AN ANALYSIS OF THE GROWTH OF LIFE INSURANCE CORPORATION OF INDIA(LIC) – IN THE CONTEXT OF POST LIBERALIZATION ERA

V. PRABAKARAN, M.Com, M.Phil, MBA, PGDEC, (Ph.D)*

J. M.VELMURUGAN, M.COM, M.PHIL, MBA, (PH.D)**

Abstract:

The history of the Indian insurance sector dates back to 1818, when the Oriental Life Insurance Company was formed in Kolkata. A new era began in the India insurance sector, with the passing of the Life Insurance Act of 1912. The Indian Insurance Companies Act was passed in 1928. This act empowered the government of India to gather necessary information about the life insurance and non-life insurance organizations operating in the Indian financial markets. This paper analysis the performance of LIC of india in terms of number of polices issued, first year premium collected and the profit before tax earned.

* Lecturer, Department of Commerce & Management, Bharathidasan University College – Kurumbalur (p.o)

** Lecturer in Commerce, Department of Commerce & Management, Bharathidasan University College, Perambalur.

Introduction:

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. In the words of a layman, insurance means managing risk. For instance, in life insurance segment, the insurance company tries to manage mortality (death) rates among the wide array of clients. An insurer is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. (1)

The insurance company works in a manner by collecting premiums from policy holders, investing the money (usually in low risk investments), and then reimbursing this same money once the person passes away or the policy matures. The greater the probability for a person to have a shorter life span than the average mark, the higher premium that person has to pay. The case is the same for all other types of insurance, including automobile, health and property.

Ownership of insurance companies is of two types:

1. Shareholder ownership
2. Policyholder ownership

The Indian Insurance Industry:

The history of the Indian insurance sector dates back to 1818, when the Oriental Life Insurance Company was formed in Kolkata. A new era began in the India insurance sector, with the passing of the Life Insurance Act of 1912. The Indian Insurance Companies Act was passed in 1928. This act empowered the government of India to gather necessary information about the life insurance and non-life insurance organizations operating in the Indian financial markets. The Triton Insurance Company Ltd formed in 1850 and was the first of its kind in the general insurance sector in India. Established in 1907, Indian Mercantile Insurance Limited was the first company to handle all forms of India insurance. India insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with the period from 2010 - 2015 projected to be the 'Golden Age' for the Indian insurance industry. (2)

The insurance density stood at USD 54.3 in 2009 (Life USD 47.7 and Non-life USD 6.7) from USD 9.9 in 2000 (Life USD 7.6 and Non-life USD 2.3) and the insurance penetration was 2.32 per cent (Life 1.77 per cent and Non life 0.55 per cent) in the year 2000 when the sector was opened up for private sector. It had increased to 5.20 per cent in 2009 (Life: 4.60 per cent and Non-life: 0.6 per cent). On the basis of total premium income, from the position of having control on the entire life insurance market, the share of LIC declined marginally from 70.92 per cent in 2008-09 to 70.10 per cent in 2009-10. Accordingly, the market share of private insurers had gone up marginally from 29.08 per cent in 2008-09 to 29.90 per cent in 2009-10. (3)

The formation of the Malhotra Committee in 1993 initiated reforms in the Indian insurance sector. The aim of the Malhotra Committee was to assess the functionality of the Indian insurance sector. This committee was also in charge of recommending the future path of insurance in India.

The Malhotra Committee attempted to improve various aspects of the insurance sector, making them more appropriate and effective for the Indian market.

The recommendations of the committee put stress on offering operational autonomy to the insurance service providers and also suggested forming an independent regulatory body.

The Insurance Regulatory and Development Authority Act of 1999 brought about several crucial policy changes in the insurance sector of India. It led to the formation of the Insurance Regulatory and Development Authority (IRDA) in 2000.

The goals of the IRDA are to safeguard the interests of insurance policyholders, as well as to initiate different policy measures to help sustain growth in the Indian insurance sector.

The Authority has notified 27 Regulations on various issues which include Registration of Insurers, Regulation on insurance agents, Solvency Margin, Re-insurance, Obligation of Insurers to Rural and Social sector, Investment and Accounting Procedure, Protection of policy holders' interest etc. Applications were invited by the Authority with effect from 15th August, 2000 for issue of the Certificate of Registration to both life and non-life insurers. The Authority has its Head Quarter at Hyderabad. Detailed information on IRDA is available at their web-sitewww.irdaindia.org

Objective of the study:

The objective of the study is to analyse the growth of life insurance corporation of india during the post liberalizations era. This paper analyses components like growth in premium, new polices issued,

Research Methodology:

Case study method has been used in this study. This study heavily depends on secondary data. The relevant and required data have been collected from secondary sources such as national as well as international research papers, articles, Newspapers and annual reports of IRDA. The factors studied in detail include number of insurance offices, first year premium, number of polices sold and probability of LIC and private companies.

