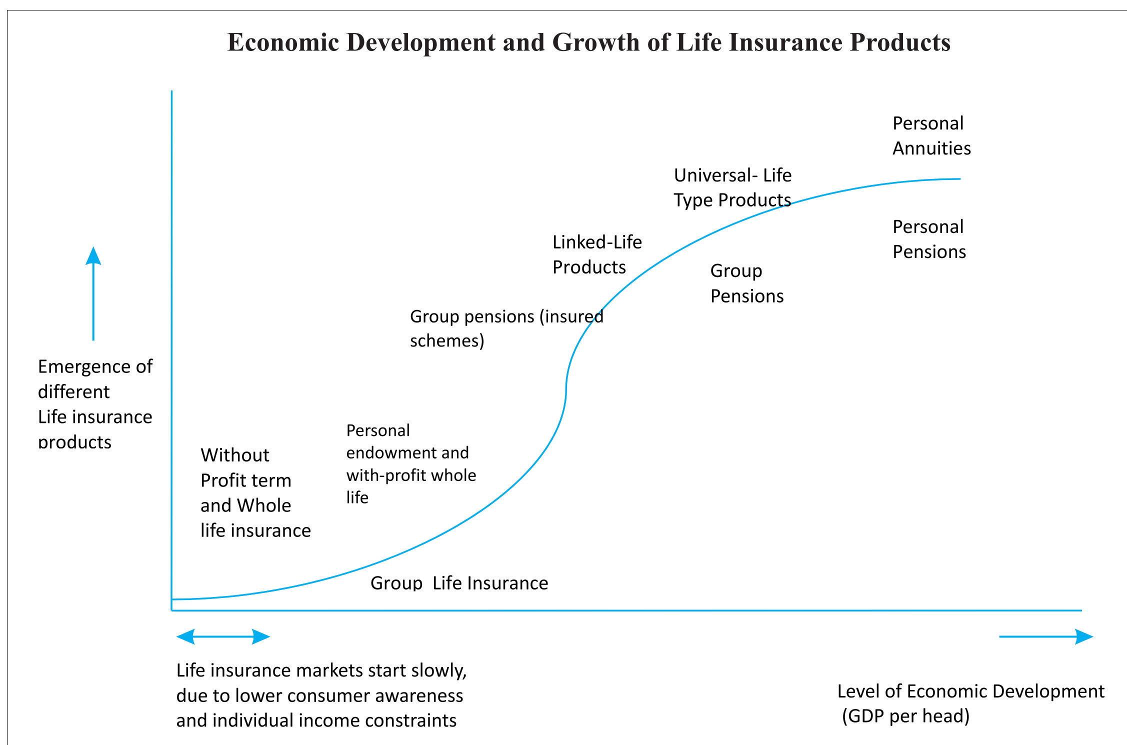
3.3.4 Change in Benefit definition

The funding in the Public and Private sectors will also be influenced by other possible regulatory changes like the increase in the ceiling for the gratuity benefit from Rs 10 lacs to Rs 20 lacs(Ministry of Personnel, Public Grievances & Pensions, 2016[xxxvi]).This will result in a spike in the employee benefit related liability related to past years' of service. A desire to maintain the funding ratio would mean that employers will need to contribute more to catch up with the one-off liability surge. This impending increase in the ceiling is applicable only to Indian government entities and not to the Private sector.

3.3.5 GDP Growth

Although there are many country-specific factors that influence the uptake of insurance products, there are two aspects of product development that have been evident in many countries (Dickinson, 2000[xxxvii]). The first one is that of life insurance products graduate from having a primary emphasis on insurance protection towards a greater savings role, especially saving for retirement purposes. Second, there is a move away from simple products sold either on an individual and group basis to more complex products sold mainly on an individual basis.

Figure 6: Growth Cycle of Life Insurance Products



Source: (Dickinson, 2000[xxvii])

India being a relatively young country (as compared with Japan and UK), is likely to experience a high level of GDP growth over the coming years. Despite the liberalisation of the Private insurance market since the year 2000, it remains largely underpenetrated. Although Group life insurance will continue to be an offering, improving corporate profitability would result in a substantial inclination to fund the retirement benefits of employees. This demand for Group pensions will also be driven by the tax advantages under the Income Tax Act, changes in ceiling and definition of benefits, and assumption setting as the Indian corporate sector moves toward the new IFRS adapted employee benefit accounting standard. All these factors may lead to a consequent increase in Group premiums.

3.3.6 Ind AS 19 (IFRS adapted standard on Employee Benefits)

Indian companies (barring certain exceptions) would adopt the IFRS adapted standards in the near future. With regard to the standard on employee benefits, they would be allowed to route the asset

and liability related volatility through Other Comprehensive Income (OCI). Thus, employers would now be able to reduce the volatility in the Income statement (Ankolekar, et al., 2016[xxxviii]).

Given this accounting treatment, employers are more likely to expose their pension fund investments to riskier asset classes like equity, to match the real nature of their pension liabilities.

In principle, because of the inherent volatility of this asset class, employers would have to target a much higher funding ratio in order to demonstrate commensurate levels of solvency (as compared to investment in safer investments). Higher assets could translate into higher and volatile Group premiums. However, in the context of Indian Defined Benefit Pension plans, there being no minimum funding requirement prescribed by regulatory authorities, this accounting treatment may not provide much impetus to Group premiums. That is, in the case of the funding ratio declining more than expected, employers may not contribute more unless they desire to adhere to a specific funding ratio.

4. Conclusions

4.1 Individual Premiums

- ULIPs witnessed a decline from 2010-2013 due to regulatory changes and loss of public trust. As a result, traditional products have regained focus.
- Average Premium for Regular Individual premium policies grew noticeably in 2014. This is likely to have had a favourable impact on persistency and on the growth of Regular Individual business post 2014.

4.2 Group Premiums

- Annual Group business for FY 2015-16 has increased in absolute terms by 86%over the corresponding figure in FY 2010-11. The trend of growth in Group premiums is expected to continue.
- LIC remained the market leader with a market share of 70% due to a significant growth in Group business. Group new business now comprises 66% of LIC's total new business. This figure was 40% in FY 2010-11.
- Group Insurance Policies are usually renewable each year and hence the Group premiums captured by insurance companies as new business do not provide a further bifurcation between new policies and pre-existing ones. The Group premiums of pre-existing policies are also classified as new business for each of the years following the first, because Group premiums are typically not level across successive years.

- Although Group policies are largely one year renewable policies, the associated premiums are often categorised in to the 'Regular premium' category by some insurance companies while others consider it as 'Single premium'. The lack of uniformity in this classification means that comparability across insurers is compromised to that extent.
- The bifurcation of Group premiums into 'risk premium' and 'investment premium' is not disclosed by insurance companies. Risk business, being of a different nature, is not comparable with the fund business, and thus capturing data at this level would greatly aid the profitability analysis of the group business for insurers.
- Life insurance, funded pension systems and (to a lesser extent) non-life insurance, accumulate sizeable funds over time which could be invested productively in the economy. In developed countries (re)insurers often own more than 25% of the capital markets (Tapen, 2005[xxxix]).
- The increase in MFIs along with Bank's and NBFC's credit growth is expected to translate in to an increased demand for credit term insurance and thus, would favourably impact Group premiums.

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