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# Evaluation of LIC in Post Liberalised Era

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## *Abstract*

*The constitution of IRDA in August, 2000, opened up the market for private players in the insurance sector. In spite of privatization, the public sector giant, Life Insurance Corporation of India (LIC) has been still dominating the domestic insurance market. The paper reviews secondary study conducted to narrate ongoing debates on the privatization and globalization of insurance sector. Then, a comparative analysis of pattern of growth of life insurance industry comprising of LIC and other private players has been carried out. The paper finds that after over 40 years of successful journey, LIC still holds the dominant position while private players also gain grounds. However, though Indian Insurance sector has a huge potentiality, penetration of life insurance in Indian society is still limited as evident by various indicators. Moreover, LIC once having monopoly in this sector, is losing out to its private competitors. Unless strategic issues such as diversification of products, changing demography, demand for pensions, and allowing greater freedom with respect to its investments are addressed, LIC may find it difficult to adapt to liberalized scenario. The present study is an endeavor to evaluate the growth of LIC of India in the competitive scenario of liberalized and globalized insurance sector.*

**Keywords:** *LIC, Post liberalization, Growth, Insurance, IRDA*

## **Introduction**

This millennium insurance industry completed its 200 years after undergoing drastic transformations since inception. In the year 1956, the insurance industry saw major transformation when life insurance sector was nationalized and incorporated as Life Insurance Corporation of India (LIC). The liberalization of the insurance sector started in early 2001 on the basis of recommendation of Malhotra Committee (1993) for insurance sector informs. This was followed by the entry for private players in this sector and Insurance Regulatory and Development Authority of India (IRDA) was established by GOI as an autonomous body to regulate the insurance industry.

LIC is still monolithic maintaining its position with highest market share though its market share has been shrinking since a decade. While private player are now able to hold prominent positions in this market, the foreign ownership is still restricted to only up to 26 percent of the company through automatic

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route while approval of Investment Promotion Council is required for acquiring ownership up to 49 per cent.

Since the privatization of insurance sector in 2001, Indian insurance industry has undergone two growth cycles viz. The first period between 2001-10 which has registered high growth percent in new business premium (CAGR of approx. 31%). The second period between 2010-12, a flat period with CAGR of around 2 percent in new business premium. The sluggish insurance industry faces a challenge of profitability in the face of high operating losses and needs to be more cost efficient and effective.

The efficiency issue is the key concern in the public insurance sector for the following important reasons. First, public sector firms have to transform and restructure so as to provide better services to the consumer. Second, it is necessary to locate the unproductive insurers in the market to develop healthy competition, profitability and buoyancy of the policyholders. The increase in the number of private insurance companies from four private players in the year 2001 to 23 private players in 2012 exhibits growing intensity of competition in this market. The number of insurance companies have increased from 23 in the year 2010 to 52 insurance companies in the year 2012. (See Table -1)

**Table No-1**

**Number of Insurance Companies**

<b>Type of businesses</b>	<b>Public sector</b>	<b>Private sector</b>	<b>Total</b>
Life Insurance	1	23	24
General insurance	6	21	27
Reinsurance	1	0	1
<b>Total</b>	<b>8</b>	<b>44</b>	<b>52</b>

Source-IRDA, 2012

The main focus of the article is to observe the pattern and growth of life insurance business in India with reference to LIC. This study will justify the need for the private sector entry which has helped the industry by increasing the operational efficiencies and thereby attaining greater density and penetration of life-insurance in the country. This has also helped in greater mobilization of long-term savings for infrastructure projects with long gestation. More than twenty life insurance companies have entered this sector after privatization, thereby breaking the monopoly status of LIC. Since then, LIC has been striving hard to perform in a competitive environment. As this market is still undersized, there exists a huge potential and opportunities. This study is undertaken to address this key issue and suggest ways to overcome the barriers faced by LIC of India.

