

Business Performance of Life Insurance Corporation of India: A Study with Reference to Post Insurance Sector Reforms

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ABSTRACT

The wave of economic reforms had its impact on the insurance industry. The Malhotra committee was constituted by the Government to assess the various aspects of the insurance industry. The committee went into the entire gamut of reforms that could be considered for the industry and among its recommendations, it advised opening up of the insurance sector to private players. The key element of the reform process was the participation of Insurance companies though restricted to 26 percent of the capital. With opening up of the insurance sector, many players entered into the insurance market who in turn with their focused approach and need based selling captured significant chunk of the insurance market. In other words, Post-liberalization of insurance sector, the performance of the LIC has undergone sea-change. In the present paper, an attempt has been made to analyze the Business Performance of the LIC after the liberalization of the Insurance Sector.

Keywords: Business, Performance, LIC, Reforms, Policy

1. Introduction

Life insurance is the greatest blessing that modern times have bestowed upon the mankind. It enables men to overcome the barrier of death and also to overcome the fear that his loved ones may someday become dependent upon the charity of others. Life insurance activity in its modern form started in India in 1818 to provide insurance cover for English widows when Oriental Life Insurance Company was incorporated in Calcutta. Thereafter, other companies like Bombay Life Assurance Company in 1823 and Tritron insurance company for general insurance in 1850 were incorporated. The first comprehensive legislation was introduced with the Insurance Act of 1938 to control the insurance business in the country. The main concern was to protect the interests of the insuring public. After independence, the Indian insurance business witnessed fierce competition due to which the non-Indian insurers were dislodged by Indian life insurance companies. Following the decision of nationalization of life insurance business in 1956 by Pandit Jawaharlal Nehru, the then Prime Minister of India, on January 1956, 245 Indian and foreign insurers and provident societies operating in India were taken over by the Central Government by an Act of Parliament, "The Life Insurance Corporation Act, 1956".

The LIC, with a capital of Rs 5 crores was set up in September, 1956. As on 31st March, 2011, it had 8 Zonal Offices, 111 Divisional Offices, 2,048 Branch Offices and 1123 Satellite Offices (SOs).

2. Reforms in the Insurance Sector - Malhotra Committee Recommendations

The first generation economic reforms had profound impact on the Insurance Industry. The Malhotra Committee was constituted by the Government of India in 1993 to examine the various aspects of the Industry. The committee advised opening up of the sector to private players. The major recommendations of Malhotra Committee on the reforms in the insurance sector are as follows:

- A strong and effective Insurance Regulatory Authority is to be setup on the lines of SEBI for the capital market.
- LIC should be registered as a company under the Companies Act, 1956 and its paid up capital has to be increased from Rs 5 crores to Rs 200 crores with Government holding only 50 percent and the rest by the public at large.
- LIC zonal offices should have more powers and there should be greater decentralization of decision and authority along with reorganization of both the central office, zonal offices and branches.

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- The mandatory investment of insurance funds in Government sector should be reduced in stages from 75 per cent to 35 per cent.
- Entry of private and foreign companies may be allowed into insurance business subject to certain guidelines.
- Cooperative sector and postal departments may be permitted to undertake life insurance business.
- All insurance companies have to transact a minimum business from the rural areas.
- Computerization of LIC offices and development of an MIS in all its offices.
- Insurance companies should be free to assign the right job to right surveyors, who are to be trained for the jobs.
- Pension schemes should be linked with savings with some tax relief to the pensioners.
- The institution of ombudsman should be set up to settle disputes on personal claims up to Rs 5 lakhs more quickly and reduce litigations.

Consequent upon the recommendations, the Government passed the Insurance Regulatory and Development Authority Act in 1999. The key element of the reform process was the participation of overseas Insurance companies, which was restricted to 26 per cent of the capital.

3. Need for the Study

With opening up of the insurance industry to private sector, a number of private players such as Bajaj Allianz Life, Birla Sunlife, ICICI Prudential, HDFC Standard Life, ING Vysya Life, MetLife India, SBI Life etc. entered into the market. These players with their focused approach and need based selling

captured significant market share. For instance, the new players after the liberalization of the insurance sector in 1999 captured around 25% of the new business of insurance while the share of LIC declined to around 75% in 2007-08. All the same, its total new business in terms of sum assured which stood at Rs. 91,214 crore in 1999-2000 has increased continuously to Rs.2, 83,764 crores in 2005-06. Subsequently, it has declined and stood at Rs.1,74,044 crores in 2007-08. In case of its new business in rural areas, it witnessed a significant decline in terms of policies and sum assured. In other words, after the liberalization of insurance sector, the performance of the LIC has undergone sea-change. Hence, an attempt has been made to analyse the performance of LIC after the liberalization of the insurance sector.

