

A Study on the Operational Efficiency of Life Insurance Corporation of India during the Post LPG era

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Abstract: Insurance is a scheme or in modern terms, a paid service which reduces the cost of loss or effect of loss caused by variety of risks. It accumulates funds to meet individual losses and provides safety and security for untoward losses. In this juncture it is highly important for an insurance company to be efficient in its operations. This study has attempted to study the operational efficiency of Life Insurance Corporation of India (LIC) of India during the post reform period. It has been nearing two decades since opening up of Private life insurance players in the market. Hence it becomes imperative to study the performance and position of LIC of India in managing its funds.

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I. Introduction

Insurance has become the safest option for people in this busy life. In fact, economy cannot progress without this sector. Indian insurance industry plays a multi-dimensional role by encouraging the savings habit, and ensuring safety to enterprises whether it is in the rural or urban region. It accumulates funds and diversify it to different portfolio. While the cash flow in the insurance companies is steady, the outflow is contingency related. Consequently the insurance companies can utilize the funds and invest in developmental projects, especially for developing infrastructure which has long gestation periods.

Indian Insurance business covers two dimensions viz., Life insurance and General insurance. Life Insurance deals with risk coverage by mobilizing people's savings and General Insurance companies deals with exposure of risks to goods and property.

The Indian Insurance Business can be sub-divided into three phases:

First Phase:Pre-liberalization of Insurance

Second Phase: During Liberalization

Third Phase: Post Liberalization of Insurance

II. Post Liberalization of Insurance

With liberalization, the insurance sector was opened up to private players.This move was necessary due to the globalization of financial sector. However, the nationalized insurance companies succeeded in increasing the volume of business.Private players had already made foray into infrastructural and other industries. With the entry of private insurance companies, lots of opportunities were generated. Simultaneously LIC of India had to face many challenges. Till then, LIC of India had monopoly of the insurance market. Post liberalization made the insurance sector a very competitive field.

III. Operational Efficiency of LIC of India

Operational efficiency is the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support.

Efficiency helps to identify the inefficient and efficient insurers in the market to improve competition, profitability and confidence of the policyholders and the way to improve the efficiency of the life insurer. In order to evaluate the operational efficiency of LIC of India, the following parameters have been utilized

IV. Parameters for Evaluating Operational Efficiency

➤ Total Income of LIC of India

Income of an enterprise is one of the important parameters for evaluating operational efficiency. As far as insurance is concerned, the total income includes premium income, income from investments and miscellaneous.

➤ **Income composition for LIC of India**

Income is generated through composition of various variables by LIC of India every year. It comes from different sources. The total income of LIC can be analyzed in different categories in order to assess the contribution of each variable to the total income in each year. The main components of income of LIC are first year premium, renewal premium, single premium & consideration for annuities, income from investments and miscellaneous or other receipts.

➤ **Income utilization by LIC of India**

The analysis of utilization of income is to be done in order to evaluate the operational efficiency of the corporation. The income which are generated through different activities are utilized in the form of making various payments such as payments of claims both maturity as well as death payments, commission to agents, salary to employees, management expenses, taxes, transfer to reserves etc. The excess of income over outgo added to life insurance fund is also considered as a utilization of income.

➤ **Profit before and after tax in respect of total business of LIC of India**

- **Profit before tax:** It deducts all expenses from revenue including interest expenses and operating expenses, but it leaves out the payment of tax.
- **Profit after tax:** A company's after-tax profit margin is important because it tells investors the percentage of money a company actually earns per dollar of sales. This ratio is interpreted in the same way as profit margin - the after-tax profit margin is simply more stringent because it takes taxes into account

V. Tools and Techniques

For the effective conduct of this study both financial and statistical tools were applied. The Statistical Package for Social Sciences (SPSS) was used to analyze the data and draw the inferences. For analyzing the operational efficiency of LIC of India, the study period of 2001-02 to 2013-14 was taken into consideration. The thirteen year study period would cover the first decade of liberalization and beginning years of second decade.

The tools used for the study are as under,

Index, Applied Mean, Standard deviation, Co-efficient of Variance, Compound Growth Rate were applied.

