About The Author

Dr.Sangeetha Natarajan, is a Gold Medalist and University First Rank holder in MBA in Bharathiar University, India and is currently working as a lecturer in Nizwa College of Technology under Ministry of Manpower in Sultanate of Oman. She has qualified both UGC-NET and SLET and has over 15 years of teaching and research experience. Her list of publication includes six books and around 50 articles in leading National and International journals, seminars and conferences. She was the Chairman of Board of Studies, Chairman of PG Board of Central Valuation, a Member of the Expert committee of Commission for new and permanent Affiliation under Hospital Administration, in Bharathiar University from 2010 -2012.She is a member of peer reviewer committee and an Editorial Board member of many national and international journals.She is a recognized Research Supervisor under various Universities. She has specialized in Finance in Ph.D and the present book is one of her limelight in the area of insurance.

Outline of the book:

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 Life Insurance Corporation of India has been a 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. The decision to open up the insurance sector witnessed great public debate. The government went ahead to liberalize the insurance sector on the 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. Consequently private players entered the life insurance sector and 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. Its becomes imperative to study the business performance of both private and public life insurance companies and the impact of privatization in the post liberalization period. The present book measures the performance, productivity and portfolio management of public and private players in the insurance sector in India andanalyses their comparative performance in the post liberalization scenario.

Performance of Life Insurance Corporation of India in the Post Liberalisation Period

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CONTENTS

Chapter I - Introduction

Insurance is a protection against a financial loss arising on the happening of an expected event. Insurance companies collect premium to provide for this protection. A loss is paid out of this premium collected from the insuring public. The insurance company acts as a trustee to the amount collected through premium.

There are two branches of insurance viz, general insurance and life insurance general insurance deals with the exposure of risks of goods and property, whereas life insurance is a way to meet the contingencies of physical death and economic death. In case of premature death of the assured the proceeds of the policy are paid to the beneficiaries and annuities protect the assured against economic death when he lives too long to arrange for his necessities.

“Life insurance is a contract for payment of a sum of money to the person assured on the happening of the event insured against”. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death, if it occurs earlier.

Life insurance guarantees full protection against risk of death of the assured. Incase of death full sum assured is payable. Life insurance encourages long-term saving. By paying a small premium in easy installments for a long period, a handsome saving can be achieved. Loan can be obtained against a policy assured whenever required. Tax relief in income tax and wealth tax can be availed on the premium paid for life insurance.

1.1 History of Insurance:

The roots of insurance might be traced to Babylonia where traders were encouraged to assume the risk of the carvan trade through loans that were paid only after the goods had arrived safely a practice resembling bottamry and given legal force in the code of Hammurabi (C.2100.B.C). With the growth of towns and trade in Europe, the medieval guilds undertook to protect their members from loss by fire and shipwreck and to provide decent burial and support in sickness and poverty. By the middle of the 14thcentury as evidenced by the earliest known insurance contract (Genoa 1347), marine insurance was practically universal among the maritime nations of Europe. In London Lloyd’s coffee house (1688) was a place where merchants, ship owners and underwriters met to transact business. By the end of the 18th century, Lloyd’s had progressed into one of first modern insurance companies. In 1693, the astronomers Edmony Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest.

The table constructed in the year 1756 by Joseph Dodson made it possible to scale the premium rate to age, previously the rate had been the same for all ages.

Insurance developed rapidly with the growth of British trade and commerce in the 17th and 18th centuries. Prior to the formation of insurance corporations devoted solely to the business of writing insurance, policies were signed by a number of individuals each of who writing his name and the amount of risk he was assuming underneath the insurance proposal, hence the term underwriter.

The first joint stock company to engage in insurance was established by charter in England in 1720 and in 1735. The first insurance company in the American colonies was founded at Charfeston. Later, SC Fire Insurance Corporation was founded in New York city in 1787. The Presbyterian Synod of Philadelphia was founded in 1759. This was the first life insurance corporation in America, for the benefit of Presbyterian ministers and their dependents. After 1840, with the decline of religious prejudice against this practice, life insurance entered a boom period. In the 1830s, the practice of classifying risk began.

The Workmen's Compensation Act of 1897 in Britain required employers to insure their employees against industrial accidents, public liability insurance, fostered by legislation made its appearance in the 1880s it attained major importance with the advent of the automobile.

1.2 Origin of Life Insurance in India

In 1818 a British firm called the Oriental Life Insurance Company was formed in Calcutta to serve the interest of those who came from Europe. This was followed by the establishment of the Bombay Life Assurance Company in 1823 in Bombay. The Madras

Equitable Life Insurance Society in 1829 and the Oriental Government Security Life Assurance Company in 1874. It is a telling comment on the British view of Indians that prior to 1871, Indian lives were treated as sub-standard and attracted an extra premium of 15 to 20 percent. The Bombay Mutual Life Assurance Society, an Indian insurer formed in 1871, was the first one to charge normal rates for Indian lives.

There were no specific regulations for the life insurance business until 1912, when it came to be formally regulated under the provisions of the Indian Life Assurance Companies Act 1912.In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about both the life and the non-life insurance business including the provident insurance societies. During the period from 1912 to 1930 the insurance business witnessed a setback. A number of changes took place from 1930 to 1938 and the Government of India passed Insurance Act 1938, with comprehensive provisions for the detailed and effective control over the insurers so as to protect the interest of insuring public.

By 1956, as many as 154 Indian insurers 16 non-Indian insurers and 75 provident societies have entered the life insurance business in India. However the geographical spread and the number of lives covered were rather small. Insurance companies by and large were governed by short term considerations and consequently the business was confined mainly to cities and the more affluent segments of society. Offering insurance policies to people with small incomes to suit their income and financial position had not even been attempted.

During this period, a number of malpractices occurred in the industry causing loss to the unsuspecting public. There were also some instances of mismanagement and mis-utilization of the funds collected. Despite the regulatory measures, the private insurance industry suffered from all the maladies such as under-cutting of premiums, unscrupulous management misfeasance falsification of reports questionable investment. The claims settlement ratio was abysmally poor and so was the high rate of expenses and managerial privileges. Winding up of companies was also not totally unknown. This process gathered momentum especially after the First World War and between 1914 and 1920, many insurance companies were closed down causing large losses for the small investors.

In the light of these developments, the demand for stricter government control of the industry gathered momentum and called for nationalization of insurance business - which almost became a foregone conclusion. Hence, nationalization of life insurance business became necessary with a view to:

- Provide for cent percent security to policy holders
- Ensure the use of life insurance funds for nation building activities
- Avoid wasteful efforts in competition
- Save the dividends paid to shareholders of insurance companies.
- Avoid certain undesirable policies adopted by the management of some of the insurance companies
- Spread the gospel of life insurance into the neglected rural areas

1.3 Formation of Life Insurance Corporation of India:

The Government of India took the first step towards nationalization of life assurance business in India on 19th January 1956 by promulgating an ordinance vesting the management and control of life insurance business of 154 Indian, 16 Non-Indian Insurers and 75 Provident Societies operating in the country. Moreover, the companies continued to exist as separate entities and the ownership continued to exist with respective shareholders.

On June 18, 1956, they put a bill through the parliament, which emerged as the Life Insurance Corporation Act (XXXI of 1956) which was gazette the next day. It came into force in July 1956.

By this act all the assets and liabilities pertaining to the life assurance business in India of all registered Indian Insurers were to be transferred to and vested in the Life Insurance Corporation of India as from the appointed day. According to this act, a corporation called the Life Insurance Corporation of India (LIC) was established which started its career on September 1, 1956. Mr. H.M. Patel of the Indian Civil Service (ICS) and Secretary, Ministry of Finance, was nominated as its First Chairman. At the time of its inception, The LIC had five zonal offices, 33 divisional offices and 212 branches.

Objectives of LIC:

In 1974, LIC formulated its objectives in pursuance of the recommendations of the Administrative Reforms Commission as under:

1. Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost

2. Maximizing mobilization of people's savings by making insurance linked savings adequately attractive

3. Deploying the funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return

4. Conducting business with utmost economy and with the full realization that the moneys belong to the policyholders

5. Acting as trustees of the insured public in their individual and collective capacities

6. Meeting the various life insurance needs of the community that would arise in the changing social and economic environment

7. Involving all people working in the corporation to the best of their capacity in furthering the interests of the insured public by providing efficient service with courtesy

8. Promoting among all agents and employees of the corporation a sense of participation pride and job satisfaction through discharge of their duties with dedication towards achievement of corporate objective

1.4 Review of General Economic Environment:

According to 1995 statistics, India has the highest number of life insurance policies in force and the total investible funds with LIC were almost 8% of GDP. The LIC employs more than one lakh employees who in turn supervise through 200 branches and more than five lakh agents. Yet these numbers believe the fact that life insurance in India is spread very thinly and shallowly and its role as a mobiliser of long –term savings is under developed.

Insurance companies in the developed world also sell products for old age income security in form of pensions and annuities. The absence of pension coverage for a vast important gap to be filled by the life insurance sector. LIC largely remains a slow moving, overstaffed behemoth. The phased globalization of the Indian economy that started in the early 1990s began to have its impact on the monopolistic structure of the Indian Insurance industry. The liberalization of insurance market was among the objectives of the Uruguay round negotiations conducted under the auspices of **General Agreement on Trade and Tariff (GATT)**.However, LIC was put on tits toes when in 1993, the Government of India appointed a committee headed by **Shri. R.N. Malhotra** to examine the reforms required in the insurance sector.

The Government with the committee came out with the following arguments in justification of liberalization:

1. Insurance penetration and density in the country is low.

2. The country needs massive investments in infrastructure and liberalizing insurance and pensions will help mobilization of long-term funds.

3. Allowing foreign companies would help them bring a substantial portion of their world wide premium funds into Indian infrastructure and

4. India is a large economy and a big market with ample space for both private and public sector.

Government's decision to accept recommendations of the committee on reforms in the insurance sector and to constitute an interim insurance regulatory authority by an executive order in January 1996, to look onto the modifications, the regulatory framework of the insurance sector has resulted in the establishment of a statutory body for regulating the players and in broadening the sector by admission of new players from the private sector. Such a development has had a ripple effect leading to the establishment and development of professional institutions that are connected with the industry.

As more than 42% of the country's current GDP is being generated by service sector, obviously necessary steps are required to be taken to sustain this process of growth and towards this end a coordinated approach is necessary. And insurance industry being a service industry, could prima facie act as an engine of growth. In this regard, the history of development of insurance industry in India has been one of the underperformance and under –achievement.

Some basic and fundamental statistics related to the Indian economy, which are relevant to the insurance industry, have been presented in the Table no.1.1 followed by Tables 1.2, 1.3, 1.4 and 1.5, which portray India's Profile, the picture of Indian Insurance market, Comparative data of Insurance Density and Insurance Penetration, Growth of GDP, Gross Domestic Savings in India regarding various countries all over the world. For better understandability bar charts representing these data are also presented.

1.5 Insurance Sector Reforms:

In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor N. Malhotra, was formed to evaluate the Indian insurance industry and recommended future direction. The Malhotra Committee was setup with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural change currently underway and recognizing that insurance in an important part of the overall financial system where it was necessary to address the need for similar reforms.

Table No: 1.1 - India's Profile & Insurance Market in India

Total area	3,287,263 km^2 (1,269,219.3 sq mi)
Land area	90.44%
Water area	9.56 %
States	28
Union Territories	7
Districts	626
Population	1,028,610,328 (1.13 billion)
Urban population	286,119,689 (27.3 %)
Rural population	742,490,639
Population Growth rate	1.93
Sex Ratio 2008	933
Density of Population	313 per km^2
Literacy rate	64.84%
Life Expectancy (2002-est)	

Total Premium	
- (Life and non-life)	Rs.252143.10 crore
- Life	Rs.221791.26 crore
- Non-Life	Rs.30351.84 crore
World premium *	
- (Life and Non-life)	USD 4270 billion
- Life USD	2491 billion
- Non-Life	USD 1779 billion
Inflation adjusted growth in Total	13.0
Premium in India	(35.0 percent in 2006-07)
Growth in Premium	Life: 5.4 percent
(world) unwritten 2007-08	Non-Life: 0.7 percent
Geographical restriction for new players	None
Equity restriction	Foreign promoter can hold Up to 26 % of the equity
Registration restriction	Composite registration not available

Source: IRDA Annual Reports 2001- 2007: 08

Table 1.2 - International Comparison (Insurance Density) Life Insurance

(Premiums per capita in US$)

Countries (1)	1999 (2)	2000 (3)	2001 (4)	2002 (5)	2003 (6)	2004 (7)	2005 (8)	2006 (9)	2007 (10)	2008 (11)
US	1446.6	1611.4	1602.0	1662.6	1657.5	1692.5	1753.2	1731.8	1922.0	1900.6
Canada	674.6	757.2	675.9	657.3	722.9	926.1	1071.9	1024.1	1386.8	1442.7
Brazil	11.8	12.9	10.8	27.2	35.8	45.9	6.4	7.7	7.7	7.6
Mexico	41.3	50.8	53.2	59.2	41.3	50.2	49.9	62.9	71.8	71.8
Chile	114.3	126.0	122.1	103.5	138.3	164.5	174.9	176.0	228.0	220.0
UK	2502.8	3028.5	2567.9	2679.4	2417.1	3190.4	3287.1	5139.6	5730.5	5582.1
Germany	762.2	683.0	674.3	736.7	930.4	1021.3	1042.1	1136.1	1234.1	1346.5
France	1392.3	1437.4	1268.2	1349.5	1767.9	2150.2	2474.6	2922.5	2928.3	2791.9
Russia	9.9	19.5	33.2	23.1	33.9	24.8	6.3	4.0	6.1	5.4
Japan	3103.4	3165.4	2806.4	2783.9	3002.9	3044.0	2956.3	2829.3	2583.9	2869.5
South Korea	760.5	935.6	763.4	821.9	873.6	1006.8	1210.6	1480.0	1656.6	1347.7
PR China	8.3	9.5	12.2	19.5	25.1	27.3	30.5	34.1	44.2	71.2
India	**6.1**	**7.6**	**9.1**	**11.7**	**12.9**	**15.7**	**18.3**	**33.2**	**40.4**	**41.2**
Malaysia	78.1	86.4	129.5	118.7	139.8	167.3	188.0	189.2	221.5	225.9
Indonesia	4.4	4.0	3.6	5.2	6.4	7.5	10.5	12.5	20.4	20.1
South Africa	413.0	392.9	377.2	360.5	476.5	545.5	558.3	695.6	719.0	707.0
Nigeria	0.2	0.4	0.5	0.5	0.6	0.7	0.5	0.8	0.9	0.9
Kenya	2.4	2.4	2.9	3.0	3.4	3.7	4.5	5.3	6.1	6.0
Australia	1333.6	1193.5	1040.3	1010.4	1129.3	1285.1	1366.7	1389.0	1674.1	1700.0

Source: IRDA Annual Reports 2001- 2007: 08

Table 1.3 - International Comparison (Insurance Penetration) Life Insurance

(Premiums as percentage of GDP)

Countries (1)	1999 (2)	2000 (3)	2001 (4)	2002 (5)	2003 (6)	2004 (7)	2005 (8)	2006 (9)	2007 (10)	2008 (11)
United States	4.23	4.48	4.40	4.60	4.38	4.2	4.14	4.00	4.20	4.10
Canada	3.19	3.27	2.97	2.81	2.63	2.9	3.05	3.10	3.20	3.20
Brazil	0.35	0.36	0.36	1.05	1.28	1.3	1.33	1.30	1.40	1.40
Mexico	0.82	0.86	0.86	0.94	0.78	0.7	0.68	0.80	0.90	0.90
Chile	2.65	2.92	2.93	2.53	2.61	2.5	1.82	1.80	2.20	2.10
UK	10.30	12.71	10.73	10.19	8.62	8.9	8.90	13.10	12.60	12.80
Germany	2.96	3.00	3.00	3.06	3.17	3.1	4.80	4.70	3.10	3.00
France	5.70	6.59	5.73	5.61	5.99	6.3	8.36	6.50	7.30	6.20
Russia	0.78	1.13	1.55	0.96	1.12	0.6	0.12	0.10	0.10	0.00
Japan	8.87	8.70	8.85	8.64	8.61	8.26	8.32	8.30	7.50	7.60
South Korea	8.39	9.89	8.69	8.23	6.77	6.7	7.27	7.90	8.20	8.00
PR China	1.02	1.12	1.34	2.03	2.30	2.2	1.78	1.70	1.80	2.20
India	**1.39**	**1.77**	**2.15**	**2.59**	**2.26**	**2.5**	**2.53**	**4.10**	**4.00**	**4.00**
Malaysia	2.16	2.13	3.38	2.94	3.29	3.5	3.60	3.20	3.10	2.80
Indonesia	0.66	0.54	0.53	0.66	0.66	0.63	0.82	0.80	1.10	0.90
South Africa	13.92	14.04	15.19	15.92	12..96	11.43	10.84	13.00	12.50	12.50
Nigeria	0.07	0.13	0.14	0.11	0.14	0.17	0.09	0.10	0.10	0.10
Kenya	0.78	0.72	0.82	0.81	0.78	0.82	0.78	0.80	0.80	0.80
Australia	6.43	6.04	5.70	5.02	4.42	4.17	3.51	3.80	3.80	3.80

Source: IRDA Annual Reports 2001- 2007: 08

Table No: 1.4 - Growth of GDP, Gross Domestic Savings in India

Year	GDP Rs. in crores at market prices	Gross Domestic Savings Rs. In Crores at current prices	Gross Domestic Savings as % of GDP at current market prices	Household savings	Percent of penetration of Life Insurance
Base year 1999-2000					
1999-2000	19,52,036	4,84,256	24.81	4,12,516	1.77
2000-2001	21,02,314	4,99,033	23.74	4,54,853	2.15
2001-2002	22,78,952	5,34,885	23.47	5,04,165	2.59
2002-2003	24,54,561	6,64,521	26.34	5,63,240	2.26
2003-2004	27,54,620	8,20,685	29.79	6,64,064	2.50
2004-2005	31,49,407	9,97,873	32.41	7,16,874	2.53
Base year 2004-2005					
2004-2005	32,39,224	10,44,280	33.45	7,55,445	4.10
2005-2006	37,06,673	12,26,046	34.61	8,58,705	4.00
2006-2007	42,83,979	14,74,788	36.85	9,80,195	4.00
2007-2008	49,47,857	18,01,469	32.21	11,20,221	4.00
2008-2009	55,74,448	18,11,585	33.70	NS	4.00

2007-08 data are Provisional, 2008-09 are based on Quick Estimates. Source: RBI

Table 1.5 - Insurance Penetration: International Comparison

Country/Region	2003	2004	2005	2006	2007	2008
India	2.26	2.53	2.53	4.10	4.00	4.00
Asia	5.74	5.58	5.16	5.00	4.60	4.20
World	4.59	4.55	4.34	4.50	4.40	4.10

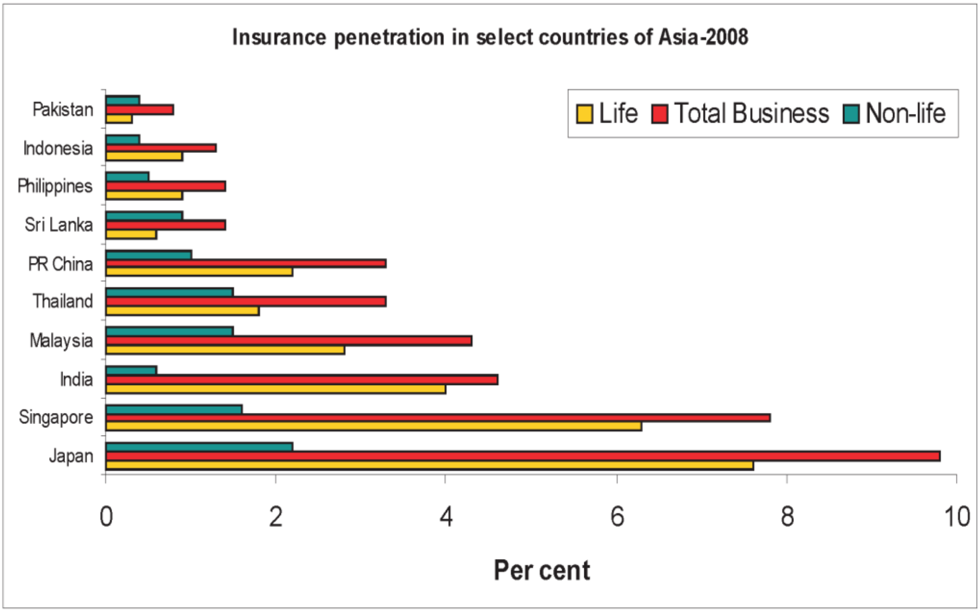
Source: IRDA Annual Reports 2001- 2007: 08

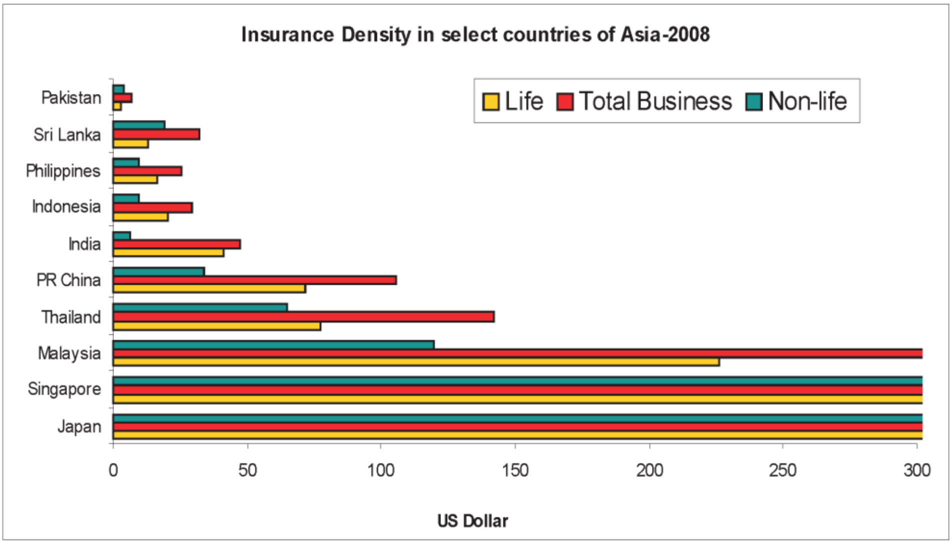
Table 1.6 - Insurance Density: International Comparison

Country/Region	2003	2004	2005	2006	2007	2008
India	12.9	15.7	18.3	33.2	40.4	41.2
Asia	140.1	147.2	149.6	154.6	156.7	155.3
World	267.1	291.5	299.5	330.6	358.1	369.1

Source: IRDA Annual Reports 2001- 2007: 08

Chart No: 1.1 & 1.2





In 1994 the committee submitted the report and some of the key recommendations included :

i) Structure:

- Government stake in the insurance companies to be brought down to 50%.