The article is structured as follows. Firstly, the paper highlights the major developments of Indian insurance industry followed by an overview on LIC. Secondly, the annual reports of twelve years are analysed to find out the growth of LIC in terms of various parameters followed by discussions and conclusion.

**Overview of Insurance Industry in India**

The insurance sector in India has experienced a vicious circle over few decades from now. Its evolution from an open competitive sector to nationalization and then back to a liberalized market characterizes this phenomenon. During the period of nationalisation the sector functioned under the surge of system of government and disorganization but still had millions of insurance policyholders, as there were no

alternatives. Table 2 shows few milestones in India's insurance regulations sector:

**Table No. 2**

**Evolution of Insurance Industry in the Twentieth Century**

<b>Year</b>	<b>Major Event</b>
<b>1818</b>	Beginning of Life Insurance business with the establishment of Oriental Life Insurance Company in Calcutta
<b>1870</b>	British Insurance Act
<b>1912</b>	First piece of Insurance Regulation promulgated—Indian Life Insurance Company Act, incorporated to regulate the Insurance business
<b>1914</b>	Publishing of returns on Insurance Companies in India
<b>1928</b>	Indian Insurance Companies Act was enacted to collect the statistical information
<b>1938</b>	Insurance Act 1938 introduced, to regulate the Insurance business
<b>1956</b>	19 <sup>th</sup> January, Insurance business was nationalized in India.
<b>1968</b>	Amendment of Insurance Act to overcome solvency issues
<b>1972</b>	Nationalization of General Insurance business in India with effect from 1 <sup>st</sup> January, 1973
<b>1993</b>	Setting up of the Malhotra Committee.
<b>1994</b>	Recommendations of Malhotra Committee released.
<b>1996</b>	Setting up of an (interim) Insurance Regulatory Authority (IRA).
<b>1997</b>	The government gives greater autonomy to LIC, General Insurance Corporation of India (GIC) and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.
<b>1999</b>	The Standing Committee headed by Murali Deora decides that foreign equity in the private insurance company should be limited to 26%. The IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act.
<b>1999</b>	Cabinet clears IRDA Act.
<b>2000</b>	President gives assent to the IRDA Act
<b>2001</b>	Opening up the market to private players

Source: Adapted from Anirban Dutta, Partha Pratim Sengupta, Global business review, Vol 12 (3), 415–430

## Privatisation of Indian Insurance Industry

The privatization of insurance sector was preceded by a serious discussion on opening up of Indian market to foreign players. The debate suggested that this kind of private public partnership would improve the economy and further Malhotra committee also favored the move of privatization which brought positive sentiments in the market. The establishment of IRDA further strengthened the arrangement and the monopoly of public sector monolith was broken. LIC had no other alternative but to face tough competition

posed by the new private companies entering in the sector. The insurance sector was free from bureaucratic control and witnessed huge structural transformations through abolition of industrial licensing and the reduction of tariff and non-tariff barriers.

In the year 2001, ten companies got registered under life insurance category and the count increased to twenty-four in the year 2012. LIC started facing severe competition from these companies and most of them were joint venture with famous foreign players across the globe.

**Table 3**  
**Number of Life Insurance companies**

Particulars	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012
No. of companies (As on 31 <sup>st</sup> March 2012 )	18	22	23	23	24
Insurance penetration (In per cent )	4	4	4.60	4.40	3.40
Insurance Density (US \$)	40.40	41.20	47.70	55.70	49

Source-IRDA 2011-12

During last 15 years, LIC's income grew at a healthy average of 10 per cent as against the 6.7 per cent growth of the insurance industry in the rest of Asia, 3.4 per cent in Europe and 1.4 per cent in the U.S. A. India has the highest number of life insurance policies in the world and the total invisible funds with LIC are almost 8% of GDP. LIC has been providing insurance cover to almost five million people living below the poverty line with 50% subsidy in the premium rate. LIC's claim settlement ratio is 95% and is higher than the global average of 50%. In keeping with its vision and mission, LIC's focus has been on taking insurance to the rural masses and today more than 50% of its policies are issued in rural areas.

