

## Performance Of Lic Of India After Liberalization

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### ABSTRACT

The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. After liberalization of insurance sector private insurers are making waves. They have beaten all the forecasts. The type of growth rate they have achieved for themselves has no parallel on the globe. In the year 2000-01, when the insurance industry was opened up to the players, the life insurance premium was Rs34898.48 crore. The premium income for the life insurance segment has grown 303% between 2000-01 and 2005-06. This paper will highlight the market share of LIC of India after the liberalization period. It uses a panel dataset of most of the life insurance companies working in India over the period 2001–10, to evaluate the growth and market share.

### INTRODUCTION

Insurance is the best form of fortification against risk that has been formulated by man. Since its emergence, insurance has become unavoidable to every aspect of human life from health disorders to building properties, from household articles to multimillion-dollar projects insurance is considered to be a social device to meet uncertain losses, when the need arises. In general, it is clear that an insurance organization bears the responsibility of offering world-class services to the ultimate users, which needs innovative marketing practices. Insurance in India started without any regulations in the nineteenth century. It was a typical story of a colonial era: a few British insurance companies dominating the market serving mostly large urban centers. After the independence, the Life Insurance Company was nationalized in 1956, and then the general insurance business was nationalized in 1972. The Life Insurance market in India is an

underdeveloped market that was only tapped by the state owned LIC of India (the only public sector life insurer) till the entry of private insurers. The penetration of life insurance products was 19 percent of the total 400 million of the insurable population. The state owned LIC sold insurance as a tax instrument, not as a product giving protection. Most customers were under- insured with no flexibility or transparency in the products. With the entry of the private insurers the rules of the game have changed. The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. The bill was passed to protect the interest of the policyholders from private and foreign players. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49 percent.

### **OBJECTIVE OF THE STUDY:**

The objectives of the study are:

- To study the growth of life insurance in India after liberalization of insurance industry at national level
- To make a comparative study of the growth and performance of LIC of India and other private life insurers

### **HYPOTHESIS:**

The following hypotheses are proposed to be treated through the study of this article

- After liberalization of insurance industry, the numbers and amount of insurance have increased significantly
- LIC of India is losing its market share after liberalization
- Still LIC of India is the market leader in the insurance industry and it has dominated Indian Insurance Industry

### **GROWTH OF LIFE INSURANCE BUSINESS BEFORE AND AFTER LIBERALIZATION**

The insurance market was opened in August 2000 and the initial batch of new registrations was granted for the first time on 23rd October, 2000. Many of the new companies had not started

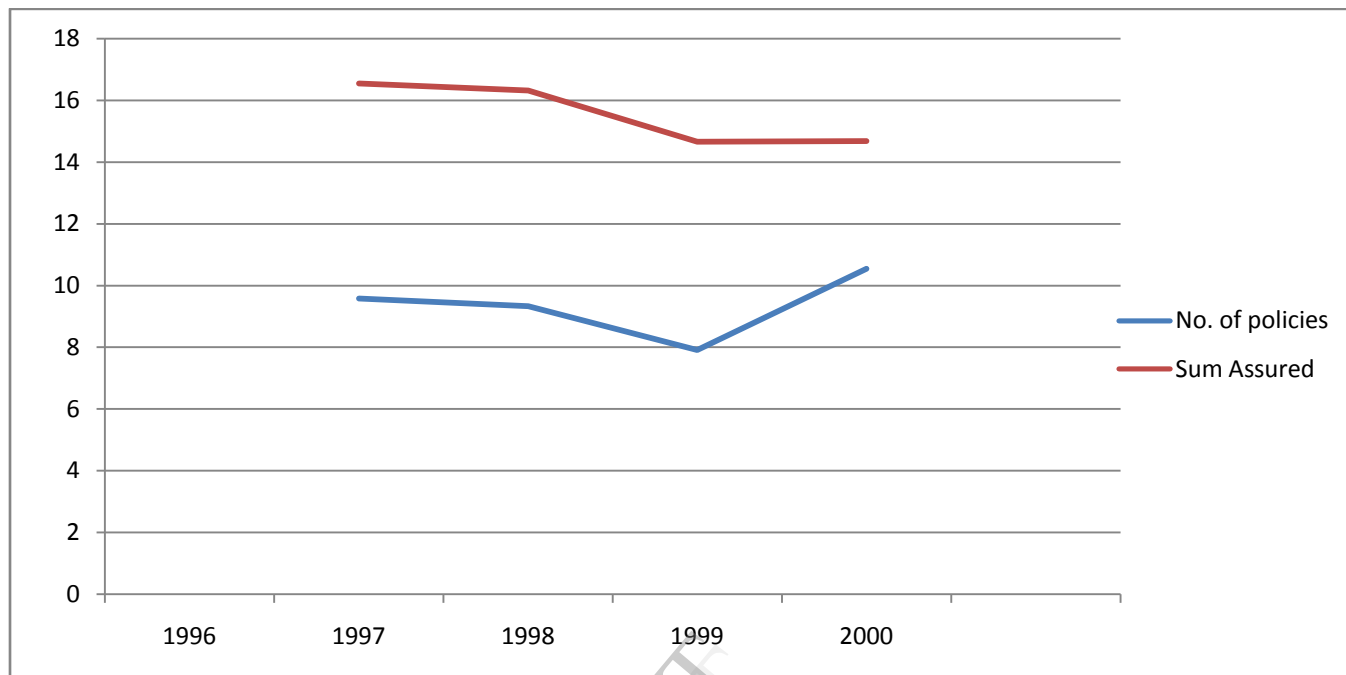
doing business by the end of March 2001. The number of policies and the amount of premium collected by the private insurers was very little. Table-1 shows the performance of only public sector life insurance company LIC of India before the liberalization i.e. during 1996 to 2000. The corresponding graphs regarding the number of policies and the amount of sum assured during this period have been shown in Figure 1 and 2.

