

A Study to Analyze the Impact of Privatization on LIC of India

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Abstract

The Indian insurance sector has come a full circle, from being an open competitive market to complete nationalization and then back to a liberalized market since independence. 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 compete with the private players, who boast of the rich and long experience of their partners from the developed countries of the world. The Study will highlight, the changes in the insurance environment of India by showing whether, the life insurance industry has been benefitted by government reforms and the impact of privatization on the business, market share and performance of LIC.

Keywords: Insurance, Privatization, nationalization, monopoly.

INTRODUCTION

Insurance has been an integral part of financial service system. It provides financial security of citizens and offers valuable investment advices and serves as an effective step towards both individual and national financial stability. At a micro-level, an insurance policy protects the buyer against financial laws arising from a specified set of risks at some cost. It thus reduces anxiety and promotes financial stability by providing a much needed social security net, especially in times of crumbling family ties and nuclear households in developing countries.

The company i.e. LIC of India, that has been the sole provider of the life insurance service for decades suddenly dropped into an environment of fierce competition. Now, the life insurance market was ready to welcome private players in the market with the objective of insurance penetration, wider choice to the customers, improvement in managerial skills, technology, cost-efficiency, product range and innovation.

Indian Life Insurance Sector before Privatization

Life Insurance Corporation of India (The synonym of Life Insurance in India) has been one of the pioneer organization in India since 1956. It has been rendering its services right from its nationalization. The life insurance market was nationalized in 1956 through the amalgamation of 245 companies. The entity became a government regulated monopoly with a basic objective to create a mechanism through which Indians could generate savings.

Privatization of Life Insurance Sector

The insurance sector in India governed by insurance act, 1938, The Life Insurance Corporation act, 1956 and General Insurance Business act, 1972, Insurance regulatory and Development Authority act, 1999 and other related Acts, with such a large populations and untapped market area of this population, Insurance happens to be a very big opportunity in India. It's Stand at a business growing at the rate of 15 to 20% annually. In spite of all this growth, the statistics of penetrations of the insurance is very poor. Nearly 80% of the populations are without life insurance cover. This is an indicator that growth possibility of insurance sector is immense in India. It is due this scope that the regulations were introduced in insurance sector and "Malhotra committee" was constituted by the government in 1993 to examine the various aspect of the industry, the most important reform was participation of overseas companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirement of economy was the main idea behind this reform. With re recommendations of this committee and formation of IRDA 1999, the insurance sector finally got privatized in year 2000. Since then the life insurance industry has gone through many sea changes.

Till 2013, one public and 23 private life insurance companies were operating in the market, under the regulation of IRDA.

List of Registered Private Life Insurance Companies since Privatization

Table 1

S. No.	Life Insurers	Registration No.	Date of Registration	Year of Operation
1	Life Insurance Corporation of India	512	01.09.1956	1956-57
2	HDFC Standard	101	23.10.2000	2000-01
3	Max New York	104	15.11.2000	2000-01
4	ICICI- Prudential	105	24.11.2000	2000-01
5	Kotak Mahindra Old Mutual	107	10.01.2001	2001-02
6	Birla Sun Life	109	31.01.2001	2000-01
7	TATA-AIG	110	12.02.2001	2001-02
8	SBI Life	111	29.03.2001	2001-02
9	ING Vysya	114	02.08.2001	2001-2002
10	Bajaj Allianz Life	116	03.08.2001	2001-2002
11	Metlife India	117	06.08.2001	2001-2002
12	Reliance	121	03.01.2002	2001-2002
13	Aviva	122	14.05.2002	2002-03
14	Sahara India	127	06.02.2004	2003-04
15	Shriram	128	17.11.2005	2005-06
16	Bharti AXA	130	14.07.2006	2006-07
17	Future General India	133	04.09.2007	2007-08
18	IDBI Fortis	135	19.12.2007	2007-08
19	Canara HSBC	136	16.01.2011	2011-12
20	Aegon Religare	138	27.06.2008	2008-09
21	DLF Pramerica	140	27.06.2008	2008-09
22	Star Union Dai-ichi	142	09.07.2010	2010-11
23	India First	143	05.11.2009	2009-10
24	Edelweiss Tokya	147	10.05.2011	2011-12

Source: Secondary data from Annual Reports of IRDA

OBJECTIVES

1. To know about the formation of LIC of India.
2. To analyze the performance and growth of LIC in Pre and Post LPG era.
3. To analyze the market share of LIC of India and the existing private life insurance companies on the basis of first year premium.
4. To analyze the market share of LIC of India and the existing private life insurance companies on the basis of new policies issued.

