

## BUSINESS PERFORMANCE OF LIFE INSURANCE COMPANIES IN INDIA

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### ABSTRACT

Till 2000 there was only one life insurance company (LIC) which was doing life insurance business in India. Soon after privatization insurance market was flooded with private life insurance companies in India. Presently Indian insurance industry is going through the phase of high growth but the penetration rate of insurance is low in the country in comparison to other developed and developing countries. It becomes essential to measure the business performance of life insurers on the basis of key indicators of performance so that proper measures can be taken timely to improve the performance of life insurance companies in India. Insurance industry is the backbone of the economy and it is estimated that India's insurance industry will be fifth largest industry in the world economy by 2025. This requires in depth study of business performances of life insurance industries so that any flaw can be checked and controlled timely in order to achieve the above estimation. The parameters against which life insurers business performance is measured are: Total life insurance premium and market share, total number of new policies issued and its growth rate, business in force in terms of policy, total number of branches / offices and growth rate, number of grievance reported, grievance resolved, percentage of grievance resolved, individual death claim settlement and group death claim settlement for the financial years. Business performance parameters have been taken from the literature reviews and are explained in the following sections. With the help of these parameters the comparative business performance of public and private life insurance companies is also evaluated.

**Key words:** Privatization, Business performance, Parameters, Penetration

### INTRODUCTION

Earlier insurance industry in India was having only two state insurance companies. They were Life Insurance Corporation (LIC) and General Insurance Corporation (GIC) of India along with four subsidiaries which were later on converted into independent insurance companies. Today the Indian insurance industry has 53 insurance companies, 24 companies are into life and 29 companies into non life business. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Along with this in the insurance industry, there is one national re-insurer-General Insurance Corporation of India (GIC).

#### Insurance Companies in India

Type of Companies	Life Insurance	General Insurance
Public	01	06
Private	23	23
Total	24	29

Source – IRDAI & Consumer Education Websites

#### AIM OF THE STUDY

The study attempts to find the impact of privatization on the Insurer with reference to impact on the business performance of public and private life insurance companies.

#### OBJECTIVES OF THE STUDY

To Study the Business Performance of LIC (Life Insurance Company) in comparison to the Business Performance of Private Players of Life Insurance through parameters mentioned below.

#### PARAMETERS TO MEASURE BUSINESS PERFORMANCE OF LIFE INSURANCE COMPANIES IN INDIA

##### 1.1 Total Life Insurance Premium and Market Share

The first key variable used in assessing the business performance of insurance companies is Total life insurance premium collected per financial year. The market share of each company is computed as the premium collected by a company in a financial year as a numerator to total premium collected by the life insurance companies in any financial year. The table below shows the life insurance premium collected by Public and the private sector companies for the period between 2000 to 2015.

Table: 1.1 Total Life Insurance Premium and Market Share

Year	Premium (Public Sector)	Market Share (%)	Premium (Private sector)	Market Share (%)
2000-01	34892.02	99.98	6.45	0.02
2001-02	49821.91	99.46	272.53	0.54
2002-03	54628.48	97.99	1119.05	2.01
2003-04	63533.60	972	3120.33	4.68
2004-05	75127.29	90.67	7727.51	9.33
2005-06	90729.22	85.75	15083.54	14.25
2006-07	127822.84	81.90	28242.48	18.08
2007-08	149789.99	74.39	51561.42	25.61
2008-09	157288.04	70.92	64497	29.08
2009-10	186077.31	70.10	79373	29.90
2010-11	203358.00	69.78	88165	30.22
2011-12	202802.00	70.66	84182	29.34
2012-13	208803.00	72.70	78398	27.30
2013-14	236942.00	779	77340	24.60
2014-15	239667.65	73.04	88433.49	26.96

Source: IRDA Annual Reports (2000-2015)

LIC has been able to gather more premiums in comparison to private life insurance players.