Growth of Life Insurance corporation of India:

As of September 30, 2010, Insurance players have infused more than Rs.30, 000 crore of capital and are a major contributor to economic development, especially infrastructure development. The industry plays a critical role in mobilizing savings, providing risk cover and has played a pivotal role in stabilizing the financial markets. During the global financial crisis of 2008-09, the life insurance industry invested more than Rs.51, 562 crore in the equity market when foreign institutional investors pulled out approximately Rs.. 47,000 crore.

Life insurance premiums generate long-term capital which is required to build infrastructure projects, which have long gestation period. As of September 30, 2010, infrastructure investment by life insurers stood at Rs.1, 44,877 crore. Despite an uncertain environment, the total premium of the life insurance industry increased by 23 per cent to Rs 1,25,254 crore from Rs.1,01,973 crore for the first six months.

The growth in total premium is derived from the increase in new business premium by 60 per cent, backed by strong performance by Life Insurance Corporation.

The growth is all the more noticeable since this period was marked by significant changes in product profile of unit-linked insurance policies. As a consequence of changes made in ULIP policies, there has been an increase in average annual premium and average sum assured per policy. The average premium per policy for non-single product has increased from Rs. 10,233 in September 2009 to Rs.12,887 in September, 2010. Some of the private players might take some more time to get adjusted to the new regulatory framework. Rajesh Sud, Managing Director of Max New York Life, said life insurance companies had contributed significantly to employment generation. LIC officials T.R.Mendiratta and S.Chandrasekhar were also present.

The first year premium of life insurers has decreased 17 per cent at Rs 71,952 crore up to December 31, 2011 compared with Rs 86,697 crore in the year-ago period. The decline in the business of private insurers was higher at 20 per cent compared to the State insurer, Life Insurance Corporation of India, which suffered a 15 per cent dip in the first-year premium. In the non-life segment, the gross premium underwritten grew by 24 per cent at Rs.42,023 core during April-December 2011 as against Rs 33,889 crore in the corresponding quarter of previous financial year, according to flash figures released by the Insurance Regulatory and Development Authority. (4)

The rate of growth in the insurance sector is expected to come down during 2010-11, said J. Harinarayan, Chairman, Insurance Regulatory and Development Authority (IRDA) here on Thursday.Speaking to media persons, he said that though the overall first year premium collection increased, the rate of growth had declined. This could have been due to regulations that came into force three months ago in the insurance industry and also the impact of global and national economic scenario on the sector. The insurance industry registered 23 per cent growth in 2009-10. Growth of Insurance in India has been measured in this study by various parameters according to the available data. These are namely profitability of life insurers ,first year premium and number of policies sold.

(1) **Profit Before Tax**

Table:01-Profit before Tax of LIC of India

S.No.	Year	In India	Out Side India	Total
1	2005-2006	62865.47	292.54	63158.01
2	2006-2007	77115.66	246.37	77362.03
3	2007-2008	84246.01	216.58	84462.59
4	2008-2009	95507.54	227.34	95734.88
5	2009-2010	105879.9	191.78	106071.68
6	2010-2011	116825.15	355.22	117180.37

Source: Annual Reports of LIC

Table – 01 clearly shows that LIC has maintained sustained growth in LICs' profit before tax from the financial year 2005 -06 to 2010 – 11. And also, there have been fluctuations in profit earned before tax eared from outside of India

(2) **First Year Premium Collected**

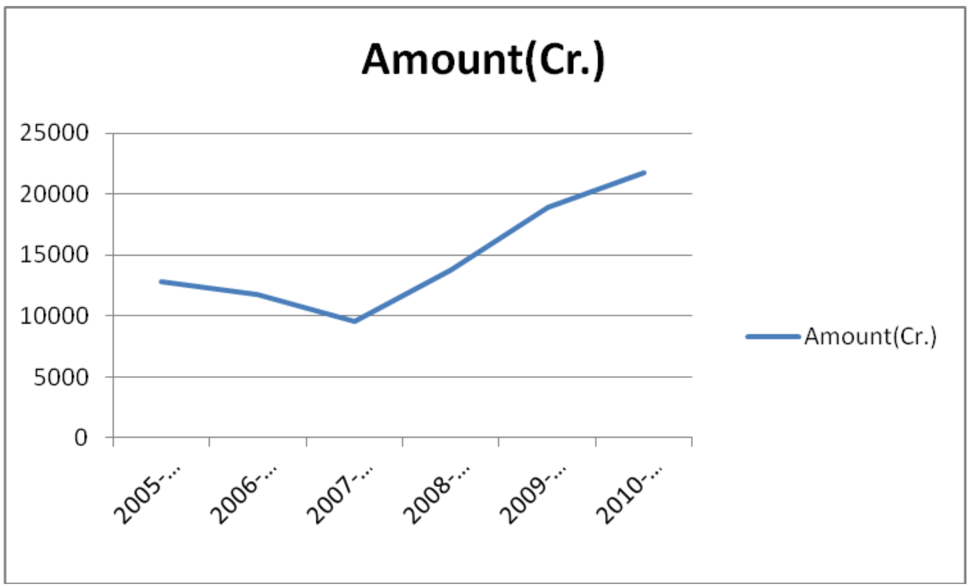
Table:02-First Year Premium(Individual Assurance) of LIC of India