HYPOTHESIS

- H₀₁** – There is no significant impact of privatization on the number of policies issued by LIC of India.
H_{a1} - There is a significant impact of privatization on the number of policies issued by LIC of India.
H₀₂ - There is no significant impact of privatization on the total premium underwritten by LIC of India.
H_{a2}- There is a significant impact of privatization on the total premium underwritten by LIC of India.
H₀₃ - There is no significant impact of privatization on the Profit (After Tax) by LIC of India.
H_{a3} - There is a significant impact of privatization on the Profit (After Tax) by LIC of India.

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.

RESEARCH METHODOLOGY

Collection of Data

Secondary data is used for the study 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.

Tools and Techniques Used

The data is collected, tabulated and analyzed by using different tools and techniques like percentage, t-test and

graphical representation as and when needed.

REVIEW OF LITERATURE

- Peter Drucker (1999) Admitted that by providing financial protection against the measure 18th and 19th 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) highlighted that LIC was likely to face tough competition from private insurers having large established network throughout India.
- Kumar Jogendra (2005), highlighted that private insurance players introduced a wider range of insurance products and set up brand promotion as part of their new strategy.
- Kulshrestha and Kulshrestha (2006) 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.
- Sabera (2007) 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), 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 disposal large volume of capitals for investment, but also addressed the problems of insurance for the poor.

LIFE INSURANCE CORPORATION OF INDIA

Life Insurance Corporation of India was formed in September 1956 by an act of Parliament, LIC act 1956 with the contribution of Rs 50 million.

The Then Finance Minister C.D Deshmukh, while piloting the bill for nationalization outlined the objectives of LIC. Thus, “To conduct the business with utmost economy with the spirit of trusteeship; to charge premium not higher than warranted by strict actuarial consideration, to invest the fund for obtaining maximum yield for the policy holders consistent with safety of capital; to render prompt an efficient service policy holders thereby making insurance widely possible”.

Vision of LIC

"A trans-nationally competitive financial conglomerate of significance to societies and Pride of India."

Mission of LIC

"Ensure and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development”.

Aims of LIC of India

Life Insurance Corporation of India has come in to force with the following aims:

- 1) To assure full protection to the lives of policy holders.
- 2) To encourage and mobilize public savings.
- 3) Effective utilization of those savings in different forms of investment for national, economic and infrastructural development.
- 4) To create liquidity position in public.
- 5) To motivate saving habits among the people.
- 6) To provide old age provisions and tax concession benefit.

Important Functions of LIC of India

The following are the important activities of Life Insurance Corporation:

- 1) To ensure absolute security is the first and foremost function to the prospective policy holders of life insurance.
- 2) Underwriting is the important activity of Life Insurance Corporation, i.e., scrutinizing and making decisions on the proposals for the insurance.
- 3) Issuing policy documents to the policy holders for evidence of the insurance contract.
- 4) Life insurance vitally protects the common man by providing cover through individual policies, group schemes and social security schemes.
- 5) Development and prosperity of insurance companies will create employment opportunities in rural and urban areas.

- 6) To make intensive and extensive publicity drives in public for mobilizing insurance business.
- 7) To encourage resource mobilization for development through mopping up of savings and also to have better utilization of those savings.
- 8) To contribute social oriented investment to improve the quality of the society, especially with respect to electricity, water supply, housing and agro based industries.

PERFORMANCE OF LIC OF INDIA: PRE AND POST PRIVATIZATION

Sectorial reforms have brought a drastic change in the Indian life insurance sector. Here, some most important parameters are analyzed and tested to find out the significance of privatization on the life insurance sector which was previously confined up to LIC of India only.

No. of Policies issued by LIC of India Pre and Post Privatization

Table 2 (In Lakhs)

No. of Years	No. of Policies	
	Pre Privatization	Post Privatization
1	57.49	315.91
2	41.88	382.29
3	46.52	376.13
4	54.26	359.13
5	67.88	388.63
6	72.49	370.38
7	67.22	357.51
8	96.62	367.82

Source: Secondary data from Annual Reports of LIC of India

t-test

$$t = \frac{\bar{d}}{s} = \frac{\sum d}{n} = \sqrt{\frac{(d - \bar{d})^2}{n - 1}}$$

Where, \bar{d} = Mean of difference
 s = Standard Deviation of Differences
 n = No. of observation

Interpretation

By applying t-test at 0.05 level of significance on the above data to study the impact of privatization on the number of policies issued by LIC of India, It is found that the calculated value of t is greater than the table value of t. Therefore, the null hypothesis is rejected and alternative hypothesis is accepted.

$$t_{\text{calculated value}} > t_{\text{table value}}$$

$$30.172 > 2.365$$

So, there is a significant impact of privatization on the number of policies issued by LIC of India.