### 1.2 Total Number of New Policies Issued andits Growth Rate

The second indicator to measure the business performance of public and private life insurance companies is the total number of new policies issued and the growth rate for the financial years. The rate of growth is calculated to evaluate the trend of growth in total number of new policies issued during the post privatization period by taking past year values as a denominator to the difference of present and past values. The data collected for the time period 2002-2015 is shown in the table below:

Table 1.2: Total Number of New Policies Issued and Growth Rate (in lakhs)

Year	Public	Growth Rate (%)	Private	Growth Rate (%)
2002-03	245.46		8.25	
2003-04	269.68	9.86	16.59	101.09
2004-05	239.78	-11.08	22.33	34.5
2005-06	315.91	31.74	38.71	73.35
2006-07	382.29	21.01	79.22	104.64
2007-08	378.13	-1.611	132.61	67.39
2008-09	359.13	-4.519	150.11	13.19
2009-10	388.63	8.214	143.62	-4.32
2010-11	370.38	-4.695	111.14	-22.61
2011-12	358.511	-32.04	84.42	-23.66
2012-13	367.82	2.59	74.05	-12.28
2013-14	3452	-8.17	63.60	-14.11
2014-15	201.71	-41.75	57.37	-9.79

Source: IRDA – Annual Reports (2002-2015)

The table clearly depict, there has been an increase in the number of new life insurance policies issued by life insurance companies in India excluding the financial year 2004-05 where LIC is showing negative growth rate.

### 1.3 Business in Force in terms of Policy

Business in force means the total of policies which are paid totally or are in the process of being paid. Business in force in life insurance is measured through life insurance Company's portfolio cumulative value.

Table 1.3 Business in Force in terms of Policy (in crores)

Year	LIC	Growth (%)	Private	Growth (%)
2004-05	16.3	-11.09	2.39	34.62
2005-06	17.9	9.81	3.50	46.44
2006-07	18.9	5.58	4.65	32.82
2007-08	19.2	1.59	5.73	23.22
2008-09	18.3	-4.52	6.48	13.19
2009-10	27.8	51.9	8.19	-4.32
2010-11	22.6	-18.70	4.15	-3.29
2011-12	25.8	12.4	4.36	.05
2012-13	29.4	12.2	4.7	.02
2013-14	34.5	17.3	4.03	-14.11
2014-15	20.1	-41.7	3.63	-9.79

**SOURCE: IRDA ANNUAL REPORTS (2001-2010)**

The table 1.3 indicates the quantum of business in terms of number of policies from 2004-05 to 2014-15. These years were taken to measure the achievement of public and private life insurance companies postprivatization. The figures given in the above table are showing satisfactory business in force in terms of life insurance policies.

**1.4 Total number of Branches / Offices and Growth Rate**

Another key indicator to measure the business performance of Life Insurance Company is through the number of branches and their growth rate. To assess the growth in the number of branches of public and private life insurance companies in India the data for the time period 2001-2015 has been collected and shown in the table below

**Table 1.4Total Number of Branches / Offices and Growth Rate**

Year	Public	Growth Rate (%)	Private	Growth Rate (%)
2000-01	2186		13	
2001-02	2190	0.182	116	792.30
2002-03	2191	0.045	256	120.68
2003-04	2196	0.228	416	62.5
2004-05	2197	0.045	804	93.2
2005-06	2220	1.046	1645	104.6
2006-07	2301	3.648	3072	86.7
2007-08	2522	9.604	6391	108.0
2008-09	3030	20.14	8785	37.4
2009-10	3250	7.260	8768	-0.19
2010-11	3371	3.723	8175	-6.76
2011-12	3455	2.491	7712	-5.66
2012-13	3526	2.054	6759	-12.3
2013-14	4839	37.23	6193	-8.37
2014-15	4877	0.7852	6156	-0.59

*Source: IRDA – websites (2001-2015)*

There has been an increase in number of branches of both public and private life insurers. But private life insurance companies are a step ahead than LIC. Branches were opened all around the country to cope up with the needs of customer.

