

CHAPTER V

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

Introduction:

In view of the changes the Indian Insurance Sector has undergone during the post liberalization period, this study was conducted to measure the performance, productivity and portfolio management of public and private players in the insurance sector in India. Further it also analyses the comparative performance between public and private sector corporations of life insurance in the post liberalization scenario. The summary of the findings of the study are discussed below:

5.1 Findings:

5.1.1 Performance of LIC:

Performance of LIC was evaluated by measuring the growth of significant variables annual premium, number of policies and sum assured. These are the key performance indicators defined by IRDA.

- **Premium:** Premium of LIC has shown a steady growth rate of 4.61 percent in new business outside India, 14.72 percent in new business inside India, 19.11 percent in business in force in India and 8 percent in business in force outside India. An overall increase in growth rate of 24.90 percent has been observed up to 2002-03 after which a decline and fluctuating trend was observed in all the key performance indicators. This is mainly due to the entry of private players.
- **Number of policies:** LIC has shown a steady growth rate of 6.70 percent in new business inside India, 9.30 percent in business in force in India, 1.89 percent in business in force outside India, 2.80 percent in rural business and 18.18 percent in share of rural business to total business. An overall increase in growth rate of 9.61 percent has been observed up to 2002-03 after which a decline and fluctuating trend was observed in all the key performance indicators. This is mainly due to the entry of private players.
- **Sum Assured:** LIC has shown a steady growth rate of 14.10 percent in new business inside India, 15.81 percent in business in force in India, 5.74 percent in

business in force outside India, 8.31 percent in rural business and 14.59 percent in share of rural business to total business. An overall increase in growth rate of 19 percent has been observed up to 2002-03 after which a decline and fluctuating trend was observed in all the above said key performance indicators. This is mainly due to the entry of private players.

- The growth rate of new business of LIC under group insurance has been inconsistent with negative growth rate of 3.43 percent of number of schemes, 6.66 percent of number of members and 13.42 percent of total annuity. During the year 2004-05 and 2005-06 a drastic downfall has been observed.
- The quantum of business in force of LIC under superannuation scheme was increasing but the growth rate has been fluctuating and showed a declining trend which is observed to be inconsistent. LIC has showed a growth rate of 4.14 percent in number of schemes, 13.06 percent in number of members and 16.21 percent in total annuity.
- The average growth rate of number of active agents is 6.63 percent. There was inconsistency and decline in the growth rate of the agents after the entry of private insurers but the number of agents kept on increasing year after year with upward trend.
- The major portion of income of LIC comes from the renewal premium followed by income from investments and first year premium. LIC has shown consistent performance with a growth rate of 0.03 percent in renewal premium, 16.73 percent in miscellaneous income. A downfall has been observed in first year premium with a negative growth rate of 0.45 percent and single premium with a negative growth rate of 1.74 percent.
- The performance in average sum assured per policy was commendable with steady growth rate of 7.11 percent, except in the years 2002-03 and 2003-04. LIC gradually regained its position in the consecutive years.
- The performance of LIC in terms of ratio of first insurance to total insurance completed is good and has showed a growth rate of 3.55 percent in the case of number of policies and 2.51 percent in the case of sum assured.
- The growth rate in the life fund ranges between 20 to 22 percent has been constant throughout the study period.

