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PERFORMANCE OF LIFE INSURANCE BUSINESS IN THE POST CRISIS PERIOD

H.N. Devanand
Assistant Professor, Centre for Rural Development Studies, Bangalore University, Bangalore

T. Rajendra prasad
Professor, Department of Economics, Bangalore University, Bangalore - 560056

Abstract

Insurance constitutes one of the major segments of the financial market. Insurance services play a pre-dominant role in the process of capital formation of the country as mobilize of savings and also as financial intermediary. The insurance industry commands large funds through sale of insurance products to a large member of individuals and organizations located in different parts of the country. During the process of conducting insurance business, insurers also create liabilities and commit themselves to compensate for the losses occurring to the policy holders at a future data. Life insurance is one of the most important devices or plan developed as a part of our economy for providing family security on a voluntary basis through individual initiative. Every plan of insurance is in its simplest form, merely a method of spreading over a large member of persons, a possible financial loss, too difficult to be conveniently borne by an individual. Life insurance seeks to reduce the financial uncertainties arising from the natural contingencies-old age and death.

Keywords: Life insurance, policy-holders, administrative expenses, business, emergency provisions, quality of service

Introduction

The fundamental function of life insurance is to provide protection against the financial needs occasioned by disability, old age and death. We may not be able to stop death but can manage to stop the sufferings of financial loss caused by death. Thus life insurance undertakes to protect the insured's family, creditors or others against pecuniary losses arising out of the death of the insured.

With this background the author make an attempt to focus on the following aspects

- Nature of Life Insurance
- Major Life Insurance Products
- Performance of the LIC

Formation of Life Insurance Corporation (LIC) of India

By the year 1955, there were 170 insurance companies including 16 foreign insurance companies and 75 provident fund societies which were engaged in carrying out the insurance business in India. A few of these were foreign companies with their head office outside India. In addition to these insurers, a large number of other insurers who had registered themselves for transaction of life assurance business had either gone into liquidation or had been taken over by the existing insurers. The concept of trusteeship which should have been the cornerstone of life insurance was entirely lacking and most management had no appreciation of the clear and vital distinction that existed between trust money and those belonging to stock companies owned by shareholders. Therefore, it became necessary to nationalize insurance business. Till January 1956, life insurance in India was under the control of private enterprises. After January 19, 1956 all the life insurance business in country was nationalized. As a beginning, the life insurance (emergency provisions) ordinance was promulgated on the January 18, 1956. Thereafter, the Life Insurance Corporation was formed in September 1956 by an act of Parliament, viz. LIC Act, 1956 with a capital of Rs.50 million (Rs.5 crore). At the time of nationalization, 245 insurance companies were in operation. When parliament set up LIC as a monopolistic public undertaking, it was argued and believed that elimination of competition and the malpractice that competition has given rise to, would lead to:

1. Better and more economical management of the business of life insurance.
2. Reduction in administrative expenses.
3. Improvement in the quality of service.
4. Increase in volume of business.
5. Maximization of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds.

The reasons behind the nationalization were: (a) Failure of private companies to function in national interest; (b) To provide for economic security to common man which was lacking in the hands of private companies; (c) Many companies frittered away their resources overlooking the interests of the policy-holders; and (d) Individuals who were controlling the insurance business misappropriated and diverted funds under their management in their other ventures leaving the insurance business to bear losses.

Organizational Setup

LIC is the largest government owned organization in the world doing life insurance business. Life Insurance Corporation of India is a public sector giant in the life insurance industry in India. For almost five decades LIC remained a monolithic company in the life insurance sector. Since nationalization LIC has built up a vast network of 2,048 branch offices, 100 divisional offices, 8 zonal offices and 10,02,149 agents spread all over the country. Divisional Offices monitor and control the operations. Branch offices procure business and are responsible for all customer interface transactions. Satellite Officers also procure business and are responsible for immediate customer services requirements. It has its central office in Mumbai. The Life Insurance Corporation of India also transacts business abroad and has offices in Fuji, Mauritius and United Kingdom. With its multinational presence, it is associated with joint ventures abroad in the field of insurance namely, Ken India Assurance Company Limited, Nairobi, United Oriental Assurance Company Limited, Kualalumpur and LIC (International) E.C. Bahrain.