Total Premium underwritten by LIC of India Pre and Post Privatization

Table 3 (In Crores)

No. of Years	Total Premium underwritten	
	Pre Privatization	Post Privatization
1	5946	75127.29
2	7146	90792.22
3	8758	127822.84
4	10385	149789.99
5	12094	157288.04
6	14500	186077.31
7	17066	203473.4
8	20234	202889.28
9	24540	208803.58

Source: Secondary data from Annual Reports of LIC of India

Interpretation

By applying t-test at 0.05 level of significance on the above data to study the impact of privatization on the total premium underwritten by LIC of India, It is found that the calculated value of t is greater than the table value of t. Therefore, the null hypothesis is rejected and alternative hypothesis is accepted.

$$t_{\text{calculated value}} > t_{\text{table value}}$$

$$10.281 > 2.306$$

So, there is a significant impact of privatization on the total premium underwritten by LIC of India.

Profit (After Tax) by LIC of India Pre and Post Privatization

Table 4

(In Crores)

No. of Years	Profit (After Tax)	
	Pre Privatization	Post Privatization
1	4929.13	55181
2	6290.42	70837
3	6306.9	63158
4	8667.53	77362
5	10313.08	84463
6	12801.16	95735
7	14979.9	106072
8	18072.93	117180
9	21556.17	131334
10	26627.68	143759

Source: Secondary data from Annual Reports of LIC of India

Interpretation

By applying t-test at 0.05 level of significance on the above data to study the impact of privatization on the Profit (After Tax) by LIC of India, It is found that the calculated value of t is greater than the table value of t. Therefore, the null hypothesis is rejected and alternative hypothesis is accepted.

$$t_{\text{calculated value}} > t_{\text{table value}}$$

$$11.440 > 2.262$$

So, there is a significant impact of privatization on the Profit (After Tax) by LIC of India.

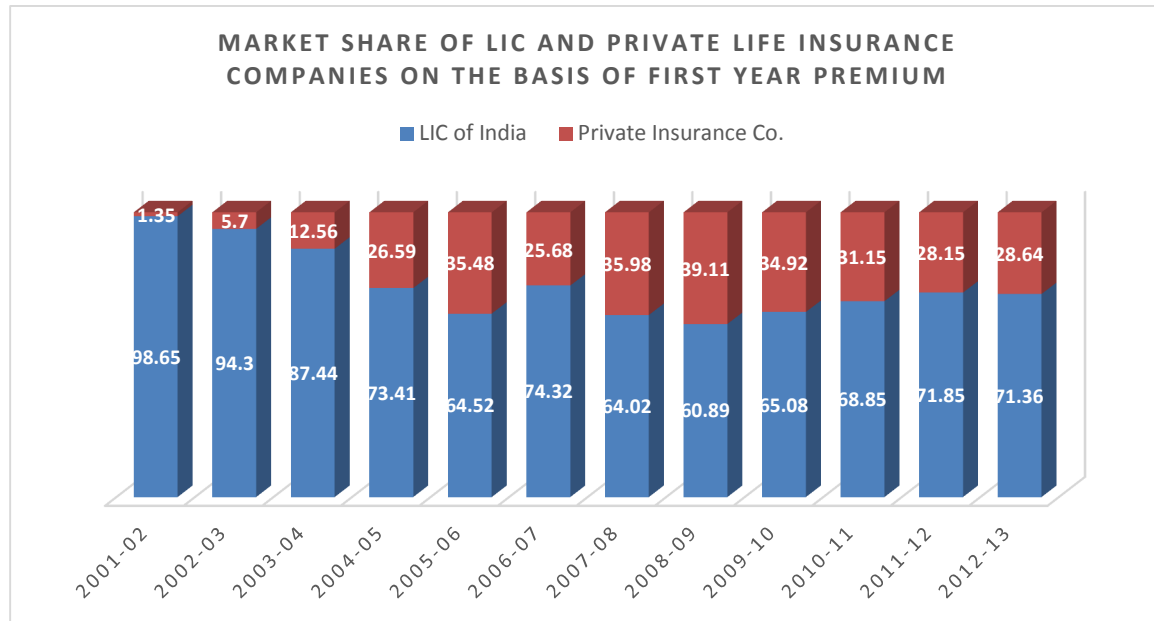
Comparison of Market Share of LIC and Private Life Insurance Companies on the Basis of First Year Premium

Table 5

(In Percentage)

Year	LIC of India	Private Insurance Co.
2001-02	98.65	1.35
2002-03	94.30	5.70
2003-04	87.44	12.56
2004-05	73.41	26.59
2005-06	64.52	35.48
2006-07	74.32	25.68
2007-08	64.02	35.98
2008-09	60.89	39.11
2009-10	65.08	34.92
2010-11	68.85	31.15
2011-12	71.85	28.15
2012-13	71.36	28.64

