“The impact of 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 the present status. The income earning capacity of an individual citizen of a nation, the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry. For that they should provide wider and mass-employment opportunities and sound educational system. Moreover, the general public must be inculcated with more knowledge, awareness and importance about life insurance, and these steps help to boost the growth of insurance industries. In the Indian context, the insurance habit among the general public during the independence decade was quite rare and in the following decades, it slowly increased. 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 is 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.

Keywords: life insurance industry, LPG, LIC, India.

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. Following are the objectives of LIC:

- spreading life insurance much more widely, particularly into the rural areas, into the socially and economically backward classes, with a view to reach all insurable persons in the country and provide them with adequate financial coverage against death at a reasonable cost;
- maximizing mobilization of people's savings by making insurance linked savings adequately attractive;
- 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; and
- 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 establishes meaningful 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"[1]. They are as follows:

- the mega illiteracy percentage;
- improper awareness among the general public regarding the savings;
- least percentage of employment opportunities;
- 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 no quality strategies adopted by the LIC, as well as our standard of education and awareness about savings, per capita income, and employment opportunities are comparatively not up to the mark. Soon after 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 pose challenges and threat to its competitors. These new challenges forced the industry to establish colorful strategies and plan for its survival and steady growth.

1. Research methodology

The research design which has been formed for this research article is descriptive research design. The data which are collected and used for this research article are secondary in nature. The relevant and required data are collected from the secondary sources such as textbooks, national as well as international articles and dailies, annual reports of LIC.

The statistical tools which are used in this research article are the method of least squares and linear trend, the method of least square, and the future prediction (expected value) is obtained using linear trend.

Objectives: (1) to compare the overall performance of Indian Life Insurance Corporation of India between pre- and post-LPG era; (2) to examine the current status, volume of competitions and challenges faced by the Life Insurance Corporation of India.

[1] M.N. Mishra (2008). Insurance Principles and Practice. – S. Chand Publishers.

Limitations: the data used are secondary in nature.

As such the data are taken from the records of LIC, the analysis is based on the rendered information from the LIC alone.

The suggestions rendered may not be extended to the similar type of agency like LIC.

2. Review of the 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.

T.S. Rama Krishna Rao (2000) opined that 1999-2000 was a landmark year in the history of Indian insurance industry. The year 2007 is going to be another watershed for the industry. Detariffication from first January 2007 will totally change the complexion of the non-life industry. Financial inclusion is being emphasized at various foras. The insurance industry will have to play a vital role by providing health insurance and other insurance products for the poor.

Dr. A.K. Jain (2004) revealed that "waves of liberalization have done wonders to proper 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 as an avenue where exhilarating opportunities are opened up in changed environment".

A.K. Sukla (2006) reviewed that the euphoria is well earned as well look at the economic measures of liberalization initiated in insurance sector. Six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. From total premium under written 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. 81,301.40 crore in 2004-2005, the life insurance industry saw the new players stabilize their operations keenly matched by LIC and the premium numbers bring 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 opening of insurance industry, in 2003-2004, private players have brought 21.87 percentage 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 comfort when they will try to expand the market share in the unfamiliar territory".

C.S. Rao (2007) reported that "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 that 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".

3. Status and position of Indian 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. 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 sub-standard lives and were accepted with an extra premium of 15% to 20%.

3.1. First Indian company. Pioneering efforts of reformers and social workers like Raja Ram Mohan Ray, Dwarakanath Tagore, Ramatam Lahiri, Rustomji Cowasji and other led to entry of Indians in insurance business. First Indian insurance company under the name "Bombay Life Insurance Society" started its operation in 1870, covering Indian lives at standard rates. Later "Oriental Government Security Life Insurance Company", was established in 1874, with Sir Phirozshah Mehta as one of its founder directors and later emerged as a leading Indian insurance company named "Bombay Life Assurance Society" started its operations in 1870.

3.2. Pre-independence scenario. With the patriotic fervor of Non-Corporation Movement (1919) and

Civil Disobedience Movement (1929), number of Indian companies entered the insurance arena. Eminent figures in political area like Mahatma Gandhi and Pandit Nehru openly encouraged Indians to enter the fray. In 1914 there were only 44 companies, by 1940 this number grew to 195. Business in force during this period grew from Rs. 22.44 crores to Rs. 304.03 crores (1,628,381 polices). Life fund steadily grew from Rs. 6.36 crores to Rs. 62.41 crores. In 1938, the insurance business was heavily regulated by enactment of insurance Act 1938 (based on draft bill presented by Sir N.N. Sarcar in Legislative Assembly in January 1937).