- The settlement of claims has shown a steady increase from 1993-94 till 2007-08 with a growth rate of 11.17 percent in terms of number of claims and 16.97 percent in terms of amount of claim.
- LIC has shown a consistent percentage of lapsation of policies ranging from 4.9 to 6.3 percent thorough out the study period.
- Cubic Trend analysis has revealed a positive future trend for all the following determinants: New business in India, new business out of India, business in force in India, business in force out of India, new rural business, share of rural business to total business, new group business, business in force under super annuation scheme, growth in active agents, composition of income, average sum assured per policy, ratio of first insurance to total business, life insurance fund and claims settled during the year.
- It is clear from the Factor Analysis and Varimax rotation that majority of the income of LIC was utilized in the form of claims by maturity, management expenses, surrenders, Government share of valuation surplus and excess of income over outgo. This is followed by Claims by death, Annuities, Salary and other benefits to employees.
- Inter Correlation Matrix and Multiple Regression analysis has revealed:
 - In new business in India, correlation coefficients between the independent variables (number of policies and sum assured) and dependent variable (annual premium income) were significant at one percent level. This indicated strong relationship between the variables considered. The multiple regression model indicated that out of the two variables sum assured has significantly contributed to the premium income.
 - In new business out of India, only the independent variable (sum assured) was positively correlated indicating that the relationship is more influencing between sum assured and premium income. The multiple regression model indicated that out of the two variables sum assured has significantly contributed to the premium income.
 - In business in force in India, correlation coefficients between the independent variables (number of policies and sum assured) and dependent variable (annual

premium income) were significant at one percent level. This indicated all the variables were influencing one another. The multiple regression model indicated that out of the two variables number of policies has significantly contributed to the premium income

- In business in force out of India, correlation coefficients between the independent variables (number of policies and sum assured) and dependent variable (annual premium income) were significant at one percent level. The multiple regression model indicated that out of the two variables, sum assured has significantly contributed to the premium income.
- In case of premium income, the multiple regression model indicated that sum assured, number of active agents and loans advanced significantly contribute to premium income. Thus to improve the premium income, LIC has to largely depend on sum assured, number of active agents and loans advanced.
- In case of Life fund, the annual premium, number of policies, sum assured, number of active agents and loans advanced were identified as significant determinants. The multiple regression model indicates that number of policies and number of active agents significantly contributes to the life fund. Thus LIC has to concentrate on the number of policies and number of active agents to increase the flow of life fund.
- Path Coefficient Analysis has revealed that among the five explanatory variables annual premium, number of policies, sum assured, number of active agents and loans advances, three explanatory variables namely sum assured, number of active agents and loans advances has shown higher positive direct effect on life fund. The variable sum assured also has higher positive indirect effect on Life fund through Number of active agents. Similarly the variable number of active agents has positive indirect effect on the life fund through Sum assured. The variable loan advances has higher positive indirect effect on the life fund through number of active agents. Hence the three explanatory variables, sum assured, number of active agents and loan advances were substantially important as they contribute to life fund.

5.1.2 Analysis of Productivity of LIC

- LIC has attained a growth rate of 13.89 percent in new business per branch and 7.18 percent in new business per active agents. There was downfall from 2002-03 onwards.
- The number of policies per branch showed a growth rate of 6.58 percent. The performance of LIC was good till 2005-06 but towards the end years it declined. Notably the number of policies increases even after the entry of private insurers and this signifies that the decline was not due to competition in the insurance market.
- The number of policies per active agent showed a growth rate of 0.21 percent but decreases in the later years of 2006-07 and 2007-08.
- The premium income per branch of LIC showed a growth at 14.62 percent. The growth was consistent with steady raise till 2001-02 but afterwards it started to fluctuate.
- The premium income per agent showed a growth rate of 14.02 percent. The performance of LIC was improving steadily till 2001-02 and was fluctuating from 2002-03 onwards.
- LIC strove hard to reduce its expenses ratio every year and the decrease was reflected with a negative growth rate of 2.97 percent.
- Complaints per thousand mean number of policies in force reveals that the ratio was decreasing year by year indicating that the increase in the number of complaints was less as compared to the increase in the number of policies in force with a negative growth rate of 4.43 percent.
- The percentage of outstanding claims to total claims payable of LIC in terms of number showed a negative growth rate of 26.96 percent and in terms of amount with a negative growth rate of 17.76 percent. LIC has shown promptness and efficiency in the claim settlement operations.
- The members of various agents club of LIC kept on increasing till 1999-2000 but thereafter it started to decline in all the subsequent years till 2005-06. This has shown a negative growth rate of 9.59 percent in distinguished club, 6.53 percent in branch managers club, 44.74 percent in divisional managers club, 15.95 percent in zonal managers club and 17.58 percent in chairman's club.