4. Objective of the Study

The objective of the study is to

- Analyze the business performance of the LIC after the liberalization of insurance sector in terms of new business, rural business, first insurance, business in-force, premium income of LIC of India.

5. Research Methodology

It is a secondary data based research. For the analysis purpose data from 1999- 2000 to 2010-2011 has been considered. Data has been taken from the annual reports and website of LIC of India. Year wise data has been analyzed as a percentage change in India and outside India in comparison to Preceding years.

6. Data Analysis and Interpretation

6.1 New Business Performance - Policies Marketed:

Table 1: No. of Policies Marketed under New Business Individual Insurance (Excluding Annuities)

Year	No of policies In India	No of policies Outside India	Total	Annual growth (Percent)	
				In India	Outside India
1999 00	1,69,76,782	12,648	1,69,89,430	-	-
2000 01	1,96,56,663	7,911	1,96,64,574	15.79	- 37.45
2001 02	2,24,91,304	8,695	2,24,99,999	14.42	9.91
2002 03	2,42,68,416	10,359	2,42,78,775	7.9	19.14
2003 04	2,64,56,320	11,562	2,64,67,882	9.02	11.61
2004 05	2,18,17,967	13,807	2,18,31,774	-17.53	19.42
2005 06	2,92,84,800	13,370	2,92,98,170	34.22	- 3.17
2006 07	2,09,10,041	12,059	2,09,22,100	- 28.60	- 9.81
2007 08	1,79,61,363	10,509	1,79,71,872	-14.10	- 12.85
2008 09	29,322,395	11,121	2,93,33,516	63.25	5.82
	-99.96	-0.04			
2009 10	30,578,367	12,274	30,590,641	4.28	10.37
	-99.96	-0.04	-100		
2010-11	31,445,829	13,553	31,459,382	2.84	10.42
	-99.96	-0.04	100		

Source: Annual reports of LIC of India from 1999-2000 to 2010-11

From the above Table-1, it would be noted that during 1999-2000, the number of policies marketed in India was 16976782 which accounts for 99.93per cent of total policies marketed while the number of policies marketed outside India was 12,648 which constitute only 0.07 per cent of the total policies. The same trend has been observed throughout the study period with negligible variation. The share of policies marketed in India was the highest at 99.96 per cent in 2008-09 and 2010-11 while it was the lowest at 99.86 per cent in 2003-04. The annual growth rate of policies marketed in India varied between a low of (-) 28.60per cent in 2006-07 and a high of 63.25per cent in 2008-09. On the whole, the annual growth rate of policies marketed in India is quite satisfactory in most of the years of the study period. The policies marketed outside India fluctuated during the study

period. For instance, the number of policies marketed outside India has declined to 7911 in 2000-01 from 12,648 in 1999-2000. Subsequently, the number of policies marketed have increased continuously and stood at 13,807 in 2004-05. After that there had been a gradual decline in the policies marketed outside India and stood at 10,509 in 2007-08. Subsequently, the number of policies marketed outside India has increased and finally stood at 12,274 in 2009-10. The annual growth rate of policies marketed outside India is highly erratic and it registered negative growth in 2000-01, 2005-06, 2006-07 and 2007-08. The annual growth varied between the highest negative of (-) 37.45per cent in 2000-01 and the highest positive of 19.42per cent in 2004-05. On the whole, it can be concluded that the number of policies marketed in India is far higher than the policies marketed outside India.