### Overview of Performance of LIC

Although LIC is challenged by 24 private competitors in the industry and the market share of LIC has gone

down from 99.46% in 2001-02 to 70.10% in 2009-10, still number of policies, premium income, total income and market share of LIC are more than those of the private insurers. This shows that even after privatization, LIC is still considered as the most trusted brand with leading market position by the masses.

LIC operates at very large scale, such that the number of LIC's customers (208.10 million) exceeds the total population of most of the countries of the world barring just four countries. With revenues of US\$ 43834 million, LIC is the 8th largest life-insurance company in the world, and bigger than 325 companies of the Fortune 500 list. Its assets of USD 192.49 billion exceed GDP's (IMF, 2009) of over 75% countries of the world. In the ten years since 2000, LIC increased its revenues by 385% and valuation-surplus by 194%. At the same time, it has reduced key costs (as a

percentage of premium income): operating expenses by 42% and payroll by 61% (despite salary increases and without retrenchment). LIC is an organization of national importance since LIC contributes about 4% to India's GDP and annually deploys over 15% of its funds in infrastructure projects & social investments. In a developing country where social-security is virtually non-existent, LIC plays an invaluable role in managing the savings and risks of policy holders. LIC insures about 19% of India's population and contributes the lion's share (over 60%) to India's life-insurance penetration which was 4% in 2011 and was close to the world's average (4.40%) while measure of density of Insurance was \$ 49 in 2011. In 2008, for the fifth consecutive year, LIC was ranked first as the "most trusted service brand" in the Economic Times' brand-equity survey of India. In 2009, LIC ranked first among India's top-50 service brands (Pitch/IMRB international survey). In 2013, LIC reported a drop of 6.35% in its premium collection (Rs. 60,705.46 crore during the period as against Rs. 64820.48 crore in the year ago period). Looking at LIC from any perspective, LIC's performance has been spectacular. LIC is fully owned by the Indian government and even though the popular perception is that privately-managed organizations perform better, LIC's stellar success and dominating growth is intriguing.

### Research objective

The study has been undertaken with an objective of reviewing the growth and working efficiency of LIC as compared to its competitors in the current business environment. Data collected from IRDA are analyzed from the year 2000-01 to 2012-13.

### Research Methodology

Research design followed to achieve the above mentioned objective is Descriptive and Analytical on the basis of secondary data collected from IRDA and the annual reports of LIC of India. Data are processed to generate percentages and ratios and findings are analyzed.

### Analysis of LIC in Post-Liberalization Era (2001-2013)

**Total Premium Income:** For the working efficiency, total premium income is one of the important parameter to assess the performance of the insurance business. The table-4 below presents the growth in total premium income of LIC and its competitors in the last twelve years.

Table No.4

Total Life Insurance Premium Income FY (2001-2013), Rs. in Crores

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	49821.91	54628.49	63533.43	75127.29	90792.22	127822.84	149789.99	157288.04	186077.31	203473.40	202889.28	208803.58
Pvt.	272.55	1119.06	3120.33	7727.51	15083.54	28242.48	51561.42	64497.43	79373.06	88165.24	84182.83	78398.91
Total	50094.46	55747.55	66653.75	82854.80	105875.76	156065.32	201351.41	221785.47	265450.37	291638.63	287072.11	287202.49

Source- IRDA report, 2012-13

**Interpretation:** It is indicated from the above table that the total premium income of LIC has gained momentum in 2001-02 and it has increased from Rs. 49821.91 crores to Rs. 208803.58 crores in 2012-13 but the significant increase has been witnessed by

private players too from Rs. 272.55 crores in 2001-02 to 78398.91 crores in the year 2012-13. The table-5 shows the overall the percentage of growth of the insurance industry in a period of twelve years after liberalization as depicted below in table 5 & figure 1.