It may be concluded that the productivity of the LIC has been increasing steadily till 2001-02 and with slight disturbance during 2002-03 and 2003-04. This was the year when all the private players were active in the insurance market. Notably in 2004-05 LIC restored its position with great hikes in its growth rates. On the whole LIC has to improve its productivity especially in terms of new business per branch, per agent, number of policies per agent and premium income per branch and LIC has to be appreciated in its productivity in terms of operating expenses ratio, complaints per thousand mean number of policies in force and percentage of outstanding claims to total claims.

5.1.3 Analysis of Investment Portfolio of LIC

- Loans advanced to various developmental activities reveals that among the percentage share of each development activity, housing holds the major share of the loans with a negative growth rate of 2.77 percent, followed by electricity with 18.14 percent, industrial development with 4.202 percent and water supply and sewerage with a negative growth rate of 4.709 percent. The least share was given by transport with a negative growth rate of 0.255 percent. A huge increase in the total amount of loan advanced for various development activities after the issue of new investment regulations by IRDA in 2002 has been observed.
- Composition of Investments as per IRDA guidelines reveals that the investment of the corporation in government securities has shown a growth rate of 0.47 percent, investment in infrastructure and social sector with a negative growth rate of 3.11 percent, investments to be governed by prudential norms with 5.06 percent and other than approved investments again with a negative growth rate of was 6.98 percent.

Thus on the whole the performance of the corporation has been satisfactory but there is a need to invest more controlled funds in infrastructure and social sector as it leads to the growth of the economy and generation of employment opportunities. Secondly LIC should also control its exposure in investments in the corporate sector as it was higher than the prescribed guidelines.

5.1.4 Comparative analysis of the performance of LIC and private insurers

- In total premium income LIC showed a high growth rate year after year compared to the private life insurers.
- The market share of total life insurance premium of LIC showed a negative growth rate of 4.66 percent whereas the growth rate of private insurers was 84.03 percent.
- Analyzing the first year premium, the performance of LIC was satisfactory as it has shown a year after year increasing growth rate. In case of private players, the rate of growth was declining. Hence comparably LIC scores the performance in respect to first year premium.
- The market share of first year premium of LIC has shown a negative growth rate of 6.71 percent whereas the growth rate of private insurers was 62.55 percent. This implies that the market share of LIC has declined by the entry of private players.
- The market share of single premium in public sector has shown a negative growth rate of 2.03 percent whereas the growth rate of private sector was 36.24 percent.
- The market share of renewal premium in public sector has shown a negative growth rate of 2.01 percent. This was low compared to private sector with 96.82 percent as growth rate.
- The growth rate of new policy issued was high in private sector (63.80 %) compared to LIC (6.60 %).
- The market share of new policy issued of private insurers has shown an increasing trend when compared to LIC. LIC has further shown a decline in the market share from 96.75 percent in the year 2002-03 to 73.93 percent in the year 2007-08.
- In terms of number of policies, LIC holds 97 percent of market share with respect to business in force. But private players were able to keep up their market share from 1.46 percent in the year 2004-05 to only 2.92 percent in the year 2007-08. Thus comparably LIC has shown a better performance to that of private insurers.
- In terms of Sum Assured, LIC has shown a decline in market share of 91.64 percent and comparably the private insurers has gained 8.36 percent of market

share in the year 2007-08. This implies better performance of private players to that of LIC.

