Performance Evaluation of Life Insurance Corporation (LIC) of india

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Abstract: Insurance industries in India now a day have taken a giant shape especially after privatization and introduction of Insurance Regulatory & Development Authority (IRDA). Life Insurance Corporation of India is one of the most significant public sector which plays excellent job in selling its products. But since last few years it is facing tremendous competition as many private players have emerged. The idea behind this study therefore to know the growth and performance of LIC. The researcher is going to analyze the major source of income (Premium Earned) of the sampled unit, as well as the significant heads of expenses of LIC to measure the performance during the period of the study.

Keywords: LIC, Performance Evaluation, Premium Earned, Expenses.

I. INTRODUCTION

The setting up of the Insurance Regulatory and Development Authority (IRDA) was a clear signal of the end of the monopoly in the insurance sector. It has become imperative for LIC to face the competition posed by the entry of new private players. If under this pressure, Life Insurance Corporation of India improves its performance, the whole economy will be benefited. The insurance industry has undergone a drastic change since liberalization, privatization and globalization of the Indian economy in general and the insurance sector in particular. For almost four decades LIC has been sole player with virtual monopoly in the life insurance sector. The entry of so many companies in this sector was likely to affect the performance of Life Insurance Corporation. Thus the LIC public sector giant, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. It becomes imperative at this instance to appraise the performance of Life Insurance Corporation of India, succeeding sectoral reforms. And for evaluating the performance of LIC in progression, key determinants are identified and listed. The present paper is an attempt to examine the performance of LIC of India in this competitive age.

The LIC was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. LIC's slogan is sanskrit "yogakshemam vahamyaham" which translates in english as "Your welfare is our responsibility". This is derived from the Ancient Hindu text, the Bhagavad Gita's 9th Chapter, 22nd verse. The slogan can be seen in the logo, written in Devanagiri script.

II. PROBLEM OF THE STUDY

The problem of the study is" Performance Evaluation of Life Insurance Corporation (LIC) of India".

III. OBJECTIVES OF THE STUDY

Below mentioned are some of the objectives of the study.

1. To understand the importance of Life Insurance in human life.

2. To know the working of LIC (Life Insurance Corporation).

3. To identify major attributes for the success of plans.

4. To evaluate the operating efficiency of LIC of India.

5. To measure the performance of LIC of India.

6. To evaluate the growth of LIC during the period of the study.

IV. REVIEW OF THE LITERATURE

In order to find out the gaps in research, the literature already available pertaining to the problem is to be reviewed. The literature on life insurance industry in India includes books, compendia, theses, dissertations, study reports and articles published by academicians and researchers in different periodicals. The review of this literature gives an idea to concentrate on the unexplored area and to make the present study more distinct from other studies. The literature available is presented below:

1. Mishra, K.C. and Simita Mishra (2000) in their article on "Insurance Industry: Recipe for a Learning Organization" say that like any other industry, insurance industry in India suffers from one challenge repeatable a hundred times, that is the constraints of infrastructure.

2. Balasubramanian, T.S. and Gupta, S.P. (2000) in their book on "Insurance Business Environment" explain at length the global and Indian pictures of Insurance systems. The impact of globalization and also liberalization on Insurance business environment is also discussed analytically to have a clear understanding of the challenges faced by the insurance industry.

3. Mitra Debabrata (2000) in the thesis entitled "Employees and the PSU: A Study of their Relationship with Special reference to Jalpaiguri Division of the Life Insurance Corporation of India" opines that the State-owned Undertakings provide all sorts of facilities and amenities to employees along with usual emoluments. But, their productive rate is low when compared it with the private sector undertakings. In the Jalpaiguri Division, the employee relationship with the LIC is clearly discussed and some suggestions are also given in the thesis.

4. Wadikar Ashok Laxaman (2001) in his thesis on "Innovativeness in the Insurance Industries", Ph.D. Thesis submitted to the Department of Management, University of Pune, Pune, 2001. Confirms a general opinion that innovativeness in every activity alone rules and dominates the industry. But, at the same time, the practicality and economic justification of that innovativeness are also to be analysed.

5. BalachandWran, S. (2001) in his book on "Customer Driven Services Management" concludes that the insurance industry is fast growing and mostly becoming a customer driven and customer centric one. He also advocates that when the insurance products are attractive to the customers, then only the insurance industry flourishes in the market and serves its purpose of profit earning and also income generation.