Source: Secondary data from Annual Reports of IRDA



Interpretation

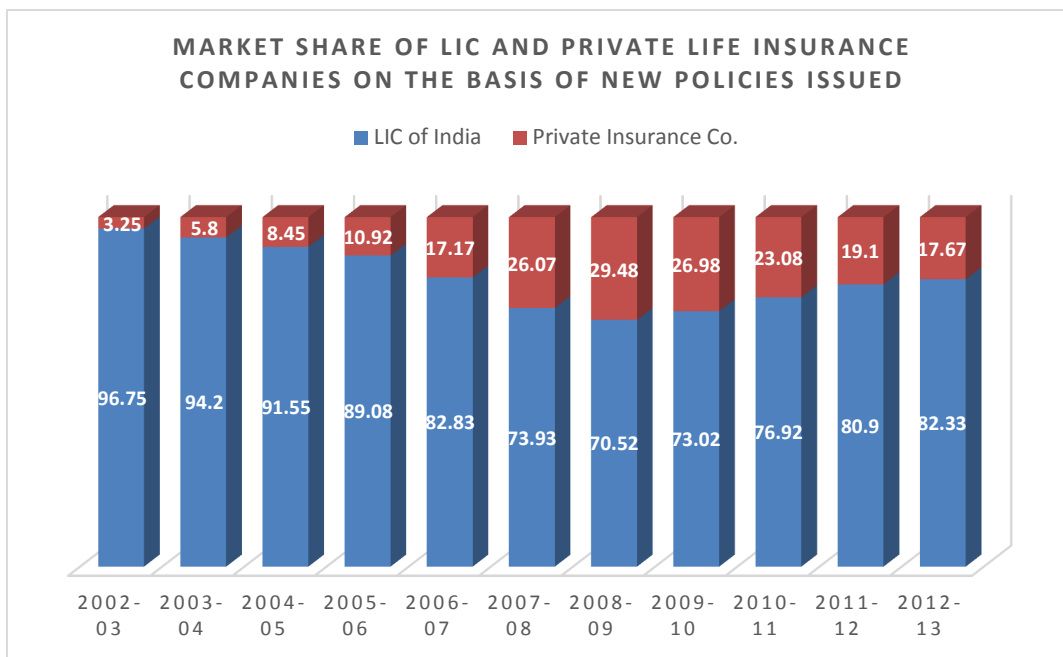
Through the above information it is quite evident that LIC’s market share has been thoroughly affected by the entry of private companies. In the year 2001-02 its market share on the basis of first year premium was 98.65% which reduces to 71.36 %in the year 2012-13. It shows that people of India have started making investment in the private companies as well by overlooking their belief of investing in the most trusted public unit.

Comparison of Market Share of LIC and Private Life Insurance Companies on the Basis of New Policies Issued

Table 6 (In Percentage)

Year	LIC of India	Private Insurance Co.
2002-03	96.75	3.25
2003-04	94.2	5.8
2004-05	91.55	8.45
2005-06	89.08	10.92
2006-07	82.83	17.17
2007-08	73.93	26.07
2008-09	70.52	29.48
2009-10	73.02	26.98
2010-11	76.92	23.08
2011-12	80.9	19.1
2012-13	82.33	17.67

Source: Secondary data from Annual Reports of IRDA



Interpretation

The data analyzed from the above graph reflects that in the journey of past 12 years of all the private companies were acquiring the good market share on the basis of no of policies till 2008-09 but started facing a downfall thereafter with only 17.67 % of the customer base in the year 2012-2013. This would not be out of place to mention that one of the reasons for this downfall could be, that private companies are targeting more on urban sector and high income group customers whereas, LIC has a considerable customer base in rural sector also.

FINDINGS

1. The main objectives of privatization were insurance penetration, wider choice to the customers, cost efficiency, better services, technological advancement and product innovation.
2. It is proved through t-Test that privatization has a significant impact on the no. of policies issued by LIC of India. The average growth rate of new policies issued has reduced in the years taken for study after privatization.
3. There is a significant impact of privatization on the Total premium underwritten of LIC of India.
4. Profit is the biggest parameter of judging any company's status. So it is concluded through the test that there is a significant impact of privatization on the profit earned by LIC of India
5. Market share of LIC on the basis of first year premium has shown a decline, which was 71.36% in the year 2012-13.
6. After privatization, private life insurance companies started expanding their business in the market. So there was a decline in the market share of LIC on the basis of no. of policies issued in the year 2008-09, It reached to its lowest of 70.52% but again shown an upward trend an gained 82.33% of market share in the year 2012-13.

CONCLUSION

After the sectorial reforms, the life insurance industries showed a remarkable growth. The policy measures provided a favorable environment for insurance companies to expand their business in the country. Till 2013 there were 52 insurance companies operating in India of which 24 are in life insurance business. According to the parameters taken for the study, LIC of India is growing in its business but at a lower pace as compared to pre-privatization phase even after capturing a huge customer base.

LIC has been successfully able to create value for its customers or policy holders. 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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