From here onwards the growth of life insurance was quite steady except for a setback in 1947-1948 due to aftermath of partition of Indian. In 1948, there were 209 insurances, with 712.76 crores business in force under 30,16.000 policies. The life fund by then grew to 150.39 crores.

3.3. Nationalization of life insurance (1956). Despite the mushroom growth of many insurance companies per capita insurance in Indian was merely Rs. 8.00 in 1944 (against Rs. 2,000 in US and Rs. 600 in UK), besides some companies were indulging in malpractices, and a number of companies went into liquidation. Big industry houses were controlling the insurance and banking business resulting in inter looking of funds between banks and insurance companies. This shook the faith of insuring public in insurance companies as custodians of their savings and security. The nation under the leadership of Pandit Jawarberlal Nehru was moving towards socialistic pattern of society with the main aim to spread life insurance to rural areas and to channelize huge funds accumulated by life insurance companies to nation building activities. The Government of India nationalized the life insurance industry in January 1956 by merging about 250 life insurance companies and forming Life Insurance Corporation of India (LIC), which started functioning as from 01.09.1956.

3.4. Post nationalization trend. After completing the arduous task of integration of about 250 life insurance companies, the LIC of India gave an exemplary performance in achieving various objectives of nationalization. The following table shows the achievements of LIC in 40 odd years of its existence.

Table 1. The growth of LIC between 1959 and 1999

No.	Particulars	1957	1999
1	*Annual business:* ♦ Sum assured; ♦ Policies; ♦ First year premium.	 336.3 crores; 8,000.00 crores; 14 crores.	 756,06 crores; 148,570.00 crores; 4,171 crores.
2	*Business in force:* ♦ Sum assured; ♦ Policies; ♦ Renewal premium.	 1,477 crores; 56,860.00 crores; 74 crores.	 459,201 crores; 917,260.00 crores; 161,36 crores.
3	*Group business in force:* ♦ Sum assured; ♦ No. of lives.	 5.29 crores; -	 695,58 crores; 216,710.00 crores.
4	*Life fund*	41,040 crores.	127,389.06 crores.

Source: Secondary data – annual reports of LIC.

3.5. Setting-up of IrDA, and the entry of private insurance companies. In spite of phenomenal progress of LIC of India, especially in the 80s, the government and public at large were not quite satisfied with it. By signing GATT accord, the government of India committed to opening of insurance sector to private sector – to local and global operators. A committee under the chairmanship of late R.N. Malhotra (ex-governor of KBI) was appointed by the government to look into all the aspects of insurance industry in India. The committee too, opined that in its about 40 years of existence, LIC had been able to insure only 22 percentage of the insurable population. A moot reason may be the lack of competition. Further, the monopoly has resulted in lack of sensitivity to the policy holders. There is a greater scope for product innovation and service improvement. The committee recommended a number of measures to revamp LIC of India, GIC of India and its four subsidiaries. It also recommended to allow outside insurance companies to operate in India with an Indian partner. After a great deal of discussion, finally the Lok Sabha has enacted the Insurance Regulatory and Development Authority Act, 1999. In terms of the act, the Insurance Regulatory and Development Authority is being set-up to regulate and develop the insurance industry by opening it up to the private sector. Foreign insurance companies can enter into the insurance sector in India only with an Indian partner, as a joint-venture, with a capital contribution up to a maximum of 26 percentage of the capital in the joint-venture.

3.6. Progress of Indian life insurance industry in the post LPG era. In the post LPG period, the Life Insurance Industry of India witnessed a marvellous growth and touched its historical height. So many factors have collectively contributed to this remarkable achievement. In this tenure, the LIC of India introduced many phenomenal business strategies by way of offering colorful schemes and products. The reason for these kinds of extraordinary effect was only because of the stiff competition emerging by the private insurance players. The private insurance companies are offering plenty of new attractive schemes and products to get meaningful share in the insurance market. However, the LIC of India has the powerful network and it is launching attractive advertisements in the regular interval to create great awareness among the general public. Simultaneously, the private life insurance companies are also taking much pain to cover-up the major populations (inventors) under their boundary, for that they are sponsoring series of effective awareness programs through many attractive advertisements. This healthy competition is motivating the general public to go in favor of more investments in insurance. While comparing the efficiency and progressiveness of life insurance business in pre and post LPG arena, the Indian Life Insurance Industries are achieving a magnificent growth.

