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Financial Performance Of Life Insurance Companies And Its Impact In Indian Economy

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***Abstract:** Future and uncertainty are the two sides of a coin. Insurance is a mechanism to overcome uncertainty and risk. The concept of insurance has drawn the attention of practioners, academicians as well as that of the common people. Insurance products are unsought products which people usually do not buy unless and until they are made aware of it. The life insurance is basically a societal scheme adopted by educated mass for tackling the incidence of loss of income to families by unanticipated instances. The insurance penetration in a country largely depends on the risk awareness among the people and on the level of economic activity of the country. Generally financial performance plays an important role not only towards growth of the industry as a whole but also have an important effect on the customer's preference towards Life insurers. The industry has an enormous growth possibility in India due to unexploited market and outsized population size.*

***Keywords:** Life insurance, Financial Performance, Premiums, Market share, Solvency*

I. INTRODUCTION

Insurance is the backbone in managing the risk of the country. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country. The insurance providers offer diversity of products to business, providing protection from risk thereby ensuring financial security. Life insurers are custodians and managers of substantial investments of individuals; and policyholders need to be confident that their insurer will be able to meet its promised liabilities in the event that claims are made under a policy. It helps individual and organization to minimize the consequences of risk which impart significant cause on the growth and development of insurance industries. In the current scenario of growing customer base, one of the principal concerns underlying the regulation of the insurance companies is the need to protect the interest of and secure fair treatment to policyholders. Therefore, regulatory authorities seek to ensure that the financial performance of life insurance companies is in sound condition.

India's rapid rate of economic growth over the past decade has been one of the very significant developments in the global economy. This growth has been a result of the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living. Insurance has a very important role in the growing economy. Health insurance and life Insurance are fundamentals of protecting individuals against the hazards of life in India. The Insurance segment in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. Today Insurance business stands as a business growing at the rate of 15-20 percent annually. Together with banking services, Insurance sector adds about 7 per cent to the country's GDP. In spite of all this growth the statistics of the penetration of the insurance in the country are very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. “Malhotra Committee” was constituted by the government in 1993 to examine the various aspects of the industry (Malhotra committee report, 1994). The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform. The present study aims to find out the profitability of Life Insurance Corporation (The public venture) in pre and post liberalization era. Presently in 2012-13 there are 23 private life insurers and 1 public life insurers operating in India. According to McKinsey study 2007, it was estimated that India is likely to emerge as the fifth largest market in the world by 2025 (Bawa and Chattha, 2013).

II. OBJECTIVES AND RELEVANCE OF THE STUDY

The present paper is an attempt to study the role and performance of private insurance companies in India after the liberalization period from 2004 to 2014. It will study the growth of number of policies, the amount of premium collected and the amount of commission paid by the private insurance companies. The paper will also highlight a comparative study of insurance business among top five private insurance companies in India. The names of private insurance companies are Bajaj Allianz, SBI life, Birla sun life, Reliance life and ICICI prudential.

- ✓ To study the financial performance of the life insurance sector in India.
- ✓ To search and enhance the understanding of different types of insurance policies.
- ✓ The paper will also highlight a comparative study of insurance business among top five private insurance companies in India.

III. LITRETURE REVIEW

Relevant earlier studies relating to the financial performance of insurance firms are discussed in brief in the following section. Adams and Buckle (2003) found that highly levered, low liquid Bermuda insurers have comparatively better operational performance and performance was positively related to underwriting risk but size and scope of activities were not. After accounting for differences across insurers, taking market and economic factors, Mark et al. (2003) found that portfolio returns on bond and disposable personal income per capita were positively related and unanticipated inflation was negatively related to performance of US life insurers. Hoyt and Powell (2006), in their research paper, analysed the financial performance of medical liability insurer by using two appropriate measures, namely, the economic combined ratio and the return on equity. The period for the study was from 1996 to 2004. Based on ECR, medical liability insurers, as a group reported modest profitability in only three years (1996, 1997 and 2004). In contrast, these insurers sustained losses in six consecutive years from 1998 to 2003. The average profit ratio (return on net premiums earned) during the period 1996 to 2004 was - 13.0per cent. The study found that there was no evidence that medical liability insurers had been earning excessive returns or that they were over-capitalized. The research concluded that there was no evidence that medical malpractice insurance was overpriced.Kasturi (2006) highlighted that the performance was assessed by maintaining the balance between all the measures in order to achieve success. The study evaluated that financial performance was measured by various financial ratios while non-financial measures include indicators like orientation of customers, growth, and value to the societies. The measures revealed both short-term and long run achievements of a company. Krishna Goyal (2006) in his article on “Impact of Globalization on Developing Countries (with special reference to India)” published in International Research Journal of Finance and Economics says that The lesson of recent experience is that a country must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls.

