



ORIGINAL RESEARCH PAPER

Management

IMPACT OF NPA ON THE PROFITABILITY OF LIFE INSURANCE CORPORATION

KEY WORDS: Lic, Gnpa, Nnpa, Insurance, Profitability

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ABSTRACT

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time. Apart from banks, the leading insurance company LIC is also facing the problem of NPA. The regulatory bodies, Government and media are all busy with discussing the bad loans of commercial banks; no such discussion seems to be happening around the bad loans of LIC. Hence the present paper focuses on the impact of Non-Performing Assets on the profitability of Life Insurance Corporation. The present study has two objectives. The first objective is to identify the trends in the NPA of LIC and secondly to examine the impact of NPA on the profitability of LIC. The data needed for the study has been collected from the annual reports of LIC from 2011-12 to 2016-17. The analysis found that the GNPA of LIC has grown up dramatically over the last six years. The NPA figures are close to those figures reported by a few banks like SBI (5.1%), ICICI bank (4.7%), Syndicate bank (4.6%) and Vijaya bank (4.32%). The NPA level of LIC had a significant impact on its profitability also. The media, government etc are nowadays focusing on the NPA of banks only and no such attention is given to LIC and other insurance companies, hence there should be proper focus on the growing NPA of LIC and proper measures should be taken on an emergency basis to tackle the situation

INTRODUCTION

Life Insurance in its modern form came to India from England in the year 1818. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time. In simple terms, an asset is tagged as non-performing when it ceases to generate income for the lender. The problem of NPA is a burning issue faced by insurance companies in their operations. A high level of NPA also puts strain on a company's net worth and also affects its efficiency. Apart from banks, the leading insurance company LIC has also facing the problem of NPA. Hence proper study and management of NPA is the need of the hour.

STATEMENT OF THE PROBLEM

Non-Performing Assets are one of the major burdens in the financial affairs of an Insurance Company, and it act as the biggest hindrance in its future development. The problem of NPAs is tied up with the issue of legal reforms. This is an area which requires urgent consideration as the present system that substantially delays in arriving at a legal solution of a dispute is simply not tenable. The absence of a quick and efficient system of legal redress constitutes an important 'moral hazard' in the financial sector, as it encourages imprudent borrowers. Like banks, the insurer also appears to be taking legal recourse to recover its mounting bad loans. According to data published by the Credit Information Bureau of India (CIBIL), LIC has filed 70-odd cases against defaulters who owed it about 8,200 crore as of December

2015 (in the case of loans above 1 crore). Among its top defaulters are Deccan Chronicle, Hamco Mining and Smelting, Punjab Wireless, Tulip Telecom and Padmini Technologies. The insurer has filed these cases only in the last 12 months, as a last resort to recover loans. As per the CIBIL data, LIC did not file any cases until March 2015, when its defaulters owed it about 1,700 crore. The regulatory bodies, Government and media are all busy with discussing the bad loans of commercial banks, no such discussion seems to be happening around the bad loans of LIC. Hence the present paper focuses on the impact of Non Performing Assets on the profitability of Life Insurance Corporation .

OBJECTIVE OF THE STUDY

- To identify the trends in the NPA of Life Insurance Corporation of India Limited
- To analyse the impact of NPA on the profitability of LIC

METHODOLOGY

The study is based on secondary data collected from the annual reports of LIC for a period of 6 years from 2011-12 to 2016-17. The available data are analysed using percentage analysis and correlation analysis.

DATA ANALYSIS AND DISCUSSION

The analysis on the impact of NPAs on profitability of LIC were analysed using data like assets classification, percentage growth rate etc. The analysis is summarised in the following tables.

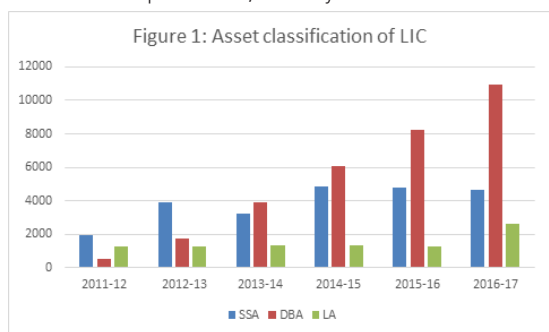
The term non-performing assets indicates the level of assets which does not generate any income to the concerned financial institutions. The assets classification is based on the surety of the lender regarding the repayment by the borrower, based on these assets are classified in to standard assets, substandard assets, doubtful assets and loss assets. Among these substandard, doubtful and loss assets are considered as NPA of insurance companies. The details of the asset classification are given in Table 1.

