

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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LIFE INSURANCE CORPORATION IN POST PRIVATIZATION ERA

DR. PRIYANK GUPTA
ASST. PROFESSOR
MIT COLLEGE OF MANAGEMENT
MORADABAD

ABSTRACT

In India, when life insurance companies started operating in the middle of 20th century the evil play natural to all business had its sway. There was a lot of cut throat competition as well as profiteering. The avowed social objection of insurance had been totally relegated to background. As a result, Life Insurance Corporation of India (LIC) came into existence on Last September, 1956 after nationalization of all the 245 companies engaged in life insurance business. From its very inception the Corporation has made impressive growth always striving for further improvement-fire. Marine, Motor, Engineering Liability and other Miscellaneous classes, Deliberations on details pertaining to the Business Interruption insurance, Familiarization with the concepts of "All Risks" insurance and specific applications to Industrial All Risks and Mega Risks insurance packages, However, Government made a paradigm shift in the economic policy by adopting the process of liberalization, privatization and globalization at the end of previous decade.

KEYWORDS

Life Insurance Corporation, Insurance industry.

INTRODUCTION

In India, when life insurance companies started operating in the middle of 20th century the evil play natural to all business had its sway. There was a lot of cut throat competition as well as profiteering. The avowed social objection of insurance had been totally relegated to background. As a result, Life Insurance Corporation of India (LIC) came into existence on Last September, 1956 after nationalization of all the 245 companies engaged in life insurance business. From its very inception the Corporation has made impressive growth always striving for further improvement-fire. Marine, Motor, Engineering Liability and other Miscellaneous classes, Deliberations on details pertaining to the Business Interruption insurance, Familiarization with the concepts of "All Risks" insurance and specific applications to Industrial All Risks and Mega Risks insurance packages, However, Government made a paradigm shift in the economic policy by adopting the process of liberalization, privatization and globalization at the end of previous decade.

The LIC was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance in India, Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. LIC's slogan is Sanskrit "yogakshemam vahamyaham" which translates in English as "Your welfare is our responsibilities". This is derived from the Ancient Hindu text, the Bhagavad Gita's 9th Chapter, 22nd verse. The slogan can be seen in the logo, written in Devanagiri script.

Consequently a committee was set up under the chairmanship of Mr. Malhotra, Ex-Governor of RBI for undertaking various reforms in the insurance sector in the light of new economic policy. The Committee which submitted its report in 1993 recommended the establishment of a special regulatory agency along the lines of SEBI and opening of insurance industry for private sector. This was aggressively opposed by the various trade unions of then operating insurance companies which led to some delay in implementation of Malhotra Committee's recommendations.

The setting up of the Insurance Regulatory and Development Authority (IRDA) was a clear signal of the end of the monopoly in the insurance sector. It has become imperative for LIC to face the competition posed by the entry of new private players. If under this pressure, Life Insurance Corporation of India improves its performance, the whole economy will be benefited. The insurance industry has undergone a drastic change since liberalization, privatization and globalization of the Indian economy in general and the insurance sector in particular. For almost four decades, LIC has been sole player with virtual monopoly in the life insurance sector. The entry of so many companies in this sector was likely to affect the performance of Life Insurance Corporation. Thus the, LIC, public sector giant, which never faced competition earlier, now has to complete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. It becomes imperative at this instance to appraise the performance of Life Insurance Corporation of India, succeeding sectoral reforms. And for evaluating the performance of LIC in progression, key determinants are identified and listed. The present paper is an attempt to examine the performance of LIC of India in this competitive age.

The nationalization of insurance business in the country resulted in the establishment of Life Insurance Corporation of India (LIC) in 1956 as a wholly owned corporation of the government of India.