**Table No.5**

**Total Life Insurance Premium Income FY (2001-2010), Rs. in Crores**

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	42.79	9.65	16.30	18.25	20.85	40.79	17.19	5.01	18.30	9.35	-2.87	2.92
Pvt.	412.41	310.59	178.83	147.65	95.19	87.24	82.57	25.09	23.06	11.08	-4.52	-6.87
Total	43.54	11.28	19.56	24.31	27.78	47.38	29.01	10.15	19.69	9.87	-1.57	0.05

Source- IRDA report, 2012-13

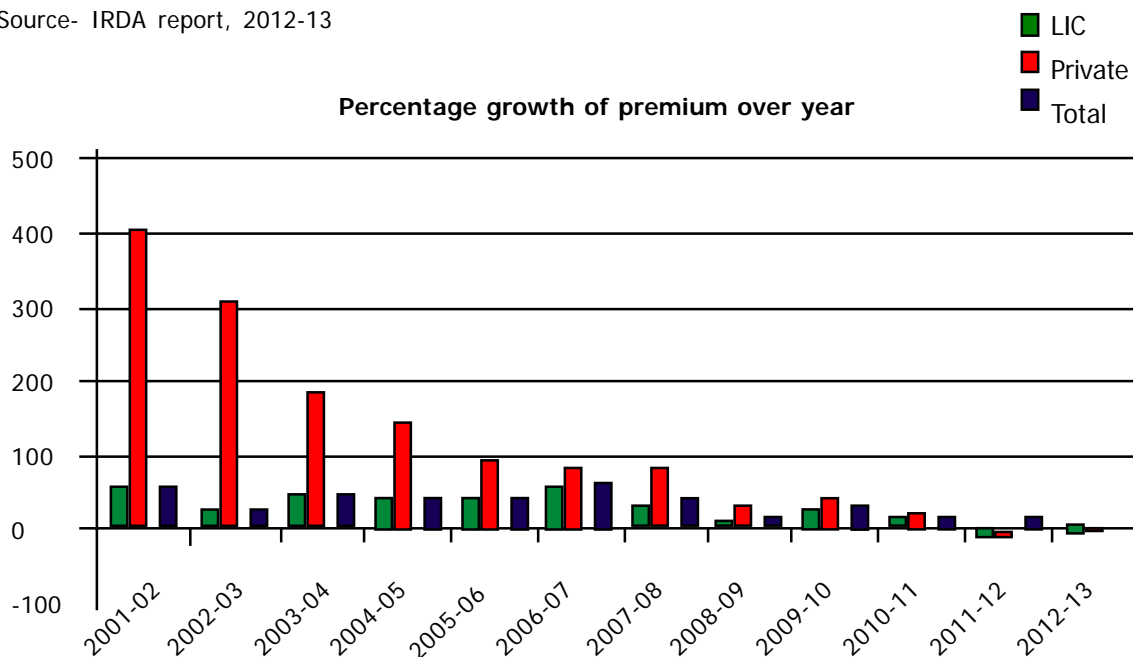


Figure -1

**Interpretation:** The table-5 above shows the growth in total premium income over the previous the year. LIC shows a growth of 42.79% in the first year of its liberalization but as the years pass by, LIC witnesses a negative growth of 2.87 in the year 2011-12. As the insurance industry grew after liberalization, private players also witnessed a growth of 412.41% in the first year of its entry. But from the year 2002-03 onwards as the premium income decreased. The growth of private insurers growth declined to 25.09% in the year 2008-09 and witnessed a negative growth from the year 2011-12. The maximum growth of this sector has been seen in the year 2001-2002 (43.54%) and 2006-07 (47.38%) as against the previous year. However, the trend growth rate reduced from the year 2009 and has showed a negative growth over previous years, indicating LIC's falling market share.

