

Growth of LIC of India During Post Privatisation Period

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Abstract

Many a people associate life insurance product with death and not as a tool of investment. Insurance sector was opened to publicise insurance product as a sign of investment. Around 1993, the Government of India decided to undertake structural changes in the insurance sector and took steps to open up this sector for private participation. Consequently, on December 7, 1999 parliament passed the Insurance Regulatory and Development Authority (IRDA) Act which paved the way for granting licences to private sector insurance companies. After privatisation of the insurance sector more than twenty life insurance companies have entered the business. Therefore, monopoly of LIC of India has come to an end and the Corporation has to perform in a competitive environment. The present study is an attempt to examine the growth of LIC of India in the competitive scenario.

Growth of LIC of India During Post Privatisation Period

1. Introduction

Actual opening up of the insurance sector in India was preceded by a serious debate about the pros and cons of liberalisation. The following two questions of policy were discussed: Would privatisation mean only selling of public sector units to private parties? Or would it be possible and advantageous to allow public sector company (LIC) to continue and simultaneously encourage the entrance of private sector? It was concluded that the coexistence of both the public and the private units would definitely benefit the economy. Malhotra Committee on Reforms in the Insurance Sector favoured for mixed arrangement of public and private sector insurance companies. Therefore, India adopted for the latter alternative viz. to generate competition without dismantling the public sector.

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 present study is an attempt to examine the performance of LIC of India in this competitive age.

2. Objectives of the Study

1. To evaluate the growth of LIC during post privatisation period.
2. To analyse the operating efficiency of the Corporation in the competitive environment.
3. To observe the position of LIC in Indian Insurance Industry.

3. Research Methodology

3.1 Scope of the Study

The study includes the number of offices opened by LIC and Insurance Industry, new policies issued by LIC and the industry and the market share of the Corporation in terms of premium underwritten. Besides, commission expenses and operating expenses of LIC have also been included for the analysis of operating efficiency.

3.2 Period Coverage

Insurance sector was privatised in the year 2000, however the present study relates to previous five years i.e. from 2004-05 to 2008-09.

3.3 Data Collection

The present study is based on secondary data. Data and information have been extracted from Annual Reports of IRDA and LIC of India.

3.4 Statistical Tool Employed

The information so collected has been classified, tabulated and analysed as per the objectives of the study. Percentages and Ratios have been used as statistical tools for analysis.

4. Expansion of Offices

Over the last 5 years, LIC has increased its offices by 0.37 times i.e. from 2197 offices in 2004-05 to 3030 offices in 2008-09. On the other hand the industry has increased the offices by 2.93 times i.e. from 3001 offices to 11815 offices during the corresponding period. Therefore, the percentage of LIC offices to total industry offices has declined from 73.21 per cent in 2004-05 to 25.64 per cent in 2008-09. (Table 1)

Table 1**COMPARISON OF LIC OFFICES WITH TOTAL OF INDUSTRY OFFICES**

Year	Offices of LIC	Total Offices of the Industry	Percentage of LIC Offices to Total Offices of the Industry
2004-05	2197	3001	73.21
2005-06	2220	3865	57.43
2006-07	2301	5373	42.83
2007-08	2522	8913	28.29
2008-09	3030	11815	25.64

*Offices opened after seeking approval of the Authority

Note: Office as defined under section 64 VC of the Insurance Act, 1938.

Source: Annual Report of IRDA (Various Issues)

Table 2**DISTRIBUTION OF LIC OFFICES***

Year	Metro	Urban	Semi-urban	Others	Total	Industry Total
2006-07	233 (10.13)	499 (21.69)	797 (34.64)	772 (33.54)	2301 (100)	5373
2007-08	311 (12.33)	468 (18.56)	848 (33.62)	895 (35.49)	2522 (100)	8913
2008-09	338 (11.16)	529 (17.46)	910 (30.03)	1253 (41.35)	3030 (100)	11815

*Offices opened after seeking approval of the Authority

Note: 1) Figures in bracket indicate percentage of total offices of LIC

2) Data collected from life insurers through a special return

3) Based on the HRA classification of places done by the Ministry of Finance

Metro: Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore

Urban: A, B-1 and B-2 class cities of the HRA classification

Semi-urban: C class cities of the HRA classification

Others: Places not listed in the HRA classification

Source: Annual Reports of IRDA (Various Issues)

From the above table, it is clear that majority of the offices of LIC are located either in semi-urban areas or in small towns which are not listed in HRA classification of the Ministry of Finance. Around 70 per cent of life insurance offices of LIC are located in these small towns. As far as total number of offices of LIC is concerned it has increased by 0.31 times from 2301 in 2006-07 to 3030 in 2008-09 whereas the total offices of the industry has increased by 1.19 times. This shows that number of LIC offices has not increased as much as the offices of the industry have increased.