- Government should take over the holdings of GIC and its subsidiaries so that subsidiaries can act as independent corporations.

- All the insurance companies should be given greater freedom to operate.

ii) Competition:

- Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.

- No company should deal in both life and general insurance through a single

Entity

- Foreign companies may be allowed to enter the industry in collaboration with domestic companies.

- Postal life insurance should be allowed to operate in the rural market.

- Only one state level life insurance company should be allowed to operate in each state.

iii) Regulatory Body:

- The Insurance Act should be changed

- An insurance regulatory body should be set up

- Controller of insurance should be made independent (currently a part from the Finance Ministry)

iv) Investments:

- Mandatory investments of LIC life fund in government securities to be reduced from 75% to 50%.

- GIC and its subsidiaries are not to hold more than 5% in any company.

v) Customer Service:

- LIC should pay interest on delays in payments beyond 30 days.

- Insurance companies must be encouraged to set-up unit.

vi) Linked pension plans.

- Computerization of operations and updating of technology to be carried out in Insurance industry

1.6 Insurance Regulatory Authority

On the recommendations of Malhotra Committee Indian Parliament passed Insurance Regulatory Development Act (IRDA) in the year 1999. Its main aim is to activate an insurance regulatory authority essential for proper monitoring and control of the Insurance industry. Due to this act, several Indian private companies have entered in the insurance market and some companies have joined with foreign partners.

Mission statement of IRDA

❖ To protect the interest of and secure fair treatment to policy holders

❖ To bring about speedy and orderly growth of the insurance industry for the benefit of the common man and to provide long term funds for accelerating growth at the economy.

❖ To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates

❖ To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard

❖ To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.

❖ To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players

❖ To take action where such standards are inadequate or inefficiency enforced and

❖ To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation

Reclassification of Rural Business by IRDA:

Life Insurance Corporation of India pegs its rural business at over 50 percent of its total premium collection during 1999-2000.According to **N. Rangachary, IRDA Chairman ,the LIC** has been calculating its rural business on the basis that whatever is not urban can be termed as rural .

i) The IRDA, in its regulations on the obligations of insurers to the rural social sector, has said that **'rural area'** shall mean any place as per the latest census, which has:

✓ a population of not more than 5,000.

✓ a population density of not more than 40 per sqkm

✓ at least 75 per cent of the male working population is engaged in agriculture

ii) IRDA's `**social sector**' definition includes the un-organised sector, the informal sector, the economically vulnerable or backward classes and other categories of persons, both in the rural and the urban areas.

iii) According to the IRDA guidelines, every life insurer, which is in the insurance business after commencement of the IRDA Act, 1999, has to allocate five per cent of its business to the rural sector in the first financial year, seven per cent in the second financial year, 10 per cent in the third financial year, 12 per cent in the fourth fiscal and 15 per cent in the fifth fiscal

iv) `**Un-organised sector**' as defined by the IRDA includes self-employed workers such as agricultural labourers, bidi workers, brick kiln workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and khadi workers, lady tailors, leather and tannery workers, papad makers, powerloom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, safai karmacharis, salt growers, sericulture workers, sugarcane cutters, tendu leaf collectors, toddy tappers, vegetable vendors, washerwomen, working women in the hills, or such other categories of persons, economically vulnerable or backward classes or those who live below the poverty line

v) IRDA has again relaxed the definition of Rural India to include 10,000 to 5.8 lakh more villages.

1.7 Appraisal of Ten Years of Liberalization of Life Insurance Market in India

The Indian insurance industry has registered impressive growth in the past one decade. Many private players entered the market and most of the companies have entered as joint ventures with participation of a foreign partner holding 26% of the total paid-up equity capital. While four private sector companies had underwritten life business during the financial year 2000-01, the number of private players competing for business during the year 2001-02 alone increased to eleven and as of now, 2008-09 it numbered twenty one in total. The following table gives the total number of insurance companies in India in the year 2011.

Table No: 1.7 - Registered Insurers in India

Type of business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General Insurance	6	18	24
Re-insurance	1	0	1
Total	**8**	**41**	**49**

Source: IRDA Annual Report 2008-09

The life insurance grew at a very fast pace with new business premium increasing from Rs. 19857.28 crore in 2001-02 to Rs. 87006 crore in 2008-09.The growth continues and for the current financial year with new premium touching Rs.75347.27 crore as at 31st January 2010, similarly the total premium income increased from Rs. 221791 crore in 2008-09. The total assets under management rose to Rs. 931000 crore as at the end of 31st March 2009.

The premium mobilized through life insurance as a present of GDP has touched 4.1% [9] in 2008-09. The opening up of the sector to the private players witnessed the introduction of a number of new products deserving the attention of the customers and possibly the Indian insurance market is one of the fastest growing markets.

But the happenings of the world during the year 2008 brought a new experience that also has to be taken into consideration. The crisis, which has engulfed the financial sector of the US has far reaching implications both for the international economic order underlying globalization especially the global financial architecture as well as the policy regimes in developing countries. Countries like India were told to emulate the US financial system and integrate with the international financial markets in order to benefit from the globalization of finance.

At this juncture happened the first jolt in the US economy, the stock market crash and collapse of the IT boom in the year 2000.This led to the recession in the US in 2001 which caused a global slowdown. Liberalized rules for banks coupled with easy liquidity conditions enabled mortgage-lending banks to adopt reckless lending strategies, fuelling housing demand. In order to push up their credit business, these mortgage lenders indulged in sub-prime lending, giving housing loans even to those borrowers whose ability to repay the loans were doubtful. These loans were then packaged into securities and were sold off to other financial institutions like the wall street based investment banks and hedge funds, in complex transactions that were made possible by financial deregulation in United States.

The assumption underlying financial deregulation was that financial innovations would enable the mortgage lenders and banks to insulate themselves against loan defaults by spreading the risks associated with these loans. This, however was a flawed assumption since spreading of risks through complex derivatives cannot make the risk disappear completely. Eventually a full-blown crisis surfaced in the US in 2006 when the housing bubble went burst. Sharp fall in the property prices led to the collapse of hundreds of mortgage lenders engaged in subprime lending, with even the largest mortgage lender in US, countrywide financial heading towards bankruptcy .This had a deepening impact when the list of investment banks and leading insurance companies were marked bankrupted. Among them were Lehman Brothers, the fourth largest investment bank in US, Merill Lynch, Bear Sterns, Fannie Mae, Freddie Mac and the world largest insurance company AIG managed to survive only after the injection of $ 180 billion from the US government .Similar problems were faced by OECD countries, which also witnessed similar real estate bubbles over the past decade.

Hence out of these significant events occurring in the US and other advanced developed economies, there arise the need for policy makers of India to rethink their economic strategy, as this has been a period of two decades of globalization of finance. The global financial turmoil witnessed today should also be considered to safeguard the interest of Indian financial system.

Chapter II - Review of Literature

This chapter examines the significant studies carried out by the researchers on life insurance business. Some are empirical and some are theoretical. Hence, both the research studies relating to life insurance conducted in India and abroad are reviewed as under:

2.1 Empirical Studies:

Shotick. A. Joyee and Showers E.Vince[1] (1994) augment the empirical literature on insurance demand by examining the impact of selected economic and social factors on the purchase of insurance. To account for the fact that not every household purchases insurance, a Tobit procedure is used to estimate marginal impacts on purchases as well as the changes in the probability of purchasing insurance. Demand effects are dominated by the marginal impacts from existing purchases of insurance. Although income and number of earners are both positively related to the demand for insurance, the marginal effect from an increase in income is greater for single earner households than for multi earner households. Also, as either family size or age increases the marginal increase in insurance expenditure diminishes.

Rao. D. Tripathi (1999) analyzed the growth of life insurance business, which has shown a steady progress in relation to a range of macro-economic aggregates. Growth has been due to the organizational changes that have taken place with the decentralization of functioning of divisional offices. There is also increase in rural business and group insurance business since mid-1970's. The analysis of zonal business reveals that business is greater in the more urbanized zones. In spite of this life, business continues to be low in terms of coverage and contribution to national income and savings. Considering the trend towards liberalization, LIC should aim for more autonomy and restructuring programmes. LIC can equip itself to compete in a global world with other private insurers.

Beck, Thorsten and Ian Webb (2003) emphasized on the importance of life insurance companies as part of the financial sector to the individuals and the economy as a whole. Life insurance provides individuals and the economy as a whole with a number of important financial services. In the face of increasing urbanization, mobility of the population and formulation of economic relationships between individuals, families and communities. Life insurance has taken increasing importance as a way for individuals and families to manage income risk. Also life insurance products encourage long-term savings and the reinvestment of substantial saving, they have become effective as instrument for encouraging substantial amounts of savings in many countries around the world.

Spandana. K (2003) in the research work on the commercial viability of doing insurance business in rural India clearly indicate that the rural sector is a vibrant market, and that it holds tremendous potential for the growth of insurance business in India. However, the penetration of insurance in rural India remains pitifully low. The paper explored the potential of life insurance in rural India with all its problems, complexities and variables and suggested the means and ways of meeting the challenge of developing the rural insurance business in tandem with its potential of economic growth.

Rao. G.V (2004) examined the benefits of liberalization in the non-life sector and analyzed the current situation to see where the market stands now, how has international reinsurance affected the domestic scene and to what extend has the setting up of IRDA shaped the market conduct and good governance of insurers and whether the consumers were really benefited by the government and competition in the market. The article studies how have the private players and the public players performed. The study concluded that liberalization has not yet served the objective for which it was initiated. Customers are unlikely to see any benefits of liberalization immediately, as the competition is directed towards chipping at the established markets already made rather than towards the creation of new markets by the efforts of insurers who can enhance risk awareness among the unorganized and underserved insurable public.

Dr. Ramesh lal, Dr. Neelam Dhanda (2004), lists the challenges and threats ahead in the insurance sector like foreign firms would plough away the premium income from the country leading to net outflow rather than net inflow of resources, premium may come down on the level of competition and expansion of insurance sector depends upon mobilization of extra savings. LIC would be losting about 45 percent of its market share to the new players over the period of 10 years. A survey covering 51 agents, 21 development offices, 55 employees of corporation was conducted with the objective of determining how far these agencies help in executing the plans and policies of the corporation. The results provided valuable suggestions to improve the business performance of the corporation and the satisfaction level among policyholders.

Vineet Aggarwal (2004) studied the concept of Bancassurance, the experiences across the globe and in India, the benefits to banks, insurers and customers from partnership, modes of entry into bancassurance and the various delivery routes available. The study listed the key success factors for Bancassurance partnerships as the right product matrix: product, place, price, promotion, Additional 3 P's of Services- People, Process, Physical Evidence, technological infrastructure, integration into the organization culture and philosophy, commitment from the stakeholders, efficient monitoring and tracking of the entire process, clearly defined roles and responsibilities, accountability and ownership.

Subramanyan. N.V (2004) attempted to delineate the complex phenomenon of lapsation of life insurance policies and suggested possible ways of controlling the menace. The study concluded that the aspect of lapsation of life insurance policies is a very complex one and its effect on the profitability as well as the very survival of a life insurance company can hardly be over emphasised. The adverse effect on account of lapsation and the subsequent decline in bonus rates has very serious consequences such as selection against the insurer by surrender of existing policies, etc. Taking these aspects into account, it becomes imperative for any life insurance company to take all possible steps to control lapsation right from the very beginning.

Roger Massey (2005) examines the reasons why insurers are exposed to risks. The study identified seven main reasons why companies of insurance industry fail. They are rapid expansion, delegated management authority, fraud, under-reserving, excessive reliance on reinsurance, expansion into new areas and gross incompetence, giving away the underwriting pen, lack of appropriate regulations, no control over exposures, unforeseen claims etc.

Nirjhar Majumdar (2005) examines the role played by the insurance operators in making an impact in the uninsured or underinsured sectors comprising: 1. the rural sector. 2. The Socially and economically underprivileged sector. 3. The Individual Pension Sector. 4. High Net Worth Individuals (HNI). The study concluded that rural and social sectors are still grossly underinsured. Even in the competitive era, the premium penetration is only 2.26 percent. This is despite the fact that the savings rate of the country is now 28.1 percent and the people are surely more appreciative of the value of insurance as a tool of risk cover, tax planning and future provision. Although, insurers have launched plans for all types of insurance needs, still 97 percent of the policies sold are either endowment type or whole life or IPPs. The insurance operators need to do serious introspections and make marketing aggressive. It is desirable that the insurance cover should be extended to those who need it most. It is better to grow in the way society needs.

Sen Subir (2006) analyzed the Indian life insurance industry after the privatization of the insurance market. The entry of privately owned firms forming joint ventures with foreign heavy weights in life insurance provisioning were expected to raise both price competition and service competition. As debates increase regarding the dominance of LIC to continue to gain market share, concentration indices were constructed based on theoretical underpinnings to see whether or not there is any change in the competitive structure of the life insurance market. The study concludes that there is hint of movements towards more competitive regime but there is a good level of competition among the private companies to capture the market share.

Yu Zheng (2006) evaluates the situation of the risk protection market, compares the demand for risk protection with the demand for investment, compares emerging markets with industrialized countries markets and measures the degree and qualities of citizens true risk protection. The methodology adopted was Co Integration analysis and Error Correction Model (ECM) to carry on positive analysis and calculates the risk protection gap, provides some suggestions regarding the target choices and development strategies in the emerging life insurance markets.

Vanniarajan, Anbazhagan and Samuel Joseph (2006) focuses on the strategic needs in different Indian insurance market segments. The study was restricted to Madurai district with sample of about 200 respondents and used pre tested interview schedule. The study concluded that the differential strategies are inevitable in the insurance industry and can be achieved in terms of product, service, distribution networks and promotion. It will be helpful to place the right product through right channel with promotion to avail competitive edge.

Dr. Banumathi and Karunanithi. G (2007) studies the comparison of term insurance schemes offered by LIC of India, Tata-AIG, HDFC and Birla Sun Life. The study details merits and demerits of term insurance schemes offered by LIC of India and other insurance companies. LIC of India offer better schemes in terms of insurance schemes with low premium compared to other private companies. The premium rates charged according to the term insurance schemes at different ages for different terms and benefits was compared. The study concluded that the products offered by LIC of India was the best with lower premium rates.

Sastry. D.V.S (2007) lists few issues, which the consumers, policyholders, insurance companies and the regulator should address so as to improve efficiency. Now there has been a paradigm shift in the functioning of insurance companies. With the development of high-speed computers and the resulting ability to collect and store and process huge amounts of data, insurance industry is in a better place to exploit the advantage of intelligence systems. In a globalised economy the competition is not only in producing quality products with affordable price but also make a head start in developing techniques and their applications. To this end, industry should conduct and encourage research besides improving their bottom line.

Srinivasa Rao. M.V.S (2007) examines the consumers' viewpoints in accordance with the conditions prevailing in Indian life insurance market and the future of life assurance covers. The study concluded that consumer's community is not homogeneous. There are variations within the community as consumer's attitudes and preferences vary significantly. Life insurance in its different forms is an integral financial component for most of the consumers.

2.2 Theoretical Reviews:

Catalan, Impavido and Musalem (2000) opined that life insurance products encourage long term saving and the reinvestment of substantial sums in public and private sector projects, by leveraging their role as financial intermediaries. Life insurers have become a key source of long-term finance encouraging the development of capital markets. **Ward and Zurbruegg; Webb and Soo (2000)** found evidence that the development of the insurance sector is related to economic growth.

Thorsten Beck and Ian Webb (2000) investigated which economic, demographic and institutional factors give raise to a vibrant life insurance market. Income per capita, inflation and banking sector development were the most robust predictors of life insurance consumption across countries and overtime. A vibrant life insurance market depends to a large extent on the institutional frame work and political stability of a country. Institutional development was an average of six indicators measuring voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption.

Harold D. Skipper (2002) approaches liberalization issues from several perspectives relevant to the Indian insurance market and government in connection with its continued liberalization. First the role and importance of government policy in insurance, second the role of foreign insurers, with particular emphasis on the concerns that have historically been expressed about their roles in national insurance markets of emerging economies and finally the principles around which governments should craft their regulation of insurance. A market regulated in accordance with these principles will be one in which consumers enjoy a wide range of fairly priced insurance from financially sound insurers.

Rao G.V (2002) is of the opinion that a regulator is not a role that can bring popularity but a job for a trendsetter who can raise a hornet's nest. The Malhotra Committee in its report in 1994 on reforms in the insurance sector, stressed that 'professional regulation in areas relating to expenses, customer service, claims settlement, resolution of disputes, reasonableness of tariffs and prevention of restrictive trade practice was urgently needed. It proposed that capital adequacy, solvency margins, quality of reinsurance and its performance, management expenses, adequate technical reserves, asset distribution, accounting and transparency of financial statements and disputes resolution forums should engage the attention of the regulator to be appointed with full functional autonomy and operational flexibility.

Jawaharlal. U and Abishek Agarwal (2003) brings forth several positive changes that are imperative to take the competition head-on and create an atmosphere of world class standards being introduced in the country like the introduction of new channel of distribution, introduction of brokers and bancassurance.

There may be tremendous potential not only to sell the insurance products but also to spread the message in the rural areas too. The new players have already earned 10 percent share in the overall new business performance. When the industry was opened up, it was considered that an overall share of 10 percent at the end of the first five years would be creditable achievement.

Kundu, Sumit (2003) discussed the changes in various issues of insurance industry after the entry of new players. Despite its terming one billion population India still has a low insurance penetration of 1.95 percent, 51st in the world. Despite the fact that India boasts a savings rate of around 25 percent, less than 5 percent is spent on insurance. With the entry of competition, the rules of the game are set to change. The market is already beginning to witness a wide array of products from players whose number is set to grow. Today, people are increasingly looking not just at products but at integrated financial solutions that can offer stability of returns along with total protection.

Kumar, Manoj (2003) emphasized on the various issues relating to insurance business in India like liberalization, privatization, regulator's issues and future possibilities. A thriving insurance sector is of vital importance to every modern economy. It encourages the savings habit, provides safety to rural and urban enterprises and productive individuals. It generates long-term investible funds for infrastructure building. This characteristic of their business makes insurance companies the biggest investors in long gestation infrastructure development project in all developed and aspiring nations. This is the most compelling reason why private sector companies, which will spread the insurance habit in the consumer interest, are urgently required in this vital sector of the economy. As is witnessed in other countries where liberalization took place in recent years, nationalized players will continue to hold strong market share positions, but there will be enough business for new entrants to be profitable.

Dr. Tamela D Ferguson and Dr. William L. Ferguson (2004) examines that liberalization of insurance industry regulatory requirements is increasingly viewed as beneficial in the chase for foreign direct investment capital, among developing countries. This is important as the business of insurance is viewed as providing a substantial source of new capital pools, which offer significantly stable forms of capitalization cash flows. Insurance market liberalization often brings many macro and micro level economic benefits as well as potential challenges. As insurance market, develop economist views improvements in capital market structures and functions. This will strengthen the overall capital efficiency.

Watson Graham (2004) examined that India is under insured and there is a challenge for the industry and regulators to increase market penetration. Indian life insurance market displays many essential characteristics of an emerging vibrant and dynamic market, a relatively high level of awareness of life insurance, a growing pool of technical expertise and regulations. Life reinsurers are playing an important role in the growth and dynamism of the Indian market. Reinsurers have been closely involved with all new companies in developing business plans, products and underwriting standards and providing reinsurance support. New individual protection products in markets such as the US and the UK are heavily reinsured, whereas reinsurance is relatively under utilized by life insurers in Asian markets. In India the life insurance market has grown at over 20 percent annually in real terms in the last five years and the business of new entrants has grown at well over 50 percent in the last two years. Notwithstanding the rapid growth in life insurance premiums in the past few years, life reinsurance premium has been relatively small. Retention levels are high compared to the average size of policies and quota share treaties are rare.