The penetration of life insurance cover is low in India compared to its size of population and most of the

population are not covered under insurance. This indicates an opportunity for the insurance companies. Data show that the insurance business is not doing well in India. But there exists tremendous market potential and challenges, especially when India will allow more than 50 per cent foreign equity for the overseas institutions. Understably, the insurance market in India is in its initial phase of development and the scale of coverage of insurance, its penetration and density are very low compared to the potentiality.

**Number of Policies:** This is another important indicator of growth and performance of the insurance companies. The table no. 6 presents the complete scenario of the performance of new business in terms of number of policies of both LIC and the private life insurers over a period of twelve years from 2001 to 2013.

**Table No. 6**

**Growth over the Previous Year in Terms of total Policies**

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	232.75	245.29	269.68	240.27	315.90	382.29	376.12	359.12	388.63	370.38	357.51	367.82
Pvt.	--	836.62	165.88	223.30	387.14	792.22	132.61	150.10	143.62	111.14	84.42	74.05

**Interpretation:** It is evident from the above table that the efficiency of LIC in terms of new policy, the business has declined and that of private insurance players has tremendously improved. In the first year of privatization, the number of policies of LIC was only 232.75476 lakhs which increased to 269.68069 lakhs in 2003-04. But the number of policies issued reduced to 240.27393 lakhs in 2004-05 and again increased to 388.63 in 2009-10. Growth in terms of number of policies is decreasing both at LIC at other private insurance companies. With each year since privatization, private insurance companies are gaining

momentum due to services being offered by them to customers. This is witnessed in the year 2005-06 and 2006-07, where number of policies issued by private insurance companies is almost double that of LIC. After global economic meltdown in the year 2008But, due to tough market conditions, private insurance companies also felt the pinch. Though the fall in number of policies is negligible, this should not be ignored. Hence, insurance companies must combat their strategies through organizational interventions.

Table No. 7

Number of New Policies Issued (In Lakhs)

FY	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	5.39	9.93	-11.09	31.75	21.01	-1.61	-4.52	8.21	-4.70	-3.47	2.88
Pvt.	--	-80.17	34.62	73.37	104.6	67.40	13.19	-4.32	-22.61	-24.04	-12.28