**1.5 Total Number of Grievances Reported**

The another indicator which is taken to assess the business performance of life insurance companies post privatization is by analysing the figure of grievances reported during the financial years 2002 to 2015

**Table 1.5Total Number of Grievances Reported**

Year	Public	Private
2002-03	571	39
2003-04	474	45
2004-05	704	195
2005-06	851	540
2006-07	354	507
2007-08	651	1406
2008-09	481	1313
2009-10	606	1843
2010-11	2588	7068
2011-12	52300	257313
2012-13	73034	267978
2013-14	85284	289336
2014-15	80944	198048

*Source: IRDA – Annual Reports (2002-2015)*

In case of grievances reporting again an increasing trend is seen in life insurance industry.

**1.6 Total Number of Grievance Resolved**

The study of grievance reported to public and private life insurance companies is incomplete in absence of information of number of grievance resolved. IRDAI has made mandatory for the life insurers to make proper grievance resolving policies so that the customer is aware about the process of grievance resolving. The number of grievances resolved has been shown for the financial years 2002-2015.

Table: 1.6 Total Number of Grievance Resolved

Year	Public	Private
2002-03	210	31
2003-04	39	26
2004-05	210	83
2005-06	467	216
2006-07	1533	450
2007-08	163	1103
2008-09	980	1373
2009-10	642	1870
2010-11	2672	7125
2011-12	52135	256196
2012-13	72655	268415
2013-14	85284	288836
2014-15	80944	193119

Source: IRDA – Annual Reports (2002-2015)

In case of resolving grievances the number is showing an increase trend in life insurance industry. Grievance resolved by LIC were 210 in FY 2002-03 which increased to 80944 in FY 2014-15. The same trend has been seen in the case of private life insurance companies where grievance resolved has increased from 31 in the FY 2002-03 to 193119 in the FY 2014-2015.

### 1.7 Percentage of Grievance Resolved

The percentage of grievance resolved has been calculated by taking total grievance reported as a denominator to total number of grievance resolved. Percentage of grievance resolved for the financial years 2003-2015 is shown below.

Table:1.7 Percentage of Grievance Resolved

Year	Public	Private
2003-04	8.2	57.7
2004-05	17.5	42.6
2005-06	27	40.0
2006-07	88.4	88.7
2007-08	12.2	78.4
2008-09	84.0	83.0
2009-10	81.0	88.4
2013-14	100.64	99.83
2014-15	100	97.51

Source: IRDA – Annual Reports (2003-2015)

### 1.8 Total Number of Individual Death Claims Reported and Paid

Claim settlement has become an important element of life insurance companies work culture. The companies are giving lot of importance to claim management through adopting modern techniques to have an effective claim settlement systems in the organization. The table below shows the detail of total claims, claims paid and paid percentage of both public and private life insurance companies.

Table:1.8 Total number of Individual Death Claims Reported and Paid (in lakhs)

Year	Public total claims	Public claims paid	Claim paid (%)	Private total claims	Private claim paid	Claim paid(%)
2006-07	612229	593250	96.9	15033	10928	72.7
2007-08	577322	531653	96.7	27561	21755	78.9
2008-09	640620	564389	95.5	49523	40739	82.3
2009-10	762435	653909	96.5	85061	72200	84.9
2010-11	739502	717529	97.0	112032	96403	86.0
2011-12	731336	712501	97.4	122864	109765	89.3
2012-13	750576	733545	97.7	127906	113384	88.6
2013-14	760334	746212	98.1	125027	110410	88.3
2014-15	755901	742243	98.1	121927	109007	89.4

Source: Insurance Blog, IRDA Annual Reports (2006-2015)

The total number of claims booked with LIC were 8.12 lakhs in FY 2006-07 in comparison to 15033 thousand claims booked by private life insurance companies. This number has increased to 755901 thousand in FY 2014-15 whereas in case of private life insurers the number has increased to 1.21 lakhs in the same year. In case of number of claims paid by life insurance companies again an increase is observed.

### 1.9 Total Number of Group Death Claims and Paid

The total number of group claims booked and paid is another parameter which is taken to the study the impact of privatization on public and private life insurance companies as financial analysis of life insurance services is not possible in the absence of study of individual and group death claims. The table below shows the detailed description of total group claims reported and settled by the public and private life insurance companies for the year 2011-2014.

