

# Life Insurance Industry of India – Past, Present & Future (A Study of LIC of India)

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## Abstract

*The Indian Life Insurance Industry has faced many obstacles and challenges to attain its present position. With the change in the consumer perception on life insurance and its awareness and penetration, the industry has witnessed a remarkable growth in its business. A major cause for this upliftment is indeed the acceptance and adaptation of liberalization privatization and globalization (LPG) in the year 1991. After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of competition from many national and international private insurance players. This paper is aimed at examining the status of LIC of India in pre & post liberalized era as well as estimating future trend of insurance business of LIC of India, as to analyze its future position in the day- by- day enhancing competition.*

**Keywords:** Life Insurance, Liberalization, Privatization, Globalization

## I. INTRODUCTION

In a period of less than half a century the insurance sector in the country since independence has come a full circle, from being an open competitive market to complete nationalization and then back to a liberalized market. The setting up of the Insurance Regulatory and Development Authority (IRDA) ended the monopoly of LIC in the insurance sector. It has become imperative for LIC to face the competition post by the entry of new private players. If under this pressure, Life Insurance Corporation of India improves its performance, the whole economy will be benefitted. The LIC- A 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. So it becomes necessary to study the performance of Life Insurance Corporation of India, succeeding sector reforms.

### A. Objectives

1. To analyze the performance and growth of LIC in Pre and Post LPG era.
2. To analyze the future trend of business of LIC of India.

### B. Limitations

1. This data is secondary in nature.

2. As the data is taken from the records of LIC of India So analysis is based on the rendered information from LIC alone.

## C. Research Methodology

Basically, secondary data is used for studies which consisted of published annual reports of the concern years of LIC of India, Website of LIC of India, Website of IRDA, Journals, Magazines of LIC of India and reference books. Figures are taken from annual reports of IRDA and are compiled, tabulated and analyzed.

## II. REVIEW OF LITERATURE

- Peter Drucker (1999)<sup>8</sup> Admitted that by providing financial protection against the measure 18<sup>th</sup> and 19<sup>th</sup> century risk of dying too soon, Life Insurance became the biggest financial industry of that century. “Providing financial protection against the new risk of not dying soon enough may well become that next century’s major and most profitable financial industry”.
- Arora R.S. (2002)<sup>4</sup> highlighted that LIC was likely to face tough competition from private insurers having large established network throughout India.
- Bhattacharya (2005)<sup>5</sup> advocate that Banc assurance provided the best opportunities to tap the large potential in rural in semi-urban area as bank have a strong network of more than forty thousand branches in these areas. He suggested that the insurers should focus on single premium policies, unit linked insurance, pension market and health insurance.
- Kumar Jogendra (2005)<sup>1</sup>, highlighted that private insurance players introduced a wider range of insurance products and sit up brand promotion as part of their new strategy.
- Kulshrestha and Kulshrestha (2006)<sup>3</sup> highlighted that demand for life insurance in rural India was expanding at annual rate of 18% as compared to 3.9% in urban areas which provided good opportunities for insurers to perform.
- Rastogi S. and Sarkar R. (2006)<sup>9</sup>, in their research paper deals with enhancing competitiveness: The case of Life Insurance Industry identifies the cause and objective with which the sector was reformed in 2000.

- Sabera (2007)<sup>6</sup> indicated that the government of India liberalized that the insurance sector in March 2000, which lifted the entry restriction for private insurance players allowing foreign players to enter into the market and start their operations in India. The entry of private players helps in spreading and keeping the operations in the Indian insurance sector, which in turn results in restructuring in revitalizing of public sector companies.
- Chandrasekhar, C.P. (2009)<sup>10</sup>, in his article on “Learning nothing: Forgetting Everything”, observes that the government has been pushing ahead with privatization despite their being no evidence of nationalized insurance industry failing to meet, its obligations to insurers or to the government. The LIC has not only put at the government’s disposals large volume of capitals for investment, but also addressed the problems of insurance for the poor.

**III. HISTORY OF LIFE INSURANCE IN INDIA**

Life insurance in India began in the year 1818, when it was used as a mean to provide insurance to English widows. Later, due to the persuasion of ShriBabuMuttayal Seal, Indians were also covered by the company. By 1868, 285 companies placed themselves into the market of India. But by 1870, 174 companies ceased to exist, when British parliament enacted insurance act 1870 over-viewing the Indian company act 1866. The Indians who were offered insurance covered were treated as sub-standards lives and were accepted with the extra premium of 15% to 20%.

The Bombay Mutual Life Insurance Society established in 1870 was the first company to charge the same premium from both Indians as well as non Indians. The Oriental Life Assurance Company was established in 1880.