6. Srivastava, D.C. and Srivastava, S. (2001) in their book on "Indian Insurance Industry–Transition and Prospects" discuss analytically the financial significance of insurance industry, its contribution to Indian economy and alsothe transitory prospects and challenges of insurance industry due to liberalization and the opening up of the sector to private players.

7. Mark S. Dorfman (2002) in his book on "Introduction to Risk Management and Insurance" reviews the salient features of the insurance industry and also the role played by the private enterprise. The different types of insurance intermediaries are also discussed at length with suitable illustrations incorporated wherever necessary.

8. Charles P Jones (2002) in his book on "Investment Analysis and Management" explains clearly about the framework for evaluating portfolio performance through return and risk considerations. The Risk-Adjusted measures of performance and also the problems associated with Portfolio Measurement are also discussed.

9. Ajay Mahal (2002) in his article on "Assessing Private Health Insurance in India–Potential Impacts and Regulatory Issues" asserts that the entry of private health insurance companies in India is likely to have an impact on the costs of health care, equity in the financing of care and the quality and cost-effectiveness of such care. However, he mentions that an informed consumer and a well-implemented insurance regulation regime in many cases eliminate some of the bad outcomes.

10. Dan Segal Leonard N. Stern School of Business New York University "An Economic Analysis of Life Insurance Company Expenses" has analysed the expenses of the Life Insurance Companies.

V. RESEARCH METHODOLOGY

Data Collection: The present study covers secondary data. Data and information have been extracted from Annual Reports LIC of India. The researcher has collected 5 years Balance Sheet and Profit & Loss Account of the sampled unit. It is also supported by various published journals, literatures of the LIC.

Sampling: The Insurance industry now a day has so many Life Insurance institutions in India; the researcher has selected LIC of India as a sample.

Period of the Study: The period of the study was from 2005 to 2010 i.e. of 5 years.

Tools & Techniques of the Study: The researcher has used the tools as per the need and type of the study. The information so collected has been classified, tabulated and analysed as per the objectives of the study. As per the nature of the data available the graphical presentation was also done. As per the objectives of the study F-test was applied.

Significance of the study: Life insurance is a very significant factor in human life. The present study gives the perfect knowledge of life insurance and current situation of LIC plans. Life insurance being an important form of social security. In this present world human life become so risky.

Hypothesis of the study: Following is the hypothesis of the study.

Ho: There is no significant difference in expenses of sampled unit during the period of the study.

H1: There is significant difference in expenses of sampled unit during the period of the study.

VI. SCOPE OF THE STUDY

The present study covers secondary data of LIC of India during the period of the study. Besides, commission expenses and operating expenses of LIC have also been included for the analysis of operating efficiency.

VII. LIMITATION OF THE STUDY

1. This study is restricted or limited to Life Insurance Corporation (LIC) of India only.
2. It should be noted that the suggestions and conclusion viewed here would be as per the data collected by the researcher.

VIII. DATA ANALYSIS

Life Insurance Corporation (LIC) is doing business of Insurance in India since 1961. By providing insurance, as such it tries to secure the human life value and there by adds further security to the person having insurance policy. As mentioned earlier that as per the type and nature of the data available researcher has analyzed major five components of the expenses of the sampled unit. All Expenses are analyzed through statistical measures. This chapter goes further, and Descriptive Analysis has been being carried out. The following table shows the major five variables which are taken for the analysis.

Components of Expenses (Table N0. 1.1)

Major Components of Expenses of LIC (Rs. In Lacs)										
Years	Claims	%	Commission	%	Operating Expenses	%	Investments I	%	Investments 2	%
2005-06	2992136.56	100	684648.01	100	489231.63	100	16640.43	100	45278642	100
2006-07	3691661.56	123.38	729694.38	106.58	528175.29	107.96	27945.18	167.94	51111283	112.9
2007-08	3852982.79	128.77	715093.24	104.45	518311.03	105.94	29319.63	176.19	60539701	133.7
2008-09	4216774.03	140.93	862108.36	125.92	701378.41	143.36	31950.4	192	63896170	141.1
2009-10	5412910.66	180.9	1054737.9	154.06	932960.54	190.7	35376.27	212.59	83304127	184

Source: Secondary Data

The above table shows the performance of claims paid. Table also indicates that base year (2005-06) amount of claims paid, and in the same line calculated percentages of five years during the period of the study. The highest percentage was in the year 2009 – 10. The lowest percentage was in the year 2006 – 07, depicts that year by year amount paid by Way of claims get increased. All other components Commission paid, Operating Expenses, Investments 1 (Shareholders'), and Investments (Policyholders') showing upward trend.