**TABLE-1****INSURANCE BUSINESS OF LIC OF INDIA BEFORE LIBERALIZATION**

| <b>Year</b> | <b>No.of policies<br/>(in lakhs)</b> | <b>Annual growth rate in<br/>No of policies (%)</b> | <b>Sum assured<br/>(Rs.cr)</b> | <b>Annual growth rate<br/>in Sum assured (%)</b> |
|-------------|--------------------------------------|---|--------------------------------|--|
| <b>1996</b> | 708.8                                | -   | 2,94,336                       | -  |
| <b>1997</b> | 776.7                                | 9.58  | 3,43,018                       | 16.54  |
| <b>1998</b> | 849.2                                | 9.33  | 3,98,959                       | 16.31  |
| <b>1999</b> | 916.4                                | 7.91  | 4,57,435                       | 14.66  |
| <b>2000</b> | 1,013.00                             | 10.54   | 5,24,589                       | 14.68  |

Source: Annual Reports LIC of India

**FIGURE-1**

**GROWTH OF NUMBER OF POLICIES AND SUM ASSURED OF LIC OF INDIA****BEFORE LIBERALIZATION**

From the above table and graph it is observed that both the sum assured and number of policies issued by LIC of India was increasing steadily in 1996. The annual growth rate of number of policies was around 10% where as the annual growth rate of sum assured was around 16% during the pre-liberalization period.

The performance of the life insurance sector was now measured in post liberalization period from 2001 to 2010 after entry of private sector insurance companies in the market in Table -2.