Till the end of 19<sup>th</sup> century, the insurance business was preliminary in the hands of foreign companies, but in early years of 20<sup>th</sup> century, a large no. of Indian entrepreneurs brought their companies to the insurance market as to cater the needs of Indians and to regulate it, the Life Insurance Companies Act (1912) was passed. Although for a decade there was a growth in insurance business, it also witnessed some frauds and even after the introduction of first comprehensive legislation in 1938, there was a gross misuse of policy holder’s funds by the insurance companies.

**IV. NATIONALIZATION OF LIFE INSURANCE INDUSTRY (1956)**

In 1956, the government of India merged over 240 private life insurance companies and provident fund societies into one nationalized

corporation and the Life Insurance Corporation of India that is LIC was created. The nationalization was justified on the grounds that the state would be enough better position to manage the resources generated by insurance companies and to use them for nation building purposes. Making insurance reach the rural population and improving the standards of life insurance sector as a whole.

The Malhotra committee appointed in 1999 to examine the structure of the insurance industry had recommended some changes to make it more efficient and competitive and allowed private enterprise to enter the insurance sector for the following reasons:

1. Private players would increase the insurance penetration and awareness.
2. Competition would result in better customer service and help to improve range quality and price of insurance products.

**V. POST NATIONALIZATION TREND**

After getting nationalized the Life Insurance Corporation became a mammoth in life insurance industry and it gave an outstanding performance in achieving the various objectives of nationalization. But still it reach to the 24% of the insurable population which was quite low. So by following the recommendations of Malhotra committee in year 1999, the Indian government finally opened the insurance sector for private players and to regulate the functioning of all insurance companies IRDA was found.

Table 1 shows the achievements of LIC in forty years of its existence.

Growth of LIC between 1959 and 1999 (Pre-Reform Period)

(Being the only life insurance company during that period LIC’s growth of business is quite evident from the table above)

S.NO.	PARTUCULARS	1959	1999
1	Annual Business in Force		
	Sum Assured	336.3 crores	75606 crores
	Polices	800,000	1485700
	Premium	14 crores	4171 crores
2	Group Business In Force		
	Sum Assured	5.29 crores	69558 crores
	No. of Lives	-	21671000
3	Life Funds	41040 crores	127389.06 crores

### VI. GROWTH OF LIC OF INDIA IN POST LPG ERA

No. of Offices of LIC of India in India

<b>Year</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Offices</b>	2186	2190	2191	2196	2197	2220	2301
<b>Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	
<b>Offices</b>	2522	3030	3250	3371	3455	3526	

( Source: Secondary Data Annual Reports of LIC of India)

It is observed that the growth rate of expansion of offices of LIC of India is significant. Till privatization there were 2048 offices of LIC in India, which have reach to 3250 in previous 13 years, which is near about 60% growth. It reflects that inspite of 24 life insurance companies LIC is consistently increasing its market penetration by opening up new branches.

#### No. of Policies Issued

<b>Year</b>	2003-04	2004-05	2005-06	2006-07	2007-08
Policies	269.68	239.78 (-11.09)	315.91 (31.75)	382.29 (21.01)	376.13 (-1.61)
<b>Year</b>	2008-09	2009-10	2010-11	2011-12	2012-13
Policies	359.13 (-4.52)	388.63 (8.21)	370.38 (-4.70)	357.51 (-3.47)	367.82 (2.85)

( Source: Secondary Data Annual Reports of LIC of India)

(Figures in brackets are indicates the growth over previous year)

It is observed in the above table that LIC faced some trouble during the years 2007-08, 2008-09 and in year 2010-11 as they could not able to perform good business in terms of new business policies, it is further observed that the amount of new business policies issued has increased at a CAGR of 3.84% from FY-03 to FY-12.

#### Total Life Insurance Premium (Rs. In crores)

<b>Year</b>	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Premium</b>	49821.91	54628.49 (9.65)	63533.43 (16.30)	75127.29 (18.25)	90792.22 (20.85)	127822.84 (40.79)
<b>Year</b>	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Premium</b>	149789.99 (17.19)	157288.04 (5.01)	186077.31 (18.30)	203473.40 (9.35)	202889.28 (-0.29)	208803.58 (2.92)

( Source: Secondary Data Annual Reports of LIC of India)

(Figures in brackets are indicates the growth over previous year)

The table above depicts that the total premium collected by LIC of India has grown at a CAGR of 13.19% from rupees 49821.91 crores in 2001-02 to rupees 208803.58crores in 2012-13. It is also observed that LIC of India recorded a growth of 2.91% (0.29% decline in previous years) in the total premium under written.

