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Full Length Research Paper

The impact of liberalization, privatization, and globalization (LPG) on life insurance corporation of India (LIC)

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The Indian life insurance industry has its own origin and history. Since its inception, it has passed through many obstacles, hindrances to attain its present status. The income earning capacity of an individual citizen of a nation and the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry. As a result, wider mass-employment opportunities and sound educational system should be made available. In addition, the general public must be kept abreast of more knowledge and importance of life insurance, as these steps help to boost the growth of insurance industries. In this Indian context, insurance habit among the general public during the independence decade was quite rare and in the following decades, it increased slowly. There was a remarkable improvement in the Indian insurance industry soon after the acceptance and adaptation of liberalization, privatization, and globalization (LPG) in the year 1991. After 1991, the Indian life insurance industry has geared up in all respects, as well as it being forced to face a lot of healthy competition from many national as well as international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the mutual fund posed serious challenges to LIC.

Key words: Life insurance, liberalization, globalization.

INTRODUCTION

The nationalization of insurance business in the country resulted in the establishment of life insurance corporation of India (LIC) in 1956 as a wholly-owned corporation of the Government of India. The following are the objectives of LIC:

(I) Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes, with a view to reaching all insurable persons in the country and providing them with adequate financial coverage against death at a reasonable cost.
(II) Maximizing mobilization of people's savings by making insurance linked savings adequately attractive.
(III) Investing funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
(IV) Meeting the various life insurance needs of the community that would arise in the changing social and economic environment through its family schemes and group insurance schemes.

The above objectives are framed by the LIC at the time of its establishment and it is trying to materialize its objectives over the subsequent years. However, the Indian life insurance industry is facing several challenges and issues throughout its career and is establishing meaningful strategies to overcome these challenges and issues from time to time. Since its establishment, it has earmarked a steady growth, but many factors affected its abnormal growth and progress.

They are as follows:

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(I) The mega illiteracy percentage.
(II) Improper awareness among the general public regarding the savings.
(III) Least percentage of employment opportunities.
(IV) Lowest wage and salary pattern, etc.

When compared with the developed foreign countries, the Indian life insurance industry has achieved only a little because of the followings: lack of quality strategies adopted by the LIC, lack of standard education and awareness about savings, low capital per income and lack of employment opportunities. Since the introduction of new economic policy (LPG) in the year 1991, the shape of the Indian life insurance industry has been changing and it has geared up. Soon after then, many private players have entered into this industry, who poses challenges and threat to its competitors and these new challenges forced the industry to establish colorful strategies and plan for its survival and steady growth.

RESEARCH METHODOLOGY

The research design which has been formed for this research article is descriptive research design. The nature of data which is collected and used for this research article is secondary. The relevant and required data are collected from secondary sources such as text books, national as well as international articles, dailies and annual reports of LIC.

The statistical tools which are used in this research study are the method of least squares and linear trend. The method of least square and the future prediction (expected value) are obtained using linear trend.

Objectives

(I) To compare the overall performance of Indian Life Insurance Corporation of India between pre- and post- LPG era.
(II) To examine the current status, volume of competitions and challenges faced by the Life Insurance Corporation of India.

Limitations

(I) The data are secondary in nature.
(II) As such the data are taken from the records of LIC; the analysis is based on the rendered information from the LIC alone.
(III) The suggestions rendered may not be extended to the similar type of agency like LIC.

Review of literature

Peter Drucker (1999) admitted that by "providing financial protection against the major eighteenth and nineteenth century risk of dying too soon, life insurance became the biggest financial industry of that century. Providing financial protection against the new risk of not dying soon enough may well become that next century's major and most profitable financial industry". TS Rama Krishna Rao (2000) opined, "1999-2000 were landmark years in the history of Indian insurance industry. The year 2007 is going to be another watershed for the industry. Detariffication from first January 2007 will totally change the complexion of the non-life industry. Financial inclusion is being emphasized in various fora. The insurance industry will have to play a vital role by providing health insurance and other insurance products for the poor".

Jain (2004) revealed, "Waves of liberalization have done wonders to raise the insurance occupation to the status of a career with a bright future. The average mindset, particularly of younger generation in India is very amenable to these changes in insurance, which is as an avenue where exhilarating opportunities are opened up in changed environment".

