



PERSISTENCY OF PRIVATE LIFE INSURANCE SECTOR

Mona Jindal

Assistant Professor, S. S. D Women's Institute of Technology, Bathinda.

Abstract

In the recent scenario one of the premium sectors showing upward growth is insurance. Indian life insurance sector is growing at a faster rate. India is the fifth largest life insurance market in the emerging insurance companies globally and is growing year on year. Presently, the life insurance sector controls more than Rs.34,000 crores of deployed capital, over Rs. 18 lakh crores of managed assets and investments in infrastructure exceeding Rs. 2 lakh crores. The present paper studies the recent life insurance scenario of the entire private life insurance sector in India in the light of changes mentioned above. For this purpose, the major indicator i.e persistency in Indian life insurance industry has been analyzed.

The sample for this study includes all the Indian life insurers and it analysis the data of two years from 2012-2013 to 2013-2014.

Keywords: *Life Insurance, Persistency, Renewal, Lapsation.*

Introduction

Life insurance business runs on a principle of long-term association with the customer. Customer sometimes decide not to pay their renewal premium, such a decision would affect the insurance company to a large extent. Insurance industry focus is predominantly only towards new business generation and tend to ignore the renewals and on improving the percentage of renewals.

Review of Literature

Chandrayya (2015) analysed the challenges and opportunities faced in insurance industry. He focused on the need of laying the marketing strategies which fulfills the since launching of a policy till it reaches the hands of customers. Moreover, the new entrants coming in this sector should take pains to understand people's needs and transform their policies accordingly.

Kumar (2014) came up with the fact that Indian life insurance sector is successful in grabbing the customer trust and satisfaction with their existing policy by serving them better, in the form of helping the customers to complete all paper formalities when policy is mature and to build long term relationship with the existing clients. Further, it also help them to re-explain all the terms and advantages of policy so that they are ready to pay their renewal premium.

Singh (2013) highlighted various factors, which insurance companies should consider while formulating their marketing strategies. An analysis found that public & private general insurance companies should devise new & advanced technology life E-CRM to retain their customers. It also suggested to inculcate customer centre orientation in their work culture, mechanize their operations, advertise and promote their services to keep their market share intact in the long run.

Anjor (2014) focused on the fact that delivering quality service is a highly instrumental co-efficient in the aggressive competitive marketing. SERVQUAL model was used to evaluate the impact of service quality on customer satisfaction. The study investigated the relationship between customer expectation and perception of service quality dimensions and customer overall satisfaction of life insurance service quality. This paper found that the expectations are higher than perception in terms of service quality i.e. communication gap and service delivery aspect is the most important factor in terms of customer expectations.

Objectives of the Study

- To evaluate the level of persistency of entire life insurers in Indian insurance industry.
- To analyse the overall industry average and do its comparisons.
- To suggest the measures for improvement.

Research Methodology

The present paper studies the recent life insurance scenario of the entire private life insurance sector in India in the light of changes mentioned above. For this purpose, the major indicator i.e persistency in Indian life insurance industry has been analyzed. The sample for this study includes all the Indian life insurers and it analysis the data of two years from 2012-2013 to 2013-2014.



Analysis of Persistency Level

The term persistency can be defined as “the volume of business that a life insurance company is able to retain”. This can be monitored with the help of calculating the “persistency ratio”. In simple terms it can be calculated by the formulae: No. of Clients Paying the Premium / Net Active Clients * 100. A high persistency rate may be considered as an indication of a highly satisfied customer and effectiveness of fair sales practices and a low persistency means there is “something to look out for” and corrective action is required by the insurance company.

IRDA, from the regulatory viewpoint, introduced some mandatory persistency percentages; it started with a persistency rate of at least 50 per cent to be maintained by the life insurance agents. This percentage was later raised to 75 per cent in the interest of the policyholders and the insurance company. Later the regulator asked the agents to set their own persistency rates.

Persistency clearly comes out as the 5th ‘P of marketing’ for life insurers. The traditional 4 P’s may be important at the customer acquisition stage but this 5th P is of vital significance in customer and product life cycle. Policies in force are not only a source of income but also help price products competitively.

Table 1: Persistency of Life Insurance Policies (Based on Number of Policies)