Following are the objectives of LIC:

- (i) Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes, with a view to reach all insurable persons in the country and provide them adequate financial coverage against death at a reasonable cost,
- (ii) Maximizing mobilization of people savings by making insurance linked savings adequately attractive,
- (iii) Investing funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
- (iv) Meeting the various life insurance needs of the community that would arise in the changing social and economic environment through its Family Schemes and Group Insurance Schemes.
- (v) The above objectives are framed by the LIC at the time of its establishment and it is trying to materialize over the subsequent years. However, the Indian Life Insurance Industry is facing several challenges and issues throughout its career and established strategies to overcome these challenges and issues from time to time. Since the date of its establishment, it has earmarked a steady growth; but many factors affected its abnormal growth and progress."

OBJECTIVES OF THE STUDY

Below mentioned are some of the objectives of the study:

1. To understand the importance of Life Insurance in human life.
2. To know the working of LIC (Life Insurance Corporation).
3. To identify major attributes for the success of plans.
4. To evaluate the operating efficiency of LIC of India.
5. To measure the performance of LIC of India.
6. To evaluate the growth of LIC during the period of the study.

REVIEW OF THE LITERATURE

In order to find out the gaps in research, the literature already available pertaining to the problem is to be reviewed. The literature on life insurance industry in India includes books, compendia, thesis, dissertations, study reports and articles published by academicians and researchers in different periodicals. The review

of this literature gives an idea to concentrate on the unexplored area and to make the present study more distinct from other studies. The literature available is presented below:

1. Mishra, K.C. and Simita Mishra (2000) in their article on "Insurance Industry: Recipe for a Learning Organization" say that like any other industry, insurance industry in India suffers from one challenge repeatable a hundred times, that is the constraints of infrastructure.
2. Balasubramanian, T.s. and Gupta, s.P. (2000) in their book on "Insurance Business Environment" explain at length the global and Indian pictures of Insurance systems. The impact of globalization and also liberalization on insurance business environment is also discussed analytically to have a clear understanding of the challenges faced by the insurance industry.
3. Mitra, Debabrata (2000) in the thesis entitled "Employees and the PSU: A study of their Relationship with Special reference to Jalpaiguri Division of the Life Insurance Corporation of India" opines that the State owned Undertakings provide all sorts of facilities and amenities to employee along with usual emoluments. But, their productive rate is low when compared it with the private sector undertakings. In the jalpaiguri Division, the employee relationship with the LIC is clear and some suggestions are also given in the thesis.
4. Wadikar Ashok Laxaman (2001) in his thesis on "Innovativeness in the Insurance Industries", Ph. D. Thesis submitted to the Department Of Management, University of Pune, Pune, 2001, confirms a general opinion that innovativeness in every activity alone rules and dominates the industry. But, at the same time, the practical and economic justification of that innovativeness is also to be analysed.
5. Balachand Wran, S. (2001) in his book on "Customer Driven Services Management" concludes that the insurance industry is fast growing and mostly becoming a customer driven and customer centric one. He also advocates that when the insurance products are attractive to the customers, then only the insurance industry flourishes in the market and serves its purpose of profit-earning and also income generation.

RESEARCH METHODOLOGY

Data Collection: The present study covers secondary data. Data and information have been extracted from Annual Reports, LIC of India. The researcher has collected 5 years Balance Sheets and Profit & Loss Accounts of the sampled unit. It is also supported by various published journals and literature of the LIC.

Sampling: The Insurance now a days has so many Life Insurance institutions in India; the researcher has selected LIC of India as a sample.

Period of the Study: The period of the study covers from 2005 to 2010 i.e. of 5 years.

Tools & Techniques of the Study: The researcher has used the tools as per the need and type of the study. The information so collected has been classified, tabulated and analysed as per the objectives of the study.

Significance of the study: Life insurance is a very significant factor in human life. The present study gives the perfect knowledge of life insurance and current situation of LIC plans. Life insurance is being considered an important form of social security. In this present worlds human life has become very risky.

DATA ANALYSIS

Life Insurance Corporation (LIC) is doing business of Insurance in India since 1956. By providing insurance, as such it tries to secure the human life value and there by adds further security to the person having insurance policy. As per the type and nature of the data available, researcher has analyzed major five components of the expenses of the sampled unit. All expenses are analyzed through statistical measures. The following table 1 shows the major five variables which are taken for the analysis.