**Table 1.9 Total Number of Group Death Claims and Paid (in lakhs)**

Year	Public claims	Public claims paid	Claims (%)	Private claims	Private claims paid	Claims (%)
2011-12	244134	243429	99.64	158093	142325	97.83
2012-13	245467	244350	99.54	119970	105379	87.79
2013-14	267296	266367	99.65	158682	143530	90.45
2014-15	273794	273794	100	192989	175620	91.0

*Source: IRDA – Annual Reports (2011-2015)*

The total group claims reported to life insurance companies is showing an increase from 2.44 lakhs in the FY 2011-12 to 2.73 lakhs in the FY 2014-15 and the same trend has been seen in case of private life insurance companies except FY 2012-13 where group claims reported has shown a decrease. In case of payment of group claims again the same pattern is seen with increase in the payment of group claims from 2.43 lakhs to 2.73 in case of public life insurance company and an increase from 1.58 lakhs of group claims to 1.92 lakhs in case of private life insurance companies.

### Review's Related To Business Performance Of Life Insurance Companies

**Suthanan (2000)** in his study on “Changing face of Indian Insurance has highlighted the reasons for the inefficiency of LIC in India”. Low contribution of investment, pension and health care products in contrast to their demand are the main drawbacks which have been mentioned in the study and are responsible for low penetration in India in comparison to other countries. Corporation of India..

**T Asokan (2007)** in his study on Re-entry of private Insurers in India: A Surveillance” has studied and analysed the major issues which are related with the coming of individual players in insurance sector. The findings of the study revealed that the premium charged by public insurance companies is very high due to outdated and inefficient operations. India has a low insurance coverage and the country ranks fifty one position in the world with 1.95 percent insurance penetration.

**SushantReddy (2017)** “A look at India’s life insurance sector” has analyzed life insurance in India and compared it to last years on the basis of parameters mentioned below:

1. Share of life insurance business in total premium
2. Insurance Density
3. Insurance penetration.
4. Total policies in force.
5. Product segmentation.
6. Company wise market share.
7. Distribution channels
8. Overall business growth
9. Geographical distribution
10. Client history and settlement ratio
11. Commission paid by Insurance Companies
12. Persistency ratio
13. Distribution of asset
14. Solvency Ratio
15. Profitability

In India the share of life Insurance business is 79% which is 55% globally. Life Insurance penetration in India is 2.7% which is much lower than penetration globally which is 3-5%. LIC is the market leader as its contribution in total premium is 72%, rest of the contribution is made by private life insurance companies. Renewal premium is the major reason behind LIC’s domination but with every passing year market share of private life insurance companies is enhancing. Major source for sale of life insurance policies is still individual agent. 20 lac agents in India are registered as on 2016

.With the passage of time Bancassurance distribution channel is expanding and traditional individual agent channel is declining. Overall India is doing well in terms of reach as total sum assured by all life insurance companies in 2016 was 85 lac cross in the last three years. Overall life insurance business has reached to 8% CAGR.

**Ashok Kumar and Ramesh Kumar (2018)** in their article “Enhancing profitability in Indian life insurance Industry –A proposition ”hasstudied the reasons for the accumulated losses which over 110003 branches of operational life insurance companies are attempting to wipe out. For measuring the effectiveness of these operating life insurance companies, due to long term feature of insurance business is not an easy task. Book keeping practices gives fractional information butlacksfactual view point. Insurance industry which was earlier know as sunrise industry is facing regular declines in business premium. The commission on ULIP’s has also been reduced to 5% which earlier used to be as high as 18%, this has reduced sales further losses to insurance companies.

The number of agents has also dropped from 26.39 lacs to 5 lacs from March 2010 to March 2015. Saving ratio of consumer have also dropped due to lowering employment which has kept the potential customer away from insurers.