In the fragmented regulatory US life insurance industry, Michael K. Mc Shane *et al.* (2010) found that the profitability measure, e.g., operating return on equity is positively related to regulatory competition. Chaudhary & Kiran (2011) observed current scenario of life Insurance Industry in light of some changes and regulation of IRDA. By studying different variables the result showed that life Insurance Industry expanded tremendously from 2000 onwards in terms of number of offices, number of agents, new business policies, products, premium income etc. Gulati and Jain (2011) analysed business performance of all life insurers in industry on the basis of various indicators. The study indicated that even after the entry of private sector, the growth of public sector undertaking had not resulted in downfall even after facing various opportunities and challenges. Charumathi (2012) studied the factors that determine the profitability of life insurers operating in India. The sample for the study included 1 public and 22 private players and period of three years i.e. 2008-09 to 2010-11 was studied. For achieving the purpose, regression analysis was performed which resulted that profitability of life insurers was positively affected by size and liquidity but negatively influenced by leverage, premium growth and equity capital. Biker (2012) investigated the competition and efficiency in Dutch life insurance market by estimating unused scale economies and measuring efficiency market share dynamics during 1995 to 2010. The result of the study showed that economies significantly decrease with size of insurer and unused economies of scale did not exist under strong competition. Kumari (2013) analysed the financial performance of both public and private life insurance industry. For this purpose various parameters such as number of life insurance companies, private sector offices, insurance penetration and density, growth in premium income, size of insurance market were discussed. Financial performance was observed by calculating various financial ratios. The study resulted that there had been a significant increase in the overall business performance of Indian life insurance industry after privatization.

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IV. RESEARCH METHODOLOGY

The study will confine to the available life insurance companies (24 by 2012-13) in India and will be carried out within a time boundary. This study will be carried out primarily on the secondary data, available in the form of reports and articles. Only the data available through public sources (internet, journals, magazines, annual reports, etc.) will considered for the study. The present study was conducted for a period from year ending 2004 until year ending 2014. As such, only the companies having an operation over this span was be considered. The study has taken illustrations, case studies, examples wherever applicable from national and international basis, whereas the secondary data is taken from LIC or other private companies on a national basis and the data collection will be done for almost a decade of time. As the present study will focus on drawing information from the published reference material, data made available from the annual reports available from life insurance corporation websites for ten years in order to get rational comparison with the other life insurance companies facts and figures related to financial performance of life insurance companies in India with reference to performance and efficiency. As the study is based secondary data and is empirical in nature, the data is collected through websites, books, periodicals, journals, LIC & other life insurance Annual Reports and the same are analyzed with statistical tools. As the present study draws information from the published reference material, data made available from the annual reports available from Life Insurance Corporation Website for ten years before liberalization and ten years after liberalization in order to get rational comparison with the facts and figures related to financial performance of Life Insurance Corporation in India with reference to performance and efficiency. For analysis of the data few statistical devices like percentage, growth rates, correlation and regression wasbeing used.