Features of Life Insurance

Life insurance is not simply a business proposition. It is not just a question of mobilization of resources for development; it is a question of instilling a sense of security in the minds of people. It provides a link between the present and the future. It is a matter of the socio-economic vision that a society has of its future, which ultimately leads to mutually of trust between the people and the institution. For this purpose a life insurance company brings various products called policies to meet the requirements of insuring public. The life insurance policy helps beneficiaries financially after the owner of the policy dies. It is a contract between the policy holder, i.e. the assured and the insurer (the life insurance company), which assures the payment of a sum of money at maturity or in the event of the policy holder's death, or terminal or critical illness. Specific exclusions are often written into the contract to limit the liability of the insurer; for example claims relating to suicide, fraud, and war fall under the exclusion clause and are not payable. The cost or premium of a life insurance policy depends upon the type and kind of coverage desired by the proposer and his age. A life Insurance policy can also be a tool of savings in the long run, which we will discuss shortly, or it can be tied up with a pension plan. Thus a life insurance policy provides security, protects home mortgages, and facilitates other retirement linked savings. Life is very fragile and death is a certainty with uncertain timings. The man cannot control the uncertainties of life. But, he can cover the risks surrounding him. Life Insurance, simply put, is the cover for the risks that we run during our lives. It protects us from the contingencies that could affect people or their families. Life insurance is not for the person who passes away, it is for those who survive. It is the responsibility of every bread earner to safeguard against the events that could affect his family in the unfortunate event of his demise. Thus, having a life insurance policy is very vital. Before going in for a life insurance policy, it is imperative to know about various types of life insurance policies. Life insurance is a corporate effort to provide security against economic hazards of man. Life insurance is an attempt to meet the varying needs or wants of community and has taken different forms.

Major Products of LIC

The following are the prominent insurance products which will be sold to its customers are as follows.

Endowment Policies

This type of policies are issued for a specified period of time and the premiums are payable for such periods. If death occurs during the currency of the policy, the claim is paid to the nominee of the assured. Endowment policies cover the risk for a specified period, at the end of which the sum assured is paid back to the policyholder, along with the entire bonus accumulated on the policy. The LIC issue following types of policies under this category.

Ordinary Endowment Policy

It is the most popular and common policy by LIC. It is issued for a specified period of time, viz. for 15, 20, 25 or more years. The premiums under the policy are paid for a fixed term. In case the death takes place during the term, the sum assured along with accumulated bonus is paid to the policyholder. It provides an ideal combination of both the family protection and the investment. This policy is available with profit and without profit options. The policy with profit carries bonus, whereas the policy without profit does not carry any bonus. The premium rate is higher for 'with profit' policy as compared to 'without profit' policies.

Pure Endowment Policy

The sum assured under this type of policy is paid to the assured only if he survives till the maturity of the policy. In case the assured dies before the maturity of the policy, his legal representative cannot claim for any amount. The pure endowment policy is opposite of the term policy, because the insured is paid if he survives till maturity in pure endowment whereas in the term policy, the sum assured is paid in case the insured dies during the term of the policy. In fact, these two policies i.e., pure endowment and term policies, are the basis of all other policies. Pure endowment is for the benefit of the policy-holder and term policy is for the benefit of others. So, the pure endowment policy has the element of investment and the term policy has the element of protection. The former is for old age protection while the latter is for family protection. The pure endowment policy is a sort of compulsory saving for old age. The paid up and surrender values are allowed on this policy. The mode of payment of premium under this is only yearly or half yearly.

Double Endowment Policy

This policy is of particular value to the person who by reason of some physical disability is not eligible for acceptance at the tabular rates under any of the other classes of assurance.

Joint Life Endowment Policy

Under this policy, two lives can be insured under one life insurance contract. Husband and wife, partners of a firm, etc., can effect such policy. The sum assured is payable on the maturity of the policy. In case either of the insured dies before the maturity of the policy, the claim is paid to the surviving members. If all the insured persons survive, the claim is payable to all of them jointly. The premiums are payable throughout the endowment period or till the premature death of any one of the person insured. The paid up and surrender values are payable on the policy.

Marriage Endowment Policy

The object of this policy is to provide for funds needed at the time of marriage of children. A certain amount insured under this policy is payable after a certain period of time. On maturity, insured sum is payable to the child nominee. In case the parents of the child nominee die before the maturity, no premium is required to be paid. This policy is issued with or without profits. The paid up values are paid under this policy. This policy is insured for a minimum sum of Rs.10, 000 and a woman or man between the age group of 18 to 60 years can obtain such policy. By paying an additional premium @ Rs.1 per thousand, one can get additional cover for accident or physical disability benefit.