Ravishankar. D (2004) argues that in changing business environment where returns are critical, insurance companies should consider several options while investing their funds. It is a fact that many insurance companies have diversified investment and hedging options, but their persistent demand for more opportunities continue to exist, such as for international investment and properties. There is need to focus on regulatory norms for investment in line with the business needs. The regulatory guidelines need to be fine-tuned to this reality rather than having artificial limits on different asset classes. Hence, insurance companies must be allowed the flexibility to allocate funds across the asset classes based on the business needs. The role of the regulator has to be to only caution the insurance companies by prescribing capital adequacy norms and refrain from specifying the limits for several asset classes. Besides, there is a need to introduce a number of quality initiatives in the investment processes of insurance companies.

Bodla and Karam Palsingh (2004) introspects the existing distribution network and offer a number of innovative channels that may empower the new insurance players to tap the potential insurance market. The most prominent channels were bancassurance, professional brokership, mass marketing through NGOs, cooperative societies, panchayats, other social and community welfare associations, direct marketing including telemarketing and cyber marketing. To be successful, an insurance company must have quality populace, innovative executives' and technology friendly policies. Through partnership the Indian and foreign insurers would gain a source of potency in terms of providing latest technology usage, ready customer base and trusted corporate name.

B. Karuna (2005) presents the outlook for the insurance industry in the backdrop of evolving issues like, uncertain outlook for capital, new analytics transform underwriting, issues between manufacturing and distribution, uneven progress for bancassurance, renewed interest, new regulations etc. It studies the major challenges in terms of educating investors, analysts, other stakeholders so that they can distinguish between accounting and economic changes. The study concluded that companies that carefully explain how risk is monitored may be rewarded by both capital markets and policyholders for improved transparency and risk management.

Satwalekar (2005) opined that in the increasingly complex world that life insurance companies operate in, the keys to success would depend on a) the ability to understand the customer needs and service them efficiently and effectively at the lowest cost, b) the development of systems to manage the multi-level risks faced by them, and c) practice the highest levels of transparency and corporate governance to increase customer confidence.

Vivek Gupta (2006) examines the recent trends in the global insurance industry and the major influential factors like the emergence of new distribution channels to market insurance products, consolidation and globalization, rapidly developing technology, changing industry and laws and regulations. It quoted during 1992-2001, total global insurance premiums increased 64.3 percent and the life insurance business grew by 87.3 percent. The total premium paid worldwide was $2,408.25. There is a strong need for disclosure and regulation of the financial activities of insurance and reinsurance companies.

Sankara Raman Narayanan (2007) examines the performance of unit linked insurance products, compares it with conventional products, along with its stock market performance. The presentation goes into the pros and cons of their product, unlike conventional life insurance products, unit's products have high liquidity and volatility elements. These elements of the products have an effect on the life coverage, the insurance companies and the life industry as a whole. The liquidity element in unit linked products pushes the life industry into a period of short term and insufficient life cover arena. These products are linked to stock market and the speculative nature will affect the returns on investments.

Bharathiraja. V, Sasisiddharth. M and Muruganathan. R (2007) explored the present state of FDI in insurance and gives a detailed study for the recent issue of hiking FDI to 49 percent. It finally concluded saying that the governments of developed countries are continuously pushing developing countries to increase their FDI. Though this might prove to be good on one side it only gives a hold to the foreign nations to strengthen their stand. It has been statistically proven that countries which enthusiastically opened up their financial sectors at high ratios to attract capital inflows have experienced increased volatility in their markets. Thus if FDI, has to be increased in India, there the private players should make sure that they are majority holders and that our home country has the major control.

Kannan. R (2007) pointed that globalization and regulation are the major driving factors influencing the financial sector all around the world. Along with the multi pronged objectives, regulators have an additional responsibility to ensure that excessive regulation and steps to enhance transparency in the operations do not hamper market innovation. In turn, it should lead the investors and the policyholders to take timely and adequate decisions. In the insurance sector, the key benchmark continues to be solvency. In order to protect the policyholders and to ensure the stability of the financial markets, it is required that insurance companies should hold a certain amount of additional assets over and above estimated liabilities as a buffer.

M. Dhanabhakyam and K. R. Vijaysanthi (2007) studied that in the new economic reality of globalization, insurance companies face a dynamic global business environment. Radical changes are taking place owing to the internationalization of activities, the appearance of new risks, new types of covers to match with new risk situations, and unconventional and innovative ideas on customer service. Low growth rates in developed markets, changing customer needs, and the uncertain economic conditions in the developing world are exerting pressure on insurers' resources while testing their ability to survive. The existing insurers are facing difficulties from non-traditional competitors that are entering the retail market with new approaches and through new channels. The basic premise of globalization is opening up of new service markets to provide the developing countries with new opportunities for the expansion of trade and economic growth.

Dr. Amartya Sen, Nobel Laureate (2009) pointed out that undermining of regulation on one hand and development of new financial techniques like derivatives on the other, led to lack of accountability in the financial world.

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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 eight 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. 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 based on 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 of private life insurance companies in India.

2. To compare the performance of private and public life insurance companies in India.

3.3 Organization of the Study

The whole study 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. This 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 considers the post liberalization period, and covers eight years from 2001-2008 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 yearbooks 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 based on 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:

- Total life insurance premium and its market share
- First year premium and Market share of first year premium
- Market share of Single premium, Renewal premium and Total premium
- New policies issued & growth rate
- Business in force in terms of number of policies
- Business in force in terms of sum assured
- Number of life insurance offices
- Number of licensed agents (New & Renewed) and its growth rate
- Lapsation ratio (Number of policies & Sum Assured)
- Solvency margin of insurers

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

- Premium income per Branch
- Premium income per Agent

- Business In force per Agent
- Business In force per Branch
- Number of policies per Agent
- Number of policies per Branch
- Operating Expenses Ratio & Growth rate
- Profit status of life insurers
- Dividend paid & Growth rate
- Status of Grievances against life insurers

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:

- Equity share capital of insurance companies
- Investments of Insurers and Percentage Growth
- Life Fund
- Pattern of Investments of Life Insurers as per IRDA Guidelines

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, s**ummary 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.

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 a**nalysis 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 at least five years of performance was only taken for analysis

Chapter IV - Analysis of the Private Life Insurers and their Comparison with the Public Life Insurance Sector

The analysis was made on three main core areas namely performance, productivity and investment portfolio management based on certain parameters listed in the reports of Insurance Regulatory Development Authority (IRDA), exclusively for the evaluation of the insurance companies in India.

4.1 Performance of private life insurers in India and the comparative study

The analysis has been made by using the following performance measures:

4.1(a) Total life insurance premium and its market share

4.1(b) First year premium and Market share of first year premium

4.1(c) Market share of Single premium, Renewal premium and Total premium

4.1(d) New policies issued & growth rate

4.1(e) Business in force in terms of number of policies

4.1(f) Business in force in terms of sum assured

4.1(g) Number of life insurance offices

4.1(h) Number of licensed agents (New & Renewed) and its growth rate

4.1(i) Lapsation ratio (Number of policies & Sum Assured)

4.1(j) Solvency margin of insurers

4.1(a) Total Life Insurance Premium and Market share of Total premium

Total Premium Income is one of the important and major indicator of the performance of the insurance business. The total premium income of LIC and the private players during 2001-02 to 2007-08 has been presented in table 4.58. This table shows the trend in total premium income of various players during the study period.

Table No 4.1 - Table Showing the Total Life Insurance Premium (Rs. In Crores)

Name of Insurer	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Sector								
LIC (A)	34892.02	49821.91 (42.79)	54628.49 (9.65)	63533.43 (16.30)	75127.29 (18.25)	90792.22 (20.85)	127822.84 (40.79)	149789.99 (17.19)
Private Sector								
HDFC STD LIFE	0.002	33.46	148.83	297.76	686.63	1569.91	2855.87	4858.56
MNYL	0.16	38.95	96.59	215.25	413.43	788.13	1500.28	2714.60
ICICI PRU	5.97	116.38	417.62	989.28	2363.82	4261.05	7912.99	13561.06
BSLI	0.32	28.26	143.92	537.54	915.47	1259.68	1776.71	3272.19
TATA AIG	-	21.14	81.21	253.53	497.04	880.19	1367.18	2046.35
KOTAK LIFE	-	7.58	40.32	150.72	466.16	621.85	971.51	1691.14
SBI LIFE	-	14.69	72.39	225.67	601.18	1075.32	2928.49	5622.14
BAJAJ ALLIANZ	-	7.14	69.17	220.80	1001.68	3133.58	5310.00	9725.31
MET LIFE	-	0.48	7.91	28.73	81.53	205.99	492.71	1159.54
RELIANCE LIFE	-	0.28	6.47	31.06	106.55	224.21	1004.66	3225.44
ING VYSYA	-	4.19	21.16	88.51	338.86	425.38	707.20	1158.87
AVIVA	-	-	13.47	81.5	253.42	600.27	1147.23	1891.88
TOTAL(B)	6.45	272.55 (4124.31)	1119.06 (310.59)	3120.33 (178.83)	7725.77 (147.65)	15045.55 (94.74)	27974.82 (85.93)	50927.08 (82.04)
TOTAL (A+B)	34898.47	50094.46 (43.54)	55747.55 (11.28)	66653.75 (19.56)	82853.06 (24.31)	105837.77 (27.78)	155797.66 (47.38)	200717.07 (29.01)

It can be seen from the table 4.58 that from Rs.49821.91 crores of total premium in the year 2001-02, LIC was able to gain Rs.149789.99 crores of business in the year 2007-08. Hence, the graph has shown an upward trend all through the years from 2001-02 to 2007-08. Taking the growth rate into consideration LIC strove hard to show a considerable growth rate from 9.65 percent in 2002-03 to 40.79 percent in 2006-07 and with a decline of 17.19 percent in the year 2007-08.

In case of private players, there was a tremendous increase in their premium amount from Rs.6.45 crores in the initial year to Rs.50927.08 crores in the year 2007-08. But when the rate of growth was considered there was a declining trend as the percentage gradually decreases from 310.59 percent in 2002-03 to 82.50 percent in the year 2007-08.

Comparably LIC scores the performance in respect of total life insurance premium. For better understandability, the determinant in terms of their market share was also taken into account. Table 4.59 depicts the market share of total life insurance premium of all insurers in India.

Table No: 4.2 - Table Showing the Market share of Total Premiums

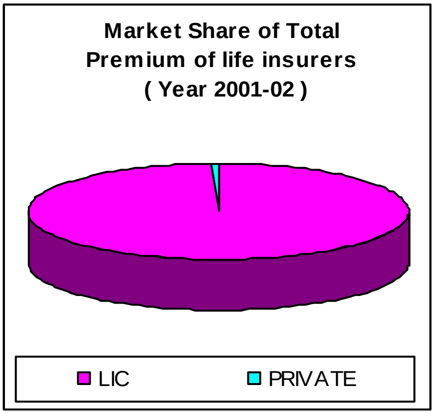
Name of Insurer	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Sector								
LIC (A)	99.98	99.46	97.99	95.32	90.67	85.75	81.92	74.39
Private Sector								
HDFC	0	0.07	0.27	0.45	0.83	1.48	1.83	2.41
MNYL	0	0.08	0.17	0.32	0.50	0.74	0.96	1.35
ICICI PRU	0.02	0.23	0.75	1.48	2.85	4.03	5.07	6.74
BSLI	0	0.57	0.26	0.81	1.11	1.19	1.14	1.63
TATA AIG	-	0.04	0.15	0.38	0.60	0.83	0.88	1.02
KOTAK LIFE	-	0.02	0.07	0.23	0.56	0.59	0.62	0.84
SBI LIFE	-	0.03	0.13	0.34	0.73	1.02	1.88	2.79
BAJAJ ALLIANZ	-	0.02	0.12	0.33	1.21	2.96	3.40	4.83
MET LIFE	-	0	0.01	0.04	0.10	0.20	0.32	0.58
RELIANCE LIFE	-	0	0.01	0.05	0.13	0.21	0.64	1.60
ING VYSYA	-	0.01	0.04	0.13	0.41	0.4	0.45	0.58
AVIVA	-	-	0.02	0.12	0.31	0.57	0.74	0.94
TOTAL(B)	0.02	0.54	2.01	4.68	9.33	14.25	18.08	25.61
TOTAL A+B)	100	100	100	100	100	100	100	100

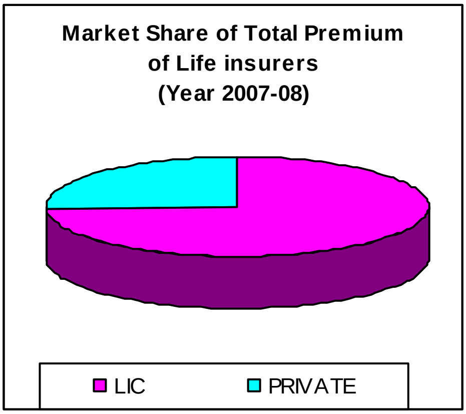
	Min. Val.	**Max. Val.**	**Mean**	**SD**	**C.V (%)**	**C.G.R (%)**
Public sector	74.39	99.46	89.35	9.182	13.24	-4.66
Private sector	0.54	25.61	10.65	9.182	86.24	84.03

The above table 4.59 shows that the percentage of market share of total premium in case of public sector ranges between 74.39 to 99.46 with a mean of 89.35 and a coefficient of variation 13.24 percent. The market share of total premium has shown a negative growth rate of 4.66 percent. In case of private sector, the percentage ranges between 0.54 to 25.61 with a mean of 10.65 and a coefficient of variation 86.24 percent and has shown a growth rate of 84.03 percent.

Chart No: 4.1

Chart Showing the Market Share of Total Premium of Life insurers





While analyzing the market share of life insurance companies in India it was clear that LIC has lost its market share and got reduced with the entry of the private players after 2001-02.Contrary to this the private players has increased its market share from 0.02 percent in 2000-01 to 25.61 percent in 2007-08 thereby giving tough competition to the insurance giant LIC.

4.1 (b) First Year Premium

The table 4.60 depicts the performance of both public and private life insurance companies with respect to first year premium. The performance of LIC, in case of this determinant was satisfactory as it shows year after year increasing growth rate. Except in the year 2002-03, in which the rate of growth declines and even turns out to be negative with 18.44 percent and with an income of Rs.15976.76 crores. This was the year when the private players entered the insurance market. But in the next consecutive years LIC sustained to grow from 8.58 percent in the 2003-04 to 97.17 percent in the year 2006-07.

Table No: 4.3 - Table Showing the First Year Premium (Rs. In Crores)

Name of Insurer	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Sector								
LIC (A)	9700.98	19588.77 (101.93)	15976.76 (-18.44)	17347.62 (8.58)	20653.06 (19.05)	28515.87 (38.07)	56223.56 (97.17)	59996.57 (6.71)
PRIVATE SECTOR								
HDFC STD LIFE	0.002	32.78	129.31	209.33	486.15	1042.65	1648.85	2685.37
MNYL	0.16	38.80	67.31	137.28	233.63	471.36	912.11	1597.83
ICICI PRU	5.97	113.33	364.11	750.84	1584.34	2602.5	5162.13	8034.75
BSLI	0.32	28.11	129.57	449.86	621.31	678.12	882.72	1965.01
TATA AIG	-	21.14	59.77	181.59	297.55	464.53	644.82	964.51
KOTAK LIFE	-	7.58	35.21	125.51	373.99	396.06	614.94	1106.62
SBI LIFE	-	14.69	71.88	207.05	484.85	827.82	2563.84	4792.82
BAJAJ ALLIANZ	-	7.14	63.39	179.55	857.45	2716.77	4269.80	6674.48
MET LIFE	-	0.48	7.70	23.41	57.52	148.53	340.44	825.35
RELIANCE LIFE	-	0.28	6.32	27.21	91.33	193.56	932.11	2751.05
ING VYSYA	-	4.19	17.66	72.10	282.42	283.98	467.66	704.44
AVIVA	-	-	13.47	76.96	192.29	407.12	721.35	1053.98
Private Total (B)	6.45	268.51 (4061.70)	965.69 (259.65)	2440.71 (152.74)	5562.83 (127.99)	10233.00 (84.55)	19160.75 (88.84)	33156.21 (73.56)
Industry Total (A+B)	9707.40	19857.28 (104.56)	16942.45 (-14.68)	19788.32 (16.80)	26217.64 (32.49)	38748.87 (47.94)	75384.33 (94.96)	93152.78 (23.88)

Figures in brackets show the growth rate over the previous years

The scene in case of private players was entirely different. From Rs.6.45 crores in the initial year 2000-01, they were able to increase the first year premium to Rs.33156.21 crores in the year 2007-08. But the rate of growth was declining year after year from 259.65 percent in the year 2002-03 to 88.84 percent in the year 2006-07.

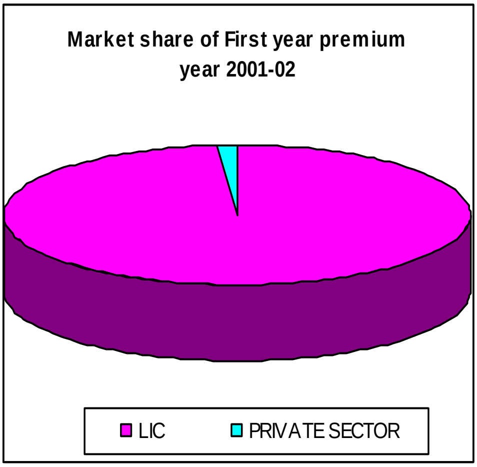
Table No: 4.4 - Table Showing the Market Share of First Year Premium of Life Insurers

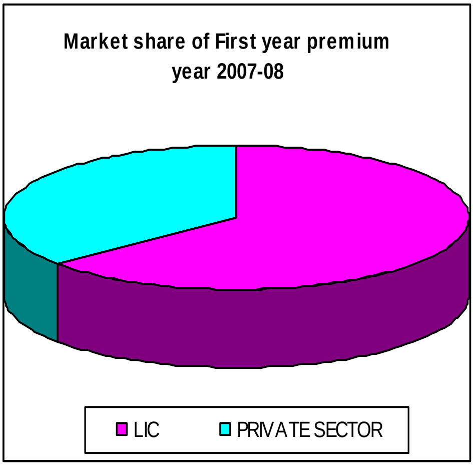
Name of Insurer	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Sector								
LIC (A)	99.93	98.65	94.30	87.67	78.78	73.52	74.35	64.02
Private Sector								
HDFC LIFE	0	0.17	0.76	1.06	1.85	2.69	2.18	2.87
MNYL	0	0.20	0.40	0.69	0.89	1.22	1.21	1.71
ICICI PRU	0.06	0.57	2.15	3.79	6.04	6.71	6.83	8.57
BSLI	0.01	0.14	0.77	2.27	2.37	1.75	1.17	2.10
TATA AIG	-	0.11	0.35	0.92	1.14	1.20	0.85	1.03
KOTAK LIFE	-	0.02	0.21	0.63	1.43	1.02	0.81	1.18
SBI LIFE	-	0.07	0.42	1.05	1.85	2.13	3.39	5.11
BAJAJ ALLIANZ	-	0.04	0.37	0.91	3.27	7.01	5.65	7.12
MET LIFE	-	0	0.05	0.12	0.22	0.38	0.45	0.88
RELIANCE LIFE	-	0	0.04	0.14	0.35	0.50	1.23	2.93
ING VYSYA	-	0.02	0.10	0.36	1.08	0.73	0.62	0.75
AVIVA	-	-	0.08	0.39	0.73	1.05	0.95	1.13
Private Total (B)	0.07	1.35	5.7	12.33	21.22	26.48	25.65	35.98
Industry Total (A+B)	100	100	100	100	100	100	100	100

	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)
Public sector	64.02	98.65	80.813	12.75	15.78	-6.71
Private sector	1.35	35.98	19.187	12.75	66.45	62.55

Source: Annual Reports, 1993-94 to 2007-08

Chart No: 4.2 - Chart Showing the Market Share of First Year Premium





The table 4.61 shows the market share of public and private insurers in terms of first year premium. In case of LIC, the percentage of market share gradually decreases year after year from 99.93 percent in the year 2000-01 to 64.02 percent in the year 2007-08. But in case of private players from 0.07 percent market share, they were able to capture 35.98 percent in the year 2007-08. Hence, LIC has lost its market share with the entry of private insurers in India.

4.1 (c) Market share of Single Premium, Renewal premium and Total premium

The table 4.62 depicts the comprehensive picture of the market share of LIC and private insurers in terms of first year premium, single premium, renewal premium and total premium. In all the cases LIC‘s market share was declining whereas that of private player's was increasing.

In First year premium, LIC's share starts initially from 98.65 percent and declines down to 64.02 percent. It was the same in the case of single premium also in which the initial share of 98.65 percent declined to 86.99 percent. In renewal premium, the share started from 99.99 percent but reduced to 83.42 percent in the year 2007-08. In case of total premium, the share of 99.46 percent in the year 2001-02 declined to 74.39 percent in 2007-08.