Insurer	13 Months		25 Months		37 Months		49 Months		61 Months	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
Aegon	49.00	69.74	47.00	47.07	42.00	43.94	22.00	35.61	-	15.05
Aviva	59.00	56.10	41.00	49.20	31.00	43.10	18.00	27.40	-	11.90
Bajaj	48.89	61.57	43.44	48.53	13.95	26.41	7.47	10.38	4.02	3.98
Bharti	45.00	54.28	42.00	47.51	50.00	37.65	36.00	32.86	32.00	30.22
Birla Sunlife	49.00	43.37	49.00	42.55	52.00	48.44	42.00	41.73	40.00	44.38
Canara HSBC	65.00	58.20	84.00	82.70	72.00	72.70	83.00	83.50	-	80.50
DLF Premium	43.64	40.62	41.34	33.08	26.75	24.70	0.00	17.19	-	-
Edelweiss Tokio	46.00	41.60	-	36.80	-	-	-	-	-	-
Exide Life	56.00	55.90	50.00	48.20	38.00	42.30	30.00	36.30	24.00	23.80
Future Generali	39.82	42.44	36.70	33.20	23.35	25.01	14.17	18.10	6.81	14.69
HDFC Standard	69.00	67.61	67.00	65.50	48.00	55.68	34.00	44.01	23.00	24.87
ICICI Prudential	67.00	66.20	63.00	62.50	28.00	47.40	14.00	23.70	10.00	10.70
IDBI Federal	70.00	70.70	61.00	72.06	43.00	73.83	20.00	66.43		43.22
India First	64.00	65.29	61.00	57.17	47.00	50.15	0.00	51.59		
Kotak Mahindra	64.00	70.90	61.00	61.69	38.00	49.43	28.00	31.92	33.00	14.12
Max Life	70.00	76.00	57.00	66.00	42.00	53.00	27.00	38.00	26.00	23.00
PNB Metlife	71.22	50.24	66.33	36.55	63.81	28.03	62.48		61.36	13.41
Reliance	61.52	51.59	53.16	40.88	21.03	24.53	17.87	11.28	21.09	7.33
Sahara	57.00	76.22	50.00	71.46	34.00	59.33	28.00	49.47	24.00	38.88
SBI Life	67.34	67.98	60.36	59.28	36.18	48.52	18.40	25.22	17.02	11.43
Shriram	30.00	48.93	27.00	82.41	9.00	35.02	5.00	76.19	4.00	80.63
Star Union	45.00	43.45	46.00	39.16	35.00	35.13	33.00	48.01		47.43
Tata AIA	49.00	46.85	39.00	43.52	24.00	31.03	21.00	21.06	18.00	16.06
LIC	70.00	59.00	63.00	56.00	58.00	53.00	53.00	49.00	43.00	44.00
Industry average	56.52	57.70	52.58	53.46	38.09	43.84	29.26	38.13	24.21	28.55

Source: IRDA Annual Reports

Life Insurance Persistency Data in India

Private life insurance Company’s data is taken for analysis and the persistency data has been analyzed for 13, 25, 37, 49 and 61 months. It is also compared with the industry average.



13 Month Persistency

13 month persistency is an important parameter to understand whether the policy has been sold with customer interest and whether the policy suits his requirement. Psychologically a person would not discontinue his premium within this short time, if it is happening then there is some serious issue which needs to be investigated. If the policy crosses this persistency mark then there is more possibility that it would stay for a longer time.

From Table 1 following are the observations of 13, 25, 37, 49 and 61 Months

1. 13 month industry persistency is on a decreasing trend. There is a drop in the number of policies in the recent years as shown in table which means that the situation is even worse.
2. Out of the 24 life insurance companies only 12 are above the industry average of 57.70 per cent in 2013-2014.
3. Sahara has the highest 13 month persistency of 76.22 per cent followed by Max Life with 76.00 per cent.
4. 25 month industry persistency is also on a decreasing trend.
5. Out of the 24 life insurance companies only 10 are above the industry average of 57.70 per cent in 2013-14.
6. IDBI Federal has the highest 25 month persistency of 72.06 per cent followed by Sahara with 71.46 per cent.
7. 37 month industry persistency is less than 25 month persistency industry average and it is below 50 per cent in both the years.
8. Out of the 24 life insurance companies only 12 are above the industry average of 43.84 per cent in 2013-14.
9. IDBI Fortis has the highest 37 month persistency by 73.83 per cent followed by Canara HSBC with 72.70 per cent.
10. 49 month industry persistency is less than the 37 month persistency industry average.
11. Out of the 24 life insurance companies only 8 are above the industry average of 38.13 per cent in 2013-14.
12. Canara HSBC has the highest 49 month persistency of 83.50 per cent followed by Shriram Life with 76.19 per cent.
13. 61 months industry persistency is less than 50 per cent in both years and was very low in 2012-13.
14. Out of the 24 life insurance companies only 7 are above the industry average of 28.55 per cent in 2013-14.
15. Shriram Life has the highest 61 month persistency of 80.63 per cent followed by Canara HSBC with 80.50 per cent.

Conclusion

Hence, it can be concluded that persistency improvement is a journey of progressing further, and it is not the last mile of this journey but is a matter of agreeing that covering such steps may just be the first few miles that one have traversed so far. Moreover in this recent times for the insurers, where break even period is extending every year, persistency and related pro-active measures are of and will continue to be of prime importance. Else the business drain through lapsation will act as a double edged sword taking away profits from insurer and reducing the earning of the distributors and the customers.

References

1. Tripathy, N.P. and Pal, P. (2012), "Insurance – Theory and Practice", *PHI Learning Private Limited*, Delhi, ISBN: 978-81-203-2856-3.
2. Uppily, R. (2015), "A Persistency health check of Indian Life Insurance Companies", *The Journal of Insurance Institute of India*, Vol. 3, No. 2, pp: 91-93.
3. Subramanyam, N.V. (2004), "Lapsation of Life Insurance Policies – A Critical Study", *The Journal of Insurance Institute of India*. Vol. 30, pp. 82-93.
4. Srivastava, A., Tripathi, S. and Kumar, A. (2012), "Indian Life Insurance Industry – The Changing Trends", *Journal of Arts, Science and Commerce, International Referred, Research Journal*, Vol. 3No. 3 pp. 93-98.
5. Anjor, P., Ali, S.H., Kumar, M., Verma, V.K. (2014), "Service Quality Assessment: A Study of Consumer Satisfaction in Indian Insurance Sector", *IDSJ Journal of Business and Management*, Vol. 16, No. 3, pp. 340-41.
6. Chandrayya, G. (2015), "Opportunities and Challenges of Insurance Industry in India", *International Journal of Academic Research*, Vol. 2, No. 3, pp. 155-66
7. Kumar, C. (2014), "Changing Scenario of Indian Insurance Sector: A Study on service to Sales Method of Life Insurance Companies in India", *International Journal of Business and Management Invention*, Vol.3, No.2, pp. 7-9.