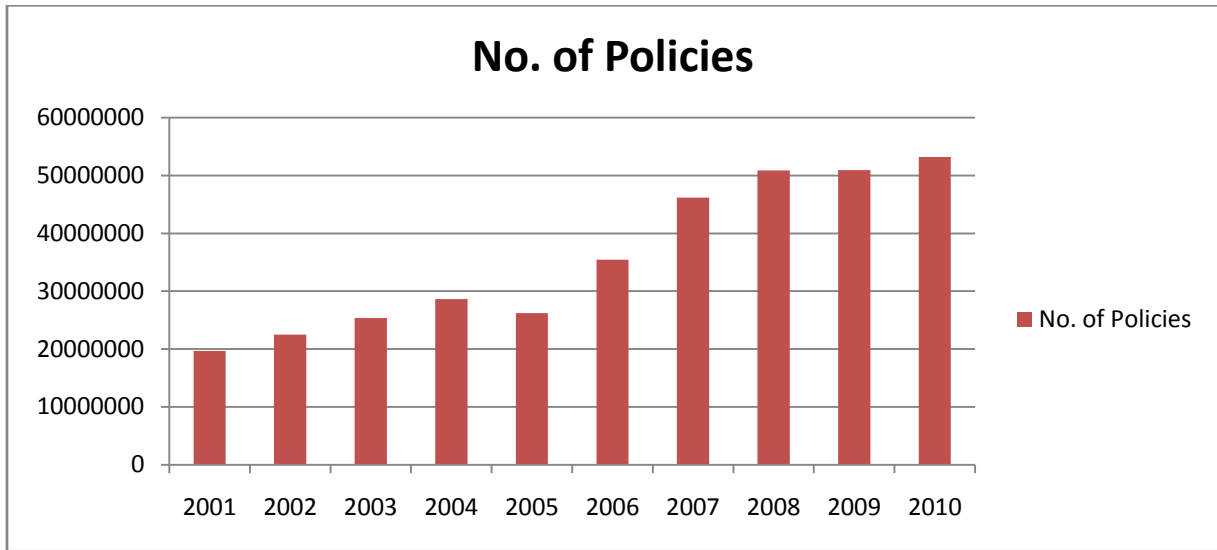
**TABLE-2****TREND OF LIFE INSURANCE BUSINESS IN INDIA IN THE POST REFORM ERA**

| <b>Year</b> | <b>Total No. of Policies</b> | <b>Annual Growth Percentage</b> | <b>Amount of Premium collected in Rs Lakhs</b> | <b>Annual Growth Percentage</b> |
|-------------|------------------------------|---------------------------------|--|---------------------------------|
| 2001        | 19683000                     | ---                             | 1220,106.33                                    | ----                            |
| 2002        | 22526838                     | 14.45                           | 5009445.94                                     | 310.57                          |
| 2003        | 25370675                     | 12.62                           | 5574755.09                                     | 11.28                           |
| 2004        | 28626916                     | 12.83                           | 6628792.81                                     | 18.91                           |
| 2005        | 26211198                     | -8.44                           | 8285479.80                                     | 24.99                           |
| 2006        | 35462117                     | 35.29                           | 10587576.15                                    | 27.78                           |
| 2007        | 46151566                     | 30.14                           | 15607586                                       | 47.41                           |
| 2008        | 50874157                     | 10.23                           | 20135141                                       | 29.01                           |