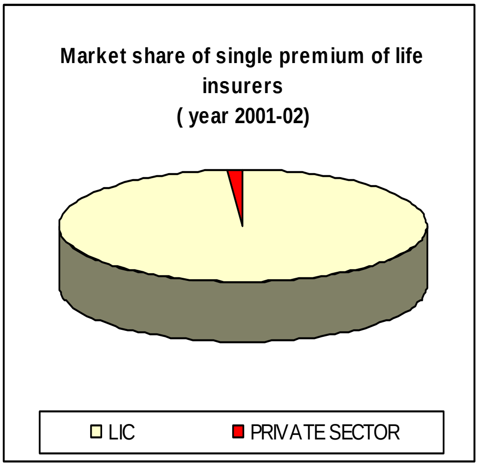
Private players comparably have increased their market share in all the above said parameters. In First year premium from 1.35 percent market share, they raised up to 35.98 percent share in 2007-08.In single premium from 1.35 percent share they increased to 15.65 but again declined to 13.01 percent. In case of renewal premium it starts from 0.01 percent proceeded to 16.56 percent in the year 2007-08.Total premium as such started from 0.54 percent share and ended up with 25.61 percent share in 2007-08.

To sum up the market share of LIC declined and that of private players has increased year by year.

Table No: 4.5 - Table Showing the First Year, Single, Renewal and Total Premium

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
First Year Premium							
LIC	98.65	94.30	87.44	73.41	73.52	74.35	64.02
Private sector	1.35	5.70	12.56	26.59	26.48	25.65	35.98
Single Premium							
LIC	98.65	94.30	87.44	87.02	84.35	87.04	86.99
Private Sector	1.35	5.70	12.56	12.98	15.65	12.96	13.01
Renewal Premium							
LIC	99.99	99.60	98.55	96.18	92.82	89.03	83.42
Private sector	0.01	0.40	1.45	3.82	7.18	10.97	16.56
Total Premium							
LIC	99.46	97.99	95.29	90.67	85.75	81.92	74.39
Private Sector	0.54	2.01	4.71	9.33	14.25	18.08	25.61

Chart No: 4.3 - Chart Showing Single Premium



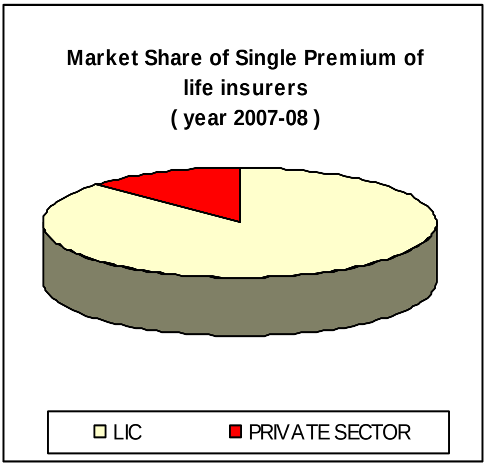
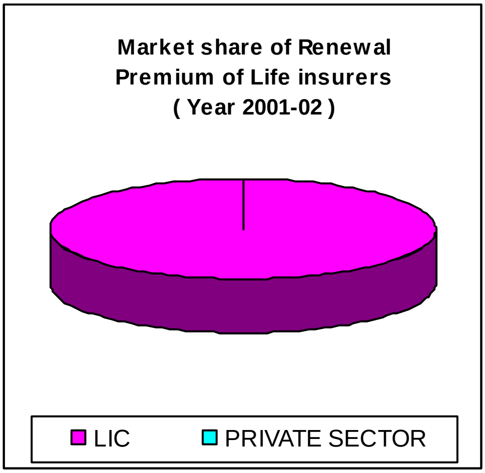
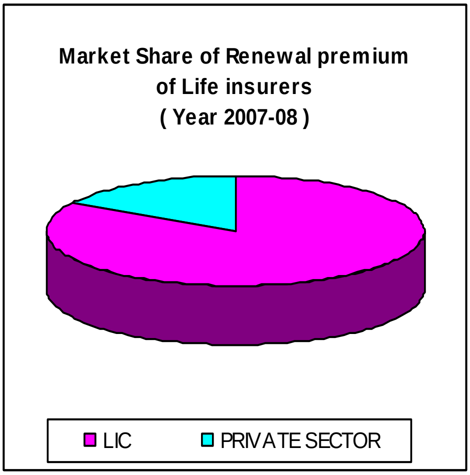


Chart No: 4.4 - Chart showing Renewal Premium





4.1(d) New policies issued and its growth rate

The New policy issued every year is an important determinant as this shows the effort taken by the insurance companies in expanding its market share. Hence, the performance of both the private and public life insurers was taken to assess and compare which of these two sectors were performing better and especially the impact of private player's entry with regard to LIC. Table 4.63 depicts the new policies issued and its growth rate from the year 2001-02 to 2007-08.

The table shows that the new policies issued in private sector ranges between 8,25,094 to 1,32,61,558 with a mean of 49,62,043 and a coefficient of variation 96.36 percent and has shown a growth at 63.80 percent.

The performance of LIC in case of new policies issued ranges between 2,39,78,123 to 3,82,29,292 with a mean of 3,04,87,395 and a coefficient of variation 20.85 percent with a growth at 6.60 percent.

Table No: 4.6 - Table showing new policies Issued and its growth rate

Year	Insurer		
	Private Sector	LIC	Total
2001-02	-	-	-
2002-03	825094	24545580	25370674
2003-04	1658847 (101.05)	26968069 (9.87)	28626916 (12.83)
2004-05	2233075 (34.62)	23978123 (-11.10)	26211198 (8.44)
2005-06	3871410 (73.37)	31590707 (31.75)	35462117 (35.29)
2006-07	7922274 (104.64)	38229292 (21.01)	46151566 (30.14)
2007-08	13261558 (67.40)	37612599 (-1.61)	50874157 (10.23)

	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)
Private Sector	825094	13261558	4962043	4781362	96.36	63.80
Public Sector	23978123	38229292	30487395	6355852	20.85	6.60

Source: Annual Reports, 1993-94 to 2007-08. Figures in the brackets indicate growth ratio (in percent)

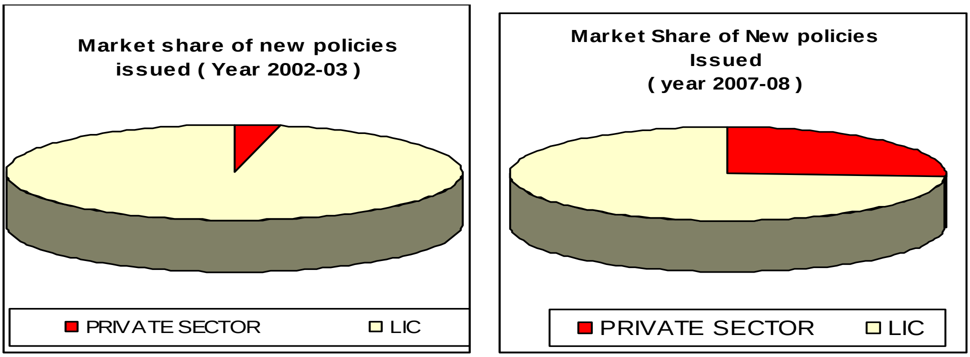
To sum up LIC has shown fluctuating performance and comparatively private players has shown high rate of growth in new policies issued as they were in their initiation period and many new players entered the insurance market year by year.

Table No 4.7 - Table Showing Market Share in Terms of New Policies Issued

Year	Insurer		
	Private Sector	LIC	Total
2001-02	-	-	-
2002-03	3.25	96.75	100
2003-04	5.79	94.21	100
2004-05	8.52	91.48	100
2005-06	10.92	89.08	100
2006-07	17.17	82.83	100
2007-08	26.07	73.93	100

It is essential to have a look at their market share also and the table 4.64 clearly depicts the market share of both LIC and the private players with regard to new policy issuance. The percentage of market share of private insurers kept on increasing from 3.25 to 26.07 percent. The market share of LIC shows a declining trend from 96.75 percent initially it started to decline to 73.93 percent in the year 2007-08. This shows that LIC has lost its new business performance and has got impacted because of the entry of private players.

Chart No: 4.5 - Chart showing Market Share of New Policies Issued



4.1(e) Business In force (Number of policies)

The table 4.65 indicates the quantum of business in terms of number of policies from 2004-05 to 2007-08 as this was the year of crucial consideration. It's a major indicator and was taken for evaluation along with its growth rate and its market share.

LIC initially attained 16.3 crores of policies of business in the year 2004-05 and gained 98.54 percent of market share. Gradually it grew up and attained 19.2 crores number of policies in the year 2007-08 and was able to maintain 97.10 percent of market share.

Taking the market share of this parameter, LIC holds a majority of the share holding 97 percent throughout the years.

In case of private players they started with 23,98,000 number of policies and attained 57,39,000 in the year 2007-08. The growth rate in the year 2005-06 shows a drastic increase of 47.18 percent when compared to the previous year, but the private players could not sustain it and goes in a declining trend with 32.82 percent in the year 2006-07 and 23.41 percent in the year 2007-08. They were able to keep up their market share from 1.46 percent in the year 2004-05 to only 2.90 percent in the year 2007-08.

Comparably LIC has shown better performance in terms of business in force with regard to number of policies.

Table No: 4.8 - Table showing Business In force In terms of Number of policies

	2004-05		2005-06			2006-07			2007-08		
Name of Insurer	**No. of policies**	**Market Share**	**No. of Policies**	**Growth Rate %**	**Market Share**	**No. of Policies**	**Growth Rate %**	**Market Share**	**No. of Policies**	**Growth Rate %**	**Market Share**
Public sector											
LIC (A)	162950920	98.54	179564000	10.20	98.06	189419000	5.49	97.56	192428000	1.59	97.10
Private Sector											
HDFC STD LIFE	410000	0.25	590000	43.90	0.32	752000	27.46	0.39	996000	32.45	0.50
MNYL	353000	0.21	562000	59.21	0.31	713000	26.87	0.37	896000	25.67	0.45
ICICI PRU	374000	0.23	473000	26.47	0.26	734000	55.18	0.38	1037000	41.28	0.52
BSLI	102000	0.06	159000	55.88	0.09	234000	47.17	0.12	325000	38.89	0.16
TATA AIG	329000	0.20	453000	37.69	0.25	567000	25.17	0.29	579000	2.12	0.29
KOTAK LIFE	97000	0.06	108000	11.34	0.06	123000	13.89	0.06	149000	21.14	0.08
SBI LIFE	200000	0.12	351000	75.5	0.19	411000	17.09	0	420000	2.19	0.21
BAJAJ ALLIANZ	248000	0.15	395000	59.27	0.22	511000	45.58	0.26	540000	5.68	0.27
MET LIFE	62000	0.04	106000	70.97	0.06	112000	5.67	0.06	115000	2.68	0.06
RELIANCE LIFE	48000	0.03	77000	60.42	0.04	189000	145.45	0.10	220000	16.4	0.11
ING VYSYA	152000	0.09	193000	26.97	0.11	253000	31.09	0.13	289000	14.23	0.15
AVIVA	23000	0.01	34000	4.35	0.02	51000	50	0.03	48000	5.88	0.02
Private Total (B)	2398000	1.46	3501000	47.18	1.94	4650000	32.82	2.44	5739000	23.41	2.90
Industry Total (A+B)	**165348920**	**100**	**183065000**	**10.73**	**100**	**194069000**	**6.04**	**100**	**198042000**	**2.06**	**100**

4.1(f) Business In force in terms of Sum Assured (Rs. in Crores)

Table 4.66 depicts the business in force in terms of sum assured by the life insurers from 2004-05 to 2007-08. From the table it was clear that LIC was able to attain Rs.10,65,095 crores of business in force in the year 2004-05 and reached Rs.14,85,380 crores in the year 2007-08. The private insurers were able to attain Rs.68,082 crores of business in the year 2004-05 and reached Rs.1,35,497 crores in the year 2007-08.

The rate of growth of LIC has shown a declining trend from 20.19 percent in the year 2005-06 to 6.29 percent in the year 2007-08. This was the case in private players also as the rate declined from 38.37 percent in the year 2005-06 to 16.4 percent in the year 2007-08.

From the above statements, it is implied that LIC has got its market share reduced from 93.99 percent in the year 2004-05 to 91.64 percent in the year 2007-08, whereas private insurers gained 8.36 percent share of market in the year 2007-08. Hence, comparably the performance of private players was better to that of LIC.

Table No: 4.9 - Table showing Business In force in terms of Sum Assured (Rs. in Crores)

	2004-05		2005-06			2006-07			2007-08		
Name of Insurer	Sum Assured	Market share	Sum Assured	Growth rate %	Market share	Sum Assured	Growth rate %	Market share	Sum Assured	Growth rate %	Market share
Public sector											
LIC (A)	1065095	93.99	1280159	20.19	93.15	1397468	9.16	92.31	1485380	6.29	91.64
Private Sector											
HDFC STD LIFE	8153	0.72	11801	44.74	.86	14253	20.78	.94	16973	19.08	1.05
MNYL	14132	1.25	19191	35.79	1.39	24525	27.79	1.62	29887	21.86	1.84
ICICI PRU	11030	0.97	13438	21.83	0.98	15403	14.62	1.02	21644	40.52	1.34
BSLI	2951	0.26	3933	33.28	0.27	5113	30	0.34	4654	8.98	.29
TATA AIG	7216	0.64	10303	42.78	0.75	12428	20.63	0.82	12550	0.98	0.77
KOTAK LIFE	5391	0.48	6083	12.84	0.44	7159	17.69	0.47	7561	5.62	0.47
SBI LIFE	3713	0.33	7254	95.37	0.53	9155	26.21	0.6	10997	20.12	0.68
BAJAJ ALLIANZ	8041	0.71	10619	32.06	0.77	12554	18.22	0.83	12998	3.54	0.80
MET LIFE	2633	0.23	4491	70.57	0.33	5018	11.73	0.33	5522	10.04	10.04
RELIANCE LIFE	992	0.09	1767	78.13	0.13	3339	88.96	0.22	4102	22.85	0.25
ING VYSYA	3580	0.32	4393	22.71	0.32	5036	14.64	0.33	5600	11.2	0.35
AVIVA	113	0.01	201	77.88	0.02	415	106.47	0.03	294	29.16	0.018
Private Total (B)	68082	6.01	94206	38.37	6.85	116411	23.57	7.69	135497	16.40	8.36
Industry Total (A+B)	**1133136**	**100**	**1374364**	**21.29**	**100**	**1513876**	**10.15**	**100**	**1620876**	**7.07**	**100**

4.1(g) Number of Life Insurance Offices

Table No: 4. 10 - Table showing the Number of life insurance offices

Name of Insurer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Sector							
LIC (A)	2190	2191 (0.046)	2196 (0.23)	2197 (0.046)	2220 (1.047)	2301 (3.65)	2522 (9.60)
Private Sector							
HDFC STD LIFE	4	18	26	90	150	448	569
MNYL	15	23	33	64	84	118	194
ICICI PRU	14	29	69	109	175	583	1958
BSLI	19	29	41	53	97	148	538
TATA AIG	6	13	26	40	72	89	283
KOTAK LIFE	9	28	39	43	46	75	151
SBI LIFE	5	10	19	31	46	138	200
BAJAJ ALLIANZ	7	33	49	153	567	877	1007
MET LIFE	3	8	16	35	43	53	94
RELIANCE LIFE	17	35	48	80	157	159	745
ING VYSYA	4	18	26	38	68	183	265
AVIVA	3	12	22	50	110	140	213
Private Total (B)	116	256 (118.97)	416 (63.78)	804 (93.27)	1645 (104.60)	3072 (86.75)	6391 (108.04)
Industry Total (A+B)	**2306**	**2445 (6.03)**	**2612 (6.83)**	**3001 (14.89)**	**3865 (28.19)**	**5373 (39.02)**	**8913 (65.88)**

Number of Life Insurance Offices	**Min. Val.**	**Max. Val.**	**Mean**	**SD**	**C.V (%)**	**C.G.R (%)**
Public sector	2190	2522	2260	122.24	5.41	0.12
Private sector	116	6391	1814	2267.57	125	87.79

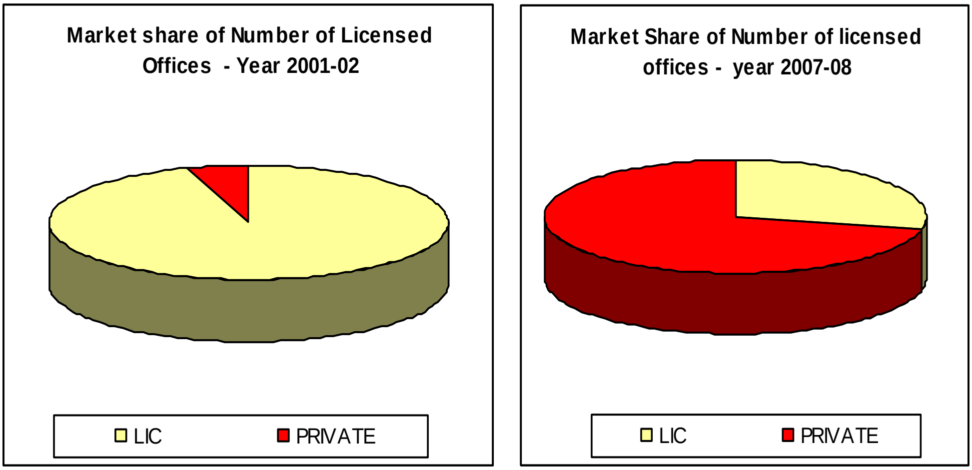
Source: Annual Reports, 1993-94 to 2007-08

For measuring the performance of life insurers the number of life insurance offices was also considered, as the growth in number determines the wide spread and coverage of the policies in every corner of the country. The table 4.67 depicts the complete picture and the growth of the insurance offices from year 2001-02 to 2007-08.

The above table 4.67 shows that the number of offices in public sector ranges between 2190 to 2522 with a mean of 2260 and a coefficient of variation of 5.41 percent and has shown a compound growth at 0.12 percent.

The number of offices in private sector ranges between 116 to 6391 with a mean of 1814 and a coefficient of variation of 125 percent with a growth at 87.79 percent.

Chart No: 4.6 - Chart showing the market share of number of licensed offices

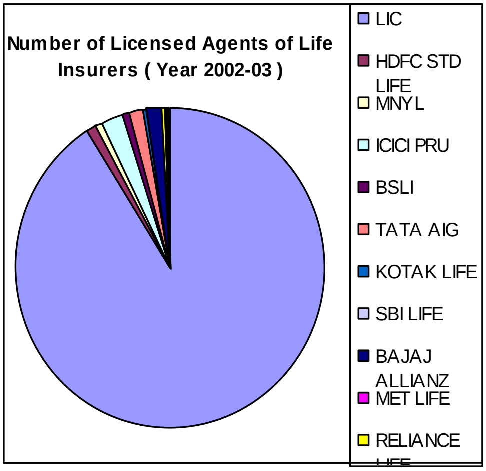


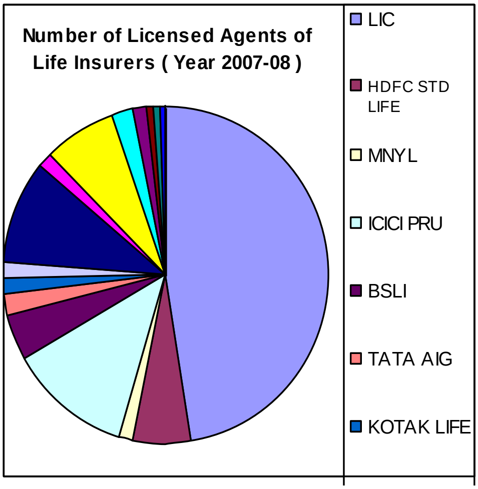
The private players spread on a larger scale year after year that from 116 offices in 2001-02 has grown up to 6391 offices in the year 2007-08. Hence compared to LIC the growth rate was drastic and thus private players were in an urge to increase the offices and to spread their coverage.

4.1(h) Number of Licensed agents of Insurers (New and Renewed)

Life insurance business largely depends upon the skill and capabilities of the agents working for an insurance company. There are individual agents as well as corporate agents. At times when an agent is not able to fulfill the condition required to continue his agency, the agency is revoked. In that case, there is a provision of renewal of agency within the stipulated time. Table 4.68 shows the total number of agents both new and renewed from year 2002-03 to 2007-08.

Chart No: 4.7 - Chart Showing number of licensed agents of insurers





The table 4.68 shows the number of new and renewed agents of insurers year after year and depicts that the number kept on increasing for LIC steadily from 2002-03 to 2007-08, as they attained 1193744 number of agents in the year 2007-08 from 947565 number in the year 2002-03. The number of agents in case of private insurers also increases from 91994 in 2002-03 to 1326748 in the year 2007- 08.

Taking the growth rate into consideration, table 4.69 depicts the year 2003-04 was better when compared to the previous year for LIC and private insurers as both were able to attain 41.65 and 135.94 percent of growth respectively. But the next year 2004-05 was not up to the mark as both LIC and private insurer’s growth rate went negative showing 73.64 and 40.89 percent respectively. Similarly, the years 2005-06, 2006-07 and 2007-08 have shown increasing and declining trend in both the cases.

Comparably the performance of private players was equally good to that of LIC as they have also shown a high growth rate.