TABLE 1: MAJOR COMPONENTS OF EXPENSES OF LIC (Rs. In Lacs)

YEAR	CLAIMS	%	COMMISSION	%	OPERATING EXPENSES	%	INVESTMENTS 1	%	INVESTMENTS 2	%
2005-06	2992136.56	100	684648.01	100	489231.63	100	16640.43	100	45278642	100
2006-07	3691661.56	123.38	729694.38	106.58	528175.29	107.96	27945.18	167.94	51111283	112.9
2007-08	3858982.79	128.77	715093.24	104.45	518311.03	105.94	29319.63	176.19	60539701	133.7
2008-09	4216774.03	140.93	862108.36	125.92	701378.41	143.36	31950.4	192	63896170	141.1
2009-10	5412910.66	180.9	1054737.9	154.6	932960.54	190.7	35376.27	212.59	83304127	184

Source: Secondary Data

The above table shows the performance of claims paid. Table also indicates that base year (2005-06) amount of claims paid, and in the same line calculated percentages of five years during the period of the study. The highest percentage was in the year 2009-10. The lowest percentage was in the year 2006-07, depicts that year by year amount paid by way of claims get increased. All other components commission paid, operating expenses, investments (Shareholders'), and Investments (Policyholders') are showing upward trend.

The following table 2 depicts the descriptive statistics taking the base year 2005-06 as 100%.

As per data shown in the table, the base year 2005-06 is taken as 100. As compared to this base year, expenses of all other years are showing increasing trend. As all components of the expenses is increasing, but the increase in the operating expenses is much higher than any other component/ variable.

TABLE NO.2: DESCRIPTIVE STATISTICS

Descriptive analysis	Claims	Commission	Operational Expenses	Investment 1	Investment 2
Mean	143.53	122.75	136.99	187.18	142.92
Standard Error	13	13	19.86	9.83	14.93
Median	134.85	116.25	125.66	184.10	137.41
Std. Deviation	25.99	23	39.72	19.66	29.87
Sample Variance	675.72	528.91	1577.39	386.62	892.19
Kurtosis	2.33	0.10	-0.15	-0.81	1.84
Skewness	1.56	1.12	1.07	0.71	1.03
Range	57.32	49.61	84.76	44.65	71.10
Minimum	123.38	104.45	105.94	167.94	112.88
Maximum	180.90	154.06	190.70	212.59	183.98
Sum	573.98	491.01	547.96	748.72	571.68
Count	4.00	4.00	4.00	4.00	4.00
Confidence Level (95 %)	41.36	36.59	63.20	31.29	47.53

The above table reveals that as year by year, expenses are increasing, its standard error is also getting increased. It would result into increase in variances. As operating expenses are increased at a higher rate, its standard error also gets increases faster and its variance (1577.39) is also very high as compared to all other variables.

CHALLENGES BEFORE THE INDUSTRY

The four main challenges facing the insurance industry are product innovation, distribution, customer service, and investments. Unit-linked personal insurance products might be greater acceptability with rising customer awareness about customized, personalized and flexible products. Flexible products and new technology will play a crucial role in reducing the cost and, therefore, the price of insurance products. Finding these markets, having the right product mix through add-on benefits and riders, effective branding of products and services and product differentiation will be some of the challenges faced by new companies.

New age companies have started their business with low product variety. Some of these companies have been able to float 3 or 4 products only and some have targeted to achieve the level of 8 or 10 products. At present, these companies are not in a position to pose any challenge to LIC and all other four companies operating in general insurance sector, but if we see the quality and standards of the products which they issued, they can certainly be a challenge in future. Environment caused by globalization and liberalization, the industry is facing the following challenges.