Sukla (2006) reviewed, "the euphoria is well earned and the economic measures of liberalization initiated in insurance sector are well looked at. Six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. It grew from a total premium of Rs.34, 898 crore in the year 2000-2001 to Rs.66, 287.93 crore in 2003-2004, followed by the aggressive achievement posted at Rs.81301.40 crore in 2004-2005. The life insurance industry saw the new players stabilize their operations which were keenly matched by LIC and the premium numbers brought out the fact that the size of the insurance market grew over the six years of liberalization". He also views that with liberalization, India is penning the script of insurance convergence (catch up) and not Insurance divergence (falling behind). Since the opening of insurance industry at 2003-2004, private players have brought 21.87% of their new business, through referrals and direct business, a sign of harnessing the strengths of the competitive market of the respective organization. It clearly indicates the comfort zone of operation of the players. But the real operational efficiency will emerge beyond the boundaries of comfort when they will try to expand the market share in the unfamiliar territory.

Rao (2007) reported, "Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent detarrification in the non-life domain has provided a great deal of operational freedom to the players". Sabera (2007) indicated, "The Government of India liberalized the insurance sector in March 2000, which lifted the entry restrictions for private insurance players, allowing foreign players to enter into the market and start their operations in India. The entry of private players helps in spreading and keeping the operation in the Indian insurance sector which in turn results in restructuring and revitalizing of public sector companies".

Status and position of India life insurance industry in the pre LPG era

The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. Life insurance in its modern form came to India from England in 1818 with the formation of Oriental Life Insurance Company (OLIC) in Calcutta mainly by Europeans to help widows of their kin. Later, due to persuasion by one of its directors (Shri Babu Muttyal Seal), Indians were also covered by the company.

By 1868, 285 companies were doing business of insurance in India. Earlier, these companies were governed by Indian Company act 1866 and by 1870, 174 companies ceased to exist, when British parliament enacted insurance Act 1870.

These companies were however, insuring European lives. Those Indians who were offered insurance cover were treated as sub-standard lives and were accepted with an extra premium of 15 - 20%.

First Indian company

Pioneering efforts of reformers and social workers like Raja Ram

Table 1. Growth of LIC between 1959 and 1999.

S/No.	Particulars	1957	1999
1	**Annual business**		
	Sum Assured	336.3 crores	75606 crores
	Policies	8,00,000	14857000
	First year premium	14 crores	4171 crores
2	**Business in force**		
	Sum assured	1477 crores	459201 crores
	Policies	5686000	91726000
	Renewal premium	74 crores	16136crores
3	**Group business in force**		
	Sum assured	5.29 crores	69558 crores
	No. of lives	-	21671000
4	**Life fund**	41040 crores	127389.06 crores

Source: Secondary Data – Annual Reports of LIC.

mohan Ray, Dwarakanath Tagore, Ramatam Lahiri, Rustomji Cowasji and others led to entry of Indians in insurance business. First Indian insurance company under the name “Bombay Life Insurance Society” started its operation in 1870, and started covering Indian lives at standard rates. Later, Oriental Government Security Life Insurance Company was established in 1874, with Sir Phirozshah Mehta as one of its founder directors. It later emerged as a leading Indian insurance company under the name, Bombay Life Assurance Society, which started its operations in 1870.

Pre-independence scenario

With the patriotic favour of non-corporation movement (1919) and civil disobedience movement (1929), number of Indian companies entered the insurance arena. Eminent figures in political area like Mahatma Gandhi and Pandit Nehru openly encouraged Indians to enter the fray. In 1914, there were only 44 companies; by 1940 this number grew to 195. Business in force during this period grew from Rs.22.44 crores to Rs.304.03 crores (1628381 polices). Life fund steadily grew from Rs.6.36 crores to Rs.62.41 crores. In 1938, the insurance business was heavily regulated by enactment of insurance Act 1938 (based on draft bill presented by Sir N.N. Sarcar in Legislative Assembly in January 1937).

From here onwards the growth of life insurance was quite steady except for a setback in 1947 -1948 due to aftermath of partition of Indian. In 1948, there were 209 insurances, with 712.76 crores business in force under 30, 16,000 policies. The life fund by then grew to 150.39 crores.