Table 1 Asset classification of LIC

Year	Standard (Rs. In crore)		Substandard (Rs. In crore)		Doubtful (Rs. In crore)		Loss assets (Rs. In crore)	
	Amount	Percentage	Amount	Percentage	Amount	percentage	Amount	Percentage
2011-12	292633.54	98.75	1953.95	0.66	512.72	0.17	1225.03	0.41
2012-13	316273.45	97.85	3930.56	1.22	1764.62	0.55	1256.79	0.39
2013-14	398337.85	97.92	3221.25	0.79	3906.06	0.96	1337.91	0.33

2014-15	358412.52	96.71	4842.58	1.31	6045.45	1.63	1315.33	0.35
2015-16	365092.61	96.24	4787.77	1.26	8214.28	2.17	1280.85	0.34
2016-17	348154.83	95.02	4644.57	1.27	10960.06	2.99	2628.41	0.72

Source: Annual reports of LIC, various years



- SSA- Sub standard assets
- DBA- Doubtful assets
- LA- Loss assets

From Table 1 and figure, it could be observed that over the years the NPA of Life Insurance Corporation of India is showing an increasing trend. Among the NPA categories, the share of doubtful asset is more than the other two categories. In 2011-12 the doubtful assets stood at 0.17 percent of LIC’s total assets and it was increased to nearly 3 percent i.e. a two fold increase over the five years. The defaulters of LIC include not only corporate but also the Government, Municipalities etc.

The gross NPA consists of substandard assets, doubtful assets and loss assets. The trends as well as the percent share of each category to total assets are depicted in the following Table.

Table 2 Gross NPA and NNPA of LIC

Year	Gross NPA (Rs. In crore)	Ratio of Gross NPA	Net NPA (Rs. In crore)	Ratio of Net NPA
2011-12	3691.50	1.25	1759.07	0.60
2012-13	6951.57	2.15	3537.75	1.11
2013-14	8465.22	2.44	3023.17	0.89
2014-15	12213.37	3.30	5750.04	1.58
2015-16	14282.90	3.76	6827.41	1.84
2016-17	18173.04	4.73	7321.44	1.96

Source: Annual reports of LIC, various years

Figure 2: GNPA and NNPA of LIC

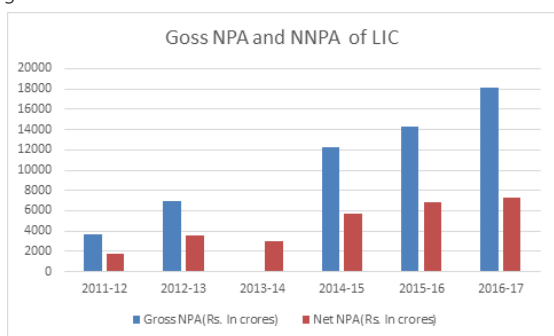


Table 2 and Figure 2 clearly show that the GNPA of LIC has grown up dramatically over the last six years. In the start of 2011, the bad debts were 0.95% and it was increased to 1.34% as on December 2011. Since then the bad loans have jumped to 4.73 % in 2017. Reports state that these figures are close to those figures reported by a few banks like SBI (5.1%), ICICI bank (4.7%), Syndicate bank (4.6%) and Vijaya bank (4.32%).

In the case of NNP also the same trend can be observed over the

years. During 2011-12 the NNPA was just 0.60 per cent of total debts of LIC and it was increased to nearly 2 per cent in 2016-17. So it is an indication of further reduction in the overall growth of LIC in the future.

CORRELATION ANALYSIS

The correlation test is performed to test the relation of LIC’s GNPA and its profitability. It is a bivariate analysis consists of two variables Gross NPA and net profit. The net profit of LIC over the 6 years is given below

Table 3 Net profit of LIC

Year	Profit (in lakhs)
2011-12	37.96
2012-13	41.54
2013-14	63.05
2014-15	129.89
2015-16	472.22
2016-17	637.47

Source: Annual reports of LIC, various years

Table 3 shows that over the years the profit of LIC is increasing on an increasing trend. The correlation of profit with that of its GNPA is summarised in the following table.

Table 4: Correlation analysis

	Gross NPA	Profit
Pearson Correlation	1	.906*
Sig. (2-tailed)		.013
N	6	6
Pearson Correlation	.906*	1
Sig. (2-tailed)	.013	
N	6	6
*Correlation is significant at the 0.05 level (2-tailed).		

From the analysis it could be inferred that the correlation test is significant at 5 per cent level. The test has failed to accept the null hypothesis, i.e. N PA does not affect the profitability of LIC and accept the alternate hypothesis that NPA has an impact on the profitability. It means the level of NPA affect the profitability as well as the performance of LIC.

CONCLUSION

The study on impact of non-performing assets of LIC on its profitability has concluded that NPA has a significant impact on the profitability of LIC. Over the years the level of NPA is increasing on an increasing rate and some time it is more than that of individual public sector and private sector banks. If the same trend continues, surely it will affect the future growth of LIC. Hence proper measures should be taken to reduce the same on an emergency basis.

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