Table No: 4.11 - Table Showing Number of Licensed Agents of Insurers (New & Renewed)

	2002-03			2003-04			2004-05		
Name of Insurer	**New**	**Renewed**	**Total**	**New**	**Renewed**	**Total**	**New**	**Renewed**	**Total**
Public sector									
LIC (A)	479186	468379	947565	733736	608463	1342199 (41.65)	129394	224379	353773 (-73.64)
Private Sector									
HDFC STD LIFE	11312	-	11312	19099	110	19209	9310	1046	10356
MNYL	5770	7	5777	10161	147	10308	6475	523	6998
ICICI PRU	23953	8	23961	46231	587	46818	28019	1911	29930
BSLI	6314	4	6318	13090	117	13207	5025	450	5475
TATA AIG	15559	-	15559	33006	70	33076	16770	1009	17779
KOTAK LIFE	3785	-	3785	6722	14	6736	2657	319	2976
SBI LIFE	2224	-	2224	10514	14348	24862	2006	169	2175
BAJAJ ALLIANZ	14202	-	14202	36341	1	36342	32112	568	32680
MET LIFE	1463	1	1464	3194	2	3196	3324	50	3374
RELIANCE LIFE	1608	-	1608	6423	1	6424	4874	139	5013
ING VYSYA	3914	-	3914	11831	1	11832	7588	132	7720
AVIVA	1870	-	1870	5043	1	5044	3818	1	3819
Private Total (B)	91974	20	91994	201655	15399	217054 (153.94)	121979	6317	128296 (-40.89)
Industry Total (A+B)	**571160**	**468399**	**1039559**	**935391**	**623862**	**1559253**	**251373**	**230696**	**482069**

Table No: 4.11 - Table showing Number of Licensed agents of Insurers (New & Renewed) (Contd.,)

	2005-06			2006-07			2007-08		
Name of Insurer	**New**	**Renewed**	**Total**	**New**	**Renewed**	**Total**	**New**	**Renewed**	**Total**
Public sector									
LIC (A)	155265	316811	472076 (33.44)	197963	905084	1103047 (133.66)	234852	958892	1193744 (8.22)
Private Sector									
HDFC STD LIFE	14768	1949	16717	53470	25639	79109	74465	70249	144714
MNYL	11951	598	12549	18803	6241	25044	26130	10771	36901
ICICI PRU	41553	2936	44489	199453	35007	234460	233895	72459	306354
BSLI	11110	797	11913	41422	15068	56490	55154	53880	109034
TATA AIG	18061	1287	19348	17134	10971	28105	44843	7701	52544
KOTAK LIFE	6925	449	7374	17259	7225	24484	24271	10452	34723
SBI LIFE	4797	315	5112	18343	7013	25356	22251	18392	40643
BAJAJ ALLIANZ	78844	1373	80217	141303	74888	216191	106798	143441	250239
MET LIFE	8218	125	8343	14562	6286	20848	20373	16425	36789
RELIANCE LIFE	14038	255	14293	82531	13091	95622	97798	86396	184194
ING VYSYA	13689	354	14043	25936	8008	33944	30926	21834	52760
AVIVA	9180	24	9204	20708	8344	29052	13662	21645	35307
Private Total (B)	239155	10462	249620 (94.57)	666622	223530	890152 (256.6)	772910	553838	1326748 (49.05)
Industry Total (A+B)	**394420**	**327276**	**721696**	**864585**	**1128614**	**1993199**	**1007762**	**1512730**	**2520492**

Figures in bracket show the growth rate

Table No: 4.12 - Table showing Growth rate of Number of agents of life Insurers in India

Name of Insurer	2003-04 Over 2002-03	2004-05 over 2003-04	2005-06 Over 2004-05	2006-07 Over 2005-06	2007-08 Over 2006-07
Public sector					
LIC (A)	41.65	-73.64	33.44	133.66	8.22
Private Sector					
HDFC STD LIFE	69.81	-46.09	61.42	373.22	82.93
MNYL	78.43	- 32.11	79.32	99.57	47.34
ICICI PRU	95.39	- 36.07	48.64	427.01	30.66
BSLI	109.04	-58.54	117.59	374.19	93.01
TATA AIG	112.58	- 46.25	8.83	45.26	86.96
KOTAK LIFE	77.97	- 55.82	147.78	232.03	41.82
SBI LIFE	1017.90	- 91.25	135.03	396.00	60.29
BAJAJ ALLIANZ	155.89	- 10.08	145.46	169.51	15.75
MET LIFE	118.31	5.57	147.27	149.89	76.51
RELIANCE LIFE	299.50	-21.96	185.12	569.01	92.63
ING VYSYA	202.30	-34.75	81.90	141.71	55.43
AVIVA	169.73	-24.29	141.01	215.65	21.53
Private Total(B)	135.94	-40.89	94.57	256.60	49.05
Industry Total (A+B)	**49.99**	**- 69.08**	**49.71**	**176.18**	**26.45**

4.1(i) Lapsation of Policies

The lapsation rate of all the insurers was considered to analyze the rate of lapsation ratio. It is the total policies that lapses during the year divided by the arithmetic mean of the business in force at the beginning and end of the year. The increase in the lapsation ratio shows the poor performance of the insurers and vice versa. Hence, the comparative analysis was made among private and the public life insurance companies. Table 4.70 shows the lapsation status of the insurance companies in terms of number of policies and sum assured of all the insurance companies from 2004-05 to 2007-08.

Table No: 4.13 - Table showing Lapsation in terms of Number of policies and Sum Assured

	2004-05		2005-06		2006-07		2007-08	
Name of Insurer	**Sum Assured (Rs. in Crores)**	**No. of polices (‘ 000s)**	**Sum Assured (Rs. in Crores)**	**No. of Polices (‘000s)**	**Sum Assured (Rs. in Crores)**	**No. of policies (‘000s)**	**Sum Assured (Rs. in Crores)**	**No. of polices (’000s)**
Public sector								
LIC (A)	65006.57	10211.09	61640	9568.88	63206.46	7773	73686	11009
Private sector								
HDFC STD LIFE	620.29	37.72	793.56	40.55	787.29	29.32	909	36
MNYL	1581.15	78.22	2657.78	104.02	2666.28	163.09	3394	142
ICICI PRU	1013.64	52.47	1377.46	136.54	2460.90	179.97	6854	439
BSLI	320.49	5.35	359.97	5.26	596.62	7.82	1017	16
TATA AIG	1141.16	68.84	1615.67	92.49	3041.64	150.93	5044	238
KOTAK LIFE	358.79	18.23	520.55	27.07	546.37	21.31	1104	25
SBI LIFE	180.74	14.88	459.43	31.52	772.89	85.29	1108	79
BAJAJALLIANZ	750.72	65.95	2417.74	66.47	2364.27	77.42	2392	106
MET LIFE	286.37	13.07	1008.37	31.12	1157.45	36.87	880	28
RELIANCE LIFE	522.94	28.62	259.8	17.58	691.9	47.13	663	43
ING VYSYA	523.59	38.66	855.4	40.73	788.14	45.04	762	54
AVIVA	27.77	7.48	48.99	18.6	3.23	24.19	125	40
Private Total (B)	7327.65	429.48	12436.55	550.72	16093.97	884.1	25104	1288
Industry Total (A+B)	**12334.22**	**10640.57**	**74076.55**	**10119.6**	**79300.43**	**8657.10**	**98790**	**12297**

LAPSATION (Number of policies in 000’s)	**Min. Val.**	**Max. Val.**	**Mean**	**SD**	**C.V (%)**	**C.G.R (%)**
Public sector	7773	11009	9390	1841.74	19.61	-1.19
Private sector	429.48	1288	788	384.74	48.82	45.76
LAPSATION (Sum Assured Rs. in Crores)	**Min. Val.**	**Max. Val.**	**Mean**	**SD**	**C.V (%)**	**C.G.R (%)**
Public sector	61640	73686	65884.74	5379.66	8.17	4.09
Private sector	7327	25104	15240.08	7494.50	49.18	48.47

From the table 4.70 it is clear that the lapsation in terms of sum assured in public sector ranges between Rs.61640 crores to Rs.73686 crores with a mean of Rs.65884.74 crores and a coefficient of variation of 8.17 percent and has shown a compound growth at 4.09 percent. In the case of private sector, the lapsation ranges between Rs.7327 crores to Rs.25104 crores with a mean of Rs.15240.08 crores and a coefficient of variation of 49.18 percent and has shown a growth rate of 48.47 percent. Hence, comparably LIC performs better to that of private players.

The lapsation in terms of number of policies in public sector ranges between 77,73,000 to 1,10,09,000 with a mean of 93,90,000 and a coefficient of variation of 19.61 percent and has shown a negative growth at 1.19 percent. In case of Private Sector, it ranges between 4,29,480 to 12,88,000 with a mean of 7,88,075 and a coefficient of variation 48.82 percent and has shown a growth rate of 45.76 percent. Hence comparably LIC performs better to that of private players and private players have to work on reducing their lapsation rates.

This factor being crucial was further analyzed to find out the variance among the private life insurance companies and to find out whether there exist any significant differences among them. For this factor, analysis was used to judge the significant differences among sample means and for this the first twelve companies were taken as the samples, since they top the list. The following table 4.70(a) shows the analysis of variance in terms of sum assured.

Table No: 4.13(a)

Analysis of variance for Lapsation Rate (Sum Assured)

Source	S S	D F	M S	F
Regression	49322680	12	4110223.328	4.40**
Residual	36397210	39	933261.797	

**- Significant at 1 % level

From the table it is clear that the F factor at 1% level of significance indicates that there is significant difference in the mean lapsation among the private insurance companies. And for comparison their mean values are furnished below and were ranked accordingly.

Table No: 4.13 (b) Mean Lapsation (Sum Assured Rs. in Crores)

Insurance companies	No. of Years	Mean Lapsation (Rs. in Crores)	Rank
HDFC STD LIFE	4	777.53	6
MNYL	4	2574.80	3
ICICI PRU	4	2926.50	1
BSLI	4	573.52	10
TATA AIG	4	2710.62	2
KOTAK LIFE	4	632.43	8
SBI LIFE	4	630.02	9
BAJAJ ALLIANZ	4	1981.18	4
MET LIFE	4	833.05	5
RELIANCE LIFE	4	534.41	11
ING VYSYA	4	732.28	7
AVIVA	4	51.25	13

The table 4.70(b) depicts that ICICI Prudential tops the list with highest mean lapsation rate among the twelve insurance companies followed by Tata AIG, Max New York life, Bajaj Allianz, Met life insurance, HDFC STD Life, ING Vysya, Kotak Life, SBI Life, Birla Sunlife and Reliance life. Aviva was comparably better among the twelve life insurance companies with regard to the lapsation rate.

To give a clear picture, the lapsation ratio was calculated taking the average business in force at the beginning and the end of the year. The number of policies lapsed during the year was divided by the average business inforce and hence the lapsation ratio was calculated. The table 4.71 depicts the lapsation ratio in percentage.

Table No: 4.14 - Table showing Lapsation Ratio (In Percentage)

Name of Insurer	2004-05	2005-06	2006-07	2007-08
Public sector				
LIC (A)	6 %	5 %	4 %	6 %
Private Sector				
HDFC STD LIFE	8 %	7 %	4 %	4 %
MNYL	11 %	14 %	25 %	17 %
ICICI PRU	9 %	10 %	26 %	40 %
BSLI	11 %	9 %	4 %	6 %
TATA AIG	16 %	17 %	26 %	35 %
KOTAK LIFE	7 %	9 %	17 %	17 %
SBI LIFE	5 %	6 %	19 %	16 %
BAJAJ ALLIANZ	9 %	23 %	17 %	19 %
MET LIFE	11 %	22 %	34 %	24 %
RELIANCE LIFE	53 %	6 %	35 %	21 %
ING VYSYA	15 %	19 %	17 %	17 %
AVIVA	25 %	24 %	57 %	80 %

The table shows that the lapsation rate of LIC was in a declining trend that from 6 percent in 2004-05 it started to decline to 4 percent in the year 2006-07. In case of private players, HDFC shows a declining trend from 8 to 4 percent and Reliance life from 53 to 21 percent.

Max New York Life and Birla Sunlife shows a reduction rate and at times they rose up. But ICICI prudential, TATA AIG, Kotak Life, Bajaj Allianz, Met Life, Aviva were some of the life insurance companies that have increasing lapsation rate and these companies have to strive to reduce it.

Compared to LIC, private life insurers face setback in their lapsation rate and hence have to be improved.

4.1(j) Solvency Ratio

Solvency ratio is defined as the ratio of available solvency margin to the required solvency margin. Solvency margin is the firm's position to meet out the current liabilities as against current assets. As per section 64VA of the Insurance Act 1938, every life insurer is required to maintain an excess of value of assets over the amount of liabilities of not less than Rs.50 crores or a sum equivalent based on a prescribed formula, as determined by regulations not exceeding 5 percent of the mathematical reserves and a percentage not exceeding 1 percent of the sum at risk for the policies on which the sum at risk is not negative, whichever is highest. This excess prescribed by the IRDA, is referred to as Required Solvency Margin. In addition, IRDA has set a working solvency margin ratio of 1.5 for all the insurers. Table 4.72 depicts the solvency position of all the life insurers in India from 2003-04 to 2007-08 as the number of private insurers started their business in the year 2002-03.

The table depicts that out of the twelve private insurers who underwrote premium in the years 2003-04 and 2004-05, eleven insurers complied with the stipulated solvency requirements. In the next consecutive years too all the private insures kept up their margin as per the requirements. Even they gradually increased their percentage and were able to keep a higher excess. In case of LIC too depending on the premium income, it gradually increased the ratio from 1.11 percent in the year 2003 – 04 to 1.52 percent in the year 2007-08. Hence all the insurers kept up their solvency margin and notably the private insurers kept up a higher percentage.

Table No: 4.15 - Table showing the Solvency ratio of life insurers

Name of Insurer	2003-04	2004-05	2005-06	2006-07	2007-08
Public sector					
LIC	1.11	1.27	1.3	1.5	1.52
Private Sector					
HDFC STD LIFE	1.5	1.5	2.9	2.05	2.38
MNYL	1.47	1.47	2.0	2.08	2.25
ICICI PRU	1.5	1.5	1.6	1.53	1.74
BSLI	1.5	1.5	2.0	1.80	4.29
TATA AIG	1.5	1.5	2.7	2.59	2.50
KOTAK LIFE	1.5	1.5	1.8	1.64	2.41
SBI LIFE	1.5	1.5	2.9	1.78	3.30
BAJAJ ALLIANZ	1.5	1.5	2.8	2.45	2.34
MET LIFE	1.5	1.5	1.7	1.73	1.70
RELIANCE LIFE	1.5	1.5	2.0	1.62	1.65
ING VYSYA	1.5	1.5	2.3	2.87	2.36
AVIVA	1.5	1.5	2.8	6.31	2.37

* Source: Annual reports of IRDA from 2003 to 2008

To sum up in almost all the performance parameters namely the 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 the case of lapsation rate and business in force in terms of number of policies. This indicates that the entry of private players has given tough competition to LIC.

4.2. Productivity of private life insurers in India and the comparative study

The analysis has been made by using the following productivity measures:

4.2.(a) Premium income per Branch

4.2.(b) Premium income per Agent

4.2.(c) Business In force per Agent

4.2.(d) Business In force per Branch

4.2.(e) Number of policies per Agent

4.2.(f) Number of policies per Branch

4.2.(g) Operating Expenses Ratio & Growth rate

4.2.(h) Profit status of life insurers

4.2.(i) Dividend paid & Growth rate

4.2.(j) Status of Grievances against life insurers

4.2(a) Premium Income per Branch

The Productivity of the insurers was measured taking the total premium income received by all the branches during the particular year. It was calculated by dividing the total annual premium income in a particular year by the total number of branches in that year. Table 4.73 depicts the premium income per branch of all the insurers for the period of the study.

The table 4.73 shows that the premium income of the private players was increasing from the year 2001-02 to 2006-07. It started from Rs.2.35 crores of premium income in the year 2001-02 and reached Rs.9.19 crores in the year 2006-07. But the subsequent year 2007-08 showed a slight decline with Rs.8.07 crores of premium income per branch.

Comparatively LIC started its business productivity with a high volume of Rs.7.81 crores in the year 2001-02 but from 2002-03 onwards there has been a decline in the percentage. The year 2005-06 has shown an increase with Rs.7.40 crores of business productivity but that declined in the next two consecutive years 2006-07 and 2007-08 with Rs.5.70 crores and Rs.4.82 crores of premium income per branch. This shows that LIC has to improve its productivity of premium income per branch when compared to the private players.

Among the private players, SBI Life shows a very high mean of Rs.16.38 crores of premium income per branch with high productivity and hence ranked first among all the other private players. This was followed by ICICI Prudential, Birla Sunlife, Tata AIG, HDFC STD Life, Max New York Life, Kotak Life, Bajaj Allianz, Met life, ING Vysya and Reliance life and were ranked accordingly.

Chart No: 4.8 - Chart Showing the Premium Income per Branch

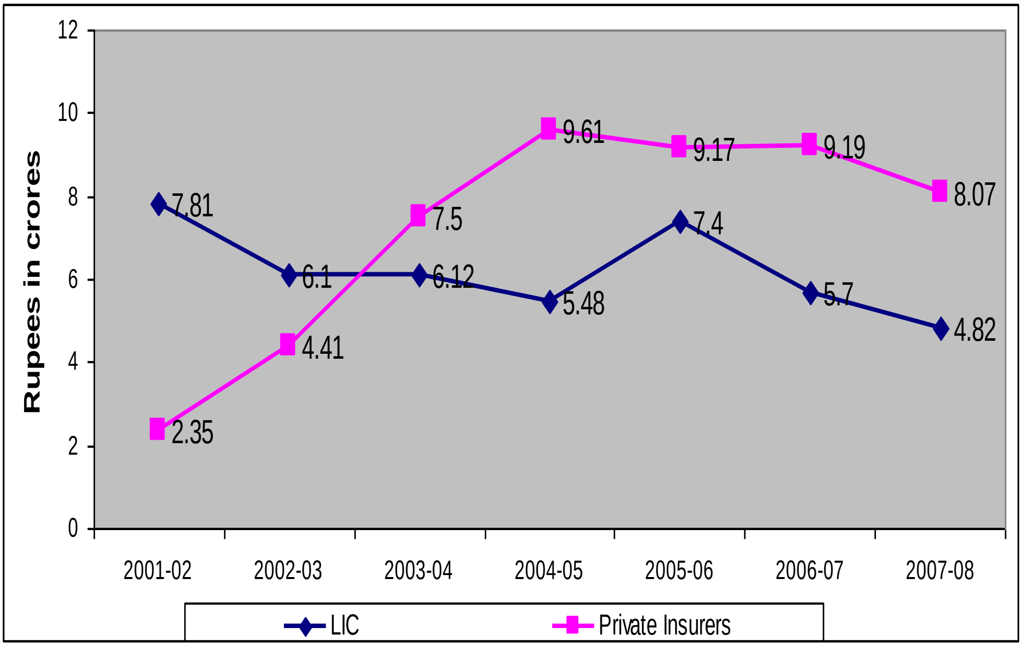


Table No: 4.16

Table showing Premium Income per Branch (Rs. in Crores)

Name of Insurer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
HDFC STD LIFE	8.4	8.27	11.45	7.63	10.47	6.37	8.54
MNYL	2.6	4.20	6.52	7.46	9.38	12.71	13.99
ICICI PRU	8.31	14.40	14.34	21.69	24.35	13.57	6.93
BSLI	1.49	4.96	13.11	17.27	12.99	12.00	6.08
TATA AIG	3.52	6.25	9.75	12.43	12.22	15.36	7.23
KOTAK LIFE	0.84	1.44	3.86	10.84	13.52	12.95	11.20
SBI LIFE	2.94	7.23	11.88	19.39	23.38	21.22	28.11
BAJAJ ALLIANZ	1.04	2.12	4.51	6.55	5.53	6.05	9.66
MET LIFE	0.16	0.99	1.80	2.33	4.79	9.30	12.34
RELIANCE LIFE	0.016	0.18	0.65	1.33	1.43	5.49	4.33
ING VYSYA	1.05	1.18	3.40	8.92	6.26	5.05	4.37
AVIVA	-	1.12	3.70	5.07	5.46	8.19	8.88
Private Average	2.35	4.41	7.50	9.61	9.17	9.19	8.07
LIC	7.81	6.10	6.12	5.48	7.40	5.70	4.82

Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	6.37	11.45	8.73	1.711	19.59	-1.99	5
MNYL	2.6	13.99	7.98	4.245	53.20	31.31	6
ICICI PRU	6.93	24.35	14.80	6.385	43.15	-.48	2
BSLI	1.49	17.27	9.70	5.598	57.71	23.79	3
TATA AIG	3.52	15.36	9.54	4.120	43.20	16.12	4
KOTAK LIFE	0.84	13.52	7.81	5.545	71.02	61.48	7
SBI LIFE	2.94	28.11	16.38	9.228	56.34	41.02	1

BAJAJ ALLIANZ	1.04	9.66	5.07	2.878	56.81	37.85	8
MET LIFE	0.16	12.34	4.53	4.614	101.86	93.58	9
RELIANCE LIFE	0.02	5.49	1.92	2.137	111.43	139.26	11
ING VYSYA	1.05	8.92	4.32	2.795	64.71	32.11	10

Source: Annual Reports, 1993-94 to 2007-08

4.2 (b) Premium Income per Agent

The productivity of the agent was calculated by dividing premium income in a particular year by the number of agents in that year .The premium income per agent for the study period was shown in the table 4.74.

