

CHAPTER – III

RESEARCH METHODOLOGY

This chapter highlights the methodology of the study. It consists of nine sections. The first section states the problem of the study. The second section discusses the objectives and the third deals with the organization of the study. The fourth section states the period of the study. The fifth section discusses the sampling design and the sixth deals with the method of data collection. The seventh section lists the determinants identified for the study. The eighth section deals with the statistical tools used for analysis of the study and the ninth section lists the limitations of the study.

3.1 STATEMENT OF THE PROBLEM

The insurance industry has undergone a drastic change since liberalization, privatization and globalization of the Indian economy in general and the insurance sector in particular. For almost four decades LIC has been sole player with virtual monopoly in the life insurance sector. In the early 90's the government of India ventured into the policy of liberalization, privatization and globalization. This policy envisaged opening up of the economy along with most of its core sectors to the private entrepreneurs. Along with this the entry of international corporations into various business and services sectors was also planned. This attracted some private and international players in the insurance sector also.

The decision to open up the insurance sector witnessed great public debate. There were arguments against opening up of the sector on the basis of the unhappy experiences of the privatization days. The government went ahead to liberalize the insurance sector on grounds of justification that insurance penetration and density in the country is low, country needs massive investments in infrastructure and liberalizing insurance will help in mobilization of long term funds. Allowing foreign companies would help in bringing substantial portion of worldwide premium funds into Indian infrastructure and India is a large economy and a big market with ample space for both private and public sector.

Consequently by the year 2000-01, 12 private players entered the life insurance sector. The entry of so many companies in this sector was likely to affect the performance of Life Insurance Corporation. Thus the LIC public sector giant, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. The Life Insurance Corporation might even have to change its strategies of marketing, has to improve customer service and increase the level of training to its agents to hold its position in the market.

It is therefore necessary to study the business performance of both private and public life insurance companies in the post liberalization era, and also the changes that might have progression. Hence it becomes imperative to evaluate and to compare the performances of public and private life insurance companies in India and to study the impact of privatization in Indian insurance sector.

To study the performance of the entities, the three basic diagnostic tools referred by the **Management Guru, Peter Drucker** in his book “*Essential wisdom of Peter Drucker from the pages of Harvard Business Review* ” namely Competence, Productivity and Allocation was taken as the base in terms of Performance, Productivity and Investment.

3.2 OBJECTIVES OF THE STUDY

The following are the specific objectives of the study:

1. To study the overall performance, productivity and investment portfolio management of Life Insurance Corporation of India during the selected period of study.
2. To study the impact of the entry of private life insurers in the performance of Life Insurance Corporation of India.
3. To study the overall performance, productivity and investment portfolio of private life insurance companies in India.
4. To compare the performance of private and public life insurance companies in India.

3.3 ORGANIZATION OF THE STUDY

The whole study covers a period from 1993-94 to 2007-08 and is presented in five chapters.

Chapter I contains the overview of insurance sector, history and origin of life insurance in India, review of general economic environment and the appraisal of life insurance industry.

Chapter II elaborates the review of literatures covering both empirical and theoretical studies on insurance business.

Chapter III contains the methodology of the study including the statement of the problem, objectives of the study, period of the study, method of data collection, list of determinants, the tools used for analysis and the limitations of the study.

Chapter IV contains the entire analysis and is divided into two sections. First section deals with the analysis of the performance, productivity and investment portfolio of Life Insurance Corporation of India for the period of 15 years and the second section covers the analysis of the private life insurance players for a period of 8 years. It also contains the comparative analysis of all players of insurance industry.

Chapter V discusses the major findings of the analysis, suggestions, conclusions of the study and the scope for further research.

3.4 PERIOD OF STUDY

The study evaluates the performance of Life Insurance Corporation of India, a public sector giant and private life insurers in India and compares their performances. The study covers a period of fifteen years from 1993-94 to 2007-08 for evaluating LIC's performance, considering the post liberalization period and eight years from 2001-2008 for the private players right from their year of commencement.

3.5 SAMPLING DESIGN

The study covers the entire population of life insurance sector in India and hence census method has been adopted. LIC is the single most corporation in public sector. In the private sector seventeen companies entered the field during the study period. Out of these twelve companies which have shown a life of more than five years have been

considered for the study. The names of these private life insurers and their year of commencement have been presented in the following Table 3.1.

Table No. 3.1

List of Private Insurance Companies in India as on 2007-08

S.No	Registration Number	Date of Registration	Name of the Company
1	101	23.10.2000	HDFC Standard Life Insurance Company Ltd.
2	104	15.11.2000	Max New York Life Insurance Co. Ltd.
3	105	24.11.2000	ICICI Prudential Life Insurance Company Ltd.
4	107	10.01.2001	Kotak Mahindra Old Mutual Life Insurance Limited
5	109	31.01.2001	Birla Sun Life Insurance Company Ltd.
6	110	12.02.2001	Tata AIG Life Insurance Company Ltd.
7	111	30.03.2001	SBI Life Insurance Company Limited .
8	114	02.08.2001	ING Vysya Life Insurance Company Private Limited
9	116	03.08.2001	Bajaj Allianz Life Insurance Company Limited
10	117	06.08.2001	Metlife India Insurance Company Ltd.
11	121	03.01.2002	Reliance Life Insurance Company Limited.
12	122	14.05.2002	Aviva Life Insurance Co. India Ltd.