TABLE: 1
Total Income of LIC of India
(Values in Rs.Crores)

Years	LIC	
	Total Income	Index
2001-02	72769.82	100
2002-03	80938.49	111
2003-04	93088.91	128
2004-05	112392.74	154
2005-06	132146.88	182
2006-07	175527.08	241
2007-08	207435.86	285
2008-09	217274.36	299
2009-10	261773.02	360
2010-11	297180.68	408
2011-12	308399.81	424
2012-13	333175.07	458
2013-14	377849.17	519
Mean	205380.91	
SD	103692.20	
CV(%)	50.49	
CGR	15.51	

Source: Various Issues of LIC

Table 1 shows the total income of LIC of India during the study period 2001-2002 to 2013-14. At the beginning of the fiscal year 2001-02, the total income of LIC was Rs.72769.82 crores and it had massively increased to Rs.377849.17 crores by the end of the financial year 2013-14. The table also reveals that the income of LIC of India has been increasing every year during the study period. Further it has been observed that the total income of LIC of India had recorded significant growth of 15.51 per cent per annum which is a welcome trend. During the study period, the total income of LIC of India had increased by more than five times which itself proves that income is generated consistently.

TABLE: 2
Income Composition for LIC of India(In Crores)

Years	First year Premium		Renewal Premium		Single Premium & Consideration for Annuities		Income from Investment		Other Receipts (Miscellaneous)	
	Value	Index	Value	Index	Value	Index	Value	Index	Value	Index
2001-02	10267.82	100	29646.42	100	9045.29	100	22696.91	100	1113.38	100
2002-03	10627.22	104	38631.94	130	5341.94	59	25034.27	110	1303.11	117
2003-04	11273.07	110	46823.72	158	5036.11	56	27209.89	120	2746.12	247
2004-05	12284.53	120	56814.53	192	775.51	9	37572.89	166	4945.28	444
2005-06	12805.56	125	56915.71	192	1340.90	15	35478.64	156	5909.04	531
2006-07	11720.38	114	65735.40	222	945.95	10	40572.40	179	7172.42	644
2007-08	9540.94	93	72944.41	246	264.89	3	47147.00	208	9510.39	854
2008-09	13791.81	134	77577.13	262	11336.47	125	56582.79	249	3505.02	315
2009-10	18933.96	184	85375.72	288	2510.48	28	67197.89	296	8589.22	771
2010-11	21756.38	212	97480.56	329	3040.69	34	77666.69	342	16155.94	1451
2011-12	28681.37	279	104184.4	351	8709.36	96	90266.87	398	15330.04	1377
2012-13	27905.85	272	119287.9	402	12713.90	141	103882.10	458	21243.25	1908
2013-14	27010.36	263	136782.0	461	13548.16	150	118097.09	520	22954.01	2062
Mean	16661.48		76015.41		5739.20		57646.57		9267.48	
SD	7261.99		31830.00		4795.77		31433.54		7390.70	
CV (%)	43.59		41.87		83.56		54.53		79.75	
CGR	9.81		11.99		9.66		15.10		26.36	

Source: Various issues of LIC of India

Table 2 shows the analysis of composition of income for the study period from 2001-02 to 2013-14.

First Year Premium

It is evident from the above table that, at the fiscal year 2001-02 the first year premium paid by the policy holders accounted at Rs.10267.82 crores and it had gradually increased to Rs.27010.36 crores by the end of the study period 2013-14. The earnings through first year premium had registered 9.81 per cent growth rate per annum.

Renewal Premium

From the above data analysis it has been observed that, at the beginning of the study period 2001-02 the amount received through renewal premium accounted at Rs.29646.42 crores and it had massively increased to Rs.136782.80 crores by the end of the year 2013-14. The amount incurred through renewal premium had registered growth of 11.99 per cent between the years 2001-02 to 2013-14.

Single Premium & Consideration for Annuities

The above table infers that, the income received through single premium & consideration for annuities had registered 9.66 growth rate between the thirteen years study period. Followed by, it has been observed that at the year 2001-02 the income earned through single premium & annuities accounted at Rs.9045.29 crores and the ratio had increased to Rs.13548.16 crores by the end of the fiscal year 2013-14.

Income from Investment

From the above table it has been clearly inferred that, at the financial year 2001-02 the income earned through investments was observed to be Rs.22696.91 crores and this value had massively increased to Rs.118097.09 crores by the end of the year 2013-14. The income from investments had recorded 15.10 per cent during the thirteen years study period.

Other Receipts (Miscellaneous)

The above table clearly indicates that, at the beginning of the study period 2001-02 the income earned through other receipts was Rs.1113.38 crores and it had drastically increased Rs.22954.01 crores by the end of the study period 2013-14. The income from other receipts had recorded significant growth of 26.36 per cent per annum.