| 2009        | 50924000                     | 0.10                            | 22178548                                       | 10.15                           |
| 2010        | 53225000                     | 4.52                            | 26545037                                       | 19.69                           |
| Total       | 359055467                    |                                 | 121772468.1                                    |                                 |

Source: Annual Report of Insurance Regulatory Development Authority (IRDA)

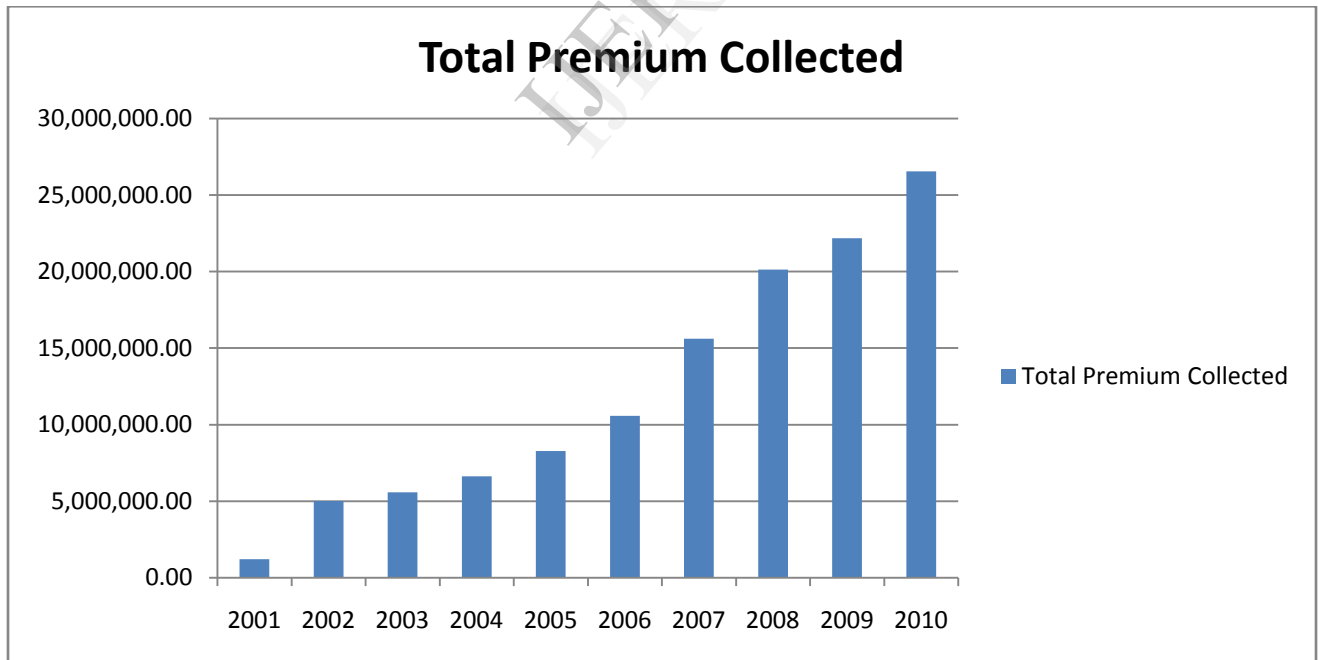
**FIGURE-2**

**NUMBER OF POLICIES IN POST REFORMS ERA**



**FIGURE-3**

**TOTAL PREMIUM COLLECTED IN POST REFORMS ERA**



The above table and graph shows that after the liberalization of insurance industry, both the number of policies and annual premium collected have increased significantly. The total number of

insurance policies sold increased from 19683000 in 2001 to 22526838 in 2002. This clearly indicates an increase of the total numbers of policies by 14.45%. The increase has continued annually till 2004 and in 2004 the total numbers of policies sold by both the Life Insurance Corporation and other private insurers has reached 28626916. Surprisingly in 2005 the total numbers of policies sold has reduced by 8.44%. But again the increasing trend of numbers of policies sold continued from 2006 to 2010. In 2010 the total numbers of policies sold both by the public and private sector insurance companies have reached to 53225000. Within the ten years of liberalization there has been a growth in the numbers of policies sold by 170%, which shows that the annual average growth in issue of numbers of policies is 17%. It is quite satisfactory achievement and may be attributed to the impact of liberalization policy