5. New Policies Issued

Table 3
COMPARISON OF NEW POLICIES ISSUED BY LIC WITH
TOTAL POLICIES OF THE INDUSTRY

Year	LIC Policies	Industry Policies	Percentage of LIC Policies to Total Industry Policies
2004-05	23978123 (-11.09)	26211198 (-8.44)	91.48
2005-06	31590707 (31.75)	35462117 (35.29)	89.08
2006-07	38229292 (21.01)	46151566 (30.14)	82.34
2007-08	37612599 (-1.61)	50874157 (10.23)	73.92
2008-09	35912667 (-4.52)	50923377 (0.10)	70.52

Note: Figures in bracket indicate growth rate (in per cent) over previous year.
Source: Annual Reports of IRDA (Various Issues)

Table 3 exhibits that growth rate of new policies issued by LIC has considerably decreased from 31.75 per cent in 2005-06 to 21.01 per cent in 2006-07. Moreover, LIC showed a negative growth for the second consecutive year at 4.52 per cent as against its previous year negative growth to be 1.61 per cent. The percentage of number of new policies issued by LIC to total policies issued by the industry has also decreased from 91.48 per cent in 2004-05 to 70.52 per cent in 2008-09. Apparently, LIC has lost its market share in terms of number of policies issued.

6. Premium Income of LIC

LIC of India recorded a significant growth (97.17 per cent) in First Year Premium income to be Rs. 56223.87 crore in 2006-07 over 28515.87 crore in 2005-06. Thereafter a nominal growth (6.71 per cent) has been observed in 2007-08 over the previous year and recently a negative growth (-11.36 per cent) has been noted in 2009. (Table 4)

Renewal Premium income of LIC shows a normal growth during 2004-05 to 2008-09. The growth rates were nearly constant to be 17.95 per cent in 2004-05, 14.97 per cent in 2006-07 and 15.94 per cent in 2008-09 with the exception of 25.41 per cent in 2007-08. LIC grew its business in terms of Total Premium by 18.25 per cent in 2004-05, 20.85 per cent in 2005-06 and 40.79 per cent in 2006-07. Despite the positive growth, LIC witnessed retardation in the growth recently. The LIC could grow its life business by 5.01 per cent in 2008-09 as against an increase of 17.19 per cent in 2007-08. (Table 4)

Table 4**PREMIUM UNDERWRITTEN AND MARKET SHARE OF LIC**

Years	Premium Underwritten by LIC (Rs. In crore)			Market Share of LIC (In per cent)		
	First Year Premium	Renewal Premium	Total Premium	First Year Premium	Renewal Premium	Total Premium
2004-05	20653.06 (19.05)	54474.23 (17.95)	75127.29 (18.25)	78.78	96.18	90.67
2005-06	28515.87 (38.07)	62276.35 (14.32)	90792.22 (20.85)	73.52	92.82	85.75
2006-07	56223.56 (97.17)	71599.27 (14.97)	127822.83 (40.79)	74.35	89.02	81.91
2007-08	59996.57 (6.71)	89793.42 (25.41)	149789.99 (17.19)	64.02	83.42	74.39
2008-09	53179.08 (-11.36)	104108.96 (15.94)	157288.04 (5.01)	61.12	77.24	70.92

Note: Figures in brackets indicate the growth (in per cent) over previous year

Source: Annual Reports of IRDA (Various Issues)

In terms of premium underwritten, the market share of LIC of India continued to fall by the year 2008-09. Table 4 depicts that market share in First Year Premium income of LIC has declined from 78.78 per cent in 2004-05 to 74.35 per cent in 2006-07 and further to 61.12 per cent in 2008-09. Similarly, decrease in market share of LIC in terms of Renewal Premium income and Total Premium income can be observed from the table. Thus, it can be concluded that LIC has not been able to generate much income by issuing new policies and the existing policies as well.