Growth over years in terms of policies

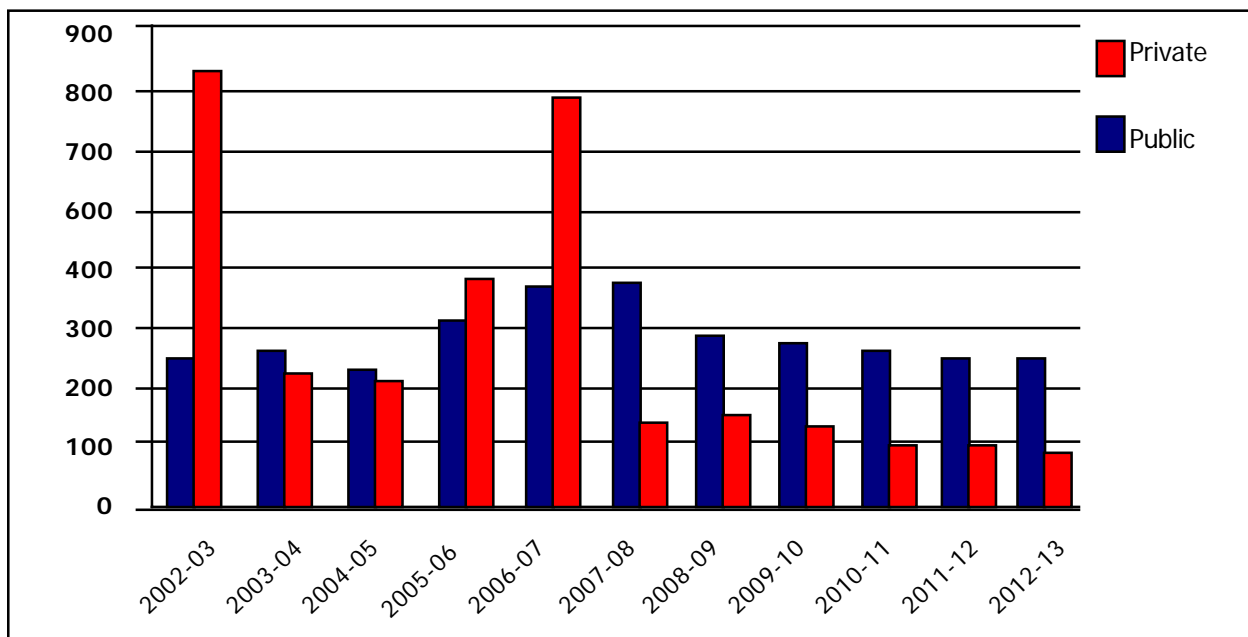


Figure 2

**Interpretation:** It is inferred from above data, LIC is consistently managing its market share in terms of number of policies but the private insurance companies in the year 2006 and 2007, showed higher growth with respect to number of policies. Since the year 2007, LIC has been showing negative growth towards the number of policies issued. It reduced to from the 21.7 % (2006-07) to - 4.70 % in 2010-11

and further to -3.47 % in 2011-12. However, LIC gained momentum and picked up its growth in the year 2012-13 and showed a growth of 2.88 %, which definitely low for such a public giant. Hence, it can be inferred that both LIC and private players are now performing poorly in terms of the number of policies which affects the premium income and thereby the net profits. As the insurance companies are running in losses, they are continuously cutting on the manpower and other infrastructure costs as reflected in the operational costs.



## Total Income

The income of the insurance companies is the sum total of income generated from premium, Fee protection insurance, and the Renewal Premium. The table 8, presents the income analysis from the year 2001 to 2013.

Table No. 8

### Total Income of insurance industry ( in crores)

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	49821.91	54628.49	63533.43	75127.29	90792.22	127822.84	149789.99	157288.04	186077.31	203473.40	202889.28	208803.58
Pvt.	272.55	1119.06	3120.33	7727.51	15083.54	28242.48	51561.42	64497.43	79373.06	88165.24	84182.83	78398.91
Total	50094.46	55747.55	66653.75	82854.80	105875.76	156065.32	201351.41	221785.47	265450.37	291638.63	287072.11	287202.49

Source- IRDA report, 2012-13

**Interpretation:** It is clearly indicated that, LIC being the sole public player was able to maintain its position till the year 2004-05 as the contribution of LIC towards the total income was much more than all the private insurance companies taken together. Though an

overall positive growth was seen in life insurance industry in last thirteen years but recently private insurance companies contribution has significantly improved which is visible in the growth rate (Table no- 9).

Table No. 9

### Rate of Growth of Total Income Over Previous Years

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	42.79	9.65	16.30	18.25	20.85	40.79	17.19	5.01	18.30	9.35	-0.29	2.92
Pvt.	412.79	310.59	178.83	147.65	95.19	87.24	82.57	25.09	23.06	11.04	-4.52	-6.87
Total	43.54	11.28	19.56	24.31	27.78	47.38	29.01	10.15	19.69	9.85	-1.57	0.05

Source- IRDA report, 2012-13

**Interpretation:** Above data show the overall growth in total premium income over the previous years. In the first year of privatisation, LIC showed the maximum growth rate of 40.79% which is gradually declining till 2006. In the year 2007, LIC again exhibited a positive growth rate of 40.79%. The growth rate of private insurance players is much higher as compared to LIC but eventually declined after the year 2008 due to global economic set back. The insurance industry showed negative growth in the year 2011-12 but recovered showing a marginal positive growth in 2013, however this does not improve the market for

insurance companies. Thus, it can be inferred that insurance industry is still undergoing extreme pressure of generating operational efficiencies.

### Market Share

LIC has been losing its market share to private insurance companies since privatization. In spite of adopting new strategies and launching new products, data shows that LIC has lost now 27.30% almost 26% of its market share to private insurance companies in 2012-13.