1. The existing insurers, LIC and GIC, have created a large group of dissatisfied customers due to the poor quality of service. Hence, there will be shift of large number of customers from LIC and GIC to the private insurers.
2. Increased awareness and importance of insurance among public especially in urban areas compels more customized products and pricing methodology as per the needs of the customers.
3. Tariff free regime poses biggest challenge in quoting accurate pricing for the risks covered.
4. Customer expectations and awareness have significantly increased in recent years, particularly in terms of better and speedy service, accurate pricing and customized solutions.
5. LIC may face problem of surrender of a large number of policies, as new insurers will woo them by offering of innovative products at lower prices.
6. There is a likelihood of exit of young dynamic managers from LIC to the private insurers, as they will get higher package of remuneration.
7. LIC has overstaffing and with the introduction of full computerization, a large number of the employees will be surplus. However, they cannot be retrenched. Hence the operating costs of LIC will not be reduced. This will be a disadvantage in the competitive market, as the new insurers will operate with lean office and high technology to reduce the operating costs.
8. Reaching the consumer expectations on par with foreign companies such as better yield and much improved quality of service particularly in the area of settlement of claims, issue of new policies, transfer of the policies and revival of policies in the liberalized market is very difficult to LIC and GIC.
9. Intense competition from new insurers in winning the consumers by multi-distribution channels, which will include agents, brokers, corporate intermediaries, bank branches, affinity groups and direct marketing through telesales and internet.
10. Major challenges in canalizing the growth of insurance sector are product innovation, distribution network, investment management, customer service and education.

SUGGESTIONS

The overall performance evaluation of Life Insurance Corporation of India is consistent. The working groups have been working hard for their functions but still some drawbacks are left behind, for that suggestions are as under:

1. LIC should try to increase their selling of plans to introduce new plans with different kinds of facilities, so that it can increase its income amount, especially premium amount.
2. As private insurance companies capture the market now a day, therefore, LIC should strengthen its working & should launch plans with more facilities.
3. The Corporation should strive to increase its business by issuing more and more policies in order to retain its market share in the competitive scenario.
4. Operating cost as compared to premium underwritten should be controlled.
5. A comparative statement of performance between LIC and various insurance companies may help in increasing the business.
6. A comparative statement of performance of operating expenses of LIC and various insurance companies may help to narrow down the cost.
7. LIC of India should continue making investments, but secured investments should be made.
8. LIC need to find out which attribute of the operating expenses need to be controlled.

CONCLUSION

Global integration of financial markets resulted from de-regulating measures, technological information explosion and financial innovations. Liberalization and Globalization have allowed the entry of foreign players in the insurance sector. With the entry of private and foreign players in the insurance business, people have got a lot of options to choose from. Radical changes are taking place in customer profile due to the changing life style and social perception, resulting in erosion of brand loyalty. To survive, the focus of the modern insurers shifted to a customer-centric relationship.

Opening up the sector will certainly mean new products, better packaging and improved customer service. Both new and existing players will have to explore new distribution and marketing channels. Potential buyers for most of this insurance lie in the middle class. New insurers must segment the market carefully to arrive at appropriate products and pricing.

Over the past three years, around 40 companies have expressed interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. The threat of new players taking over the market has been overplayed. As is witnessed in other countries where liberalization took place in recent years, we can safely conclude that nationalized players will continue to hold strong market share positions, but there will be enough business for entry to be profitable.

LIC has been successfully able to create value for its policyholders. The performance evaluation shows consistent increase in its business. During the period of the study there is no major change in the performance of the LIC. So it clarifies that the performance is unchanged and LIC has maintained the market value of their products. After introduction of IRDA (Insurance Regulatory & Development Authority), LIC has become more conscious for their products. As private players are coming up now a day, competition is increasing and LIC has made efforts to continue its business. Apart from this, LIC need to control the investment level. As above table also reflects that the investment (Policy holders') has this second highest variance, so investment (policy holders') also need to reduce.

Researcher has evaluated the various components of expenses with scientific methodology to justify the performance; so to conclude, LIC is doing good job, managing the products, and related marketing strategies effectively. But as per analysed data we can say that LIC need to control the Operating Expenses, to not affect its income. LIC is pioneer institute in Indian economy; so after IRDA and privatization of insurance sector, the way of achieving the effective result is not smooth task, but LIC has to work.

"The woods are lovely dark and deep, but LIC has to keep promises and miles to go before it sleeps"

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