Ffollowing factors have been drived out which could affect the profitability of life insurers in India

- Marketing of insurance products through e-commerce model for instantaneousconnect.
- Insurance companies must focus on variable channels along with the existing distribution channel.
- Date analytics must be implemented for understanding the priorities of customers,their behavior and their buying patterns.
- Identify key areas for cost reduction and efficient management.
- To improve risk and capital management skills.
- To reduce overall cost of underwriting through centralized repository system.
- Insurers must develop capabilities in agents reinvent relations with customers and use digital tools and Data analytics.
- More on emphasis on Group Insurance to bring cost effectiveness.
- Focus on Persistency.
- Multi-channel distribution system must be developed for the optimum resource utilization.
- Latest mortality tables must be followed which reflects the present scenario as life expectancy has increased due to advanced medical technology.

As per this paper insurers can only wipe of the accumulated loses through building efficiencies in underwriting investment and expenses.

#### **FINDINGS OF BUSINESS PERFORMANCE OF LIC IN COMPARISON TO THE BUSINESS PERFORMANCE OF PRIVATE LIFE INSURANCE COMPANIES IN INDIA**

Only top five private life insurerare capturing 85% of the market share and rest of the companies are only struggling. Individually none of the private life insurance company is strong enough to have a grip over LIC.

- After the financial crises of 2007, the sale of ULIP plan has shown a downfall which resulted to decrease in the growth rate of new policy issuance.
- The stringent steps taken by IRDA in the financial year 2010-2011 were accountable for the decrease in sale of policies and falling growth of new policies issued in the years 2011 onwards.
- Public and private life insurance companies have shown satisfactory business in force in terms of policy.
- The FY 2014-15 was overall not good for the life insurance industry due to the adverse market conditions and business in force in terms of policy has shown a negative growth.
- On comparing LIC with private life insurance players on the basis of business in force in terms of policy LIC has proved to be a better performer.
- From the FY 2009-10 the branches of private sector companies have declined as private life insurers started working on right sizing strategy and efficient utilization of space.
- Overall it is observed that thereis visiblerise in the figure of consumercomplaintsreported life insurance companies in India but the number of complaints reported to private insurers are higher than reported to the public life insurers.

- An integrated grievance management system (IGMS) has been launched by IRDAI where the policyholders who are unable to register their complaints directly to the company through grievance redressal channel can register their complaints through gateway IGMS.
- An integrated complaint management system is implemented on LIC website for online grievance registration.
- Post privatization picture in terms of complaint redressal is highly positive for LIC, having 100 percent grievance settlement since 2013-14
- Implementation of integrated management information system is responsible for high grievance settlement percentage.
- The number of claims paid by LIC have increased in absolute terms but the proportion of claims paid by Private life insurers is more than LIC due to better performance of private life insurers.
- LIC has shown its efficiency in payment of group claims by achieving 100% group claim settlement whereas private life insurance company have shown a reduction in group death claim settlement, proving them to be inefficient in this criteria.
- The rejection of death claims is more in case of private companies in comparison to LIC which has led to the reduction in payment of group death claims in case of private life insurance companies.
- **Suggestions for Public and Private life insurance companies**
- Life Insurance Corporation (LIC) must introduce innovative products in the market to increase its market share.
- Life insurance companies must make policies to tap the rural area where the prospect for insurance business is high.
- The premium charged by LIC is more in comparison to private life insurance companies, so LIC must work to reduce the premium by reducing their operating expenses.
- Right sizing and optimum utilization of space strategy must be used by both public and private life insurance companies extensively to reduce their operating expenses.
- The private life insurers must work to improve the services regarding proposal forms, non receipt of policy documents and receipts, loan extension, claim settlement delays and frauds by agents
- The rate of growth in grievance reporting is more in case of private life insurance companies in comparison to public life insurance company. So private insurance companies must work to remove misselling activities performed by agents which has increased the number of grievances.
- The number of claims paid by LIC have increased in absolute terms but the proportion of claims paid by Private life insurers is more than LIC due to better performance of private life insurers.
- There are abundant reasons for high rejection rate of group death claims such as incomplete or improper disclosure of insured persons etc. Private life insurance companies must work to remove these flaws so the rejection of death claims are reduced.

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