- The growth rate of number of licensed offices of LIC was 0.12 percent and that of private insurer's was 87.79 percent. Thus private players were in an urge to increase the number of offices and spread their coverage.
- The growth rate of the number of licensed agents of private insurers was high with 126.84 percent to that of LIC with 36 percent.
- All the insurers maintained the required solvency margin of 1.5 percent and notably the private insurers kept up a higher rate of 2.24 percent on an average.
- The lapsation in terms of sum assured has shown a growth rate of 4.09 percent in public sector which was low when compared to the private sector with 48.47 percent.
- The lapsation in terms of number of policies has shown a negative growth rate of 1.19 percent in public sector and 45.76 percent in private sector.
- Analysis of Variance: By way of testing the significant differences, taking the first thirteen private companies as samples, the analysis F factor reveals there was significant difference in the mean lapsation among the private insurance companies. Among the twelve companies ICICI Prudential tops the list with highest mean lapsation (2927) followed by Tata AIG (2711), Max New York life (2575), Bajaj Allianz (1981), Met life insurance (833), HDFC STD Life (778), ING Vysya (732), Kotak Life (632), SBI Life (630), Birla Sunlife (574) and Reliance life (534).
- The lapsation ratio reveals that the rate of LIC showed a declining trend. In case of private players HDFC and Reliance life the lapsation ratio showed a declining trend throughout. Max New York Life and Birla Sun Life showed a reduction rate and at times they rose up. But ICICI prudential, TATA AIG, Kotak Life, Bajaj Allianz, Met Life, Aviva, Shriram life have shown an increasing trend in lapsation rate which has to be reduced. Thus the private sector should introduce more control measures to reduce lapsation rate.

To sum up in almost all the performance parameters namely the growth rate of market share of total life insurance premium, first year premium, single premium, renewal premium, business in force in terms of sum assured, new policies issued and growth rate, number of life insurance offices, number of licensed agents and solvency ratio, private players have shown better performance to that of LIC. LIC sounds better in case of total premium income, first year premium, lapsation rate, business in force in terms of number of policies and percentage growth in life fund. This indicates that the entry of private players has given tough competition to LIC.

5.1.5 Comparative analysis of productivity of LIC and private insurers

- Premium income per branch reveals that the productivity of private players were better to that of LIC. Among the private players SBI Life (Rs.16.3 crores) shows a very high mean of productivity followed by ICICI Prudential (Rs.14.9 crores), Birla Sunlife (Rs.9.7 crores), Tata AIG (Rs.9.5 crores), HDFC STD Life (Rs.8.7 crores), Max New york Life (Rs.7.9crores), Kotak Life (Rs.7.8 crores), Bajaj Allianz (Rs.5.1crores), Met life (Rs.4.5 crores), ING Vysya (Rs.4.3 crores) and Reliance life (Rs.1.9 crores) .
- Premium income per agent reveals that the productivity of LIC was healthy to that of private insurers. Among the private players SBI life stands first with Rs.13 lakhs of mean productivity followed by Birla Sunlife (Rs.7 lakhs), Kotak Life (Rs.6 lakhs), ICICI Prudential(Rs.5 lakhs), Max New York life(Rs.5 lakhs), HDFC Std Life(Rs.4.3 lakhs), Aviva (Rs.4 lakhs), TATA AIG (Rs.3 lakhs), Bajaj Allianz(Rs.2.4 lakhs), Metlife (Rs.2 lakhs) and Reliance life (Rs.1.3 lakhs).
- LIC stands better to the productivity of private players in case of business in force per agent. Among the private players Max New York Life stands first with Rs.1.335 crores of mean productivity followed by SBI Life (Rs.0.96 crores), TATA AIG (Rs.0.63 crores), HDFC Std life (Rs.0.43 crores), Met life (Rs.0.43 crores), Kotak Life (Rs.0.42 crores), ING Vysya (Rs.0.26 crores), Birla Sunlife (Rs.0.25 crores) , ICICI Prudential (Rs.0.2 crores) , Bajaj Allainz (Rs.0.12 crores) , Reliance life (Rs. 0.09 crores) and Aviva (Rs.0.02 crores)
- LIC stays healthy with increasing rate in the business in force per branch but the private players' productivity was unsatisfactory with declining rate. Among the private insurers, Max New York Life ranks first with Rs.202.79 crores of mean

productivity followed by TATA AIG (Rs.126.87 crores) , Met Life (Rs.83.27 crores), Kotak Life (Rs.97.03 crores), SBI Life (Rs.69.81crores), HDFC Std Life (Rs.57.72 crores), ICICI Prudential (Rs.53.86 crores), ING Vysya (Rs.51.86 crores) , Birla Sun Life (Rs.42.35 crores), Bajaj Allainz (Rs.24.62 crores) and Reliance Life (Rs.21 crores) .