Table 2. New business of LIC amount in crores of rupees

Year	Business in India	Business outside India	Total business
1957	277.67	5.40	283.07
1963	734.72	11.24	745.96
1970	1,025.80	10.28	1,036.08
1974	2,575.01	11.32	2,586.33
1975	3,100.70	11.73	3,112.43
1976	5,373.02	12.32	5,385.34
1980	7,998.16	11.22	8,009.38
1981	8,787.26	14.41	9,801.67
1984	11,917.20	18.30	11,945.50
1985	13,033.38	22.64	13,056.02
1989	33,473.96	45.74	33,519.70
1990	43,490.34	100.00	43,590.34
2000	80,560.85	199.07	80,754.95
2001	203,049.39	179.01	230,228.40
2002	288,503.80	212.69	288,716.49
2003	292,544.83	298.00	292,842.83
2004	330,819.33	341.56	330,160.89
2005	304,472.12	405.33	304,877.45
2006	465,514.87	416.10	465,930.97
2007	514,227.66	432.78	514,660.45

Source: Secondary Data – Annual Reports of LIC.

4. Analysis and interpretation

4.1. Business of LIC in India.

Table 3. Business of LIC in India

Year (X)	Business in India Y	U = X - A / H	U^2	UY
2001	203,049.39	-3	9	-609,148.17
2002	288,503.80	-2	4	-577,007.60
2003	292,544.83	-1	1	-292,544.83
2004	330,819.33	0	0	0
2005	304,472.12	1	1	304,472.12
2006	465,514.87	2	4	931,029.74
2007	514,227.66	3	9	1,542,682.98
	2,399,132.00	0	28	1,299,484.27

$Y = A + BX$

$\sum Y = nA + B\sum X$

$\sum XY = A\sum X + B\sum X^2$

$Y = A + Bu$

$\sum Y = nA + B\sum U$

$\sum uY = A\sum u + B\sum u^2$

$\sum Y = nA$

$A = \sum Y / n$

$\sum uY = B\sum u^2$

$B = \sum uY / \sum u^2$

$A = \sum Y / n = 2,399,132/7$

$A = 342,733.14$

$B = \sum uY / \sum u^2 = 1,299,484.24 / 28$

$B = 46,410.15$

$Y = A + B (X - 2004)$

$= 342,733.14 + 46,410.15 (2012\text{-}2004)$

$= \text{Rs. } 714,014.35 \text{ crore}$

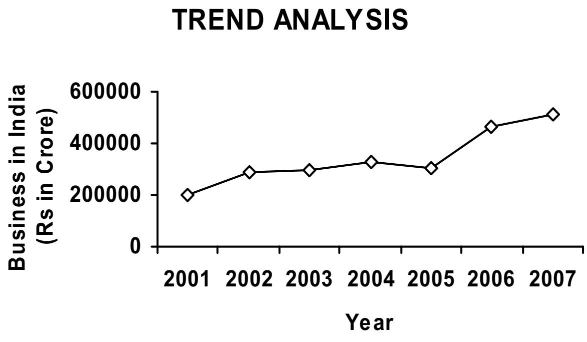

Fig. 1. Trend analysis of business of LIC in India

Interpretation. Based on the middle year 2004 the trend value for the year 2012 can be calculated using the linear function Y = A + Bx, where, A & B are constant.

If we substitute the values in the trend line equation, the expected business in India for the year 2012 is Rs. 714,014,354 crore.

It shows that business in India has an increasing trend.

4.2. Business of LIC outside India.

Table 4. Business of LIC outside India

Year (X)			U2	UY
2001	179.01	-3	9	-537.03
2002	212.69	-2	4	-425.35
2003	298.00	-1	1	-298.00
2004	341.56	0	0	0
2005	405.33	1	1	405.33
2006	416.10	2	4	832.20
2007	432.78	3	9	1,298.34
	2,285.47	0	28	1,275.46

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

$Y = A + Bu$
$\sum Y = nA + B\sum U$
$\sum uY = A\sum u + B\sum u^2$
$\sum Y = nA$
$A = \sum Y/n$
$\sum uY = B\sum u^2$
$B = \sum uY / \sum u^2$

$A = \sum Y / n = 2285.47/7$
$A = 326.50$
$B = \sum uY / \sum u^2 = 1275.46 / 28$
$B = 45.55$
$Y = A + B (X - 2004)$
$Y = 326.50 + 45.55 (2012-2004)$
$= 326.50 + 45.55 (8)$
$= 326.50 + 364.4$
$Y = 690.90$ *crore*

Business outside India for the year 2012 would be Rs. 690.90 crore.

