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PERFORMANCE OF LIFE INSURANCE CORPORATION OF INDIA

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ABSTRACT Safety and security has become the prime concern of everybody. Even though India has considerably developed economically, a section of people still feel unsafe and insecure. Insurance has come up as a very important financial service in most part of the world. Insurance is considered as one of the important segments in an economy for its growth and development. This industry provides long-term funds that are essential for the development of basic infrastructure. This industry has witnessed many phases of working, from the days when there were many private sector companies initially and then moved to nationalization, and again to the private sector.

Life Insurance Corporation of India is a unique institution which provides service catering to the needs of the people in the various strata of the society. In recent years, the Life Insurance Corporation is subject to public criticism since it has failed to achieve the objectives for which it was primarily established. The emergence of public criticism is mainly due to the advent of many insurance schemes like insurance - linked bank deposit, postal insurance and the high rate of interest in the money market.

KEYWORDS : LIC, IRDA, Global Performance, Investment, Privatization, etc,.

INTRODUCTION

The service sector remains the principal driver of the Indian economy. In the service sector, insurance is a major contributor to the financial savings of the household sector of the country and further such savings are channelized into various investment avenues. The Life Insurance Corporation India is the Premier life insurer and one of the most stable financial institutions in the country. The LIC has been striving hard to spread the life insurance message to every nook and corner of the country. During the fifty years of its existence, it has managed to grow into a giant. The Indian insurance sector was opened for private players when the Government of India enacted the Insurance Regulatory and Development Authority Act in 1999. The first private insurance company was registered with the IRDA in October, 2000 and it started operations shortly by closing the 44 years of public sector monopoly. Since then, many more private companies have been registered bringing a total number to thirteen as on March 31, 2004, all of which are joint ventures between major business houses or banks in India and renowned international insurance giants.

Now insurance sector in India is a challenging one. There is a stiff competition among the different insurance players. The LIC of India is also seriously competing with other private players. In a way private players are trying to capture the market of the LIC of India, which was enjoying a monopoly position for a long period of time.

G1OBAL PERFORMANCE OF LIC

As per Swiss Re, global insurance premium in the calendar year 2008 were USD 4270 billion which is slightly higher than the USD 4128 billions in 2007. Life business accounted for USD 2491 billions and non life insurance accounted for the remaining USD 1779 billions. In underwriting results of non-life insurance business remained comfortable, investment income and return on equity fell sharply in both life and non-life insurance. The financial crisis and the economic down turn severely impacted sales of single premium products and unit - linked products. The profitability of life insurers deteriorated in 2008 due to low investment yields, high cost of guarantees and low revenues from asset management fees. Solvency was impacted and access to capital became difficult.

The -3.5 percent fall in global life insurance premium can be attributed to a decline in the industrialized countries (-5.3 percent) and double - digit growth in the emerging markets (+15 percent). Non - life premium declined marginally by -0.8 percent in 2008 due to slower demand for cover and softening premium rates. Premium declined by 1.9 percent in the industrialized countries, but the growth is still positive in the emerging markets (+7.1 percent). Insurance penetration (insurance premium as percent of GDP) measures the level of insurance activity relative to the size of the economy. As GDP per capital rises, it is expected that individuals will purchase more insurance.

PERFORMANCE OF LIC OF INDIA

The performance of the insurance sector in the financial year 2008-09 was largely influenced by the sub-prime crisis. As the global economy entered a phase of synchronized recession, the Indian economy experienced a distinct moderation in real GDP growth reflecting a creeping contagion from the global crisis as well as slackness in cyclical growth impulses. In relation to the record average growth of 8.8 percent achieved during 2007-08, 6.7 percent growth in 2008-09 represents a notable deceleration, though in terms of growth performance of major countries around the world, Indian growth remained one of the highest. India with its huge middle class households, has exhibited growth potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance major. The insurance market in India has witnessed dynamic changes including entry of a number of global insurers. The growth of the LIC of India can be assessed in terms of number of new policies issued, sum assured, annual premium, productivity of agents, claim settlement, and commission paid.

The LIC is striving hard to increase its new business at a very rapid speed. It receives new business within and outside the country every year. It is ascertained the growth was high in the year 2005-06 (31.75 percent). There was negative growth in the years 2004-05, 2007-08, and 2008-09. In all the other years, growth was high. The compound growth rate of the number of new business policies issued by the LIC of India was 9.25 percent, which shows a good performance. Performance of LIC of India was also assessed in terms of sum assured.