The premium collected is also correlated with the numbers of policies issued. The total insurance premium collected by the public and private insurance companies has also increased significantly within the ten years starting from 2001 to 2010. In 2001 the total insurance premium collected by the insurance industry was 1220,106.33 as against the collection of premium of Rs 5009445.94 in 2002. In this year the growth in premium collection was 310% as compared to 2001. However, thereafter, the total premium collected has increased steadily at a moderate rate every year till 2010. It shows that after liberalization the private insurance companies have contributed a lot to the insurance industry. The growth in the year 2003 and 2004 was 11.18% and 18.91% respectively. In 2005 even though the total numbers of policies sold shows a decreasing trend the total insurance premiums amount has increased by 25% over the previous year and reached Rs 8285479.80 lakhs. It shows that the relationship between the numbers of policies issued and the premium collected is not positively correlated in that particular year 2005. The increase in the total premium collected were 27.78% in 2006, 47.41% in 2007, 29% in 2008, 10% in 2009 and 19.69% in 2010. If we compare the total premium collected in 2001 and 2010, the growth rate is 95%. It shows that the annual average growth rate in premium collected at 9.5% every year from 2001 to 2010.

## COMPARATIVE STUDY BETWEEN LIC AND OTHER PRIVATE INSURER IN THE POST REFORM ERA

Table-3 indicates the comparative performance of LIC of India and the private insurance players as regards the number of Policies sold and the Premium collected in the post reforms era i.e. after liberalization. The corresponding graphs have been indicated in Figure 4 and Figure 5.

**TABLE 3**

### COMPARISON OF LIFE INSURANCE BUSINESS BETWEEN LIC OF INDIA AND OTHER PRIVATE INSURER IN INDIA IN THE POST REFORM ERA

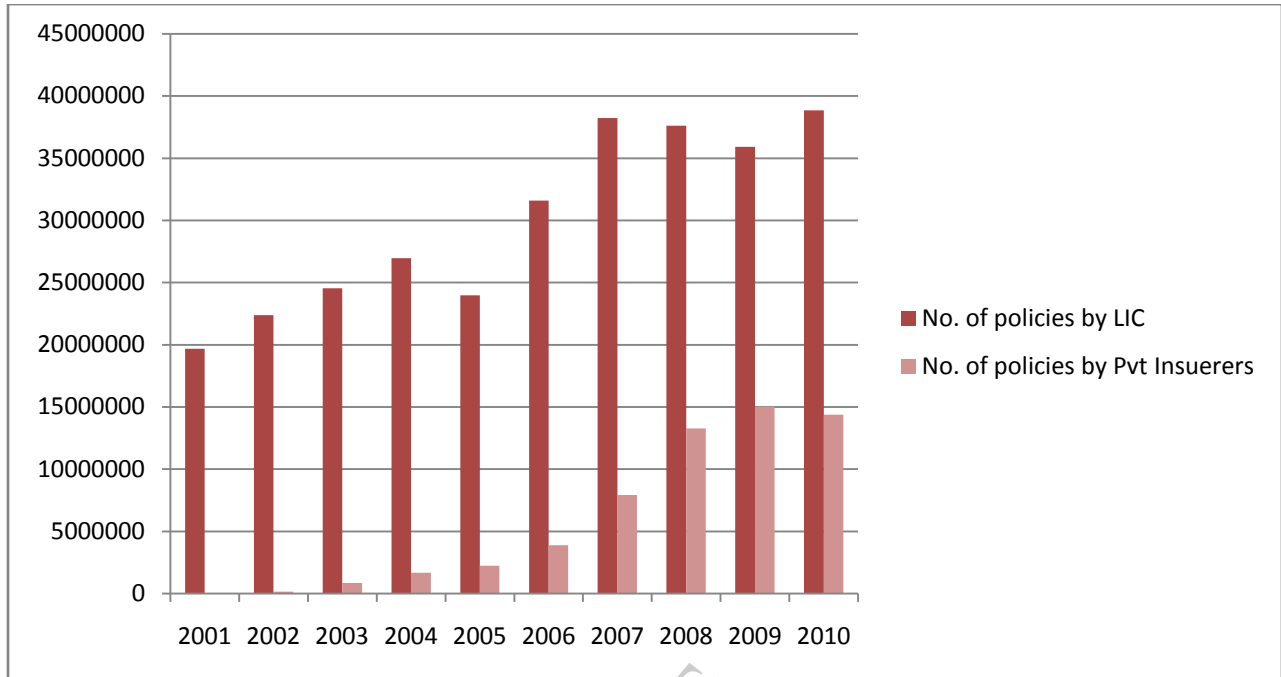
| Year  | No. of Policies by LIC | Growth Rate | No. of Policies by private Insurers | Growth Rate | Amount of Premium by LIC(lakh Rs) | Growth Rate | Amt of Premium by Pvt Insurers (lakh Rs) | Growth Rate |
|-------|------------------------|-------------|-------------------------------------|-------------|-----------------------------------|-------------|--|-------------|
| 2001  | 19673000               | -           | 10000                               | -           | 1219394.26                        | -           | 712.07                                   | -           |
| 2002  | 22394291               | 13.83       | 132547                              | 1225.47     | 4982190.94                        | 308.58      | 27254.81                                 | 3727.55     |
| 2003  | 24545580               | 9.61        | 825094                              | 522.49      | 5462848.94                        | 9.65        | 111906.15                                | 310.59      |
| 2004  | 26968069               | 9.87        | 1658847                             | 101.05      | 6316760.18                        | 15.63       | 312032.63                                | 178.83      |
| 2005  | 23978123               | -11.09      | 2233075                             | 34.62       | 7512728.98                        | 18.93       | 772750.82                                | 147.65      |
| 2006  | 31590707               | 31.75       | 3871410                             | 73.37       | 9079222.36                        | 20.85       | 1508353.79                               | 95.19       |
| 2007  | 38229292               | 21.01       | 7922274                             | 104.64      | 12782284                          | 40.79       | 2825301                                  | 87.31       |
| 2008  | 37612599               | -1.61       | 13261558                            | 67.40       | 14978999                          | 17.19       | 5156142                                  | 82.50       |
| 2009  | 35913000               | -4.52       | 15011000                            | 13.19       | 15728804                          | 5.01        | 6449744                                  | 25.09       |
| 2010  | 38863000               | 8.21        | 14362000                            | -4.32       | 18607731                          | 18.30       | 7937306                                  | 23.06       |
| Total |                        |             |                                     |             |                                   |             |  |             |