Table No. 10

### Percentage of Market Share of LIC

FY	2001 2002	2002 2003	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 2013
LIC	99.46	97.19	95.29	90.67	85.75	81.90	74.39	70.92	70.10	69.77	70.68	72.70
Pvt.	0.56	2.01	4.71	9.33	14.25	18.10	25.61	29.08	29.90	30.23	29.32	27.30

Source- IRDA report, 2012-13

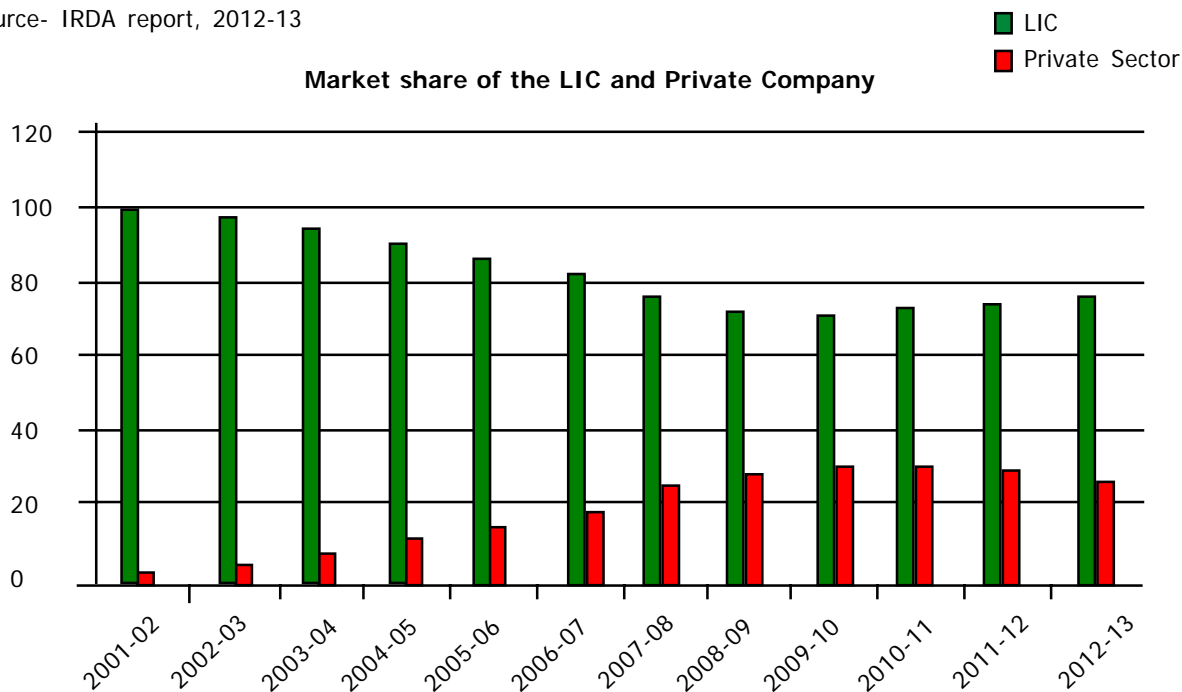


Figure 3

**Interpretation:** The above graph shows that the market shares of private insurance companies have significantly improved over the years. LIC, a state owned public giant, has been the biggest profit maker but has to redesign and organize its resources so as to face the tough market conditions. The above graph

shows that LIC, is still the most trusted brand among consumers but people are swiftly moving towards the more organized and planned private insurance companies. This may be due to the services rendered or the high end technology which is making consumers' life easy.