7. Expenses of LIC

Section 40 B of the Insurance Act, 1938 provides that no insurer shall in respect of life insurance business transacted in India spend as 'expenses of management' in excess of the limits specified in Rule 17 D of the Insurance Rules, 1939. Expenses of management means all charges incurred whether directly or indirectly and include commission payments of all kinds, operating expenses and amount of expenditure capitalised. A major expense head for the life insurers is commission paid to the intermediaries.

Table 5

COMMISSION EXPENSES AND COMMISSION EXPENSES RATIOS OF LIC

Years	Commission Expenses			Commission Expenses Ratios		
	(Rs. In Crore)			(In per cent)		
	First Year	Renewal	Total	First Year	Renewal	Total
	Premium	Premium	Premium	Premium	Premium	Premium
2004-05	3111.61	3091.62	6203.23	15.06	5.67	8.25
2005-06	3630.33	3469.85	7100.19	12.73	5.57	7.82
2006-07	5203.75	3969.82	9173.58	9.26	5.54	7.17
2007-08	4963.81	4650.89	9614.69	8.27	5.17	6.42
2008-09	4783.72	5271.37	10055.09	8.99	5.06	6.39

Note: Commission expenses ratio is the ratio between commission expenses and the premium underwritten by life insurers.

Source: Annual Reports of IRDA (Various Issues)

The commission expenses pertaining to First Year Premium initially increased from Rs. 3111.61 crore in 2004-05 to Rs. 3630.33 crore in 2005-06 and further increased to Rs. 5203.75 crore in 2006-07 thereafter started declining and reached to Rs. 4783.72 crore in 2008-09. It can be concluded that commission paid for the First

Year Premium was initially higher in order to procure new business in the competitive environment of the insurance sector. However, commission expenses related to Renewal Premium has always been increasing from Rs. 3091 crore in 2004-05 to Rs. 3969.82 crore in 2006-07 and further increased to Rs. 5271.37 crore in 2008-09 (Table 5).

The commission expenses of LIC pertaining to total premium income has increased by 62.10 per cent from Rs. 6203.23 crore in 2004-05 to Rs. 10055.09 crore in 2008-09. However, the increase in these expenses was lower than the increase in gross premium collected by LIC of India. As such, the commission expenses ratio (commission expenses as percentage of premium underwritten) marginally declined to 6.39 per cent in 2008-09 from 8.25 per cent of 2004-05 (Table 5).

Table 6
Operating Expenses and Operating Expenses Ratios

(Rs. In crore)

Years	Operating Expenses		Percentage of Operating Expenses of LIC to Total of Industry	Operating Expenses Ratios	
	LIC	Industry Total		LIC	Industry Total
2004-05	6241.26	8470.73	73.68	8.30	10.22
2005-06	6041.56	9611.04	62.86	6.65	9.07
2006-07	7080.86	13600.91	52.06	5.54	8.71
2007-08	8309.32	20298.66	40.94	5.55	10.08
2008-09	9064.29	25723.89	35.23	5.76	11.60

Note: Operating expenses ratio is the ratio between operating expenses and the premium underwritten by the life insurers.

Source: Annual Reports of IRDA (Various Issues).

Operating expenses of LIC, as per cent of gross premium underwritten decreased from 8.30 per cent in 2004-05 to 6.65 per cent in 2005-06 and further to 5.54 per cent in 2006-07. On the other hand operating expense ratio of the industry has also decreased from 10.22 per cent in 2004-05 to 9.07 per cent in 2005-06 and further to 8.71 per cent in 2006-07. It is clear from the analysis that LIC has been able to reduce its operating cost without affecting its business during 2004-05 to 2006-07. Whereas operating expenses ratio of LIC has increased from 5.54 per cent in 2006-07 to 5.55 per cent in 2007-08 and again increased to 5.76 per cent in 2008-09. Operating expenses of the industry has also increased from 8.71 per cent in 2006-07 to 10.08 per cent in 2007-08 and further increased to 11.60 per cent in 2008-09. As the industry continues to expand and companies seek permissions to widen their office network, the Life Insurance Corporation of India is also trying to increase its offices leading to increased operating cost during 2006-07 to 2008-09. (Table 6)

8. Suggestions

- LIC should continue increasing offices in rural areas as majority of the population of India lives in villages.
- 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.
- Operating cost as compared to premium underwritten should be controlled.
- LIC should extensively popularise its insurance schemes among the general public.
- A comparative statement of performance between LIC and various insurance companies may help increase the business.

9. References

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