6.2 New Business Performance Sum Assured

Table 2: Sum Assured under New Business Individual Insurance (Excluding annuities)

Year	Sum Assured In India (Rs. Crore)	Sum Assured Outside India (Rs. Crore)	Total (Rs. Crore)	Annual growth (Percent)	
				In India	Outside India
1999 00	91,214.25	276.69	91,490.94	-	---
2000 01	1,24,771.62	179.01	1,24,950.63	36.79	- 35.30
2001 02	1,92,572.27	212.69	1,92,784.96	54.34	18.81
2002 03	1,79,512.22	298.95	1,79,811.17	- 6.78	40.56
2003 - 04	1,98707.12	341.40	1,99,048.52	10.69	14.20
2004 05	1,79,481.39	405.27	1,79,886.66	- 9.68	18.71
2005 06	2,83,763.74	416.10	2,84,179.84	58.10	2.67
2006 07	2,01,620.74	403.71	2,02,024.45	- 28.95	- 2.98
2007 08	1,73,662.72	381.08	1,74,043.80	- 13.87	- 5.61
2008 09	3,63,135.70	466.13	3,63,601.83	109.10	22.32
2009 10	3,96,701.12	456.52	3,97,157.64	9.24	- 2.06
2010-11	443531.71	500.19	444031.90	11.81	9.57

Source: Annual reports of LIC of India from 1999-2000 to 2010-11

From the above Table 2, it is obvious that during 1999-2000, the sum assured under new business in India was Rs. 91,214.25 crores, which accounts for 99.70 per cent while the sum assured outside India was Rs. 276.69 crores, which constitutes 0.30 per cent only. More or less, similar observations have been made throughout the study period with insignificant variations in percentages. The sum assured in India was the highest at 99.89per cent in 2001-02 and 2009-10 and the sum assured outside India remained the highest at 0.30per cent in 1999-2000. The annual growth rate of sum assured in India fluctuated between a low of (-) 28.95per cent in 2006-07 and a high of 109.10per cent in 2008-09. The sum assured under new business outside India has declined to Rs. 179.01 crores in 2000-01 from Rs. 276.09 crores in 1999-2000.

After that it has increased year after year and stood at Rs. 416.10 crores in 2005-06. After that it has undergone fluctuations and finally stood at Rs. 500.19 crore. The annual growth rate of business outside India fluctuated between a low of (-) 35.30per cent in 2000-01 and a high of 40.56per cent in 2002-03. On the whole, it can be concluded that the value of sum assured under new business in India is far more than that of the sum assured under new business outside India.

6.3 Rural New Business

India is predominantly a rural country with a vast rural insurance market. Though, LIC could not tap the total rural insurance market, it has made conscious and sustained efforts to take the message of life insurance to the rural

market especially to the backward and remote areas in order to fulfill one of the main objectives behind nationalizing the LIC.

Table-3 given above depicts the rural business of LIC in

Table 3: Rural New Business of LIC

Year	No of policies (In Lakhs)	Sum assured (In Crores)	Per cent of share of rural new business in total new business	
			Policies	Sum assured
1999-00	97.04	44,168.19	57.50	48.70
2000-01	109.20	59,676.42	55.53	47.76
2001-02	37.02	25,461.94	16.94	13.65
2002-03	45.23	23,574.69	18.90	13.37
2003 - 04	62.20	35,651.99	22.79	17.85
2004 05	55.03	46,037.01	22.97	25.18
2005 06	74.66	60,971.85	21.21	23.65
2006 07	88.50	68,497.21	23.16	22.60
2007 08	90.43	59,694.44	21.67	24.06
2008 09	87.15	73,354.97	24.28	18.81
2009 10	102.50	78,895.11	26.39	18.43
2010-2011	121.25	1,08,948.28	32.76%	23.17 %

Source: Annual reports of LIC of India from 1999-2000 to 2010-11

relation to total business. The rural business of LIC has increased from Rs. 44,168.19 crores under 97.04 lakh policies in 1999-2000 to Rs 59,676.42 crores under 109.20 lakh policies in 2000-01. But in 2001-02, the number of policies as well as the sum assured declined heavily and reached a low of Rs. 25,461.94 crores under 37.02 lakh policies. In the succeeding year, though number of policies increased considerably to 45.23 lakhs from 37.02 lakhs in 2001-02, the sum assured declined to Rs 23,574.69 crores in 2002-03 from Rs 25,461.94 crores in 2001-02. In 2003-04, the sum assured rose to a high of Rs 35,651.99 crores under 62.20 lakh policies. In 2004-05, though the number of policies declined considerably to 55.03 lakhs, the sum assured increased significantly to Rs. 46,037.01 crores. In 2005-06 and 2006-07, both the sum assured and policies increased phenomenally and stood at Rs. 68,497.21 crores under 88.50 lakh policies. In 2007-08, though the sum assured declined to Rs. 59,694.44 crores, the number of policies marketed in rural areas increased to 90.43 lakhs from 88.50 lakhs in 2006-07. In the succeeding year, though the number of policies marketed in rural India declined to 87.15 lakh policies, the sum assured has increased considerably to Rs.