V. RESULT AND DISCUSSION

The present study attempts to identify the extent to which the Indian economy is associated with the growth of insurance sector. This paper also attempts to show how the insurance sector help to maximize the employment, GDP growth rate and insurance penetration and density in India. The present study is based on the secondary data collected from different journals, published data from insurance regulatory development authority in India, Government of India. The collected data was analyzed using a descriptive analysis, tabulated and presented graphically to depict the relative effect of life insurance companies growth on Indian economy. Result analysis revealed that there is a phenomenal growth in employment, total income, policies & no of offices due to the insurance sector. Table 1 shows the no. of life insurance offices in India. LIC is operating through its five tier organizational structure, namely central office, zonal offices, divisional offices, branch offices and satellite offices while private life insurers are operating through two tier organizational structure, namely head office and branch offices. Increase in number of offices shows expansion of life insurance industry. The total number of offices of life insurers operating in India increased from 2199 in 2003-04 to 5373 in 2012-13, registering a growth rate of 114.3 per cent during the period of study while the number of offices of LIC increased from 2196 in 2003-04 to 3526 in 2012-13, registering a growth rate of 60.56 per cent, the number of offices of private life insurers (which take into account) increased from 226 in 2003-04 to 4177 in 2012-13, registering a very high growth rate. Only 13 in the year 2001 and they are increasing by 8768 during the ten years' period. Over the last 5 years, the number of offices of private insurers has almost doubled every year. Table shows the company wise life insurance offices shows a gradual increase during the study period from 2004 (2422) to 2013 (7703) in public sector and in private sector and industry total as a whole.

INSURER	DATE OF REGD.	NO.OF OFFICES YEAR WISE									
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LIC	01-09-56	2196	2197	2220	2301	2522	3030	3250	3371	3455	3526
ICICI PRUDENTIAL	24-11-00	69	109	175	583	1958	2102	1921	1402	990	557
BIRLA LIFE	31-01-01	41	53	97	148	538	660	652	617	711	640
SBI LIFE	29-03-01	19	31	46	138	200	489	494	629	714	758
BAJAJ ALLIANZ	03-08-01	49	153	567	877	1007	1164	1151	1092	1044	992
RELIANCE	03-01-02	48	80	157	159	745	1145	1247	1248	1230	1230

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 1: Life insurance companies in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). The following table shows the insurance penetration and density in India.

YEAR	LIFE		NON-LIFE		INDUSTRY	
	DENSITY (USD)	PENETRATION (PERCENTAGE)	DENSITY (USD)	PENETRATION (PERCENTAGE)	DENSITY (USD)	PENETRATION (PERCENTAGE)
2004	15.7	2.53	4	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8
2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	55.7	4.4	8.7	0.71	64.4	5.1
2011	49	3.4	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 2: Insurance penetration and density in India

The information tabulated also shows the growth in the business of LIC in terms of average number of policies sold by agents. In spite of the existence of many private players, LIC keeps performing well. Behind such a consistent performance, reliability on LIC counts the most, which is reflected in the statistics.

YEAR	NO.OF INDIVIDUAL AGENTS						NO. OF CORPORATE AGENTS						TOTAL
	BAJAJ ALLIANZ	ICICI PRUDENTIAL	RELIANCE LIFE	BIRLA SUN LIFE	SBI LIFE	LIC	BAJAJ ALLIANZ	ICICI PRUDENTIAL	RELIANCE LIFE	BIRLA SUN LIFE	SBI LIFE	LIC	INDIVIDUAL + CORPORATE
2004	36251	46639	6381	12696	24690	1341597	91	179	43	511	172	602	14,69,852
2005	32565	29890	5005	5288	2165	1353634	115	40	8	187	10	139	14,29046
2006	109141	72383	19956	17738	8128	1052993	26	7	4	34	8	74	12,80,492
2007	216191	234460	95622	56490	25356	1103047	87	17	12	93	27	226	17,31,628
2008	250239	306354	184194	109034	40643	1193744	520	46	39	151	23	315	20,85,302
2009	204941	299379	149613	164363	68993	1344856	682	47	126	317	94	415	22,33,826
2010	167741	241830	195565	168124	65532	1402807	864	22	225	380	127	510	22,43,727
2011	189667	190407	189433	144573	79628	1337064	289	15	67	164	100	295	21,31,702
2012	173146	138883	150590	131297	86989	1278234	246	14	45	90	73	240	18,34,847
2013	148000	147547	124038	106823	94138	1172983	210	11	14	57	83	207	17,94,111
2014	169634	171734	109048	81763	110491	1195916	199	11	16	46	98	149	18,39,105

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 3: Number of individual agents

Total income is the overall revenue of the life insurers. The total income is the sum of Premium Income, FPI, and Renewal Premium. It has been increased significantly in every year. It has been elucidate from the following table that the total income of both public and private life insurance players has been significantly increased over a period of ten year from 2004 to 2013. The total income of LIC was Rs. 26634.1 in 2004-2005 and it has increased to Rs. 31904.49 in 2013-14. The total income of all private insurers was only Rs. 2663.41 crores in 2004-05 and it has increased to Rs. 20780.83 crores in 2013-14 an almost more than eight times of the initial year. Thus it can be concluded that a life insurance industry has achieved a remarkable growth after privatization and the entry of large number of private players with new technology and innovative tailor-made product has improved the performance and growth of Indian life insurance business.