Nationalization of life insurance (1956)

Despite the mushroom growth of many insurance companies per capital insurance in Indian was merely Rs.8.00 in 1944 (against Rs.2, 000 in US and Rs.600 in UK), besides some companies were indulging in malpractices, and a number of companies went into liquidation. Big industrial houses were controlling the insurance and banking business, resulting in inter- looking of funds between banks and insurance companies. This shook the faith of insuring public in insurance companies as custodians of their savings and security.

The nation under the leadership of Pandit Jawarberlal Nehru was moving towards socialistic pattern of society with the main aim of spreading life insurance to rural areas and to channelize huge funds accumulated by life insurance companies to nation building activities. The Government of India nationalized the life insurance industry in January 1956 by merging about 250 life insurance companies and forming Life Insurance Corporation of India (LIC), which started functioning from 1st September 1956.

Post nationalization trend

After completing the arduous task of integration of about 250 life insurance companies, the LIC of India gave an exemplary performance in achieving various objectives of nationalization. Table 1 shows the achievements of LIC in 40 odd years of its existence.

Setting-up of Irda, and the entry of private insurance companies

In spite of the phenomenal progress of LIC of India, especially in the 1980s, the government and public at large were not quite satisfied with it. By signing GATT (General agreement on Trade and tariff) accord, the Government of India became committed to opening of insurance sector to private sector, local and global operators. A committee under the chairmanship of late R.N.Malhotra (Ex- governer of KBI) was appointed by the government to look into all the aspects of insurance industry in India.

Table 2. New business of LIC amount in crores of rupees.

Year	Business in India	Business outside India	Total business
1957	277.67	5.40	283.07
1963	734.72	11.24	745.96
1970	1025.80	10.28	1036.08
1974	2575.01	11.32	2586.33
1975	3100.70	11.73	3112.43
1976	5373.02	12.32	5385.34
1980	7998.16	11.22	8009.38
1981	8787.26	14.41	9801.67
1984	11917.20	18.30	11945.50
1985	13033.38	22.64	13056.02
1989	33473.96	45.74	33519.70
1990	43490.34	100.00	43590.34
2000	80560.85	199.07	80754.95
2001	203049.39	179.01	230228.40
2002	288503.80	212.69	288716.49
2003	292544.83	298.00	292842.83
2004	330819.33	341.56	330160.89
2005	304472.12	405.33	304877.45
2006	465514.87	416.10	465930.97
2007	514227.66	432.78	514660.45

Source: Secondary Data – Annual Reports of LIC.

Table 3. Business of LIC in outside India.

Year (X)			U^2	UY
2001	179.01	-3	9	-537.03
2002	212.69	-2	4	-425.35
2003	298.00	-1	1	-298.00
2004	341.56	0	0	0
2005	405.33	1	1	405.33
2006	416.10	2	4	832.20
2007	432.78	3	9	1298.34
	2285.47	0	28	1275.46

$Y = A+BX$ $\quad$ $Y=A+Bu$

$\sum Y=nA+B\sum X$ $\quad$ $\sum Y=nA+B\sum U$

$\sum XY=A\sum X+B\sum X^2$ $\quad$ $\sum uY=A\sum u+B\sum u^2$

$\sum Y=nA$

$A=\sum Y/n$

$\sum uY=B\sum u^2$

$B=\sum uY/\sum u^2$

$A=\sum Y/n = 2285.47/7$

$A=326.50$

$B=\sum uY/\sum u^2 = 1275.46/28$

$B=45.55$

$Y=A+B\ (X-2004)$

$Y=326.50 + 45.55\ (2012-2004)$

$=326.50+45.55\ (8)$

$=326.50+364.4$

$Y=690.90$ crore

Business outside India for the year 2012 would be Rs.690.90 crore.

The committee too opined that in its about 40 years of existence, LIC had been able to insure only 22 percentage of the insurable population. A moot reason may be the lack of competition. Further, the monopoly has resulted in lack of sensitivity to the policy holders and there is a greater scope for product innovation and service improvement. The committee recommended a number of measures to revamp LIC of India, GIC of India and its four subsidiaries. It also recommended allowing outside insurance companies to operate in India with an Indian partner.