73,354.97 crores. In the last year of the study period, the LIC marketed 121.25lakh policies under a sum assured of Rs. 1,08,948.28 crore. The decline of rural business in relation to total business is due to competition, severe drought conditions and also due to various factors and forces.

6.4 First Insurance (Number of Lives Covered)

The LIC in pursuance of its corporate objectives of providing insurance coverage to more and more people laid greater emphasis on covering individuals who have no previous insurance on their lives.

Table 4: First Insurance Number of Lives Covered

Year	No. of lives (In lakhs)	Annual growth (Percent)
1999 00	125.35	-
2000 01	144.30	15.12
2001 02	162.30	12.47
2002 03	191.80	18.18
2003 - 04	202.42	5.54
2004 05	185.92	(-) 8.15
2005 06	243.65	31.05
2006 07	342.38	40.52
2007 08	355.47	3.82
2008 09	325.84	(-) 8.34
2009 10	340.28	4.43
2010-11	311.51	-8.45

Source: Annual reports of LIC of India from 1999-2000 to 2010-11

Table-4 given above shows the details of first insurance in terms of number of policy holders covered for the period from 1999-2000 to 2010-11. The number of new lives covered under first insurance has increased continuously from 125.35 lakhs in 1999-2000 to 202.42 lakhs in 2003-04. But in 2004-05, the number of new lives covered declined to 185.92 lakhs. After that the new lives covered increased significantly and stood at 355.47 lakhs in 2007-08. Subsequently, the number of people who insured their life for the first time underwent fluctuations and finally stood at 340.28 lakhs in 2009-10. The annual growth rate of lives covered fluctuated between a low of (-) 8.45per cent in 2010-011 and a high of 40.52per cent in 2006-07. Further, it is noticed that the annual growth rate of first insurance is negative in 2004-05 and 2008-09, which can be attributed to the decline in the productivity of agents and also the changes in the preferences of people.

6.5 Business Inforce Policies

Business in force refers to accumulated new business over a period of time and the growth of business in force depends upon the new business procured each year. In view of this, the number of policies marketed under business in force during the period under study is presented in Table-5.

Table 5: No. of Policies Marketed under Business in force

Year	No. of Policies (In Lakhs)	Annual Growth rate (Percentage)
1999 00	1013.89	--
2000 01	1131.11	11.56
2002 03	1388.78	10.33
2003-2004	1539.20	10.90
2004 05	1,630.51	5.87
2005-2006	1,796.63	10.19
2006 07	1895.17	5.48
2007 08	1925.27	1.59
2008 09	2102.53	9.19
2009 10	2261.58	7.56
2010 11	2404.84	6.33

Source: Annual reports of LIC of India from 1999-2000 to 2010-11

From the above Table 5 it is clear that the number of policies marketed under business in force has increased continuously throughout the study period from 1,013.89 lakhs in 1999-2000 to Rs 2404.84 lakhs in 2010-11. The annual growth rate of policies under business in force in India is positive throughout the study period and it fluctuated between a low of 1.59 per cent in 2007-08 and a high of 11.80 per cent in 2001-02. A critical insight into the data reveal that the business in force in terms of policies is fluctuating throughout the study period.

6.6 Premium Income

The premium rate depends on the mortality experience of insured lives, expenses incurred by the Corporation in administering the Life fund and the yield on investments of Life fund. Besides these three, the premium rates may also be affected by other factors like interest and taxation rates and the degree of competition for obtaining life business. While assessing the working results of the Corporation, the most important indicator is the amount of premium collected. The total premium can be classified into two types' namely first year premium and business in force and renewal premium. Premium collected on the new business is called first year premium and premium collected on business in force is called renewal premium.

Table 6: Premium Income of LIC under New Business & Business Inforce

Year	Premium income (New business) (Rs. Crore)	Annual growth (Percent)	Premium income (Business in force) (Rs. Crore)	Annual growth (Percent)
1999 00	6,026.02	-	24,630.37	-
2000 01	8,863.35	47.08	34,207.77	38.88
2001 02	16,022.01	80.77	44,735.64	30.78
2002 03	12,524.22	(-) 21.83	54,101.94	20.94
2003 04	12,564.09	0.32	62,465.13	15.46
2004 05	11,250.69	(-) 10.45	68,838.15	10.20
2005 06	15,183.00	34.95	77,448.43	12.51
2006 07	11,697.66	(-) 22.96	81,521.93	5.26
2007 08	9,897.63	(-) 15.39	79,287.95	(-) 2.74
2008 09	16,878.32	70.53	90,898.53	14.64
2009 10	20,970.79	24.25	1,04,776.20	15.27
2010 11	23,614.07	12.60	1,19,770.54	14.31

Source: Annual reports of LIC of India from 1999-2000 to 2010-2011.