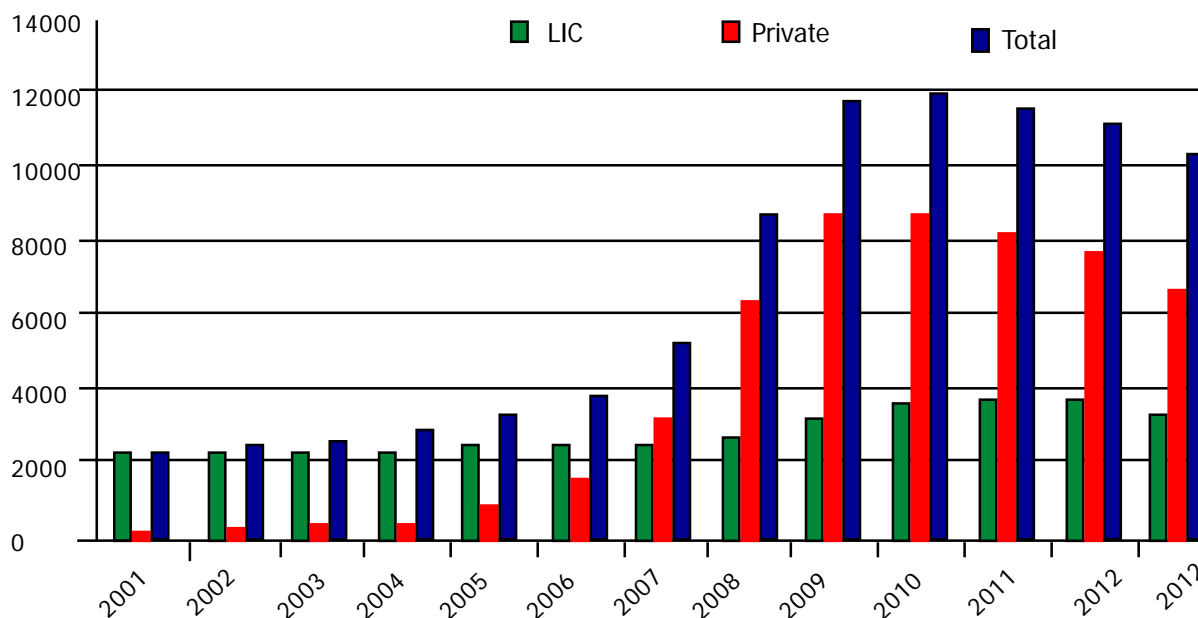
**Table No. 11**

**Number of Life Insurance offices : Both Public and Private**

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LIC	2186	2190	2191	2196	2197	2220	2301	2522	3030	3250	3371	3455	3526
Private	13	116	254	416	804	1645	3072	6391	8785	8768	8175	7712	6759
Industry	2199	2306	2445	2612	3001	3865	5373	8913	11815	12018	11546	11167	10285

Source- IRDA report, 2012-13

**Interpretation** – Though the offices of LIC have increased by 0.45 times i.e. from 2186 offices in 2001 to 3526 offices in 2013 but the percentage of LIC offices to the total industry offices has declined from 99 percent in 2001 to 65.24 percent in 2013.



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#### Figure 4, Number of life Insurance offices

This decline in percentage indicates that number of private offices have increased much more as compared to LIC offices. This also indicates that the need for offices has been created through the business generated by the private insurance companies. Private players are able to harness the opportunity in a much better way than a much sustained public monolith.

#### Discussion

Based on the secondary data available from IRDA, it is proved that liberalization had a major bearing on the growth of Indian life insurance business. As the private players are able to sustain themselves for so many years, it is evident that future looks promising for the whole sector. LIC has to make changes in the regulatory affairs and people policies and practices, thereby changing the way industry conducts its business and engages with its consumers. However, it is unfair to compare private insurance companies and LIC as the operational practices and facilities available to private company are technology driven with lot of back office support. Whereas, LIC still follows a traditional approach which makes the task difficult. But to retain the status of the market leader, LIC needs to increase its competitiveness in terms of technology, product innovation, customer awareness, and customer services. The study concludes that though the privatization has a positive impact on the life insurance industry in India, LIC has been still keeping its position strong due to trust shown by common people which should be explored by LIC .

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