The annual premium collected by LIC of India for new business was fluctuating from the year 1999 - 2000 to 2008 - 2009. There was a rise in premium collection during the year 2001-2002 by 80.85 percent over the previous year. Negative growth was recorded in 2002 - 03 by -21.89 percent, 2004 - 2005 by - 5.42 percent, 2007 - 08 by -0.21 percent, and 2008 - 09 by -14.14 percent. The compound growth rate of annual premium collected for new business was 13.64 percent and it was a remarkable growth performance of the LIC of

India. Performance of the LIC of India can also be assessed with the help of the number of active agents from 1999-2000 to 2008-09. Productivity of active agents has been constantly increasing. Sum assured per agent is the ratio between the sum assured for new business and the total number of active agents per annum.

The number of active agents increased from 683190 in the year 1999-2000 to 1275 611 in the year 2008-09. Maximum sum assured per active agent was 3 102471 in the year 2008-09. Sum assured per agent was fluctuating year after year due to the advertising effect, sales promotional strategies followed by agents. The compound growth rate of the number of active agents was 6.47 percent. There was a remarkable growth of agents who are actively participating in the marketing performance of the LIC of India. Timely payment of claims to claimant is an important activity of the LIC. Efficiency of an insurance company depends upon the settlement of claims. Claim is the return promise against the premium paid to the insurer.

PRIVATIZATION OF LIFE INSURANCE SECTOR IN INDIA

Scenario before privatization The Life Insurance Corporation of India was the only player in the field and enjoyed absolute monopoly. It had a vast infrastructure throughout the country. Due to lack of competition, the organization was very complacent. Its product lacked innovatory approach. Mainly money back policies and the policies which generated more commission for the agents were mostly sold. Most of the business was procured by agents who were not professionally trained and lacked knowledge / expertise to propagate the philosophy of life insurance. Due to this handicap, the Life Insurance Corporation of India' policies were perceived by the public as an income than saving instrument. A glance at the business profile reveals that 75 percent of the business was generated in the months of January, February and March while remaining 25 percent of the business was procured in the remaining nine months. Life Insurance Policy was also perceived as an instrument of investment for earning return and was compared with the other financial investment avenues. The real worth of life insurance which included risk coverage was not appreciated. Lack of correct appreciation had been responsible for low response. It will be relegation for many to know that 10 percent of the agents procured 90 percent of the business and the remaining 90 percent of the agents procured the remaining 10 percent of the business. Most of the agents did the job on part time basis and sold the policies to their reference group.

Post privatization scenario The privatization of Insurance sector in 1999 has ushered in dynamism in the field. The Life Insurance Corporation of India has been shaken up from its deep slumber and has been on guard to gear up for competition. This is evident from the policy statement issued by the Chairman of the Life Insurance Corporation and its senior functionaries. Private companies have entered into the Frey with joint ventures with foreign partners. This has been done to utilize their expertise in the field and give an opportunity to professionally managed companies to win the confidence of the people. The major private player is ICICI Prudential Life and is marketing its product with a slogan 'We cover you at every step in life. "Another player in the field is HDFC Standard Life and this company has joined hands with Standard Life Assurance Company of UK. The company has a catchy ad line – 'Making the life easier for you.' "Max India Limited has joined hands with Max – New York Life in propagating its philosophy with the objective "Your partner for life". Aditya Birla Group has joined hands with Sun Life Financial Company of Canada. The company has carried the slogan "Your dreams, our commitment" to lure prospective customers. These companies have launched a number of innovative products after carrying out deep research on the requirements of the prospective customers. In addition to innovative products, these private companies offer state of the art service, professional administrative backup to provide customer - oriented products and efficient after sales service to the full satisfaction of the customers. The private operators are handicapped by lack of infrastructure and trained work - force. In addition to all these handicaps, the credibility factor is of utmost importance. NBFCs have created such a mess in the financial sector that the investors are disillusioned by the private companies. Since insurance and in, particular life insurance is a long-term contract.

CONCLUSION

The primary function of insurance, be it life, non life or reinsurance, is providing protection by assessing the risk and sharing the same with many by the process of risk sharing and, thus, minimizing individual risk and its impact. These basic functions are followed by subsidiary responsibilities like efforts for preventing losses and aiding the economic development through the investment of funds. The role of insurance goes beyond its primary purpose of spreading the risk and, thereby, minimizing the loss. The huge fund collected by way of premium from millions of policyholders, and the amount retained by them as solvency funds to meet unforeseen contingencies are invariably invested according to the mandatory or prudential norms approved by the regulators. Insurance pays a significant role in shaping the economy of a nation.

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