Educational Annuity Policy

This policy is taken out on the life of father or guardian for the benefit of their child's education. The sum assured is not payable in lump sum but is payable in equal installments over a period of five years. This policy is like the same of marriage endowment policy. No further payments of premium are needed in case of death of the parents or guardian.

Triple Benefit Policy

This policy is a combination of a whole-life policy and a pure endowment policy (without return of premium) with a guaranteed annual bonus payable on death during endowment term. This policy is granted for a fixed terms of 15, 20, or 25 years. Premiums are payable throughout the policy term or till death of the life assured. The special features of the plan are that there is a guaranteed and steadily increasing family provision during the selected period along with the old age benefit. The following benefits are guaranteed provided the policy remains in force for the original sum assured.

If death occurs within the stipulated; it provides,

The basic sum assured.

A guaranteed bonus per annum is paid @ Rs.25 per Rs.1, 000 sum assured for each full year's premium paid excluding the premium of first year.

On survival till the selected term; it provides,

The basic sum assured.

- A fully paid up whole-life insurance for a like amount is payable at death.
- A fully paid up whole-life policy for an increased sum assured.

Anticipatory Endowment Policy

This policy is similar to endowment insurance except that a part of sum assured is paid at certain interval before death within the maturity of the policy and the balance of the sum assured is payable at maturity. In the event of death at any time during the term of the policy, i.e. before the maturity date, full sum assured is payable without any deduction of installments paid earlier. The policy may be issued 'with profit' or 'without profit'. Its term may be 15, 20, or 25 years.

Money Back Policy

These are fixed term policies. The premium is paid till the end of the term or till the death of the policy holder, whichever is earlier. A part of the sum assured is returned to the policyholder once in 4 years or 5 years according to the plan. The risk cover continues for the full sum assured even after payment of installments to the policyholder. In a money back plan, insured regularly receives a percentage of the sum assured during the lifetime of the policy. Money back plans are ideal for those who are looking for a product that provides both-insurance cover and savings.

Jeevan Samriddhi

It is the new money back plan that assures periodic payment of basic sum assured in installments on survival, with increasing benefits. Jeevan Samriddhi gives a wider choice of convenient terms in 12, 15, 20 and 25 years, with added attractive features to ensure the timely availability of funds for marriages, education, illness and any unforeseen contingencies.

Jeevan Rekha

It is a unique combination of whole-life plan and money back plans and it is introduced on July 22, 2002. This policy provides for the financial needs at every stage and at the same time provides the security to the family. Hence, this policy is suitable for people who wish to have inflow of income at regular intervals and at the same time provide their family a lump sum amount on their death.

Children's Insurance Policy

Sometimes a parent or guardian of a child wishes to take an insurance policy on the life of a child under which the premium is paid by the proposer during the few years and by the life assured thereafter. This can be done by taking the children's deferred endowment insurance. A small amount of premium is payable.

Jeevan Sukanya

This is a unique product targeted at the girl child. The policy is available only for female children in the 1-12 age groups. Premiums have to be paid till the child grows up to be 20, after which the full sum assured is paid as survival benefit.

Jeevan Kishore

This policy has been designed as an improved version of the New Children's Deferred Assurance plan. Parents or legal guardians can propose the policy for children between the ages of 1 to 12 years, with risk commencing at an early age. This plan is basically an endowment plan i.e. sum assured is payable either on survival till the term or on death happening within the term.

Jeevan Chhaya

It was introduced in March 1991 in order to meet the expenses of children towards higher education. This policy is a combination of Jeevan Mitra and money back policies. The premium is payable during the life time of the life assured and shall cease on the death of the life assured or on the expiry of the policy term, whichever is earlier.

Jeevan Sneha

Jeevan Sneha was introduced on January 16, 1997 for women. It is a without profit money back type plan with the added features of guaranteed additions viz., encashment of survival benefit as and when required. There is flexibility to pay premium in advance and it has inbuilt accident cover for a period of 3 years from the date of first unpaid premium provided at least 2 full years premium have been paid. It also has the option to receive pension in lieu of maturity benefits. The sum assured under this scheme was Rs.251.07 crore in 1996-97.

