

# A STUDY ON FINANCIAL PERFORMANCE OF LIFE INSURANCE CORPORATION(LIC) OF INDIA

Rakesh H M<sup>1</sup>, Shilpa R<sup>2</sup>

<sup>1</sup>Assistant Professor, Department of MBA, Vidyavardhaka College of Engineering, Mysuru

<sup>2</sup>Lecturer, Dept. of Commerce and Management, St. Joseph First Grade College, Mysuru

## Abstract

Life insurance is an important form of social security. Insurance sector in India have grown tremendously in the last decade and is taking a giant shape after privatization of insurance industry. The government of India has notified the foreign direct investment in insurance to the extent of 49% on 21<sup>st</sup> February 2015. This may result in increased competition for LIC with other private and foreign players in the industry. The study have been undertaken to know the financial and operating performance of LIC with a rationale of knowing the source of income and other expenses of LIC. The period of study will be for 9 years from 2005-06 to 2013-14.

**Keywords:** Life Insurance, Financial Performance, Operating Performance, Source of Income, Expenditure.

\*\*\*

## INTRODUCTION

The LIC was established in the year 1956 by an Act of Parliament, "Life Insurance of India Act". The Act nationalized 245 insurance companies and provident societies to create Life Insurance Corporation of India. The insurance industry has gone a drastic change after liberalization, privatization and globalization of Indian economy in the year 1991-92. The LIC was the sole player in the life insurance industry for the last four decades. The entry of private parties and allowing the FDI in insurance industry is going to affect the performance of LIC of India in the near future. It becomes necessary at this point of time to appraise the financial and operating performance of LIC of India which is supposed to compete with the other counter parts of other countries that have vast experience in the field and can boost enormous investments in the industry in the coming period.

## REVIEW OF LITERATURE

**Chandarana and Harish M (2008)**, in their study, "Performance Evaluation of LIC of India" have made a study from 1996-97 to 2005-06. They have observed that the percentage of total outgo to total income was less than 50%, total assets have increased six times in the study period. The study has suggested that LIC has to cut the management expenses, invest more in infrastructure and need to emphasize in international markets.

**Dr. Ravi N Kadam (2012)**, "LIC of India: A Giant in India's Insurance Sector" has made a study on importance of insurance in risk management, performance and competitors for LIC. The researcher has identified the 23 competitors for LIC. The study was done for a period of 5 years from 2005 to 2010. The life insurance business was measured on the basis of gross premium income and net premium income.

**Prachi Agnihotri**, in her study, "The impact of Privatization on the LIC of India" has thrown a light on performance of LIC of India in a competitive position. The article contained post privatization period, competitive environment, major attributes for success of plans and performance of LIC. The descriptive study was conducted on the negative and positive aspects of LIC by considering the views of experts. The study period was 5 years from 2008-09 to 2012-13. Ratios were used to analyze the performance of LIC. It was concluded saying that overall performance evaluation of LIC of India is consistent and suggested to have more service standards to maintain market value of products.

**Dr. K Ramanathan (2014)**, "A Study on the Cost Control Efficiency of LIC of India" in his article has evaluated the cost control efficiency of LIC during the period 2002 to 2012 for 10 years. The analysis revealed that in first two years of the study LIC didn't reduce the expenses it has been made clear from the covariance that income and expenses were insignificant throughout the study period. The study also calculated the cost efficiency score of LIC of India using Data Envelope Analysis and in all the years LIC had scored the highest rank and maintained consistency compared to private insurance companies.

**T Narayana Gowd, Dr. C Bhanu Kiran and Dr. C H Ramaprasada Rao**, in their research paper made an attempt to study the overall performance of LIC of India and investment strategy and its impact on profitability for a period 1998-2011. The investment of LIC has increased from 77.5 % in 1998 to 95.81 % in 2010-11 due to effective regulation of SEBI and increasing transparency and performance of Indian corporate securities. The multiple Regression analysis revealed that investment strategy of LIC has positive impact on its Profitability as R multiple Correlation Coefficients in case of sector wise investment (0.99) and instrument wise investment (0.98) is high. The Correlation between investment strategy of LIC and its

profitability is significantly positive and also the impact of investment strategy of LIC has significantly positive on its profit earned. The Regression model is valid and best fit to the data as adjusted  $R^2$  value being close to  $R^2$  value.

**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

### Objectives for the Study

1. To evaluate the growth of LIC during the period of the study
2. To evaluate the operating efficiency of LIC
3. To measure the performance of LIC

### Hypothesis

**H<sub>0</sub>:** There is no significant difference in expenses of sampled unit during the period of study

**H<sub>1</sub>:** There is a significant difference in expenses of sampled unit during the period of study

### Research Methodology

The present study has been conducted using secondary data of LIC of India. The required information and data have been collected from annual reports of LIC. The data for a period of 9 years from 2005-06 to 2013-14 was collected

from annual reports of LIC available in the website [www.licindia.in](http://www.licindia.in). The other required information has been gathered from various academic journals, literatures of LIC.

Various statistical measures have been used in this study namely; Standard Deviation, Kurtosis, Skewness etc. T test have used to validate the hypothesis set for the study.

### Scope of the Study

Life insurance is significantly important for human life today. The present study tries to give a perfect knowledge about the insurance sector managed by government. The study has been made using secondary data for a period of 9 years collected from the annual reports of LIC of India. The commission expenses and operating expenses have also been used for analyzing the operating efficiency of the LIC.

### Limitations of the Study

The study has considered only LIC of India to evaluate and measure the performance. There are so many other life insurance companies functioning in India that can also be considered by the researchers in future. Because of the time constraint, only LIC has been considered in this study. The suggestions and interpretation of data is based on the data collected through the websites and annual reports of LIC.