- In case of number of policies per agent the productivity of LIC was found to be better than that of private players. Among the private players SBI Life tops the list with 40 number of policies followed by Max New York Life with 30 policies, HDFC Std Life, TATA AIG, Kotak Life , ING Vysya ,ICICI Prudential and Birla Sunlife equally with 10 policies, Met life and Reliance life with four number of policies.
- Number of policies per branch reveals that the productivity of LIC tends to be better when compared to private insurers. Among the private insurers TATA AIG with 5735 number of policies tends to be leading in productivity followed by Max New York life (5718), SBI Life (4790), HDFC Std life (2978), ING Vysya (2328), ICICI Prudential (1980), Met Life (1893), Kotak Life (1805), Birla sunlife (1435), Bajaj Allianz (860) and Reliance life with 645 number of policies.
- The operating expenses ratio of LIC was 7.31 on an average which was low when compared to private players with 53.26 ratio.
- In payment of dividend the private insurers were not in the position to pay dividends till the year 2007-08 as they did not attain their breakeven position yet. But LIC pays dividend regularly with slight increase or decrease in its volume. Comparatively LIC's position was found to be far better in the dividend payment and its growth rate.
- Analyzing the status of grievances of life insurers, LIC scores better to that of private players as the percentage of resolved complaints to total complaints kept on increasing. In case of private players the number of reported complaints kept on increasing year by year but the ratio of resolved complaints was fluctuating.

To sum up in most of the productivity determinants namely premium income per agent, business in force per agent and branch, number of policies per branch and agent, operating expenses ratio, dividend payment, profit status and grievance handling LIC's performance was comparatively better than that of private players.

5.1.6 Comparative Analysis of investment portfolio of LIC and private players

- LIC made all its achievements with Rs. 5 crores of equity share capital all through the years. But the private players infuse numerous crores of share capital every year. Almost all the players were showing an increase in growth rate of 33 percent on an average except Bajaj Allianz which tried to maintain its level at Rs.150 crores through out the years. According to the regulation almost all the private players including HDFC Std life, Max New York life, ICICI Prudential, Birla Sun life, TATA AIG, Kotak Life, SBI Life, Bajaj Allianz, Met Life, ING Vysya, Aviva, Shriram Life and IDBI Fortis life have FDI limit upto 26 percent. On ranking the top eleven companies according to their mean values ICICI Prudential ranks top followed by HDFC Std life, Max New York life, Birla Sun life, ING Vysya, TATA AIG, Reliance life, SBI Life, Met life, Kotak life and BAJAJ Allianz.
- Analyzing the investments of insurers and their percentage growth the public sector performs better to that of private insurers. Paired t – Test reveals that that there was significant difference in the mean investments of insurers between public and private sector insurance companies and it was higher in private sector than public sector.
- Analyzing the life fund with its proportion to total investment funds the private life insurance companies were decreasing at an increasing rate from the year 2002-03 to 2007-08. In case of LIC the proportion again declines but at a decreasing rate from 88.19 percent in the year 2002-03 to 78 percent in the year 2007-08. Thus comparatively private players should strive to increase their life fund.
- On analyzing the share of investment in Government securities both LIC and private insurers were able to keep up the required percentage and even more in all these years. At times private players showed a backlog due to the less contribution by the companies like Max New York life, ICICI Prudential and Birla Sun Life in this sector of investments.

- In case of the investments in infrastructure and social sector, LIC failed to keep up its level while the private players met with the statutory requirements in all these years as their percentage exceeds the required limit.
- In case of investments governed by the exposure prudential norms both LIC and private players kept up the required percentage.
- LIC has kept up their requirements in other than approved investments. Comparatively private players have also kept up their investments within the prescribed norms.

Thus on the whole the performances of all the insurance companies were satisfactory. However there is a need to invest more funds in infrastructure and social sector as it leads to the growth of economy and generation of employment opportunities.