Market share is also an important indicator of growth and performance of the insurance companies. Market share is the percentage of share captured by any company. A company with high market share reflects strong market position against the competitors and vice-versa. Table No. 3.20 presents the market share in terms of total premium of both LIC and private life insurers from the period 2004 to 2013.It has been revealed out that the market share of the entire private players has sharply risen from 16.66% in 2004-05 to 39.44% in 2013-14. Contrary to this, the market share of LIC has been decreasing from 83.34% in 2004-05 to 60.56% in 2013-14. This indicates that the private players are doing quite well and are improving year by year, thus affecting the performance of LIC.

	REGULAR PREMIUM (in Crore)				MARKET SHARE		
INSURER	**LIC**	**PVT. SEC.**	**TOTAL**	**INSURER**	**LIC**	**PVT.SECTOR**	**TOTAL**
2004-2005	2663.41	2881.61	5545.02	2004-2005	83.34	16.66	100
2005-2006	13728.03	7526.88	21254.91	2005-2006	64.59	35.41	100
2006-2007	29886.34	15472.58	45358.92	2006-2007	65.89	34.11	100
2007-2008	26222	28666.15	54888.15	2007-2008	47.77	52.23	100
2008-2009	19140.61	30229.95	49370.56	2008-2009	38.43	61.57	100
2009-2010	26184.48	34529.67	60714.15	2009-2010	43.13	56.87	100
2010-2011	36265.36	27664.19	63929.55	2010-2011	56.71	43.29	100
2011-2012	40194.54	22040.78	62235.32	2011-2012	64.58	35.42	100
2012-2013	30313.52	21834.53	52148.05	2012-2013	58.13	41.87	100
2013-2014	31904.49	20780.83	52685.32	2013-2014	60.56	39.44	100

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 4: Premium income

Premium income is the second major source of income of life insurance industry. Table 7 reveals that total premium earned by selected life insurance industry increased from Rs. 65537.78 crore in 2004-05 to Rs. 275069.14 crore in 2013-14, registering a growth rate of 319.6 per cent during the period of study. Similarly, total premium earned by LIC increased from Rs. 63533.43 crore in 2004-05 to Rs. 236942.30 crore in 2013-14 which showed a increased growth rate of 272.9 per cent during the same period. Similarly, total premium earned by private life insurers increased from Rs. 2004.35 crore in 2004-05 to Rs. 38126.84 crore in 2013-14, registering a very high growth rate of 1802.4 per cent during the period of study. As a result, the share of private life insurers in total premium decreased from 3169.78 percent in 2004-05 to 621.45 per cent in 2013-14. Coefficient of variation stood at 43.5 per cent and 131.54 per cent for LIC and private life insurers respectively which shows that growth was more consistent in case of LIC as compared to private life insurers.

INSURER	BAJAJ	ICICI	RELIANCE	BIRLA	SBI	LIC	TOTAL
2004	220.8	989.28	31.06	537.54	225.67	63533.43	65537.78
2005	1001.68	2363.82	106.55	915.47	801.78	75127.29	80316.59
2006	3133.58	4261.05	224.21	1259.68	1075.32	90792.22	100746.06
2007	5345.24	7912.99	1004.66	1776.71	2928.49	127822.84	146790.93
2008	9725.31	13561.06	3225.44	3272.19	5622.14	149789.99	185196.13
2009	10624.52	15356.22	4932.54	4571.8	7212.1	157288.04	199985.22
2010	11491.71	16528.75	6604.9	5505.66	10104.03	186077.31	236312.36
2011	9609.95	17880.63	6571.14	5677.07	12911.64	203473.4	256123.83
2012	7483.80	14021.58	5497.62	5885.36	13133.74	202889.28	248911.38
2013	6892.70	13538.24	4045.39	5216.30	10450.03	208803.58	248946.24
2014	5843.14	12428.65	4283.40	4833.05	10738.60	236942.30	275069.14

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 5: Total Life Insurance Premium (In Crore)

During 2012-13, life insurers issued 441.87 lakh new policy out of which LIC issued 367.82 lakh policies (83.24 percent of total policies issued) and the private life insurers issued 74.05 lakh policy (16.76 percent). LIC registered a growth of 2.88 percent (3.47 percent decline in 2011-12 and 6.17 percent decline in 2013-14) in the number of new policy issued against the previous years. While Private life insurers registered a decline of 12.28 percent (24.04 percent decline in 2011-12 and 14.11 percent decline in 2013-14) in the number of new policy issued against the previous years.