Jeevan Sanchaya

This policy is similar to Jeevan Sneha. This plan was introduced on January 16, 1997. It is without profits money back type of plan with provision of loyalty addition and guaranteed addition. Accident benefit is also granted under this plan with an upper limit of Rs.5 lack in addition to existing limit of Rs.5 lakh under other plan.

Unit Linked Insurance Policy (ULIP)

ULIP is a combination of life insurance and a market linked investment product. Therefore, it provides life cover as well as capital appreciation. The allocated (invested) portions of the premiums after deducting all the charges and premium for risk cover policies chosen by all investors are pooled together to form a fund and units are allocated from this fund as per invested amount. The remaining pooled amount is invested in pooled amount is invested in bonds, equities or dept funds. However, in this plan the investors should be ready for the risks related to stock market. ULIPs offer a transparent option to investors to plan their various financial needs through market-led investments as compared to traditional investment plans.

Performance of LIC

LIC if India plays a vital role in the growth of life insurance sector and also to the economic development of the country. Since economic reforms the life insurance sector is changing rapidly due to the continuous change in the customer needs and preferences. These changes have helped in a great number to both the urban and rural consumers. Life Insurance Corporation of India has worked continuously hard to grow since 2000. In order to increase its business LIC of India has increased their life insurance offices. Table 1 gives statistical data related to the contribution of LIC of India to total industry growth in terms of life insurance offices since 2000.

Table 1: **Statistics of offices of Life Insurance Industry in India since 2000**

Years	Offices of LIC of India	Offices of Total Industry	Contributing of LIC to Total Industry (in percent)
2001	2186	2199	99.41
2002	2190	2306	94.97
2003	2191	2445	89.61
2004	2196	2612	84.07
2005	2197	3001	73.21
2006	2220	3865	57.44
2007	2301	5373	42.83
2008	2522	8913	28.30
2009	3030	11815	25.65
2010	3250	12018	27.04
2011	3371	11546	29.20
2012	3455	11167	30.94

Source: Annual reports of LIC of India 2000-2001 to 2011-2012

From table 1 it is clear that through the life insurance offices are increasing continuously but as far as the contributing of LIC of India, it is decreasing from 2001 to 2012 from 99.41 percent to 30.94 percent. This is a tremendous fall in the number of offices opening throughout the country. This definitely has affected in the overall performance of LIC of India.

Impact of New Marketing Strategies Adopted by LIC

Table 2 gives information regarding the number of policies sold and the premium earned by LIC of India since 2000 till 2012

Table 2: No. of Policies and Premium underwritten

Years	No. of Policies (in crores)	Premium underwritten (in Rs.crores)
2000-01	19673320	36063.28
2001-02	22491304	49821.91
2002-03	24545580	54628.48
2003-04	26968069	63167.37
2004-05	23978123	75983.37
2005-06	31590707	90759.20
2006-07	38229292	127782.26
2007-08	37612599	149705.59
2008-09	35912667	157186.55
2009-10	38863450	185985.91
2010-11	37038751	203358.05
2011-12	35751238	202802.90

Source: Annual Report of LIC of India since 2000 till 2012

From table 2 it is clearly observed that there is an overall growth in NOP from 19673320 in 2000-01 to 35751238 in 2011-12 except a small number of down falls in a few years. Despite of few downs in NOP LIC of India has still managed to have a continuous growth in the premium from 36063.28 to 202802.90 from 2000-01 to 2011-12. Those few misses in the count of number of policies have not directly affected the business volume as such. This is very positive sign for an overall development of the corporation in the changing needs of the society.

Table 3: Commission Expenses: Life insurances

Year	LIC	Commission expenses ratio percent
2001-02	4519.31	9.07
2002-03	5015.07	9.18
2003-04	5742.91	9.09
2004-05	6249.73	8.32
2005-06	7100.19	7.82
2006-07	9173.58	7.18
2007-08	9614.69	6.42
2008-09	10055.09	6.39
2009-10	12132.56	6.52
2010-11	13347.29	6.56
2011-12	14063.06	6.93
2012-13	14790.26	7.08