5.2 Suggestions

Insurance is the outcome of man's constant search for security and finding out ways and means of ameliorating the hardships arising out of calamities. The Indian insurance industry has come a full circle from being an open competitive market to complete nationalization and then back to a liberalized market. First, of all the reasons for privatization of Indian insurance industry was to promote wider competition, wider choice of products, lower price of insurance covers, better customer services, improved use of information technology, better management, increased efficiency and to provide operational autonomy. Having undertaken the study and analyzed the performance of both private and public Indian life insurance industry, the researcher identified certain areas of backlogs and deficits in both the sectors especially in the years of liberalization which has been listed below:

➤ To improve performance and productivity :

As productivity is the heart of the firm's performance and it reflects the real value of the firm it has to be given due consideration. The problem of low performance and productivity identified are both external and beyond the control of insurance companies: like changes in tax laws, availability and emergence of alternative investment options,

customer specific features etc. But some are well within the control of the companies and are internal like:

1. Product redesign and choices, redesigning marketing and distribution strategies, incentive framework, supervision and control.
2. Misselling on larger scale can be avoided by professional education to insurance agents and advisors, like imparting syllabus oriented training, continuous skill upgradation programmes, designing standardized compensation strategies,
3. Channel optimization and strengthening with additions like corporate agents, broker firms, bancassurance and even through cyber marketing,
4. Imparting customer education by way of service camps, awareness programmes etc. ,
5. Introducing service delivery initiatives like availing web services for premium payment, document submission, receiving cell phone alerts, access to company database through toll free numbers etc.

All these if given due consideration would increase the performance among the insurance companies, increase the public image and in turn the value of the firm.

➤ **To provide efficient service :**

Efficient service is the sum total of a number of factors. Admittedly the most sensitive area of servicing is claim settlement. As already mentioned insurance is a promise given to meet the risk in a given contingency with the premium there for being paid in advance and usually over a long period. If this area is not taken care of, nothing else matters to the policyholder. It is precisely in this area, LIC stands head and shoulder above the erstwhile private insurers as well as the foreign companies. The contract of insurance is a promise and the ultimate delivery of service of an insurance product is the honoring of that promise. The public sector scores over the private sector in this aspect.

The IRDA has expressed concern over the delay in settlement of claims by the private insurers as also the high level of repudiation. In addition the cost of claims will increase with the extension of time because the insurer may be asked to pay the interest on the unpaid insurance amount because of the delay. Hence the private entities have to work

towards improving their performance as in the matter of service to the policy holders, many private insurance companies systematically postpone or avoid payment of claim until of course forced by legal means. And the success of claim management mainly depends on the satisfaction of the customers and the customers are attracted to an insurance company by its state of art of claim service.

➤ **Re organized Channels of distribution :**

The liberalization has helped to create a number of new channels of distribution of insurance products. The private sector has been using alternate channels like, corporate agents, brokers, direct sale etc. Bancassurance has been very successful with private sector securing 21 percent of new premiums through this channel. The successful experience with the bancassurance is coming under strain with major banks deciding to enter the insurance business promoting their own companies. The SEBI has also noticed cases of miselling of insurance products by the banks. What impact this can have has to be seriously analysed and taken care by both the private and public sector insurance companies.

Now days the online insurance plans are flooding the market with four insurance companies launching these plans with the hope of eliminating the cost of the intermediaries and making the product cheaper. It is said that for the same sum assured online term plans will work out at least ten percent cheaper than those sold through intermediaries. Companies do not have to pay commission to agents and distributors. In addition they can save on expenses such as branch cost. But all these are recent entries into the market and hence their efficiency has to be proved yet.

➤ **Prospects for Growth :**

The major source for insurance business has been the Indian middle class. The middle class is growing and estimated to be nearly 200 million now. The economic growth has benefited them and these sections have increasing levels of disposable incomes. The demography is also in favor of the insurance industry. The estimates

suggest that 54 percent of the Indian population is below the age of 25 years^{*1} and these are potential future customers.