After a great deal of discussion, finally, the Lok Sabha has enacted the Insurance Regulatory and Development Authority Act, 1999. In terms of the act, the Insurance Regulatory and Development Authority is being set-up to regulate and develop the insurance industry by opening it up to the private sector. Foreign insurance companies can enter into the insurance sector in India only with an Indian partner, as a joint-venture, with a capital contribution up to a maximum of 26% of the capital in the joint-venture.

Progress of Indian life insurance industry in the post LPG era

In the post LPG period, the Life Insurance Industry of India witnessed a marvelous growth and touched its historical height. So many factors have collectively contributed to this remarkable achievement. In this tenure, the LIC of India introduced many phenomenal business strategies by way of offering colorful schemes and products. The reason for these kinds of extraordinary effect was only because of the stiff competition emerging by the private insurance players. The private insurance companies are offering plenty of new attractive schemes and products to get meaningful share in the insurance market.

However, the LIC of India has the powerful network and it is launching attractive advertisements in the regular interval to create great awareness among the general public. Simultaneously, the private life insurance companies are also taking much pain to cover-up the major populations (inventors) under their boundary. As a result, they are sponsoring series of effective awareness programmed through many attractive advertisements. This healthy competition motivates the general public to go in favour of more investments in insurance. While comparing the efficiency and progressiveness of life insurance business in pre and post LPG arena, the Indian life insurance Industries are achieving a magnificent growth (Table 2).

ANALYSIS AND INTERPRETATION

Interpretation

(1) Based on the middle year 2004, the trend value for the year 2012 can be calculated using the linear function:

Y=A+Bx, where, A and B are constant.

If the values in the trend line equation were substituted, the expected business in India for the year 2012 is Rs.714014.354 crore. It shows that, business in India is in the increasing trend (Table 3 and Figure 1).

(ii) Based on the middle year 2004, the trend value for the year 2012 can be calculated using the linear function:

Y=A+BX, where A and B are constant.

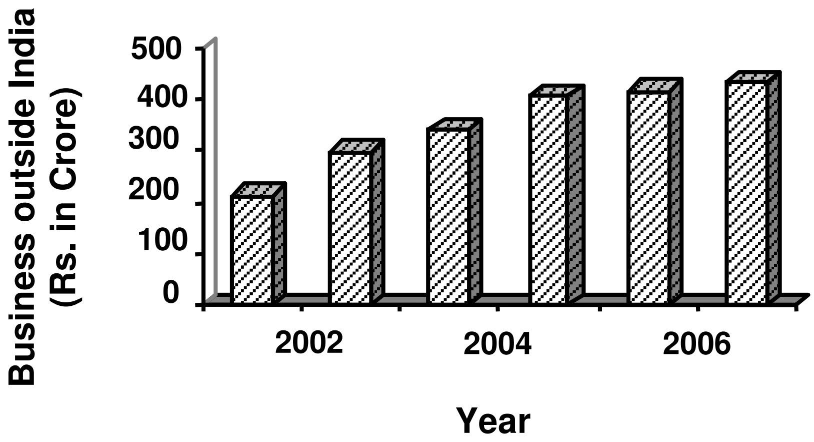

Figure 1. Business outside India.

Table 4. Business of LIC in India.

Year (X)	Business in India Y	U=X-A / H	U^2	UY
2001	203049.39	-3	9	-609148.17
2002	288503.80	-2	4	-577007.60
2003	292544.83	-1	1	-292544.83
2004	330819.33	0	0	0
2005	304472.12	1	1	304472.12
2006	465514.87	2	4	931029.74
2007	514227.66	3	9	1542682.98
	2399132.00	0	28	1299484.27

$Y = A+BX$
$\sum Y=nA+B\sum X$
$\sum XY=A\sum X+B\sum X^2$

$Y=A+Bu$
$\sum Y=nA+B\sum U$
$\sum uY=A\sum u+B\sum u^2$
$\sum Y=nA$
$A=\sum Y/n$
$\sum uY=B\sum u^2$
$B=\sum uY/\sum u^2$

$A=\sum Y/n = 2399132/7$
$A=342733.14$
$B=\sum uY/\sum u^2 = 1299484.24/28$
$B= 46410.15$
$Y=A+B\ (X-2004)$
$=342733.14+46410.15\ (2012-2004)$
= Rs.714014.35 crore

If the values in the trend line equation were substituted, the expected business outside India for the year 2012 is .690.90 crore. It shows that business in outside India is also in the increasing trend (Table 4 and Figure 2).
(iii) Based on the middle year 2004, the trend value for the year 2012 can be calculated using the linear function:

Y=A+BX, where, A and B are constant.

