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The impact of liberalization, privatization, and globalization (LPG) on Life Insurance Corporation of India (LIC)

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ABSTRACT:-

The Indian life insurance industry has its own origin and history. Since its inception, it has passed through many obstacles, hindrances to attain its present status. The income earning capacity of an individual citizen of a nation and the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry. As a result, wider mass-employment opportunities and sound educational system should be made available. In addition, the general public must be kept abreast of more knowledge and importance of life insurance, as these steps help to boost the growth of insurance industries. In this Indian context, insurance habit among the general public during the independence decade was quite rare and in the following decades, it increased slowly. There was a remarkable improvement in the Indian insurance industry soon after 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 being forced to face a lot of healthy competition from many national as well as international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the mutual fund posed serious challenges to LIC.

Introduction:-

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. The 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 reaching all insurable persons in the country and providing them with adequate financial coverage against death at a reasonable cost. (II) Maximizing mobilization of people's 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. The above objectives are framed by the LIC at the time of its establishment and it is trying to materialize its objectives over the subsequent years. However, the Indian life insurance industry is facing several challenges and issues throughout its career and is establishing meaningful strategies to

overcome these challenges and issues from time to time. Since its establishment, it has earmarked a steady growth, but many factors affected its abnormal growth and progress. They are as follows:
(I) The mega illiteracy percentage.
(II) Improper awareness among the general public regarding the savings.
(III) Least percentage of employment opportunities.
(IV) Lowest wage and salary pattern, etc. When compared with the developed foreign countries, the Indian life insurance industry has achieved only a little because of the followings: lack of quality strategies adopted by the LIC, lack of standard education and awareness about savings, low capital per income and lack of employment opportunities. Since the introduction of new economic policy (LPG) in the year 1991, the shape of the Indian life insurance industry has been changing and it has geared up. Soon after then, many private players have entered into this industry, who poses challenges and threat to its competitors and these new challenges forced the industry to establish colorful strategies and plan for its survival and steady growth.

RESEARCH METHODOLOGY

The research design which has been formed for this research article is descriptive research design. The nature of data which is collected and used for this research article is secondary. The relevant and required data are collected from secondary sources such as text books, national as well as international articles, dailies and annual reports of LIC. The statistical tools which are used in this research study are the method of least squares and linear trend. The method of least square and the future prediction (expected value) are obtained using linear trend.

Objectives

(I) To compare the overall performance of Indian Life Insurance Corporation of India between pre- and post- LPG era. (II) To examine the current status, volume of competitions and challenges faced by the Life Insurance Corporation of India.

Limitations

(I) The data are secondary in nature. (II) As such the data are taken from the records of LIC; the analysis is based on the rendered information from the LIC alone. (III) The suggestions rendered may not be extended to the similar type of agency like LIC

Review of literature

Peter Drucker (1999) admitted that by "providing financial protection against the major eighteenth and nineteenth 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". TS Rama Krishna Rao (2000) opined, "1999-2000 were landmark years in the history of Indian insurance industry. The year 2007 is going to be another watershed for the industry. Detoxification from first January 2007 will totally change the complexion of the non-life industry. Financial inclusion is being emphasized in various fora. The insurance industry will have to play a vital role by providing health insurance and other insurance products for the poor". Jain (2004) revealed, "Waves of liberalization have done wonders to raise the insurance occupation to the status of a career with a bright future. The average mindset, particularly of younger generation in India is very amenable to these changes in insurance, which is as an avenue where exhilarating opportunities are opened up in changed environment". Sukla (2006) reviewed, "the euphoria is well earned and the economic measures of liberalization initiated in insurance sector are well looked at. Six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. It grew from a total premium of Rs.34, 898 crore in the year 2000-2001 to Rs.66, 287.93 crore in 2003-2004, followed by the aggressive achievement posted at Rs.81301.40 crore in 2004-2005. The life insurance industry saw the new players stabilize their operations which were keenly matched by LIC and the premium numbers brought out the fact that the size of the insurance market grew over the six years of liberalization". He also views that with liberalization, India is penning the script of insurance convergence (catch up) and not Insurance divergence (falling behind). Since the opening of insurance industry at 2003-2004, private players have brought 21.87% of their new business, through referrals and direct business, a sign of harnessing the strengths of the competitive market of the respective organization. It clearly indicates the comfort zone of operation of the players. But the real operational efficiency will emerge beyond the boundaries of c.omfort when they will try to expand the market share in the unfamiliar territory. Rao (2007) reported, "Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent detarrification in the non-life domain has provided a great deal of operational freedom to the players". Sabera (2007) indicated, "The Government of India liberalized the insurance sector in March 2000, which lifted the entry restrictions 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 operation in the Indian insurance sector which in turn results in restructuring and revitalizing of public sector companies

Status and position of India life insurance industry in the pre LPG era The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. Life insurance in its modern form came to India from England in 1818 with the formation of Oriental Life Insurance Company (OLIC) in Calcutta mainly by Europeans to help widows of their kin. Later, due to persuasion by one of its directors (Shri Babu Muttyal Seal), Indians were also covered by the company. By 1868, 285 companies were doing business of insurance in India. Earlier, these companies were governed by Indian Company act 1866 and by 1870, 174 companies ceased to exist, when British parliament enacted insurance Act 1870. These companies were however, insuring European lives. Those Indians who were offered insurance cover were treated as substandard lives and were accepted with an extra premium of 15 - 20%.

Conclusion

The data were analyzed using method of least squares. It was found that the business in India and the business outside India as well as the total businesses of LIC are always in an increasing trend. The collected and analyzed data prove that the LPG is incorporating a positive influence on LIC of India and its performance.

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