### VII.FUTURE TREND OF LIC OF INDIA'S BUSINESS IN INDIA (SUM ASSURED BASIS)

New Business Figures (Sum Assured)

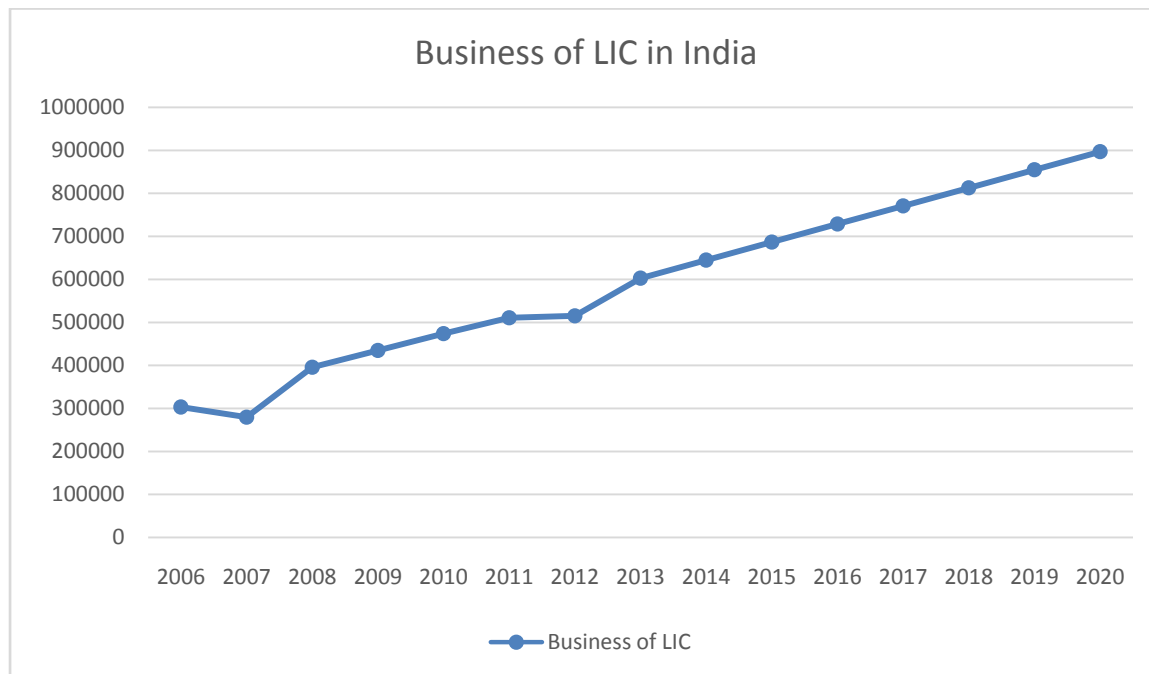
Years (X)	Business in India (Y)	$U=X-A$	$U^2$	$UY$
2006	303213.41	-3	9	-909640.23
2007	279692.59	-2	4	-559385.18
2008	395754.62	-1	1	-395754.62
2009	434775	0	0	0
2010	473989	1	1	473989
2011	510731	2	4	1021462
2012	515247	3	9	1545741
<b>TOTAL</b>	<b>2913402.62</b>	<b>0</b>	<b>28</b>	<b>1176411.97</b>

(By Applying Method of Least squares)

$$Y=A+BX; \quad \sum Y=nA+B\sum X; \quad \sum XY=A\sum X+B\sum X^2$$

i.e.  $Y=A+BU; \quad \sum Y=nA+B\sum U; \quad \sum UY=A\sum U+B\sum U^2 \quad \{\text{Since } U=X-A\}$

### TREND ANALYSIS



#### Interpretation

Based on the middle year 2009, the trend value for the year 2020 can be calculated by using linear function  $Y=A+BX$ , where A and B are constants. If we substitute the value in the trend line equation the expected business (In terms of Sum Assured) for the year 2020 is Rs. 896936.8 crores. It shows that the business of LIC of India in India is in increasing trend.

### VIII. CONCLUSION

After the reforms in insurance sector, life insurance industries have seen a remarkable growth moreover; the policies measures provided a favorable environment for insurance companies to flourish in the country. Till 2013 there were 52 insurance companies operating in India of which 24 are in life insurance business. The share of the life insurance business in total insurance business was very high at 80.2% and it is ranked 10<sup>th</sup> among 88 countries.

LIC has been successfully able to create value for its customers or policy holders. By analyzing the pre and post performances, It is showing a respectable growth in its business. There is enormous potential for life insurance and no doubt that LIC still enjoys immense goodwill in our country. But private players are giving cut throat competition, So LIC has to made more efforts to

enhance its business in terms of technology distribution network, technological innovations, client relationship and quality.

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