The size of Indian population makes it hugely attractive market. There is no doubt that the benefits of growth of Indian economy have not benefited all the sections of the population. The Tendulkar Committee^{*2} has put the figure of those below poverty level at nearly 40 percent of the population. It is to be noted that as per Arjun Sengupta MP's report^{*3}, 70 percent of population have income of below Rs.20 per day. A large number of these people live in rural India. There is a serious talk of inclusive growth now. If the government seriously takes measures to improve the life and purchasing capacity of these people, then rural India would provide huge opportunity for growth for the insurance business.

India is a country where there is no social security. Nearly 90 percent of the work force in the country is employed in the unorganized sector. This section needs insurance as a security against various risks. With intense competition, it is natural that the companies would target the most profitable business ignoring this vast section which is not capable of purchasing big ticket insurance policies. Driven by the intense competition, even the public sector seems to be flatterring in reaching the most deprived and needy sections of the population. Therefore, there is need for the government and regulator IRDA to force the insurance companies to come out with products that meet these requirements.

➤ **Coverage to economically depressed classes :**

LIC has to be appreciated for undertaking projects to economically depressed and socially purposive. Some of the socially oriented investments schemes of LIC includes: electricity, water supply and sewerage, housing and state transport etc. Besides people belonging to weaker sections such as beedi workers, fishermen, hamals, handicraft artisans, handloom weavers, papad workers, primary milk producers, rickshaw pullers, tendu leaf collectors, toddy tappers etc have been covered under social security group

*¹ Demographics of India, Indian census Study, 2010.

*² Tendulkar Committee report on Poverty Estimation, Jan 5, 2010.

*³ Arjun Sengupta Report, Sep 1, 2007.

schemes. All this for the economic upliftment is found missing under private entities where their aim being only profit maximization and not socially responsible and hence to be taken care.

➤ **Spread the message of insurance to remote rural areas :**

There could be no doubt that the business of life insurance has spread faster and far wide in the past one decade. But the coverage of business into the remote rural areas by the private entities has shown a backlog which was to the best attained by LIC. Private players go in for the cream of business in already developed urban areas with higher profit potential and neglect the rural customers. Hence there arises the need for the private companies to concentrate on balanced regional coverage of business by improving new rural business and percentage of rural business to total business.

➤ **Control over Lapsation rate :**

The first and foremost reason for a policy holder to prefer not to stick to his commitments is a possible disillusionment. Several policyholders realize after the contract has been concluded that their requirement have not been taken care of by the terms of the policy and hence they tend to discontinue further payment of premiums. It is common knowledge that a satisfied client would continue to stay with the insurer for the entire period of contract. This lapsation brings huge loss to the insured by way of interruption in coverage of risk and for the insurer, hampering expected cash flows and in turn affects the profitability and growth of the concern. According to IRDA the lapsation ratio was meager in case of LIC, but for private players it ranged from as high as 80 percent in certain companies and hence to be taken care.

➤ **Improve Solvency ratio :**

The solvency of the company corresponds to the ability to pay claims. An insurer is insolvent if its assets are not adequate or cannot be disposed of in time to pay the claims arising. But nowadays many Indian life insurers suffer from inadequate solvency margin. Five out of twenty one private life insurers in the country have suffered a dip of below 1.5 percent in the solvency ratio, a key indicator of the financial health of a company. Even LIC suffered inadequacy in the years 2004 and 2005 but corrected in

2008. In this context of economic slowdown, insurers need to monitor their solvency ratios constantly.

➤ **To provide creditworthiness, building of trust and security for savings of the people:**

The insurance industry to its core had to build trust in the minds of policyholders that their hard earned money is more secure in the hands of insurance companies than in other means of investments. Hence they should be free from all the maladies such as undercutting of premiums, unscrupulous management, falsification of reports, questionable investment, poor claims settlement, high rate of expenses and managerial privileges, misuse of insurance funds for private gains etc. Presently the global financial meltdown has shaken the insurance industry in the developed world and in March 2009, the US giant, AIG American International Group, reported loss and had to be bailed out by US Government by treasury injection of \$182.3 billion. In return for that financial support, the U.S government received an 80 percent equity stake in AIG . It is to be noted AIG is a partner of Tata AIG insurance company operating in India. At that time Tata AIG Life insurance company had to assure the Indian people by stating that US financial crisis does not have any immediate material impact on TATA AIG Life as the company is 74 percent owned by Tata Sons and 26 percent by AIG.