Source: Annual Report of Insurance Regulatory Development Authority (IRDA)

**FIGURE-4**

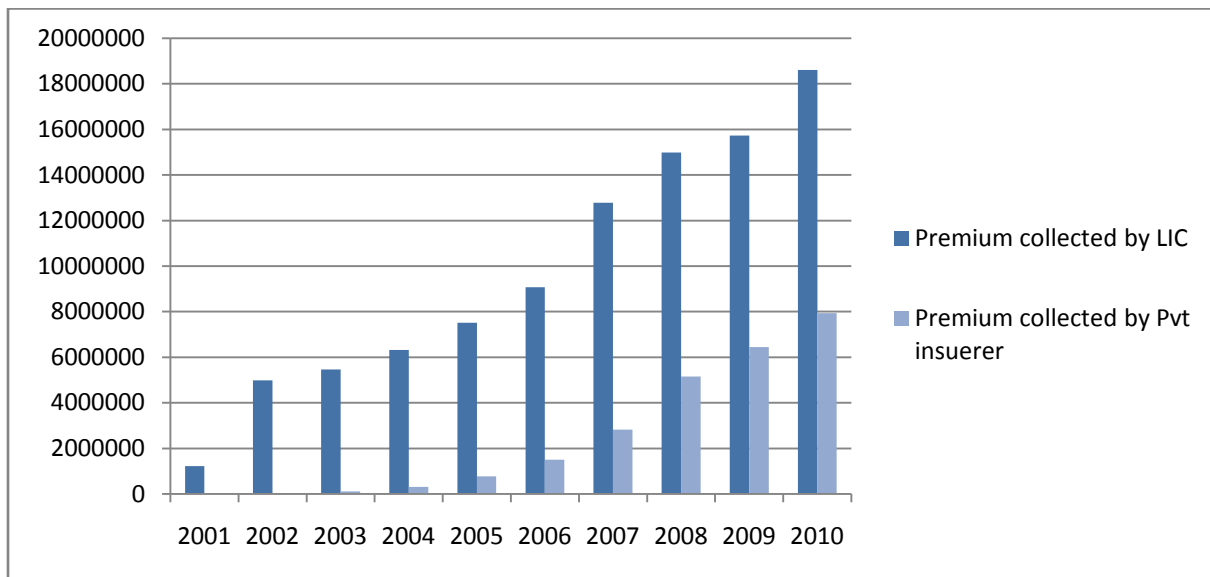


**COMPARATIVE STUDY OF NUMBER OF LIFE POLICIES FLOATED BY LIC OF INDIA AND PVT SECTOR INSURANCE COMPANIES**



**FIGURE-5**

**COMPARATIVE STUDY OF NUMBER OF LIFE POLICIES FLOATED BY LIC OF INDIA AND PVT SECTOR INSURANCE COMPANIES**



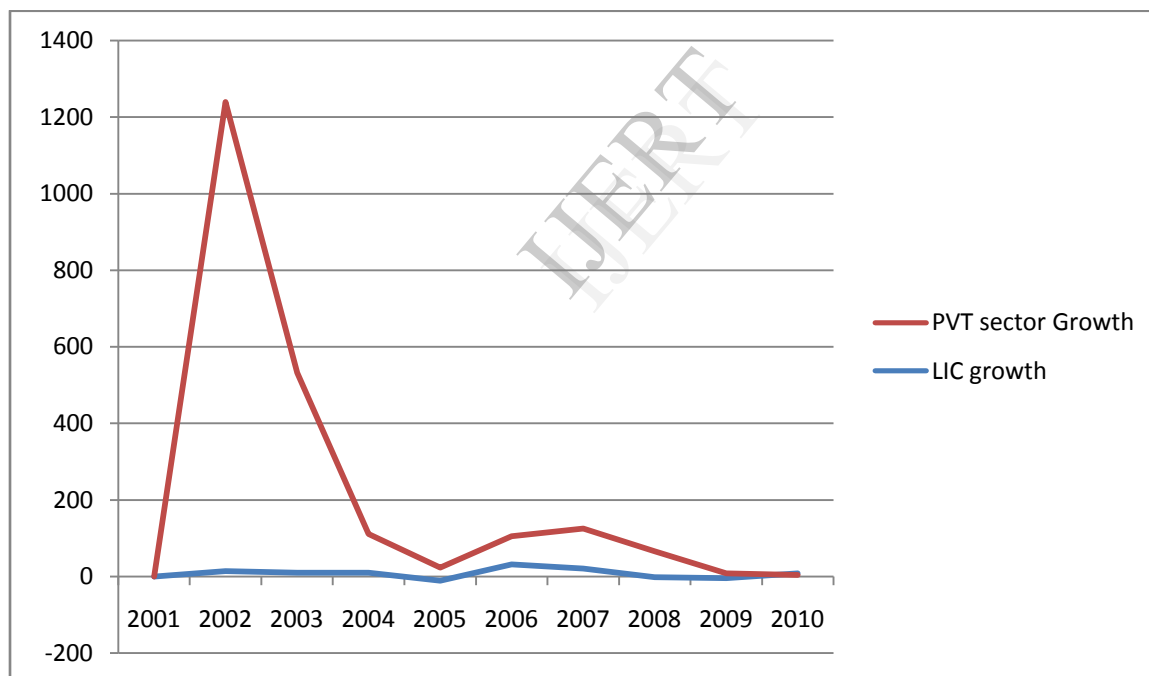
From Table 2 and Figure 2 and Figure 3 it is clear that the insurance industry has grown significantly after the liberalization both in terms of the total numbers of policies and total premium collected by the insurance industry. Table 3 shows the total numbers of policies and total amount of premium collected differently by Life Insurance Corporation of India and other private insurers. In 2001 out of the total numbers of policies issued by the insurance industry, LIC has sold 19673000 numbers of policies where as the private insurers were able to sold only 10,000 numbers of policies. This was so happened because the private insurers were new to the insurance market and they have just started their business in 2001. In 2002 the total numbers of policies sold by the private insurers has increased significantly and reached 132547. The total numbers of policies issued by the private insurance companies have been in an increasing trend from the year 2001 to 2010. It shows that the private companies are emphasizing to increase the numbers of policies every year. In 2010 the total members of policies issued by the private insurance companies has reached to 14362000. If we compare this figure with 2001, it shows that there is a growth of 143420%. The total numbers of policies issued by LIC has also increased from 2001 to 2010 except 2005 and 2009. The total numbers of policies sold by LIC in 2001 was 19673000 and it reached the figure 38863000. The growth from 2001 to 2010 was 97.54%. It shows that every year the numbers of policies sold by LIC has been increasing showing an annual average growth rate of 10%. The growth in issue of numbers of policies by private insurance players is much more than LIC of India.

In collection of premium the private insurers have also changed all possible predictions. Every year the total premium collected by the private companies has been increasing constantly at a accelerated rate. In 2001 the total premium collected by the private insurance companies was only Rs 712.07 lakhs, which was reached Rs 7937306 lakhs in 2010. This shows that the private insurance companies have done a commendable job to increase their numbers of insurance policies

as well as the total premium collection. The premium collected by LIC of India has also increased throughout the study period from 2001 to 2010 but not at the rate at which the private players galloped. But looking at the figures of total premium collected by LIC of India it has reached Rs18607731 lakhs in 2010 which was 70% of the total premium collected by the insurance industries in that year. The rest 30% of the total premium collection in 2010 was collected by the all the private insurances companies together. It shows that LIC of India has still dominated the insurance industry with the highest market share and is undoubtedly the market leader.