The table 4.74 shows that the productivity of agents of LIC was initially declining with Rs.5.8 lakhs of premium income in the year 2002-03 to Rs.4.7 lakhs in the year 2003-04. The year 2004-05 has shown a drastic increase in productivity with Rs.21.2 lakhs of premium income per agent, but then again it tends to decline in the subsequent years.

The productivity of agents of private players was very less with Rs.1.22 lakhs of premium income per agent in the year 2002-03. It gradually increased to Rs.1.44 lakhs in the year 2003-04 and Rs.6 lakhs in the year 2005-06, but declined in the subsequent years. Comparatively the productivity of agents of LIC in terms of premium income per agent was healthy to that of private insurers.

Among the private players themselves, SBI life with Rs.13.00 lakhs mean volume of business per agent stands first, followed by Birla Sunlife,

Kotak Life, ICICI Prudential, Max New York life, HDFC Std Life, Aviva, TATA AIG, Bajaj Allianz, Metlife and Reliance life.

Chart No: 4.9

Chart Showing the Premium Income per Agent of Indian Life Insurers

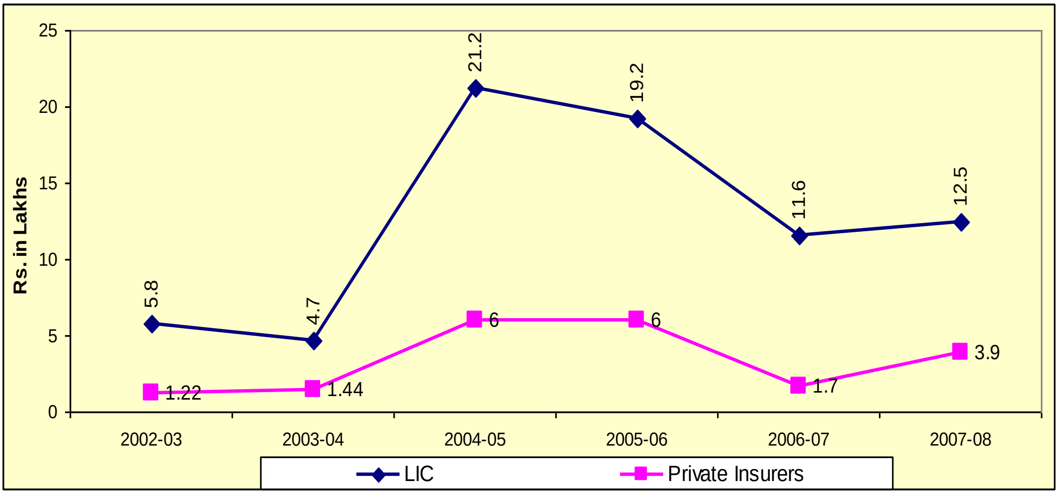


Table No: 4.17 - Table showing Premium Income per Agent (Rs. in Lakhs)

Name of Insurer	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public sector						
LIC (A)	5.8	4.7	21.2	19.2	11.6	12.5
Private Sector						
HDFC STD LIFE	1.3	1.6	6.6	9.4	3.6	3.4
MNYL	1.7	2.1	5.9	6.3	6	7.4
ICICI PRU	1.7	2.1	7.9	9.6	3.4	4.4
BSLI	2.3	4.1	16.7	10.6	3.1	3.0
TATA AIG	0.52	0.7	2.8	4.5	4.7	3.9
KOTAK LIFE	1.1	2.2	15.7	8.43	3.9	4.9
SBI LIFE	3.3	0.91	27.6	21	11.5	13.8
BAJAJ ALLIANZ	0.49	0.61	3.1	3.9	2.5	3.9
MET LIFE	0.54	0.90	2.4	2.5	2.4	3.2
RELIANCE LIFE	0.40	0.48	2.1	1.6	1.2	1.8
ING VYSYA	0.54	0.75	4.4	3	2.1	2.2
AVIVA	0.72	1.6	6.6	6.5	3.9	5.4
Private Average (B)	1.22	1.44	6	6	1.7	3.9

Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	1.3	9.4	4	0.031	72.44	24.23	6
MNYL	1.7	7.4	5	0.024	48.72	35.25	4
ICICI PRU	1.7	9.6	5	0.032	66.27	20.05	4
BSLI	2.3	16.7	7	0.058	87.37	.10	2
TATA AIG	0.05	4.7	3	0.019	65.19	59.14	8
KOTAK LIFE	1.1	15.7	6	0.054	88.89	27.73	3
SBI LIFE	0.91	27.6	13	0.102	78.36	51.29	1
BAJAJ ALLIANZ	0.49	3.9	2	0.015	63.70	52.78	9
MET LIFE	0.54	3.2	2	0.010	51.99	40.41	11
RELIANCE LIFE	0.40	2.1	1	0.007	55.57	33.06	12
ING VYSYA	0.54	4.4	2	0.014	66.43	32.05	10
AVIVA	0.72	6.6	4	0.025	60.84	43.55	7

4.2 (c) Business In force per Agent

The quantum of business in force indicates the sum assured by the insurers in India and was taken for evaluation by dividing by the number of agents to assess their productivity. This is shown in the following table 4.75

Accordingly the productivity of agent of LIC has shown a declining trend from Rs.3.01 crores of business per agent in the year 2004-05 to Rs.1.24 crores in the year 2007-08. The performance of private players also has shown a downward trend with Rs.0.53 crores of business per agent in the year 2004-05 to Rs.0.102 crores in the year 2007-08.

Comparatively LIC stands better to private players. Among the private players Max New York Life stands first with Rs.1.34 crores of business inforce per agent, followed by SBI Life, TATA AIG, HDFC Std life, Met life, Kotak Life, ING Vysya, Birla Sunlife, ICICI Prudential, Bajaj Allainz, Reliance life and Aviva. The compound growth rate of all the private players has shown a negative trend and hence the private players have to work to improve their productivity.

Chart No: 4.10 - Chart Showing the Business In force per Agent

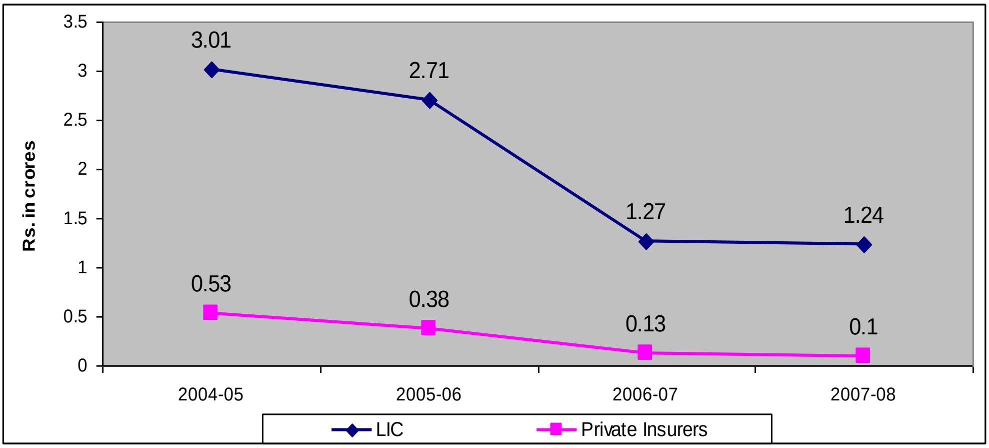


Table No: 4.18 - Table showing Business in force per Agent (In terms of Sum Assured Rs. in Crores)

Name of Insurer	2004-05	2005-06	2006-07	2007-08
Public sector				
LIC (A)	3.01	2.71	1.27	1.24
Private Sector				
HDFC STD LIFE	0.72	0.71	0.18	0.12
MNYL	2.02	1.53	0.98	0.81
ICICI PRU	0.37	0.30	0.07	0.07
BSLI	0.54	0.33	0.09	0.04
TATA AIG	1.32	0.53	0.44	0.24
KOTAK LIFE	0.41	0.83	0.29	0.14
SBI LIFE	1.81	1.42	0.36	0.27
BAJAJ ALLIANZ	0.25	0.13	0.06	0.05
MET LIFE	0.78	0.54	0.24	0.15
RELIANCE LIFE	0.20	0.12	0.04	0.02
ING VYSYA	0.46	0.31	0.15	0.11
AVIVA	0.03	0.02	0.01	0.03
Private Average	0.53	0.38	0.13	0.10

Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	0.12	0.72	0.43	0.327	75.64	-49.07	4
MNYL	0.81	2.02	1.34	0.550	41.23	-27.29	1
ICICI PRU	0.07	0.37	0.20	0.157	77.58	-47.62	9
BSLI	0.04	0.54	0.25	0.230	91.61	-58.85	8
TATA AIG	0.24	1.32	0.63	0.474	74.95	-41.14	3
KOTAK LIFE	0.14	0.83	0.42	0.296	70.98	-34.79	6
SBI LIFE	0.27	1.81	0.97	0.768	79.60	-50.74	2
BAJAJ ALLIANZ	0.05	0.25	0.12	0.092	75.18	-42.41	10
MET LIFE	0.15	0.78	0.43	0.288	67.40	-43.77	5
RELIANCE LIFE	0.02	0.2	0.09	0.083	87.87	-54.41	11
ING VYSYA	0.11	0.46	0.26	0.160	62.25	-39.46	7
AVIVA	0.01	0.03	0.02	0.008	32.71	-3.47	12

Source: Annual Reports of LIC and IRDA, 1993-94 to 2007-08

4.2 (d) Business In force per Branch

This indicates the quantum of business in force in terms of sum assured divided by the number of branches in that year. Table 4.76 presents the figures for all the life insurers in India. For LIC the determinant tends to be healthy with increasing rate starting from Rs.484.79 crores of business per branch in the year 2004-05 to Rs.607.33 crores in the year 2006-07.Only in the year 2007-08 there was a slight decline with Rs.588.96 crores of productivity.

But the private players' productivity was unsatisfactory as they show declining rate. The year 2004-05 has Rs.84.67 crores of volume of business but thereafter in the consecutive years 2005-06, 2006-07, 2007-08 the graph tends to declining trend with Rs.70.76 crores, Rs.37.89 crores and Rs.21.20 crores of sum assured per branch respectively. Thus, comparatively LIC's productivity was better to the private insurers.

Among the private insurers, Max New York Life ranks first with a mean sum of Rs.202.79 followed by TATA AIG, Kotak Life, Met Life, SBI Life, HDFC Std Life, ICICI Prudential, ING Vysya, Birla Sun Life, Bajaj Allainz, and Reliance Life.

Chart No: 4.11

Chart Showing the Business in force per Branch

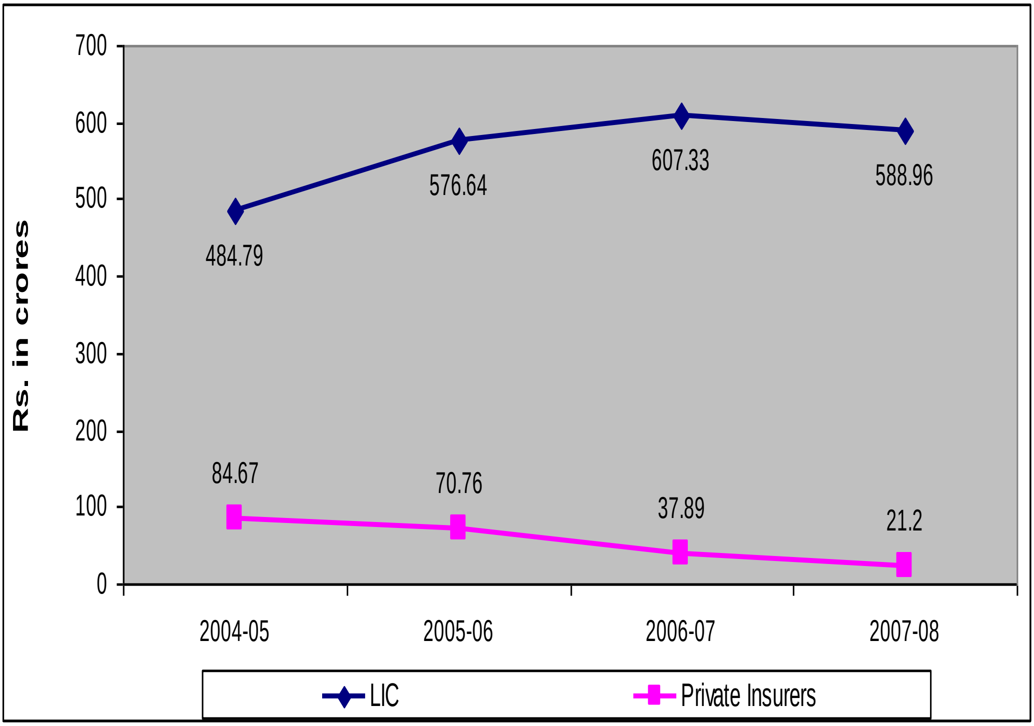


Table No: 4.19 - Table showing Business In force per Branch
(In terms of Sum Assured Rs. in Crores)

Name of Insurer	2004-05	2005-06	2006-07	2007-08
Public sector				
LIC (A)	484.79	576.64	607.33	588.96
Private Sector				
HDFC STD LIFE	90.58	78.67	31.81	29.82
MNYL	220.81	228.46	207.83	154.05
ICICI PRU	101.19	76.78	26.42	11.05
BSLI	55.67	40.54	34.54	8.65
TATA AIG	180.4	143.09	139.64	44.34
KOTAK LIFE	125.37	132.23	80.43	50.07
SBI LIFE	119.77	38.13	66.34	54.98
BAJAJ ALLIANZ	52.55	18.72	14.31	12.90
MET LIFE	75.22	104.44	94.67	58.74
RELIANCE LIFE	12.4	11.25	21	5.50
ING VYSYA	94.21	64.60	27.51	21.13
AVIVA	2.26	1.82	2.96	1.38
Private Average	84.67	70.76	37.89	21.20

Private Insurers	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	29.82	90.58	57.72	31.456	54.50	-34.55	6
MNYL	154.05	228.46	202.79	33.589	16.56	-11.02	1
ICICI PRU	11.05	101.19	53.86	42.234	78.41	-53.75	7
BSLI	8.65	64.54	42.35	24.555	57.98	-40.07	9
TATA AIG	44.34	180.4	126.87	58.031	45.74	-34.52	2
KOTAK LIFE	50.07	132.23	97.03	38.829	40.02	-27.75	4
SBI LIFE	38.13	119.77	69.81	35.268	50.52	-16.32	5
BAJAJ ALLIANZ	12.9	52.55	24.62	18.784	76.30	-36.32	10
MET LIFE	58.74	104.44	83.27	20.369	24.46	-8.06	3
RELIANCE LIFE	5.5	21	12.54	6.398	51.03	-16.60	11
ING VYSYA	21.13	94.21	51.87	34.123	65.79	-41.36	8
AVIVA	1.38	2.96	2.11	0.674	32.01	-9.45	12

Source: Annual Reports of LIC and IRDA from 1993-94 to 2007-08

4.2 (e) Number of policies per Agent

The quantum of business in terms of number of policies was considered and divided by the number of agents in that year to assess the level of productivity of the life insurers in India. Table 4.77 shows the number of policies per agent for all the insurers from 2004–05 to 2007-08 as almost all the top players entered the industry in these years.

Considering LIC, the productivity of agents goes in a declining trend from 460 number of policies in the year 2004-05 to 160 policies in the year 2007-08. In case of private insurers, the productivity was not proven to be healthy as they too decline from 18 number of policies in the year 2004-05 to four policies in the year 2007-08. Among the private players, SBI Life tops the list followed by Max New York Life, HDFC Std Life, TATA AIG, Kotak Life, ING Vysya, ICICI Prudential, Birla Sunlife, Met life and Reliance life.

In addition, all the private players have shown a negative compounded growth rate and hence comparatively LIC tends to be better in its productivity.

Chart No: 4.12 - Chart Showing the Number of policies per Agent

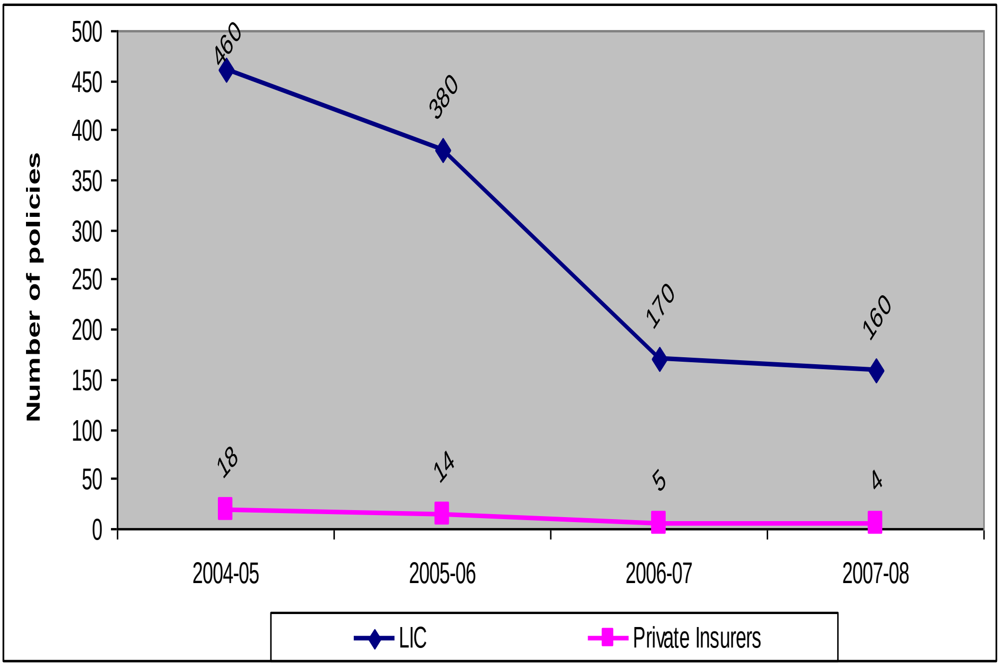


Table No: 4.20 - Table Showing the Number of Policies per Agent

Name of Insurer	2004-05	2005-06	2006-07	2007-08
Public sector				
LIC (A)	460	380	170	160
Private Sector				
HDFC STD LIFE	30	30	9	6
MNYL	50	40	20	24
ICICI PRU	10	10	3	3
BSLI	10	10	4	2
TATA AIG	10	20	20	10
KOTAK LIFE	30	10	5	4
SBI LIFE	90	60	10	10
BAJAJ ALLIANZ	7	4	2	2
MET LIFE	10	10	5	3
RELIANCE LIFE	9	5	1	1
ING VYSYA	10	10	7	5
AVIVA	6	3	1	1
Private Average	18	14	5	4

Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)
HDFC STD LIFE	6	30	19	0.013	69.59	-45.3
MNYL	20	50	34	0.014	41.76	-25.14
ICICI PRU	3	10	7	0.004	62.18	-38.22
BSLI	2	10	7	0.004	63.43	-43.7
TATA AIG	10	20	15	0.006	38.49	0
KOTAK LIFE	4	30	12	0.012	98.95	-49.02
SBI LIFE	10	90	43	0.039	92.88	-56.76
BAJAJ ALLIANZ	2	7	4	0.002	63.01	-35.93
MET LIFE	3	10	7	0.004	50.84	-34.98
RELIANCE LIFE	1	9	4	0.004	95.74	-55.96
ING VYSYA	5	10	8	0.002	30.62	-21.52
AVIVA	1	6	3	0.002	85.92	-47.66

4.2 (f) Number of policies per Branch

The quantum of business in terms of number of policies was divided by the number of branches in the particular year to assess the productivity of the life insurers. Table 4.78 depicts the figures.

From the table it was clear that the productivity of branches of LIC increases from 74,169 number of policies in the year 2004-05 to 82,320 number of policies in the year 2006-07. Only the year 2007-08 has shown a declining trend with 76,300 number of policies. In case of private players, the productivity of branches tends to be declining from 2990 number of policies in the year 2004-05 to 898 number of policies in the year 2007-08.

Among the private insurers, TATA AIG tends to be leading in productivity with a mean of 5735 policies followed by Max New York life, SBI Life, HDFC Std life, ING Vysya, ICICI Prudential, Met Life, Kotak Life, Birla Sunlife, Bajaj Allianz and Reliance life. The compounded growth rate of all the private players tends to be negative. Hence, comparatively LIC tends to be better with this determinant.