The above Table-6 shows the premium income of LIC under new business for the period from 1999-2000 to 2010-11. The premium income under new business has increased continuously from Rs. 6,026.02 crores in 1999-2000 to Rs. 16,022.01 crores in 2001-02. However, a significant decline is noticed in premium income in 2002-03. But in the succeeding year the premium income under new business increased marginally to Rs 12,564.09 crore. After that the premium income underwent severe fluctuations and finally stood at Rs. 23,614.07 crores in 2010-11. The annual growth rate of premium income under new business varied between a low of (-) 22.96 per cent in 2006-07 and a high of 80.77 per cent in 2001-02. From the above analysis, it can be concluded that the growth rate of premium income under new business is highly erratic.

The premium income under business in force has increased continuously from Rs. 24,630.37 crores in 1999-2000 to Rs. 81,521.93 crores in 2006-07. In the succeeding year, the premium income under business in force declined to Rs. 79,287.95 crores. After that the premium income under business in force has increased continuously and stood at Rs. 104,776.20 crores. The annual growth rate of premium income under business in force fluctuated between a low of (-) 2.74 per cent in 2007-08 and a high of 38.88 per cent in 2000-01. Further, it is noticed that the annual growth rate of the premium income of the LIC is negative in 2007-08.

7. Findings of the Study

- The number of policies marketed in India is higher than the policies marketed outside India.
- The value of sum assured under new business in India is more than the sum assured under new business outside India.
- The decline of rural business occurred to heavy competition and other factors.
- The growth rate of premium income under new business is highly erratic.

8. Suggestions

- The rural market has immense insurance potential because it contributes approximately 55 per cent of the national GDP. Besides this, the rural people have high savings habits and they mostly save in post offices and also in the form of bank deposits. Insurance awareness is poor among rural population due to illiteracy. Even the insurance agents are uninterested to do business in rural areas. Further, infrastructural facilities in rural area acts as an inhibitive factor for the growth of insurance business. Hence, LIC has to approach and educate rural people about the advantages of insurance in terms of investment opportunities and potential life cover. The agents per 1000 people in rural areas is just 0.25, which is very low in comparison to that of their urban counterparts. To tap this rich rural market potential, LIC has to appoint rural insurance agents immediately. Simultaneously, it has to pay higher commission to agents who work in rural areas.
- LIC has to direct its field personnel to concentrate on people who have no insurance on their lives. It is a fact that if the number of policyholders increases, the profitability will be increased. Hence, LIC has to strike a balance between these two elements. In other words, LIC has to design and develop its strategies in such a manner it brings forth more lives under insurance cover so that its profits will be increased.
- Premium income is an important factor in deciding the long-term profitability of insurers. However, it is observed that the average premium income of LIC is quite low. In fact, the premium income of LIC per policy is quite low at Rs 4000 while the average premium income per policy of players such as ICICI prudential, Birla sun life and HDFC standard exceeds Rs 10,000. If the premium income per policy is high, it will be of great benefit to insurers. As such it is suggested that the LIC has to concentrate on improving its premium income, which is possible only by selling policies.

9. Conclusion

The LIC enjoyed absolute monopoly in the life Insurance business till 1999. At this juncture, following the reforms in the capital market and financial sector, the Government initiated reforms in the insurance sector due to various reasons such as an inefficient marketing, poor after sales service, and the inefficiency of the management of LIC. Further, despite its operation with huge funds, the margin of profits is poor. Consequently, the Government of India appointed Malhotra Committee to suggest reforms in the insurance sector. The Malhotra Committee after a thorough study gives recommendations including the opening up of the insurance sector. With the opening up of the insurance sector, large number of companies entered into the insurance market and as on March 2011, around 22 companies had their presence in the insurance market excluding the LIC. However, the insurance industry has grown after the liberalization of insurance sector and along with it, the LIC has also grown but with reduced market share.

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