**FIGURE-6**

**COMPARATIVE STUDY OF GROWTH RATE OF NUMBER OF POLICIES FLOATED BY LIC OF INDIA AND PVT SECTOR INSURANCE COMPANIES**

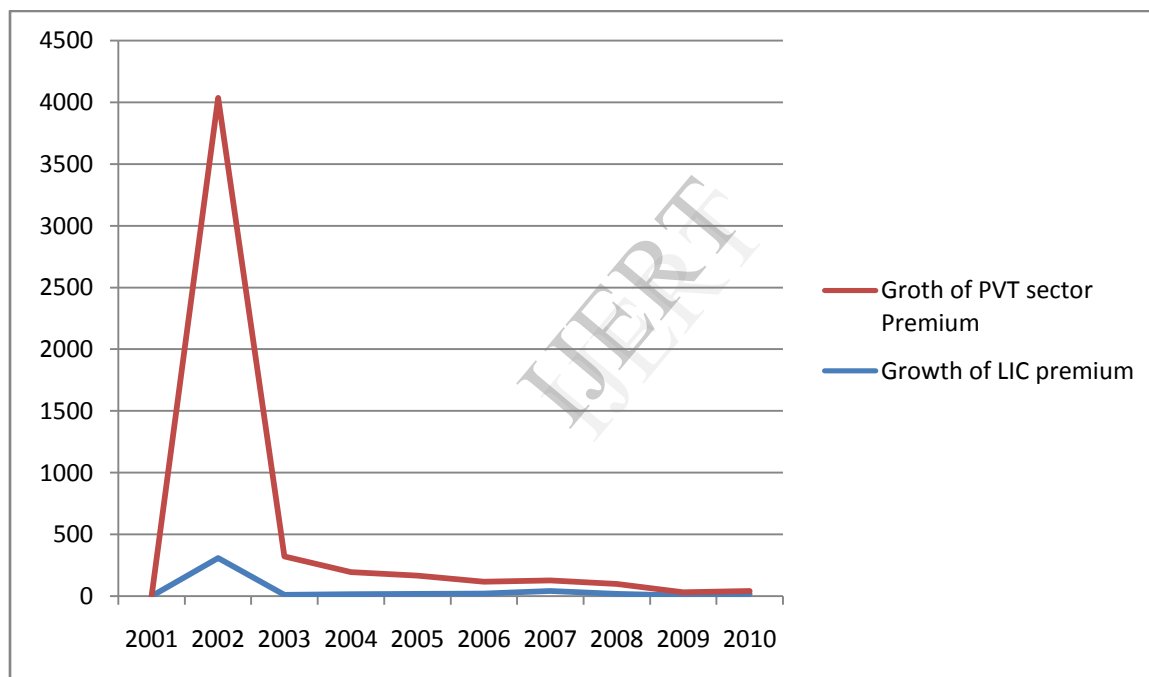


The above graph shows the comparative growth rate of the number of policies floated by LIC of India and the private sector insurance companies from 2001 to 2010. From the above graph it is clear that the growth rate of number of new policies by the private sector insurance companies is much higher than LIC of India. In 2002 the growth looks exceptionally high which is quite normal

since in 2001 the number of policies done by the private sector companies is the lowest and it is the beginning of the reforms. That year is an abnormal year and should not be considered for comparison. Even though the growth rate registered by the private sector insurance companies is higher than the LIC of India the growth annual number of policies undertaken by LIC of India is steady over the years.

**FIGURE-7**

**COMPARATIVE STUDY OF GROWTH RATE OF PREMIUM COLLECTION BY LIC OF INDIA AND PVT SECTOR INSURANCE COMPANIES FROM 2001 TO 2010**



Just similar to Figure 6 in the above graph it is clear that the premium collection annual growth is more in private sector than LIC of India. The annual growth of LIC of India is steady over the years. After the liberalization an exceptionally high growth of annual premium was seen in 2002. This is because in 2000 the insurance sector was liberalized and it is the beginning. So this figure should not be considered for comparison. The lowest annual growth in premium collection by LIC of India was registered in 2009 but after that year it shows an increasing trend. But it is clear that

the growth of annual premium collection by the private sector has been reducing constantly from 2002 to 2010. The growth in private sector annual premium was highest in 2003 and it was 310%, but it was reduced to 83% by the year 2010.