S.No.	Year	Amount(Cr.)	Percentage
1	2005-2006	12805.56	14.46
2	2006-2007	11720.38	13.24
3	2007-2008	9540.81	10.77
4	2008-2009	13791.81	15.58

5	2009-2010	18933.96	21.38
6	2010-2011	21756.38	24.57
	Total	88548.9	100.00

Source: Annual Reports of LIC

Figure:02-First Year Premium(Individual Assurance) of LIC of India



From **Table-02**, it is understood that LIC of India has registered significant growth in terms of First Year premium except in the year 2006 – 07 and 2007 – 08. In the year 2007 – 08, LIC of India met heavy decline in the collection of first year premium (18.60% less than the previous year). However, LIC came up with tremendous collection of first year premium during the financial year 2010 – 11, Rs.21756.38 crore.

(3) **Number of Polices Sold**

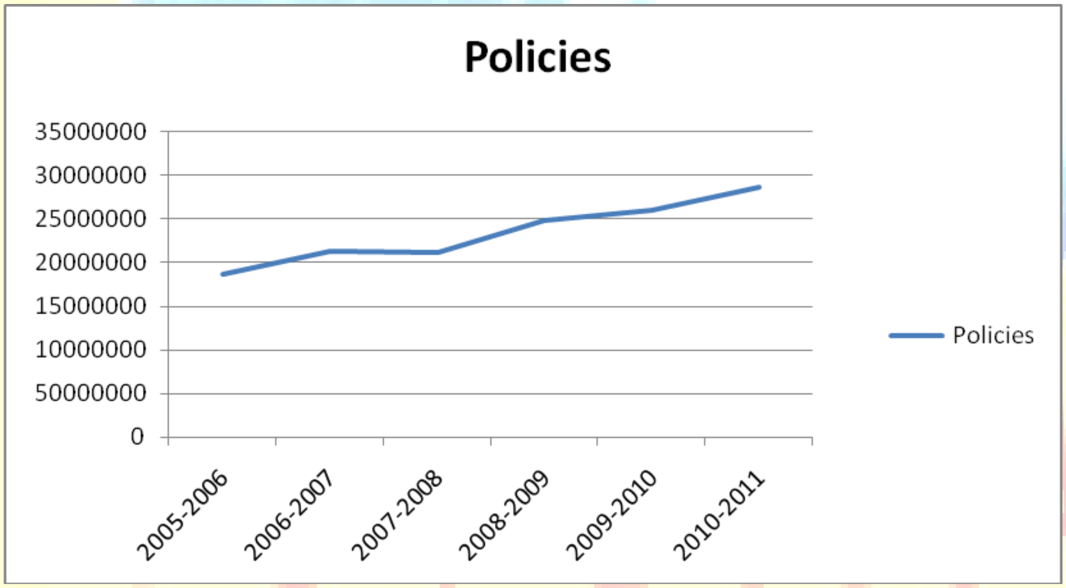
Table:03-Number of Policies Sold by LIC of India

S.No.	Year	Policies	Percentage

1	2005-2006	186500013	13.28
2	2006-2007	212665698	15.14
3	2007-2008	211798999	15.08
4	2008-2009	247539865	17.63
5	2009-2010	259827400	18.50
6	2010-2011	286039752	20.37
	Total	1404371727	100.00

Source: Annual Reports of LIC

Figure:03-Number of Policies Sold by LIC of India



It is felt from Table – 3 that the number of polices sold by LIC of India has seen increase year wise in spite of heavy competition in Indian insurance industry except in the year 2007 – 08.

Conclusion:

Insurance sector has been playing a major role in our nation's economic growth. Life insurance Corporation of India has to be boosted since it's first year premium, last financial year has declined. This has sent a strong meassage to the concern policy makers that this giant financial institution has to be given a healping hand.

References:

- http://en.wikipedia.org/wiki/Insurance
- http://www.economywatch.com/indianeconomy/india-insurance-sector.html
- Praveen Singh and Dr.Divyanegi " Growth of Insurance Services in the Himalayan
- Region of India", the Journal, Vol-1, November – 2011, pp 203
- Business Line dated 26th January, 2012.
- Business Line dated 25, January 2012 measured in this study by various parameters according to the available data.