YEAR	NO. OF POLICIES IN LIC (In lakhs)	GROWTH RATE (%)	NO. OF POLICIES IN PVT.LIFE INSURANCE (In lakhs)	GROWTH RATE (%)
2003-04	269.68	9.08	16.59	101.05
2004-05	239.78	-11.08	22.33	34.62
2005-06	315.91	31.75	38.71	73.37
2006-07	382.29	21.01	79.22	104.64
2007-08	376.13	-1.61	132.62	67.40
2008-09	359.13	-4.52	150.11	13.19
2009-10	388.63	8.21	143.62	-4.32
2010-11	370.38	-4.70	111.14	-22.61
2011-12	357.51	-3.47	84.42	-24.04
2012-13	367.28	2.88	74.05	-12.28
2013-14	345.12	-6.17	63.60	-14.11

Source: Computed from IRDA Annual Reports various issues from 2004-05 to 2013-14

Table 6: New Policies

For economic development, investment are necessary, investments are made out of savings. Life Insurance Company is a major instrument for the mobilization of savings of people particularly from the middle and lower income groups. These savings are channeled into investment for economic growth. The insurance act has strict provisions to ensure that insurance funds are invested in safe avenues, like government bonds, companies with record of profit and so on**.** If we take another parameter, it shows that private life insurers expanded their business very fast as they had 57.17 per cent share in total number of offices operating in India as on 31.3.2013, while LIC expanded at slow speed due to its already established network throughout the country. Within the private life insurers, two insurers namely, Bajaj Allianz Life Insurance Company Limited and Reliance Life Insurance Company Limited grew very fast with a growth rate of more than 2462.2 per cent and six insurers grew at a growth rate of more than 100 per cent.

VI. CONCLUSION

The current stage of competition in the Indian life insurance industry fits into the stage of Monopolistic Competition, as the number of life insurers in India is 24. The overall performance evaluation of Life Insurance Corporation of India is consistent. With the privatization of the insurance sector, the degree of competition has increased and as a result, the service standard of insurance companies has improved beyond imagination and LIC has become more conscious regarding its products. The performance evaluation shows a consistent increase in its business. It shows that the performance is unchanged and LIC has maintained the market value of their products. Hence, LIC is doing a good job, managing the products and related marketing strategies effectively. LIC is an old trusted brand; it has to launch new policy plans which can satisfy the needs of the public. At the same time, LIC has to train and develop its employees so that they can serve the customer with full commitment and dedication. In short privatization has favorably affected the LIC of India which resulted into the progress in the overall operations of LIC of India. The privatization of the sector has brought in a lot of opportunities for all the players. Under such a situation, best of the best will survive and the rest will go out over a period of time. The financial performance of LIC shows better efficiency and stable than Private life insurance companies. But, from the opinion of Policyholders, It reveals that satisfaction level of private policyholders shows better than LIC policyholders. Therefore, LIC should introduce innovative policies for improving the satisfaction level of consumers and also improve the financial performance of private life insurance companies.

VII. LIMITATION AND FUTURE RESEARCH DIRECTIONS

As this study deals with financial aspect and not with other aspects like agent premium, policy payout time, approachability to LIC and other relevant aspect, this study can be generalized after doing proper investigation on related aspects. This study is restricted or limited to Life Insurance Corporation (LIC) of India only. It should be noted that the suggestions and conclusion viewed here would be as per the data collected by the researcher.

VIII. FUTURE RESEARCH DIRECTIONS

The Corporation should attempt to increase its business by issuing more policies to retain its market share. A comparative statement of performance between LIC and various insurance companies 65may help increase the business. 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. LIC of India should continue making investments, but secured investments should be made.

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