Also if the substituted values in the trend line equation, the expected total business for the year 2012 is Rs.695276.73 crores. It shows that the total business is in the increasing trend (Table 5 and Figure 3).

Conclusion

The data were analyzed using method of least squares. It was found that the business in India and the business outside India as well as the total businesses of LIC are always in an increasing trend.

The collected and analyzed data prove that the LPG is incorporating a positive influence on LIC of India and its performance.

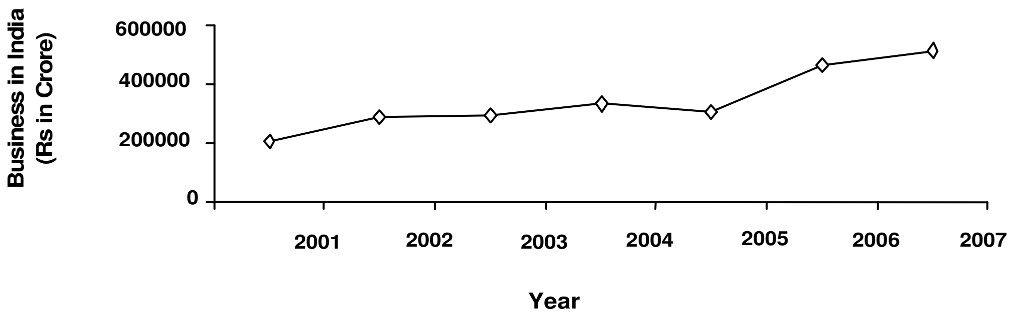

Figure 2. Trend analysis.

Table 5. Total business of LIC.

Year (X)			U^2	UY
2001	230228.40	-3	9	-690685.20
2002	288716.49	-2	4	-577432.98
2003	292842.83	-1	1	-292842.83
2004	330160.89	0	0	0
2005	304877.45	1	1	304877.45
2006	465930.97	2	4	931861.94
2007	514660.45	3	9	1543981.40
	2427417.50	0	28	1219759.70

$Y = A+BX$ $\quad$ $Y=A+Bu$

$\sum Y=nA+B\sum X$ $\quad$ $\sum Y=nA+B\sum U$

$\sum XY=A\sum X+B\sum X^2$ $\quad$ $\sum uY=A\sum u+B\sum u^2$

$\sum Y=nA$

$A=\sum Y/n$

$\sum uY=B\sum u^2$

$B=\sum uY/\sum u^2$

$A=\sum Y/n = 242741.50/7$

$A=346773.93$

$B=\sum uY/\sum u^2 = 1219759.70/28$

$B=43562.85$

$Y=A+BX$

$Y=A+B(X-2004)$

$Y=346776.93+43562.85\ (2012-2004)$

$Y=346773.93+43562.85\ (8)$

$=346773.93+348502.8$

$Y=695276.73$ crore

Total Business for the year 2012 would be Rs.695276.73 crore.

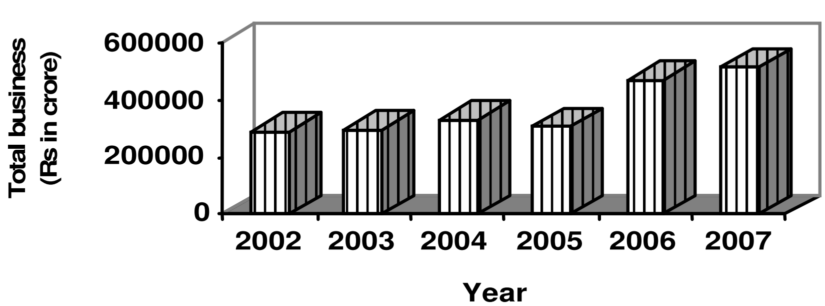

Figure 3. Total business of LIC.

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