Chart No: 4.13 - Chart Showing the Number of policies per Branch

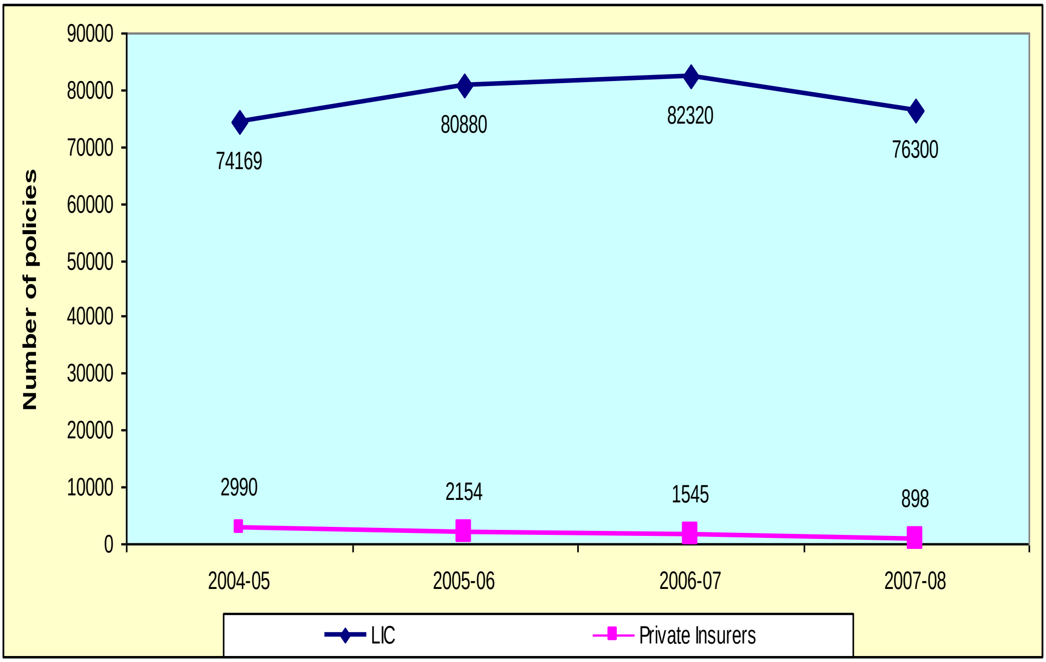


Table No: 4.21 - Table showing the Number of policies per Branch

Name of Insurer	2004-05	2005-06	2006-07	2007-08
Public sector				
LIC (A)	74169	80880	82320	76300
Private Sector				
HDFC STD LIFE	4550	3930	1680	1750
MNYL	5520	6690	6040	4620
ICICI PRU	3430	2700	1260	530
BSLI	1920	1640	1580	600
TATA AIG	8230	6290	6370	2050
KOTAK LIFE	2260	2350	1640	970
SBI LIFE	6450	7630	2980	2100
BAJAJ ALLIANZ	1620	700	580	540
MET LIFE	1770	2470	2110	1220
RELIANCE LIFE	600	490	1190	300
ING VYSYA	4000	2840	1380	1090
AVIVA	460	310	360	230
Private Average	2990	2154	1545	898

Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	1680	4550	2978	1.480	49.70	-31.04	4
MNYL	4620	6690	5718	0.874	15.29	-6.06	2
ICICI PRU	530	3430	1980	1.322	66.76	-47.08	6
BSLI	600	1920	1435	0.576	40.14	-29.72	9
TATA AIG	2050	8230	5735	2.615	45.60	-34.01	1
KOTAK LIFE	970	2350	1805	0.640	35.45	-25.15	8
SBI LIFE	2100	7630	4790	2.667	55.67	-34.99	3

BAJAJ ALLIANZ	540	1620	860	0.511	59.44	-29.42	11
MET LIFE	1220	2470	1893	0.532	28.09	-11.96	7
RELIANCE LIFE	300	1190	645	0.384	59.52	-11.24	12
ING VYSYA	1090	4000	2328	1.353	58.12	-37.01	5
AVIVA	230	460	340	0.096	28.31	-17.55	13

Source: Annual Reports, 1993-94 to 2007-08

4.2(g) Operating Expenses and Growth Rate

Operating expenses in general includes all selling, management and administrative expenses. In case of insurance industry it includes all expenses of management namely commission payments, capitalized and marketing expenses, employee and training expenses, advertisement, publicity and depreciation expenses. As per section 40B of the Insurance act, provides that no insurer shall in respect of life insurance business transacted in India, spend as expenses of management in excess of the prescribed limits. Hence the operating expenses and its growth rate are taken on account to assess the performance of life insurers in India. Table 4.79 shows the operating expenses and its growth rate from 2001-02 to 2007-08.

Table No: 4.22

Table Showing Operating Expenses (Rs. in Lakhs) & Growth Rate

Year	Insurer		
	Private Sector	**LIC**	**Total**
2001-02	41936.62	426039.76	467976.38
2002-03	83827.77 (99.89)	457175.97 (7.31)	541003.74 (15.60)
2003-04	140244.38 (67.30)	518649.79 (13.45)	658894.17 (21.79)
2004-05	222946.80 (58.97)	624126.11 (20.34)	847072.91 (28.56)
2005-06	356813.97 (60.04)	604155.42 (3.19)	960969.39 (13.45)
2006-07	652004 (82.73)	708086 (17.20)	1360091 (41.53)
2007-08	1203246 (84.55)	830932 (17.35)	2034178 (49.56)

Figures in the brackets indicate growth ratio (in percent)

The table 4.79 depicts that in case of LIC, the growth rate of expenses increases in the year 2002-03, 2003-04 and 2004-05 with 7.31, 13.45 and 20.34 percent respectively .The year 2005-06 shows a declining rate with 3.19 percent but this again shoot up to 17.20 percent in the next year.

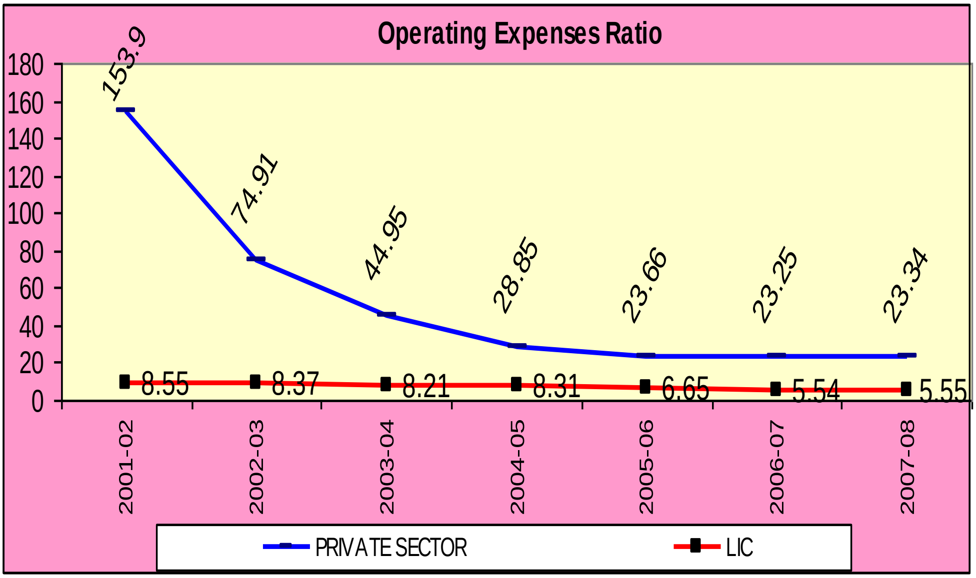
In case of private players, the rate was very high with 99.89 percent in the year 2002-03. The next two years showed a declining trend with 67.30 percent in 2003-04 and 58.97 percent in 2004-05. But from the year 2004-05 it rose up to very high rates of 84.55 percent in the year 2007-08.

Thus the private players have to work in the process of reducing the operating expenses. The following table 4.80 shows the Operating Expenses Ratio, which is the ratio between the operating expenses and the premium underwritten by the life insurers.

Table No: 4.23 - Table Showing Operating Expenses Ratio

Year	Insurer		
	Private Sector	LIC	Total
2001-02	153.87	8.55	9.34
2002-03	74.91	8.37	9.70
2003-04	44.95	8.21	9.94
2004-05	28.85	8.31	10.22
2005-06	23.66	6.65	9.08
2006-07	23.25	5.54	8.72
2007-08	23.34	5.55	10.10

Chart No: 4.14 - Chart showing the Operating Expenses Ratio



In case of operating expenses ratio the private players started with very high percentage of 153.87 in 2001-02 but strove to reduce gradually year by year and were able to achieve 23.34 percent in the year 2007-08. LIC was able to maintain a minimum of 8 percent from 2001-02 to 2004-05 and got it reduced to 5 percent in the last two years 2006-07 and 2007-08.Hence comparably LIC stands ahead to private insurers.

4.2 (h) Profit Status of Life Insurers

Life insurance industry is capital intensive and insurers are required to inject capital at frequent intervals to achieve growth in premium income. Given the high rate of commission payable in the first year, expenses towards setting up operations, training costs incurred towards developing the agency for creating niche for its products, providing for policy liabilities and maintaining solvency margin, make it difficult for the insurers to earn profits in the initial five to seven years of their operation. But it is this profit that facilitates the promoters of new insurance companies to run smoothly and establish their foot-hold in the industry. Hence, the profitability position of Indian life insurers was evaluated to assess and compare which company is in a better and comfortable position to face stiff competition in the life insurance market. Table 4.81 shows the amount of profit earned or deficit suffered by the life insurance companies in India.

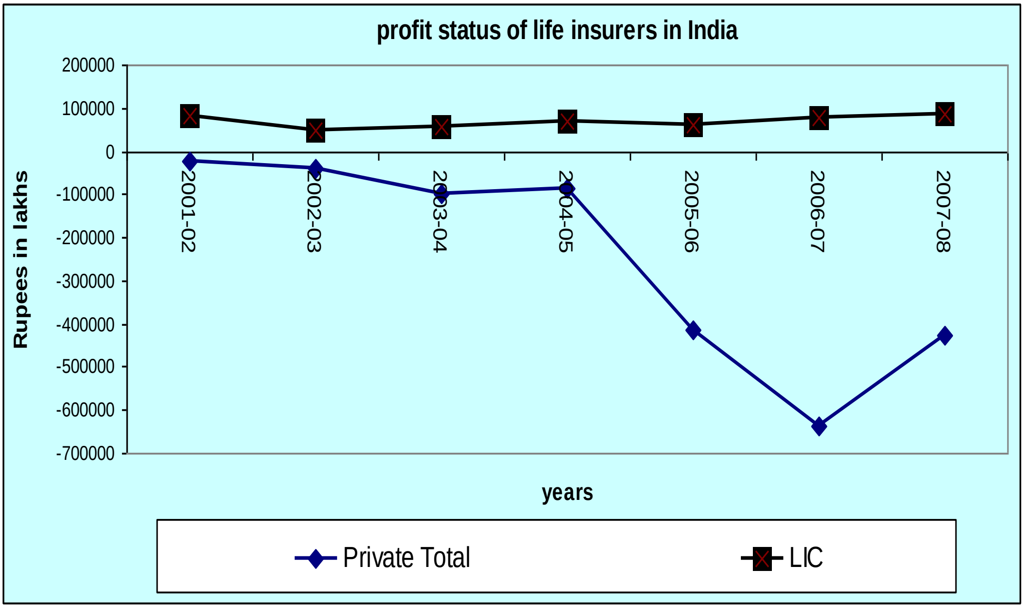
The table 4.81 shows that SBI Life insurance company was the first private company to report net profit of Rs.203 lakhs in 2005-06. It reported higher net profit of Rs.384 lakhs in the year 2006-07 and Rs.3438 lakhs in the year 2007-08. The company has succeeded in achieving an early breakeven on account of its lower cost of operations, as it has been able to leverage the network of its Indian partner, The State Bank of India. Met life earned a profit of Rs.2125 lakhs in the year 2007-08 and was in a comfortable position.

Table No: 4.24

Table showing the Profit status of life insurers (Rs. in Lakhs)

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Profit from Inception
BSLI	-3610	-6096	-7774	-6061	-6113	-13974	-44528	-88987
ICICI-PRU	-10509	-14718	-22158	-21162	-18788	-64891	-139506	-2999676
ING-V	-3094	-3786	-6299	-9376	-12400	-17757	-19053	-71765
HDFC STD LIFE	-2511	-4820	-2344	-8973	-12876	-12556	-24351	-68835
MNYL	1138	482	-23276	-9966	-6006	-6047	-25693	-60974
(AMP-S) RELIANCE LIFE	206	616	-7780	-5401	-9840	-31511	-76807	-130517
A-BAJAJ	-1565	-2655	-2681	-3676	-9854	-7170	-31511	-48990
SBI LIFE	-29	-749	-1641	-1150	203	384	3438	473
OM KOTAK/ KOTAK LIFE	0	0	-9242	-1869	-4442	-11047	-7187	-33868
TATA-AIG	-2524	-4289	-5809	-4959	-5391	-7236	-33930	-64461
METLIFE	-284	804	-1213	-4881	-9774	-1197	2125	-14420
AVIVA	-	-3422	-6420	-9097	-14387	-13175	-20249	-66749
Private Total	**-22781**	**-38633**	**-96637**	**-87318**	**-413018**	**-637241**	**-425744**	**-986465**
LIC	**82179**	**49697**	**55181**	**70837**	**63158**	**77362**	**84463**	**77690494**

Chart No: 4.15



Except the above mentioned companies all the other private companies reported deficit and needs injection of further capital by the shareholders. The total loss of the private insurers increases initially from Rs.22781 lakhs in the year 2001-02 to Rs.96637 lakhs in the year 2003-04. With slight decrease in the next year, it again raised to Rs.637241 lakhs in the year 2006-07.On 31st March 2008 the deficit of all private insurers stood at Rs.425744 lakhs. LIC continued to report surplus but in a fluctuating trend. From Rs.82179 lakhs in the year, 2001-02 it got reduced to Rs.49697 lakhs in the year 2002-03. But in the next two years it gained showing an increase in the graph. In the year 2005-06 LIC showed a decline in the surplus at Rs. 63158 lakhs but rose in the next two consecutive years.

4.2 (i) Dividend Paid and Growth Rate

The payment of dividend is a crucial area of the fund management of every company and so as the insurance companies too. It largely depends on the amount of earnings of the firm and the firms dividend policy as to how much to be paid and how much to be retained. But this dividend payout ratio on the other hand has an impact on the firm's value as it affects the market value of the shares indirectly and the earnings per share directly. Hence, the dividend payment was taken for evaluation to assess and compare which of the insurance sector pays better dividends. Table 4.82 shows the amount of dividend paid by the life insurance companies in India.

From the table 4.82 it is clear that 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*1. But LIC pays dividend regularly with slight increase or decrease in its volume. Except in the years 2002-03 and 2005-06 the graph tends to move upward with increase in its rates. From Rs.71391 lakhs in the year 2001-02 it got raised to Rs.82959 lakhs in the year 2007-08. Hence, comparatively LIC's position was far better in the dividend payment and its growth rate.

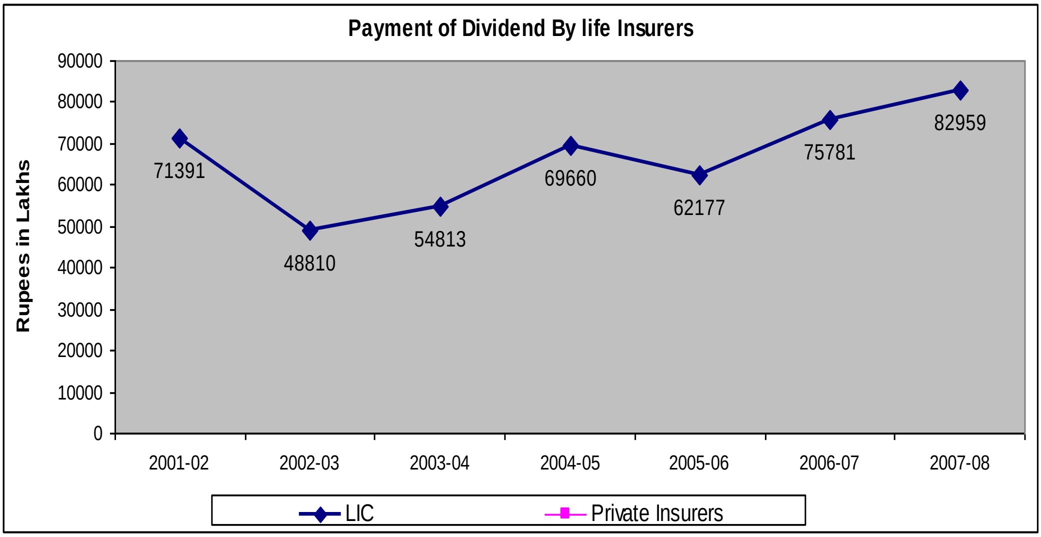
*1 Sinha Shilpa, "Eight years of private life insurers yet to breakeven", Business Standard, April 16, 2009

Table No: 4.25

Table Showing the Dividend paid (Rs. in Lakhs) and Growth Rate

Year	Insurer		
	Private Sector	LIC	Total
2001-02	-	71391	71391
2002-03	-	48810 (-31.63)	48810 (-31.63)
2003-04	-	54813 (12.29)	54813 (12.29)
2004-05	-	69660 (27.09)	69660 (27.09)
2005-06	-	62177 (-10.74)	62177 (-10.74)
2006-07	-	75781 (21.88)	75781 (21.88)
2007-08	-	82959 (9.47)	82959 (9.47)

Chart No: 4.16



4.2 (j) Status of Grievances against Life Insurers

Complaints and grievances received from policy holders, insurance intermediaries and from various other sources against different life insurance companies are being registered and tracked by the authority as they provide significant inputs to the marketing practices and settlement procedures adopted by insurers. These complaints pertains to various issues like adjustment of premium, policy servicing, payment of claims, mis selling and complaints received from agents for non-payment of commission, non-issuance of NOC certificate, termination condition etc. The total number of complaints reported, resolved and pending from year 2002 to 2007 was given in the following table 4.83.

In case of LIC the status of receiving complaints was not stable but the percentage of resolved to total complaints kept on increasing year after year from 2003-04 to 2006-07 with 8.23, 17.47, 25.34 and 44.35 percent respectively. Only the year 2007-08 has shown a decline with 12.29 percent of resolved complaints.

In case of private players the number of reported complaints kept increasing year by year and the ratio of resolved complaints has shown an increase in the rate in 2003-04 from 79.49 to 88.76 percent. But the next two years has shown a decline with 42.43 and 40.12 percent of resolved complaints.

The year 2006-07 and 2007-08 was quiet good with 79.98 and 78.24 percent of resolved complaints to total complaints. Hence, comparatively LIC scores better productivity to that of private insurers.

Table No: 4.26 - Table showing the Status of Grievances against Life Insurers

	2002-03			2003-04			2004-05		
	Reported during the year	Resolved	Pending	Reported during the year	Resolved	Pending	Reported during the year	Resolved	Pending
Public Sector									
LIC (A)	571	221 (38.70)	350 (61.30)	474	39 (8.23)	435 (91.67)	1202	210 (17.47)	992 (82.53)
Private Sector									
HDFC STD LIFE	2	2	0	11	5	6	30	17	13
MNYL	9	7	2	1	1	0	18	8	10
ICICI PRU	10	9	1	8	6	2	39	22	17
BSLI	1	1	0	1	0	1	23	9	14
TATA AIG	5	3	2	7	5	2	31	19	12
KOTAK LIFE	2	1	1	2	1	1	9	2	7
SBI LIFE	2	2	0	3	1	2	24	7	17
BAJAJ ALLIANZ	4	3	1	4	2	2	30	4	26
MET LIFE	1	0	1	0	0	0	2	11	1
RELIANCE LIFE	-	-	-	0	0	0	1	3	0
ING VYSYA	3	3	0	5	3	2	8	5	5
AVIVA	-	-	-	3	2	1	16	0	11
Total (B)	39	31 (79.49)	8 (20.51)	169	26 (88.76)	19 (11.24)	231	98 (42.43)	133 (57.57)
Total (A+B)	**610**	**252 (41.31)**	**358 (58.69)**	**519**	**65 (12.52)**	**454 (87.48)**	**1433**	**308 (21.49)**	**1125 (78.51)**

	2005-06			2006-07			2007-08		
	Reported during the Year	**Resolved**	**Pending**	**Reported during the year**	**Resolved**	**Pending**	**Reported during the year**	**Resolved**	**Pending**
Public Sector									
LIC (A)	1843	467 (25.34)	1376 (74.66)	354	157 (44.35)	197 (55.65)	651	80 (12.29)	571 (87.71)
Private Sector									
HDFC STD LIFE	96	48	48	31	30	1	106	50	56
MNYL	38	10	28	22	15	7	84	57	27
ICICI PRU	122	58	64	84	71	13	233	212	21
BSLI	48	12	36	29	27	2	67	55	12
TATA AIG	82	41	41	32	24	8	66	48	18
KOTAK LIFE	26	5	21	23	17	6	51	37	14
SBI LIFE	77	23	54	68	45	23	101	86	15
BAJAJ ALLIANZ	114	50	64	145	125	20	403	328	75
MET LIFE	9	4	5	6	3	3	49	22	27
RELIANCE LIFE	8	4	4	10	4	6	89	77	15
ING VYSYA	15	4	11	12	9	3	26	20	6
AVIVA	38	11	27	43	33	10	127	110	17
Total (B)	673	270 (40.12)	403 (59.88)	507	405 (79.89)	102 (20.11)	1406	1100 (78.24)	306 (21.76)
Total (A+B)	**2516**	**737 (29.3)**	**1779 (70.70)**	**861**	**562 (65.27)**	**299 (34.73)**	**2057**	**1180 (57.37)**	**877 (42.63)**

To sum up in most of the productivity determinants namely premium income per branch and 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 mechanism LIC's performance was comparatively better than that of private players.