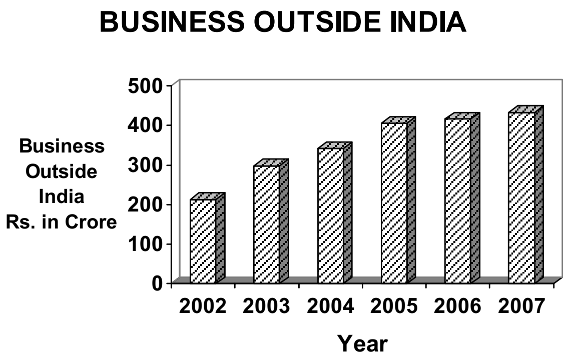

Fig. 2. Trend analysis of business of LIC outside India

Interpretation. Based on the middle year 2004, the trend value for the year 2012 can be calculated using the linear function Y = A + BX, where A & B are constant.

If we substitute the values in the trend line equation the expected business outside India for the year 2012 is Rs. 690.90 crore.

It shows that business in outside India has an increasing trend.

4.3. Total business of LIC.

Table 5. Total business of LIC

Year (X)			U2	UY
2001	230,228.40	-3	9	-690,685.20
2002	288,716.49	-2	4	-577,432.98
2003	292,842.83	-1	1	-292,842.83
2004	330,160.89	0	0	0
2005	304,877.45	1	1	304,877.45
2006	465,930.97	2	4	931,861.94
2007	514,660.45	3	9	1,543,981.40
	2,427,417.50	0	28	1,219,759.70

$$Y = A + BX \qquad\qquad Y = A + Bu$$

$$\sum Y = nA + B\sum X \qquad\qquad \sum Y = nA + B\sum U$$

$$\sum XY = A\sum X + B\sum X^2 \qquad\qquad \sum uY = A\sum u + B\sum u^2$$

$$\sum Y = nA$$

$$A = \sum Y / n$$

$$\sum uY = B\sum u^2$$

$$B = \sum uY / \sum u^2$$

$$A = \sum Y / n = 242{,}741.50 / 7$$

$$A = 346{,}773.93$$

$$B = \sum uY / \sum u^2 = 1{,}219{,}759.70 / 28$$

$$B = 43{,}562.85$$

$$Y = A + BX$$

$$Y = A + B(X - 2004)$$

$$Y = 346{,}776.93 + 43{,}562.85\ (2012\text{-}2004)$$

$$Y = 346{,}773.93 + 43{,}562.85\ (8)$$

$$= 346{,}773.93 + 348{,}502.8$$

$$Y = 695{,}276.73 \text{ crore}$$

Total business for the year 2012 would be Rs. 695,276.73 crore.

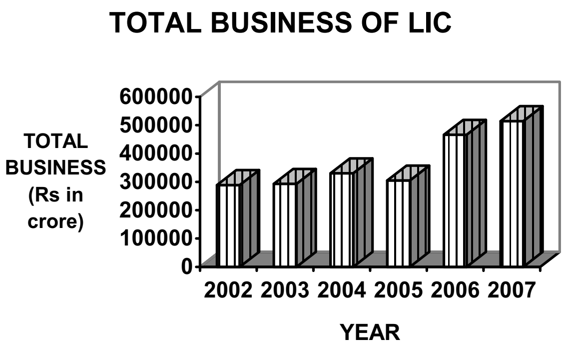

Fig. 3. Trend analysis of the total business of LIC

Interpretation. Based on the middle year 2004, the trend value for the year 2012 can be calculated using the linear function Y = A + BX, where, A&B are constant. If we substitute the values in the trend line equation, the expected total business for the year 2012 is Rs. 695,276.73 crores. It shows that the total business has an increasing trend.

Conclusion

The data were analyzed using method of the least squares. It was found that the business in India, the business outside India as well as the total business of LIC always have 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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