3.6 DATA COLLECTION

The study is entirely based on secondary data. These data have been collected from the relevant annual reports of the Life Insurance Corporation of India, Statistical year books of Life Insurance Corporation of India, various news bulletins of LIC and the Annual Reports and Journals of IRDA. Apart from these two major sources various magazines devoted to issues related to Insurance, like Insurance Plus, Insurance Chronicle, Insurance Times, Insurance Worker etc have also been used to supplement data and information required for the study. Interactions and discussions with the officials

of the Life Insurance Corporation and private insurance companies have also contributed in augmenting the required data and information. A number of other websites relating to insurance business have been visited for the purpose of data collection.

3.7 DETERMINANTS FOR ASSESSING THE OVERALL PERFORMANCE OF LIFE INSURANCE SECTOR:

The following are the list of key determinants sourced from the balance sheets and the annual reports of IRDA exclusively for evaluating the insurance companies in India. The determinants identified are listed on the basis of three categories as performance, productivity and investment portfolio as per the objectives of the study.

i) Determinants of Performance of Life Insurance Companies – has been evaluated on the basis of the following indices:

- ✓ 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 Business progress under group superannuation schemes
- ✓ Business in force under group insurance and superannuation schemes
- ✓ Growth in active agents
- ✓ Composition of income
- ✓ Average sum assured per policy
- ✓ Ratio of First insurance to Total business in terms of number of policies and Sum assured
- ✓ Life Insurance Fund
- ✓ Claims settlement operations
- ✓ Analysis of utilisation of income
- ✓ Total life insurance premium
- ✓ Market share of total life insurance premium
- ✓ First year premium

- ✓ Market share of first year premium
- ✓ Market share of Single premium, Renewal premium and Total premium
- ✓ New policies issued and growth rate
- ✓ Number of life insurance offices
- ✓ Lapsation ratio (Number of policies & Sum Assured)
- ✓ Solvency margin of insurers
- ✓ Status of grievances of life insurers & Ratio of resolved complaints and pending complaints to total complaints.

ii) Determinants of Productivity of Life Insurance Companies – This has been measured in terms of the following indices:

- ✓ New business per branch
- ✓ New business per agent
- ✓ Number of policies per branch
- ✓ Number of policies per agent
- ✓ Premium income per agent
- ✓ Premium income per branch
- ✓ Ratio of expenses to premium income
- ✓ Complaints per thousand mean number of policies in force
- ✓ Percentage of outstanding claims to total claims payable
- ✓ Members of various agents.
- ✓ Operating Expenses Ratio & Growth rate
- ✓ Dividend paid & Growth rate

iii) Determinants of Investment portfolio of Life Insurance Companies- In order to study the investment portfolio of LIC the following variables were identified and analyzed:

- ✓ Loans advanced for various development activities
- ✓ Composition of Investments of LIC as per IRDA guidelines.
- ✓ Equity share capital of insurance companies
- ✓ Investments of insurers and Percentage growth
- ✓ Proportion of Life fund to total investment fund.
- ✓ Pattern of investments of life insurers

3.8 TOOLS FOR ANALYSIS:

The well known statistical package viz., SPSS 11.0 was employed for the analysis. For evaluating the performance of LIC and private players, measuring their productivity, analyzing their portfolio management, **summary statistics showing the minimum value, maximum value, mean, standard deviation, coefficient of variation, annual growth rate, compounded growth rate (CGR),cubic trend equation** were computed for different variables. For the determinants like new business in India, new business out of India, business in force in India, business in force out of India, **Inter correlation matrix, multiple regression models and path coefficient analysis** were further used to test the interrelation and their effects.

For clustering the sources of income of LIC, **factor analysis** was used and to further enhance the interpretability the factors are rotated using **varimax rotation** for better interpretation. In order to test the significant differences in investments of insurers **t-test** was used for analysis. To test the significant difference in the mean lapsation rate among the private insurance companies the **analysis of variance** was used.

Line graphs and Pie charts have also been drawn wherever necessary, to provide a visual pattern of growth and comparison.

3.9 LIMITATIONS OF THE STUDY

1. The data collected was mainly of time series in nature. Hence the limitation of time series data in case of using tools for analysis was faced by the researcher.
2. To evaluate the efficiency of insurance companies, the researcher concentrated only on three factors namely performance, productivity and investment portfolio of the companies leaving other factors.
3. All the analysis were carried out on the basis of data in financial statements. Hence the errors in financial statements will reflect in analysis.
4. Primary data has not been included as the focus of the study was on secondary data only.
5. In case of corporations for which the data available was incomplete were excluded from the study.
6. Based on the availability of the data, the entry of private insurers during different years and in consideration of the crucial period of the study, the comparison analysis was made in different year combinations.
7. Companies which have atleast five years of performance was only taken for analysis.