TABLE: 3 (A)
Income Utilisation by LIC of India
(Values in crores of rupees)

Years	Claims by Maturity		Claims by Death		Annuities		Surrenders		Commission of Agents	
	Value	Index	Value	Index	Value	Index	Value	Index	Value	Index
2001-02	12218.05	100	2146.71	100	1004.22	100	2292.25	100	4591.78	100
2002-03	14439.43	118	2541.47	118	1197.89	119	2565.75	112	5002.00	109
2003-04	17975.47	147	3165.02	147	1517.35	151	3397.75	148	6190.41	135
2004-05	21051.16	172	3416.74	159	1708.37	170	3439.22	150	6462.58	141
2005-06	24743.42	203	3769.04	176	1977.54	197	3734.35	163	7094.92	155
2006-07	32093.90	263	4443.32	207	2189.64	218	15955.31	696	9169.07	200
2007-08	31955.18	262	5250.40	245	2393.24	238	18024.59	786	9568.10	208
2008-09	34744.14	284	5961.59	278	2812.28	280	9732.36	425	10033.24	219
2009-10	46921.22	384	7033.68	328	3770.54	375	22408.76	978	12110.31	264
2010-11	49547.74	406	8010.23	373	4996.05	498	49792.50	2172	13308.68	290
2011-12	63347.90	518	8564.40	399	5281.27	526	41540.19	1812	14035.63	306
2012-13	64534.46	528	9413.53	439	6308.26	628	56033.39	2444	14767.98	322
2013-14	81112.89	664	10289.25	479	8485.18	845	59551.91	2598	16681.29	363
Mean	38052.69		5692.72		3357.06		22189.87		9924.31	
SD	21571.65		2738.48		2279.61		21824.03		3974.49	
CV(%)	56.69		48.10		67.90		98.35		40.05	
CGR	16.51		14.11		18.48		36.09		11.46	

Source: Various Issues of LIC of India

Table 3 (A) shows the utilization of income by LIC of India during the study period from 2001-02 to 2013-14.

Claims by Maturity

From the above empirical data analysis it has been observed that, at the fiscal year 2001-02 the amount of outgo on policy maturity accounted at Rs.12218.05 crores and by the end of the study period it stood up to Rs.81112.89 crores, respectively. The amount claimed on maturity of policies had recorded 16.51 per cent growth rate per annum.

Claims by Death

It is evident from the above table that, at the beginning of the year 2001-02 the amount claimed due to the death of the policy holders accounted at Rs.2146.71 crores and it had steadily increased to Rs.10289.25 crores by the end of the financial year 2013-14. The amount payable on death claims had registered growth of 14.11 per cent between the years 2001-02 to 2013-14.

Annuities

From the above table it has been observed that, the fund employed for annuities had increased from Rs.1004.22 crores to Rs.8485.18 crores between the years 2001-02 to 2013-14. The fund employed by LIC for annuities had recorded 18.48 per cent growth rate per annum.

Surrenders

It has been inferred that, at the fiscal year 2001-02 the amount payable by LIC on surrendering an insurance policy accounted at Rs.2292.25 crores and it had increased to Rs.59551.91 crores by the end of the year 2013-14. Further it has been inferred that the amount payable on surrendering LIC policies had registered significant growth of 36.09 per cent between the years 2001-02 to 2013-14.

Commission of Agents

The above table clearly indicates that, the fund allotted for commission of LIC agents had increased from Rs.4591.78 crores to Rs.16681.29 crores between the years 2001-02 to 2013-14. The fund allotted for commission of LIC agents had registered growth of 11.46 per cent during the thirteen years study period.

TABLE: 3 (B)
Income Utilization by LIC of India
(Values in `Crores)

Years	Salary & Other Benefits to Employee		Other Management Expenses		Other Outgo		Government Share on Outgo(5% of Valuation Surplus paid to the Central Government)		Excess of Income Over Outgo	
	Value	Index	Value	Index	Value	Index	Value	Index	Value	Index
2001-02	3165.49	100	916.90	100	1135.21	100	815.02	100	44484.19	100
2002-03	3310.38	105	1262.64	138	10028.28	883	485.63	60	40105.02	90
2003-04	3742.17	118	1861.78	203	2466.86	217	586.46	72	52185.64	117
2004-05	3574.09	113	2618.75	286	7181.90	633	719.31	88	62220.62	140
2005-06	3598.96	114	2442.60	266	4268.97	376	621.77	76	69266.23	156

2006-07	4073.60	129	3007.26	328	6248.61	550	757.81	93	73943.39	166
2007-08	5047.93	159	3261.39	356	3845.72	339	829.59	102	86664.42	195
2008-09	5773.71	182	3290.58	359	4572.45	403	929.12	114	105466.99	237
2009-10	8052.46	254	4193.37	457	3207.11	283	1030.92	126	117245.29	264
2010-11	12055.28	381	4925.00	537	3816.54	336	1137.62	140	145910.64	328
2011-12	10099.86	319	4814.54	525	5583.36	492	1281.23	157	160791.75	361
2012-13	11894.91	376	4812.75	525	8027.80	707	1436.38	176	183266.53	412
2013-14	14705.11	465	5572.77	608	8007.93	705	1634.27	201	199762.53	449
Mean	6853.38		3306.18		5260.83		943.47		103177.94	
SD	4035.62		1482.42		2537.92		345.75		54059.81	
CV(%)	58.89		44.84		48.24		36.65		52.39	
CGR	14.84		14.34		6.29		8.78		14.77	

Source: Various Issues of LIC

Table 3 (B) shows the utilization of income by LIC of India during the study period from 2001-02 to 2013-14.