Source: Annual report of IRDA

Table 3 depicts the commission expenses ratio of life insurers during 2001-2013. The commission expenses ratio of LIC decreased from 9.07 percent in 2001-02 to 6.53 in 2010-11 and thereafter increased up to 7.08 percent in 2012-13. The overall commission expenses ratio decreased from 9.12 percent in 2001-02 to 6.71 percent in 2012-13. The total commission expenses as a portion of premium underwritten was 13.31 percent in the case of the new insurers as against the average of 7.55 percent for LIC. The average at the industry level worked out to 7.74 percent. Thus, all the life insurance companies except Bharati Axa complied with the stipulations on expenses of management. However, in the case Bharati Axa, the stabilization of operations, four private life insurers who exceeded the prescribed limits in 2005-06, were compliant with the prescribed norms in 2006-07. In the case of LIC, the expenses of management continued to be within the allowable limits.

Table 4: Operating Expenses

Year	LIC	Expenses ratio percent
2001-02	4260.39	8.55
2002-03	4571.75	8.37
2003-04	5186.49	8.21
2004-05	6241.26	8.31
2005-06	6041.56	6.65
2006-07	7080.86	5.53
2007-08	8309.32	5.55
2008-09	9064.29	5.76
2009-10	12245.82	6.58
2010-11	16980.28	8.34
2011-12	14914.40	7.35
2012-13	16707.66	8.00

Source: Annual report of IRDA

In case of LIC, the operating expenses as a percent of gross premium underwriting declined from 8.55 percent in 2001-02 to 5.76 percent in 2008-09 and increased from 6.58 percent in 2009-10 to 8.34 percent in 2010-11. LIC’s major expenses heads include employee expenses, and expenses relating to recruitment of agents. However, given that the industry is in the expansion mode and companies have sought permission to expand their office network, it is expected that the expenses limits may be breached in the current year.

Progress of Life Insurance Business

According to Economic Survey 2012-13, "Since the opening up of the insurance sector, the number of participants in the insurance industry has gone up from seven insurers (including the Life Insurance Corporation of India (LIC),four public-sector general insurers, one specialized insurer, and the General Insurance corporation as the national insurer) in 2000 to 52 insurers as on 30 September 2012 operating the life, non-life, and re-insurance segments (including specialized insurers, namely the, Export credit Guarantee corporation and Agricultural Insurance Company (AIC). Four of the general insurance companies, viz. Star Health Allied Insurance Company, Apollo Munich Health Insurance

Company, Max BUPA Health Insurance Company, and Religare Health Insurance Company function as standalone health insurance companies. Of the 23 insurance companies that have set up operations in the life segment post opening up of the sector, 21 are in joint ventures with foreign partners. Of the 2l private insurers who have commenced operations in the non-life segment, l8 are in collaboration with foreign partners. The growth in the insurance sector is internationally measured based on the standard of insurance penetration defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP). Insurance density is another well-recognized benchmark and is defined as the ratio of premium under written in a given year to total population (measured in US dollars for convenience of comparison). The Indian insurance business has in the past remained under developed with low levels of penetration. Post liberalization, the sector has succeeded in raising the levels of insurance penetration from2.7 (life 2.15 and non-life 0.56) in 2001 to 4.1 (life 3.4 and nonlife 0.7) in 2011.From being the sole provider of life insurance till financial year 1999-2000,LIC is today competing in an industry with 23 private-sector insurers who have commenced operations over the period 2000-12. The industry which reported an annual growth rate of 19.8 percent during the period 1996-97 to 2000-01 has, post opening up of the sector, reported an annual growth rate of 18.85 percent during 2001-02 to 20ll-12. The life insurers underwrote new business of Rs. 1,13,942 crore during financial year 20ll-12 as against Rs. 1,26,398 crore during the year 2010-ll, recording a decline of 9.85 percent of the new business premium underwritten, the LIC accounted for Rs. 81,862.25 crore (71.85 percent market share) and private insurers for Rs. 32,079.92 crore (28.15 percent market share). The market share of these insurers was 68.84 percent and 31.16 percent respectively in the corresponding period of 2010-11.

Conclusion

Although many private players enter the insurance market to promote the sales and tap the resources still the public sector insurance company plays a predominant role in the insurance market as an emerging leader. Because LIC is one of the oldest and reliable company which monopolize the entire insurance market. LIC is not only cover the urban population but also reached the rural areas to tap more resources. However, the new entries (private players) who are unable to reach the rural segment of the economy could tap enough resources.

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