Now, following table depicts the descriptive statistics taking the base year 2005-06 as 100%.

As per data shown in above table the base year 2005-06 is taken as 100. As compare to this base year Expenses of all other years are showing increasing trend. As all components of the expenses are increasing, but the increase in the operating expenses are much higher than any other component/variable.

Descriptive Statistics (Table No. 1.2)					
Descriptive Analysis	Claims	Commission	Oper. Exp.	Inv. 1	Inv. 2
Mean	143.50	122.75	136.99	187.18	142.92
Standard Error	13.00	13.00	19.86	9.83	14.93
Median	134.85	116.25	125.66	184.10	137.41
Standard Deviation	25.99	23.00	39.72	19.66	29.87
Sample Variance	675.72	528.91	1577.39	386.62	892.19
Kurtosis	2.33	0.10	-0.15	-0.81	1.84
Skewness	1.56	1.12	1.07	0.71	1.03
Range	57.52	49.61	84.76	44.65	71.10
Minimum	123.38	104.45	105.94	167.94	112.88
Maximum	180.90	154.06	190.70	212.59	183.98
Sum	573.98	491.01	547.96	748.72	571.68
Count	4.00	4.00	4.00	4.00	4.00
Largest(1)	180.90	154.06	190.70	212.59	183.98

Smallest(1)	123.38	104.45	105.94	167.94	112.88
Confidence Level (95.0%)	41.36	36.59	63.20	31.29	47.53

The above table reveals that as year by year expenses are increasing, its standard error is also getting increased. It would result into increase in variances. As operating expenses are increased at a higher rate its standard error also gets increases faster and its variance (1577.39) is also very high as compared to all other variables.

F-Test

Ho: There is no significant difference in expenses of   sampled unit during the period of the study.

H1: There is significant difference in expenses of   sampled unit during the period of the study.

F-Test (Table No. – 1.3)

Variables	Standard Error	Standard Deviation	Sample Variance
Insurance Claims	12.997	25.995	675.717
Net Commission Paid	12.997	22.998	528.908
Operating Expenses	19.858	39.716	**1577.395**
Investments (Shareholders')	9.831	19.663	**386.619**
Investments (Policy Holders')	14.935	29.870	892.191
Critical Value			**2.770**
F - test Value = Estimate of largest variance/ Estimate of smallest Variance			**4.08**
Hypothesis			Rejected

As the above table shows that analysis of variance (F –Test), variance on operating expense was highest amongst all, while variance of Investments (shareholders') was lowest. So as a result of F-Test is 4.08. While the critical value is 2.77. So the hypothesis is rejected.

IX. SUGGESTION

The overall performance evaluation of Life Insurance Corporation of India is consistent. The working groups have been worked hard for their functions but still some drawbacks are left behind, for that suggestions are as under:

1. LIC should try to increase their selling of plans to introduce new plans with different kinds of facilities, so that it can increase its income amount, especially Premium amount.

2. As private insurance companies capture the market now a day, therefore, LIC should strengthen their working & should launch plans with more facilities.

3. 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.

4. Operating cost as compared to premium underwritten should be controlled.

5. A comparative statement of performance between LIC and various insurance companies may help increase the business

6. A comparative statement of performance of operating expenses of LIC and various insurance companies may help to narrow down the cost.

7. LIC of India should continue making investments, but secured investments should be made.

8. LIC need to find out which attribute of the operating expenses need to be controlled.

X. CONCLUSION

LIC has been successfully able to create value for its policyholders. The performance evaluation shows consistent increase in its business. During the period of the study there is no major change in the performance of the LIC. So it clarifies that the performance is unchanged and LIC has maintained the market value of their products. After introduction of IRDA (Insurance Regulatory & Development Authority), LIC has become more conscious for their products. As private players are coming up now a day, competition is increasing and LIC has made efforts to continue its business. Apart from this, LIC need to control the investment level. As above table also reflects that the investment (Policy holders') has this second highest variance, so investment (policyholders') also need to reduce. Researcher has evaluated the various components of expenses with scientific methodology to justify the performance; so to conclude, LIC is doing good job, managing the products, and related marketing strategies effectively. But as per analysed data we can say that LIC need to control the Operating Expenses, to not affect its income. LIC is pioneer institute in Indian economy; so after IRDA and privatization of insurance sector, the way of achieving the effective result is not smooth task, but LIC has to work.

"The woods are lovely dark and deep, but LIC has to keep promises and miles to go before it sleeps".

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