Salary & other benefits to Employees

The data presented in the above table indicates that, at the financial year 2001-02 the LIC of India have spent Rs.3165.49crores for salary & other benefits to employee and this value had significantly increased to Rs.14705.11 crores by the end of the study period 2013-14. The salary benefits to LIC employee had registered 14.84 per cent between the years 2001-02 to 2013-14.

Other management expenses

From the above data analysis it has been clearly inferred that, at the fiscal year 2001-02 the other management expenses of Life Insurance Corporation of India was Rs.916.90crores and it had increased to Rs.5572.77 crores by the end of the year 2013-14. The other management expenses of LIC had recorded 14.34per cent per annum.

Other outgo

It is evident from the above data analysis that, the other outgo of LIC had registered growth of 6.29 per cent per annum. Followed by, it has been observed that, at the fiscal year 2001-02 the other outgo of LIC was Rs.1135.21crores and it had increased to Rs.8007.93 crores by the end of the year 2013-14. Almost every year 1.5% to 4% of the total income was used except in the year 2002-03, when it was exceptionally high i.e. Rs. 10028.28 crores. This was due to the new norms used by IRDA regarding maintenance of solvency margins by LIC.

Government share on outgo

The above table clearly indicates that, at the fiscal year 2001-02 the government share on outgo accounted at Rs.815.02crores and it had increased to Rs.1634.27crores by the end of the year 2013-14. Further it has been inferred that the outgo on government share had registered 8.78 per cent growth rate per annum.

Excess of income over outgo

From the above data analysis it has been observed that, at the beginning of the year 2001-02 the excess income over outgo accounted at Rs.44484.19crores and it had massively increased to Rs.199762.53crores by the end of the financial year 2013-14. The excess income of LIC over the outgo had registered 14.77 per cent growth rate per annum.

TABLE: 4
Profit Before and After Tax in Total Business of LIC of India

(Value in Lakhs)

Years	Profit Before Tax		Profit After Tax	
	Value	Index	Value	Index
2001-02	82179	100	82179	100
2002-03	49697	60	49697	60
2003-04	55181	67	55181	67
2004-05	70837	86	70837	86
2005-06	63158	77	63158	77
2006-07	77362	94	77362	94
2007-08	84463	103	84463	103
2008-09	95735	116	95735	116
2009-10	106072	129	106072	129
2010-11	117180	143	117180	143
2011-12	131334	160	131334	160
2012-13	148992	181	143759	175
2013-14	166822	203	165668	202
Mean	96077.85		95586.54	
SD	36304.11		35501.59	
CV(%)	37.79		37.14	
CGR	9.17		9.04	

Source: Annual Reports of LIC

Table 4 shows the profit before and after tax in respect of total business of LIC of India during the study period 2001-02 to 2013-14.

Profit Before Tax

From the table it has been observed that, at the beginning of the fiscal year 2001-02 the profit before tax was Rs.82179 Lakhs and it had increased to Rs.166822 lakhs by the end of the study period 2013-14. The profit before tax ratio had recorded growth of 9.17 per cent between the years 2001-02 to 2013-14.

Profit After Tax

It is evident from the above data analysis that, at the fiscal year 2001-02 the profit incurred after the tax had registered 9.04 per cent growth rate per annum. Followed by, it has been observed that the profit after tax ratio had increased from Rs.82179 Lakhs to Rs.165668 lakhs between the years 2001-02 to 2013-14 which has increased by two times during the study period.

VI. Conclusion

The future of any business depends upon its survival in the long run and to achieve this survival, companies has to be efficient in its operations. As far as LIC of India is concerned, the study observed that LIC of India continues to be the leading life insurer even after two decades of liberalization as it holds more than 70 % of market share. From the analysis it can be stated that the corporation has proved its efficiency and has benefitted out of liberalization. Till now LIC has achieved many landmarks and has set unique performance records in various phases of life insurance business. The unprecedented performance of LIC must allay the fears of Public sector enterprises that have phobia to private sector participation and competition in various sectors still reserved as state monopoly.

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