In addition the practice of private players winding up operations all of a sudden and changing their profiles by entering into new partnerships and joint ventures would lessen the trustworthiness and feeling of security for savings of the people. In 2005, Reliance Life Insurance Company Ltd, a subsidiary of Reliance Capital Ltd acquired AMP Life Assurance Company Ltd which was originally commenced with a joint venture between AMP Australia and Sanmar Group of India. AMP ltd is one of the world's leading financial services provider with a customer base of over 9 million and Sanmar Group is among the largest industrial group with turnover of around Rs.10 billion flourishing business in PVC/Chlorochemicals, speciality chemicals, shipping and engineering. AMP Sanmar handed over 90 branches, 900 staff and 9000 agents to Reliance life all of a sudden and quitted the vast potential Indian insurance industry.

Today life insurance is widely accepted as one of the most financial instruments in an individual's portfolio that provides an assurance of security with attractive returns to protect customers' money and life. Hence When LIC was able to build trust among the policyholders through its efficient service; the private players have to work towards gaining and building trust and should be free from all the evils mentioned earlier.

➤ **To mobilize people's savings for National Development :**

In the matter of utilization of people's savings for national development, LIC's achievement is unmatched. LIC's contribution towards five year plans was tremendous year after year. Its contribution to the Government's exchequer has been steadily increasing in way of dividend and tax collection. The Eleventh Five year plan (2007-2012) had targeted infrastructure investment of 9 percent of the GDP. Hence IRDA has to advise the companies to have proper mix of the policies so that long term funds are generated for infrastructure investments and people's savings can be effectively utilized for national development. Hence the private insurance companies with foreign partnerships can think and work in this direction too.

5.3 Conclusion

The structure of the Indian insurance industry has undergone a drastic change since liberalization in the insurance sector. For almost four decades LIC has been the sole player with virtual monopoly in the life insurance sector. But after liberalization and with the advent of Malhotra Committee, IRDA was formed and the insurance market was open for the private players with foreign partnerships too. With the entry of so many companies in this sector it becomes essential now to analyze whether the private companies are progressing better in terms of their performance, productivity and investment portfolio when compared to LIC, the sole giant in insurance sector.

The study reveals the overall performance of LIC in the areas of productivity, performance and investment along with the impact of the entry of private insurers in the first phase and then duly compares it with the performance of the private players in the second phase. Thereby it has been identified that the performance of LIC was good and satisfactory in settlement of claims, lapsation rate, status of grievances handling

mechanism, loans advanced to various developmental activities, composition of investments, share of rural business to total business, operating expenses ratio, payment of dividend etc. However the market share of LIC has decreased after the entry of private players which indicates that LIC has to change its strategies to meet the challenges and more emphasis has to be laid on marketing so that private players are not able to make a dent in its market and lure away the prospective buyers.

On the other hand the private players have to concentrate on their creditworthiness and efficient service in assuring safety of the savings of the policyholders and thereby developing trust in their minds, make investment in socially purposive and reasonable projects and thereby mobilize public savings for the national and economic development and promote insurance business in remote rural areas.

The determinants discussed in the study though not exhaustive, gives an idea as to which specific areas are to be given emphasize to make the performance of the life insurance companies in India better. The researcher deems this effort a small step which would pave the way for a better insight into the most intriguing and interesting concept, “Performance analysis of Indian life insurance industry in the post liberalization period”.

5.4 Scope for Further Research:

There is still scope for further research in the evaluation of the performance of the Indian life insurance sector in:

- ✓ Promotion of insurance in rural areas and investigating ways for increasing business.
- ✓ Corporate Governance: Monitoring the functions of life insurance companies and studying the reasons for collapse of the life insurance companies globally, namely, AIG of US.
- ✓ Promotion of insurance in social sector.