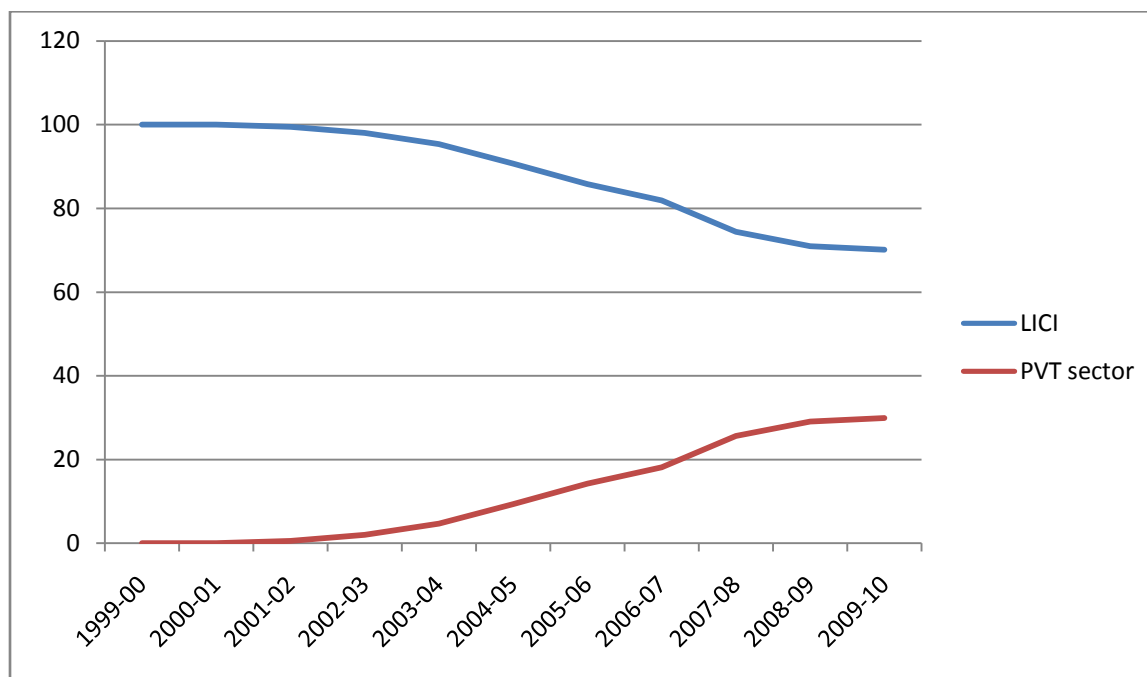
**FIGURE-8**

**COMPARATIVE STUDY OF GROWTH RATE OF PREMIUM COLLECTION BY LIC  
OF INDIA AND PVT SECTOR INSURANCE COMPANIES FROM 2001 TO 2010**

**MARKET SHARE OF LIFE INSURER (%)**

| <b>Year</b>    | <b>LICI</b>  | <b>Private Sector</b> |
|----------------|--------------|-----------------------|
| <b>1999-00</b> | <b>100</b>   | <b>0</b>              |
| <b>2000-01</b> | <b>99.98</b> | <b>0.02</b>           |
| <b>2001-02</b> | <b>99.46</b> | <b>0.54</b>           |
| <b>2002-03</b> | <b>97.99</b> | <b>2.01</b>           |
| <b>2003-04</b> | <b>95.32</b> | <b>4.68</b>           |
| <b>2004-05</b> | <b>90.67</b> | <b>9.33</b>           |
| <b>2005-06</b> | <b>85.75</b> | <b>14.25</b>          |
| <b>2006-07</b> | <b>81.90</b> | <b>18.10</b>          |
| <b>2007-08</b> | <b>74.39</b> | <b>25.61</b>          |
| <b>2008-09</b> | <b>70.92</b> | <b>29.08</b>          |
| <b>2009-10</b> | <b>70.10</b> | <b>29.90</b>          |

**Source: IRDA Annual Report**

**Figure -9**

From figure 8 and 9 it is clear that the market share of LIC of India is reducing year by year. In 1999-00, LIC was enjoying the monopoly with 100% market share but slowly its market share has been reducing. By the end of 2010 its market share has reduced to 70% and the market share of private sector insurance company has increased to 30%. Now it is a challenge to LIC to hold this 70% market share and continue to be the market leader in the insurance market.

## CONCLUSION

From the above analysis we can conclude that the insurance industries have grown rapidly after the liberalization. Every year both the private insurance companies and LIC of India have been increasing the numbers of policies sold and the total amount of premium collected. Both the total numbers of policies sold and the total amount of premium collected by the insurance industries have increased significantly. But the growth rate of Private insurance companies is more than that of LIC of India in terms of number of Policies and total Premiums collected. After the Insurance

sector reforms, most of the private insurance companies entered the Indian market as joint ventures with recognized foreign players across the globe. The increased consumer awareness and competition has brought more products and improved the customer service. As a result the market shares of LIC of India have reduced significantly. But while comparing the market shares of Public sector Insurance company LICI with the private sector insurance companies it is found that LICI still holds 70% market share and remains as the market leader in the insurance Industry. Insurance industry in India is one of the flourishing sectors. The concentration of insurance markets in many developed countries of the world has made the Indian insurance market more magnetic in terms of international insurance players. But this should not be considered as an impossible proposition on the part of private insurance companies that with the tremendous potential for the insurance sector they cannot penetrate the untapped market or they cannot surpass their counterpart in public sector.

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