### Data Analysis

Life Insurance Corporation of India is doing insurance business in India from 1961. By providing insurance it is securing the value of human life and gives security to the person having policy. The data has been analyzed by considering the five parameters of LIC. All the parameters have been analyzed through the different statistical measure.

**Table 1: Components of Expenses**

Years	Total Claims	%	Commission	%	Operating Expenses	%	Shareholders Investments	%	Policy holders Investments	%
2005-06	2992136.56	100	684648.01	100	489232	100	16640.43	100	45278642	100
2006-07	3691661.56	123	729694.38	107	528175	108	27945.18	168	51111283	113
2007-08	3852982.79	129	715093.24	104	518311	106	29319.63	176	60539701	134
2008-09	4216774.03	141	862108.36	126	701378	143	31950.4	192	63896170	141
2009-10	5412910.66	181	1054737.9	154	932961	191	35376.27	213	83304127	184
2010-11	5755791	192	1330871	194	1737741	355	41726.63	251	97016710	214
2011-12	7191233	240	1403562	205	1533874	314	45276.07	272	107018081	236
2012-13	7394802	247	1476801	216	1736295	355	47810.55	287	118777524	262
2013-14	9140211	305	1668133	244	2018531	413	49216.9	296	138987239	307

The above table shows the performance of claims paid. The base year consider for this study is 2005-06. The highest percentage of claims was in the year 2011-12 and the lowest percentage was in the year 2012-13. It depicts year on year the claims is continuously increasing. The other components like commission paid. Operating expenses, investments in other assets and policy holders' investment showing increasing trend.

As per the above table the important point to be noted is regarding the operating expenses of LIC. The increase in operating expenses of LIC is much higher than compared to other components.

**Table 2:** Descriptive Statistics

Descriptive Statistics	Total Claims	Commission	Operating Expenses	Shareholders Investments	Policy holders Investments
Mean	5516500.29	1102849.88	1132944.21	36140.23	85103275.22
Standard Error	6.84	1.25	2.06	3.601	1.08
Sample Variance	421.138	140.821	3823.68	116.74	105.71
Median	5412910.7	1054737.9	932960.5	35376.3	83304127.0
Standard Deviation	2.052	3.75	6.18	10804.66	3.251
Kurtosis	-0.72	-1.76	-2.02	-0.50	-1.12
Skewness	0.56	0.23	0.27	-0.46	0.37
Range	6148074.44	983484.99	1529299.37	32576.47	93708597
Minimum	2992136.56	684648.01	489231.63	16640.43	45278642
Maximum	9140211	1668133	2018531	49216.9	138987239
Count	9	9	9	9	9

The above table reveals that expenses are increasing year by year significantly. As the expenses increases standard error will also increase. As already said, the operating expenses has the highest and fastest increasing variance (3823.68).

### 'T' Test

**H<sub>0</sub>:** There is no significant difference in expenses of sampled unit during the period of study

**H<sub>1</sub>:** There is a significant difference in expenses of sampled unit during the period of study

	t	df	Sig. (2-tailed)	Result
Total Claims	8.06	8	4.121	Insignificant
Commission	8.816	8	2.155	Insignificant
Operating Expenses	5.49	8	0.0005	Insignificant
Shareholder Investments	10.03	8	8.27	Insignificant
Policyholders investments	7.85	8	4.99	Insignificant

As the t value is more than the table value the hypothesis is rejected. The Analysis of Variance gave a result; 'F' value 64.93 whereas critical value was 2.641. So, by analysis of variance, the hypothesis is rejected.

### SUGGESTIONS

1. LIC should try to introduce new plans and insurance products to the prospective insurers in order to increase the revenue through collecting premium.
2. As there are many private insurance companies functioning in the country there is increased competition in the insurance industry. To retain the position of industry leader, LIC has to introduce innovative plans to attract customers
3. There is a need to issue more and more policies for LIC to retain the market share in this competitive scenario
4. LIC has to make a secured investment so as to maintain the interest of the policy holders
5. A comparison between the different insurance companies may help in reducing the cost for the company

### CONCLUSION

LIC is successfully creating value to its policyholders. During the study period there was no major change in the performance of the LIC. It can be said that the performance is consistent and maintained good market value for its products. As many private insurance companies are establishing its business, competition is certainly set to increase and LIC has to make efforts to retain its top position. Apart from this, LIC need to control the investment level. The above discussion shows that the investment (Policy holders') has second highest variance, so investment (policyholders') needs to be controlled. Research has evaluated the various components of expenses with scientific methodology to justify the performance; so to conclude, LIC is doing good, managing the products, and related marketing strategies effectively. But as per analyzed data we can say that LIC need to control the Operating Expenses by not affecting its income.

**REFERENCES**

- [1] Kadam, D. (2012). Life Insurance Corporation of India: A Giant in India's Insurance Sector. IJPSS, 2(6), 316-325.
- [2] Nena, D. (2013). Performance Evaluation of Life Insurance Corporation of India. International Journal of Advance Research in Computer Science and Management Studies, 1(7), 113-118.
- [3] Agnihotri, P. (2014). The Impact of Privatization On Life Insurance Corporation of India. AltiusShodh Journal of Management & Commerce, 1(1), 1-9.
- [4] Ramanathan, D. (2014). A Study on the Cost Control Efficiency of LIC of India. Asia Pacific Journal of Research, 1(14), 172-179.
- [5] [www.licindia.com](http://www.licindia.com)
- [6] [www.irda.org](http://www.irda.org)
- [7] [www.insure.com](http://www.insure.com)