4.3 Investment Portfolio analysis of private life insurers in India and the comparative study:

Investment income is a key determinant in the calculation of premium rates for any insurance company under the various policies/schemes and for declaration of bonuses by life insurers. It is a core function of an insurance company, which cannot be outsourced by an insurer. Therefore, insurance companies essentially invest these funds judiciously with the combined objectives of liquidity, maximization of yield and safety. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year. Since the insurance companies keep the policyholders, money in their fiduciary capacity they are also required to maintain a minimum level of solvency to meet the reasonable expectations of the policyholders. The quality and the quantity of the investments are a reflection of the performance of the insurance company. Hence, the investment portfolio of the insurance companies has to be assessed and in assessing, the following parameters are taken for consideration:

4.3(a) Equity share capital of insurance companies

4.3(b) Investments of Insurers and Percentage Growth

4.3(c) Life Fund

4.3(d) Pattern of Investments of Life Insurers as per IRDA Guidelines

4.3 (a) Equity share capital of insurance companies

The equity share capital being the owner's capital was taken into account to assess the infusion of capital by the life insurers along with their foreign partners year by year. After privatization according to IRDA regulations 26 percent of infusion of Foreign Direct Investment is permitted in India. This gives place for the private players with foreign promoters to bring in foreign capital to India. Hence, the share capital being one of the important sources of insurance fund was also taken for consideration for assessing the investment portfolio of Indian life insurers. Table 4.84 depicts the complete picture of equity capital by all the life insurers in India from year 2001-02 to 2007-08 along with their foreign promoters share and the percentage of FDI.

Table No: 4.27 - Equity Share Capital of Insurance Companies (Rs. in Crores)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Foreign Promoter (2007-08)	Indian Promoter (2007-08)	FDI % (2007-08)
Public Sector										
LIC(A)	5	5	5	5	5	5	5	-	5	-
Private Sector										
HDFC STD LIFE	168	218	255.5	320	620	801.26	1271	330.46	940.54	26.00
MNYL	250	255	346.08	466.08	557.43	732.43	1032.43	268.43	764	26.00
ICICI PRU	190	425	675	925	1185	1312.3	1401.11	363.63	1037.48	25.95
BSLI	150	180	290	350	460	671.5	1274.5	331.37	943.13	26.00
TATA AIG	185	185	231	321	447	547	870	226.2	643.8	26.00
KOTAK LIFE	101	131.3	151.26	211.76	244.58	330.35	480.27	124.87	355.4	26.00
SBI LIFE	125	125	175	350	425	500	1000	260	740	26.00
BAJAJ ALLIANZ	150	150.03	150.07	150.07	150.23	150.37	150.71	39.18	111.52	26.00
MET LIFE	110	110	160	235	235	530	761.08	197.88	563.2	26.00
RELIANCE LIFE	125	125	160	217.1	331	664	1147.7		1147.7	0.00
ING VYSYA	110	170	245	325	490	690	790	205.4	584.6	26.00
AVIVA	-	154.8	242.8	319.8	458.7	758.2	1004.5	261.17	743.33	26.00
TOTAL(B)	1664	2229.13	3238.71	4347.81	5885.95	8119.41	12291.42	2821.63	9469.78	22.96
TOTA(A+B)	1669	2234.13	3243.71	4352.81	5891.95	8124.41	12296.42	2821.63	9474.78	22.95

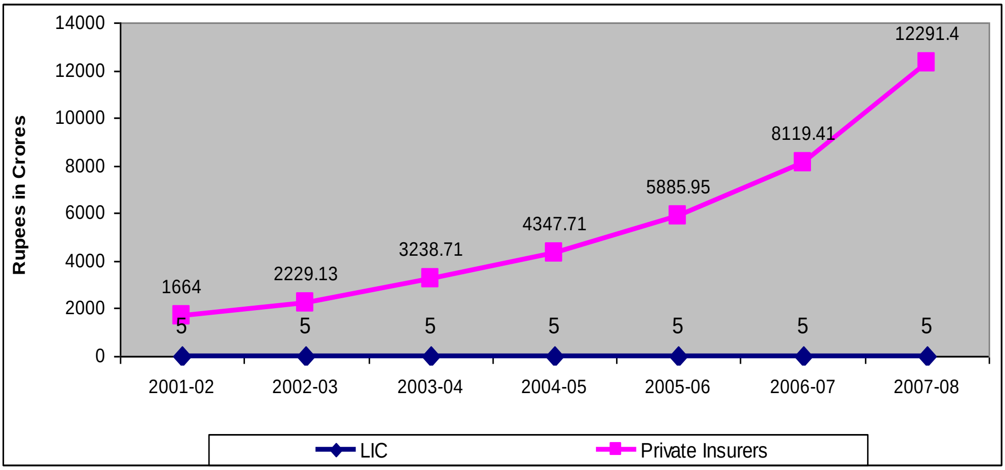
Insurance Companies	Min. Val.	Max. Val.	Mean	SD	C.V (%)	C.G.R (%)	Rank
HDFC STD LIFE	168	1271	521.966	403.763	77.354	40.70	2
MNYL	250	1032.43	519.921	284.427	54.706	27.68	3
ICICI PRU	190	1401.11	873.344	461.579	52.852	36.99	1
BSLI	150	1274.5	482.286	391.613	81.199	40.46	4
TATA AIG	185	870	398.000	248.979	62.557	30.59	6
KOTAK LIFE	101	480.27	235.789	132.664	56.264	28.42	10
SBI LIFE	125	1000	385.714	309.185	80.159	42.41	8
BAJAJ ALLIANZ	150	150.71	150.211	0.256	0.170	0.07	11
MET LIFE	110	761.08	305.869	246.814	80.693	39.55	9
RELIANCE LIFE	125	1147.7	395.686	382.031	96.549	46.64	7
ING VYSYA	110	790	402.857	261.691	64.959	39.94	5

Source: Annual Reports of LIC and IRDA from 1993-94 to 2007-08

The table 4.84 shows LIC made all its achievements with Rs.5 crores of rupees of equity share capital all through the years. But the private players infuse numerous crores of rupees of share capital every year. Almost all the players were increasing growth rate of the share capital except Bajaj Allianz, which tried to maintain its level at Rs.150 crores throughout the years.

Chart No: 4.17

Chart showing the Equity share capital of life insurance companies



According to the regulation almost all the private players including HDFC Std life, Max New York life, ICICI Prudential, Birla Sunlife, TATA AIG, Kotak Life, SBI Life, Bajaj Allianz, Met Life ING Vysya and Aviva met their 26 percent of FDI limit. The top eleven companies were taken to assess their maximum and minimum value of share capital their corresponding mean, standard deviation and coefficient of variation. Their compounded growth rate was calculated and the companies were ranked according to their mean values from highest to lowest order. ICICI Prudentail 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.

4.3 (b) Investments of Insurers and Percentage Growth

To bring out a comparative assessment of investments among public and private sector insurance companies, the total investments made by them along with their growth rate is depicted in the table 4.85. The table depicts that year after year LIC's investment kept on increasing from Rs. 258200.64 crores in 2002-03 to Rs. 674475 crores in 2007-08. Thus the investments of insurers in Public sector range between Rs.258200.6 crores to Rs.674475 crores with a mean of Rs.503702.9 crores and a coefficient of variation of 31.02 percent and a compounded growth rate of 14.06 percent. The investments in private sector ranges between Rs.2351.84 crores to Rs.87566 crores with a mean of Rs.34350.83 crores and a coefficient of variation of 111.58 percent and has shown a growth rate of 115.30 percent. Comparatively LIC's performance towards investment was better to private insurers.

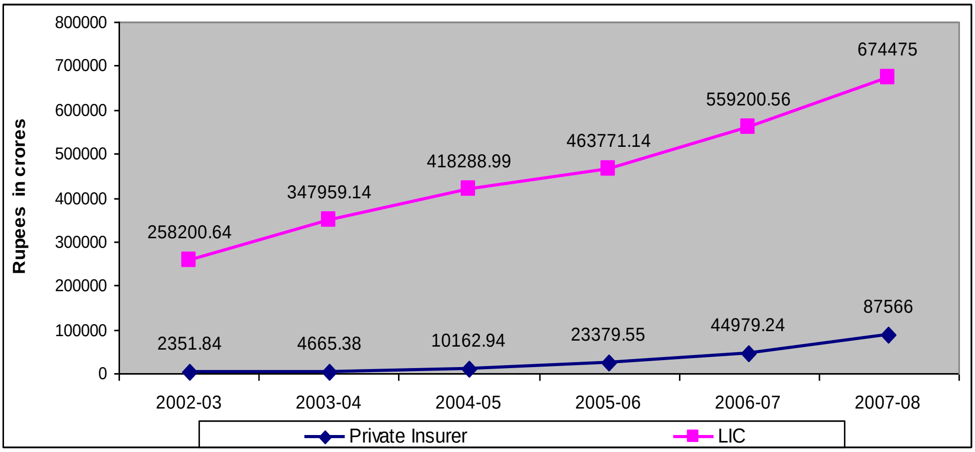
Table 4.28 - Table Showing the Investments of Insurers (Rs. in Crores) & Percentage Growth

Year	Insurer		
	Private Sector	LIC	Total
2001-02	-	-	-
2002-03	2351.84	258200.64	260552.48
2003-04	4665.38 (98.37)	347959.14 (34.76)	352624.52 (35.34)
2004-05	10162.94 (117.84)	418288.99 (20.21)	428451.93 (21.5)
2005-06	23379.55 (130.05)	463771.14 (10.87)	487150.69 (13.7)
2006-07	44979.24 (92.39)	559200.56 (20.58)	604179.8 (24.2)
2007-08	87566 (94.68)	674475 (20.61)	762041 (26.13)

Investments (Rs. in crores)	Min. Val	Max. Val	Mean	SD	C.V (%)	C.G.R (%)
Private sector	2351.84	87566	34350.83	38329.82	111.58	115.30
LIC	258200.64	674475	503702.9	156241.1	31.02	14.06

Source: Annual Reports, 1993-94 to 2007-08

Chart No: 4.18 - Chart showing the Investments of Insurers in India



Tests of Significance Based on ‘t’ Distribution

In order to test whether there was significant difference in the mean investments of insurers between public and private sector insurance companies, paired ‘t’ tests were performed and the results were furnished in the tables given below.

Table 4.29 - Investments of Insurers (Rs. in Crores)

Paired ‘ t ‘– test

	Mean	SD
Private Sector:	34,350.83	38329.82
Public Sector:	5,03,702.90	156241.10
Mean Difference:	- 469352.10	
Standard Error:	.65676.551	
t – value :	-7.146**	DF: 10

**- Significant at 1 % level

The above test showed that there was significant difference in the mean investments of insurers between public and private sector insurance companies and it was higher in public sector than in private sector.

4.3 (c) Life Fund

It is a fund created by the companies out of the Life Insurance business. The amount of this fund is used by the LIC for making investments and for providing loans. As per method of accounting of LIC this fund is maintained after meeting all kinds of expenses and after making each and every payment related to life insurance business such as payment of claims, salaries, commission, taxes, government’s share of surplus, surrenders etc. Hence, this fund was assessed along with its proportion to total investment funds and its growth rate year by year. Table 4.87 depicts the proportion of life fund to total investment funds of the private and public insurance companies.

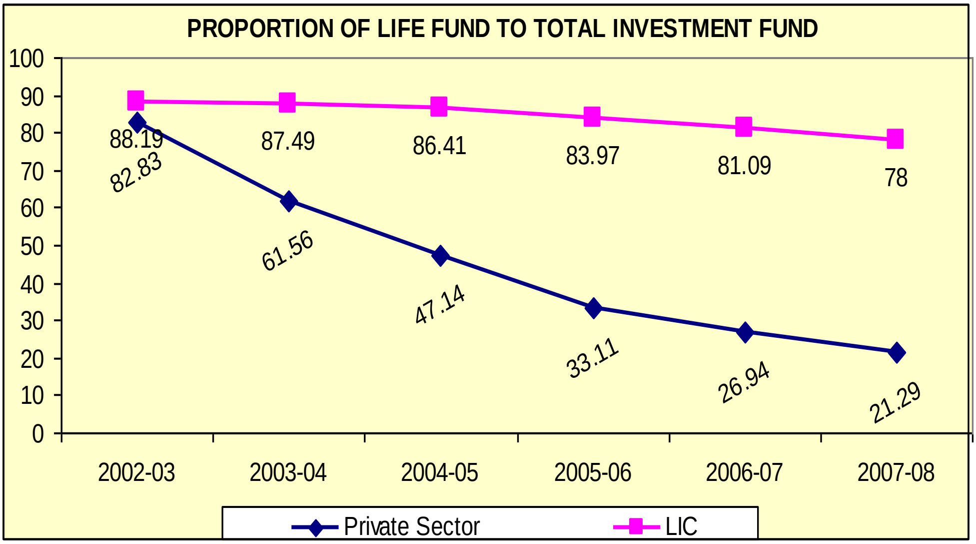
Table No: 4.30 - Table Showing the Proportion of Life Fund to Total Investment Fund (Rs. in Crores)

Years	Private Sector			LIC		
	Life Fund	Total Investment Fund	Proportion	Life Fund	Total Investment Fund	Proportion
2001-02	-	-	-	-	--	-
2002-03	1947.92	2351.84	82.83	227700.6	258200.64	88.19
2003-04	2872.03	4665.38	61.56	304436.88	347959.14	87.49
2004-05	4790.98	10162.94	47.14	361428.87	418288.99	86.41
2005-06	7741.13	23379.55	33.11	389447.52	463771.14	83.97
2006-07	12115.24	44979.24	26.94	453440.06	559200.56	81.09
2007-08	18645	87567	21.29	526105	674475	78.00

The table 4.87 shows that the percentage of life fund to total investment fund in case of private life insurance companies was decreasing at an increasing rate from 82.83 percent in the year 2002-03 to 21.29 percent in the year 2007-08. Hence the decline was drastic.

In case of LIC the proportion again declines but the decline was less from 88.19 percent in the year 2002-03 to 78 percent in the year 2007-08. Thus, comparatively private players have to strive to increase their life fund.

Chart No: 4. 19



4.3(d) Pattern of Investments of Life Insurers as per IRDA Guidelines

The IRDA has mandated the pattern of investments to be followed by the insurance companies. Investments in government securities, approved securities, approved investments and infrastructure and social sectors have been prescribed in the Insurance Act, 1938. The authority has also specified that every insurer carrying on the business of life insurance shall invest and at all times keep invested his controlled fund in the following manner.

Pattern of Investments of Life Insurers as per IRDA Guidelines

Sl. No	Type of Investment	Percentage
i)	Government Securities	25%
ii)	Government securities or Other approved securities (including (i) above)	Not less than 50 %
iii)	Approved investments as specified in schedule -I	
a.	Infrastructure and social sector	Not less than 15%
b.	Others to be governed by Exposure Norms (Investments in 'Other than in Approved Investments' in no case exceed 15 % of the fund)	Not less than 35 %

The Authority has laid down extensive reporting forms that keep track of the performance of the investment portfolio, total investment income, return on various investments, downgraded investments and compliance of the exposure /prudential norms. One of the concerns is to ensure that adequate funds are made available for the infrastructure and social sector and at the same time, enough funds are invested in Government securities in order to ensure that an insurance company makes investment in sound instruments /securities. Table 4.88 depicts the complete picture of the investment segregations made by all the Life insurers in India.

Table No: 4.31 - Table showing Pattern of Investments of Life Insurers in India (In percentage)

Insurer	2002				2003				2004				2005			
	CG & SG	IF &S	CS	OT	CG& SG	IF &S	CS	OT	CG& SG	IF &S	CS	OT	CG& SG	IF &S	CS	OT
Public Sector																
LIC (A)	54.32	11.79	19.77	12.12	57.87	12.5	16.90	13.18	50.60	12.45	30.49	5.45	50.91	12.14	29.86	7.09
Private Sector																
HDFC STD LIFE	60.78	25.86	16.64	6.45	66.61	15.37	18.2	3.51	58.12	18.09	18.12	5.65	57.21	17.14	21.72	3.93
MNYL	44.18	16.10	16.40	4.15	46.73	17.83	13.69	3.28	50.12	24.23	18.47	7.18	61.00	25.59	9.08	4.33
ICICI PRU	58.88	16.25	17.83	7.40	42.88	9.50	47.61	6.18	53.58	14.66	24.06	7.70	52.83	15.19	24.73	7.25
BSLI	45.35	13.23	28.52	4.59	34.60	8.63	15.32	1.70	52.96	20.42	25.06	1.56	58.66	19.05	16.55	5.74
TATA AIG	53.63	21.48	24.90	-	66.72	16.07	17.08	2.83	81.03	15.77	3.20	-	73.75	16.41	4.11	5.74
KOTAK LIFE	46.66	16.47	32.02	8.83	55.46	18.42	26.11	12.68	50.05	20.76	29.19	-	55.62	23.58	20.43	0.37
SBI LIFE	58.11	20.51	9.43	11.95	61	15.52	23.47	8.9	53.05	15.58	23.70		56.39	14.83	20.33	8.45
BAJAJ ALLIANZ	53.75	17.88	28.18	0	53.67	19.70	25.31	-0.19	63.71	20.85	15.44	7.65	58.45	18.36	18.00	5.18
MET LIFE	55.39	14.65	15.06	14.19	63.23	16.79	19.97	8.33	52.34	19.56	19.17	-	59.53	17.62	15.30	7.82
RELIANCE LIFE	-	-	100	-	69.50	19.89	10.60	0	53.53	14.51	21.68	8.9	55.34	19.71	19.30	5.65
ING VYSYA	56.56	18.64	21.69	0	54.86	15.55	24.47	0	46.11	19.18	26.83	10.97	52.01	18.25	24.14	5.60
AVIVA	-	-	-	-	52.79	18.30	28.89	2.78	54.54	20.47	24.86	7.88	54.98	20.84	24.18	-
Private average	50.33	16.80	28.3	5.52	47.36	17.01	28.39	5.59	57.04	17.06	20.66	5.23	50.85	20.58	22.22	6.35
Total (A+B)				**100**				**100**				**100**				**100**

Table 4.31(Contd.,)

Insurer	2006				2007				2008			
	CG & SG	IF & S	CS	OT	CG & SG	IF & S	CS	OT	CG & SG	IF & S	CS	OT
Public Sector												
LIC (A)	55.66	12.23	25.42	6.67	54.32	14.69	24.59	6.39	59.21	7.02	27.92	5.85
Private Sector												
HDFC STD LIFE	50.12	23.05	25.23	1.60	46.54	19.63	31.87	1.96	51.03	16.38	30.34	2.24
MNYL	69.91	18.09	7.88	4.12	57.68	19.62	17.61	5.09	50.54	22.69	18.30	8.46
ICICI PRU	49.49	16.37	29.27	4.88	50.18	15.89	28.37	5.57	45.45	14.81	28.21	11.53
BSLI	54.62	16.15	26.44	3.68	49.04	18.86	26.81	5.29	43.25	22.44	25.04	9.27
TATA AIG	70.15	16.67	12.53	0.18	74.59	17.51	7.60	0.29	66.06	18.75	13.73	1.45
KOTAK LIFE	49.17	19.06	31.14	0.63	53.24	18.21	26.45	2.10	52.81	18.81	25.28	3.08
SBI LIFE	45.18	15.56	29.41	9.85	46.60	18.29	27.43	7.69	49.73	19.24	25.24	5.79
BAJAJ ALLIANZ	53.45	18.82	23.63	4.10	45.40	16.24	33.57	4.79	43.75	17.80	34.89	3.56
MET LIFE	56.19	19.38	16.61	7.81	52.95	21.59	18.68	6.79	52.29	29.52	13.18	5.00
RELIANCE LIFE	56.36	20.20	19.91	3.53	45.26	16.09	30.35	8.29	52.02	16.41	28.25	3.32
ING VYSYA	46.63	18.05	23.68	11.64	46.09	15.52	30.06	8.32	45.55	22.13	25.57	6.75
AVIVA	57.75	17.09	22.95	2.21	56.75	20.41	22.84	-	54.78	22.73	22.49	-
Private average	53.32	17.98	23.60	5.10	51.49	17.98	25.62	4.90	50.62	19.02	25.51	5.71
Total (A+B)				**100**				**100**				**100**

* CG & SG – Central Government & State Government securities; IF & SS – Infrastructure and social investments;

CS – Investments governed by prudential norms/Corporate Sector investments; OT- Other than in approved investments

The above table 4.88 depicts the investment pattern of controlled funds of the life insurers in India. In case of LIC in the first case of Government securities where there must be a minimum 50 percent investment in government securities or other approved investments, it was able to keep up the required percentage and even more in all these years. Comparatively the private players also kept up their level except in the year 2003 when the investment level declined to 47.36 percent. This was due to the less contribution by the companies like Max New York life, ICICI Prudential and Birla Sun Life in this sector of investments.

As per guidelines, the investments in infrastructure and social sector should not be less than 15 percent of total investments. LIC failed to keep up its level as it showed fewer percentages of 11.79, 12.5, 12.45, 12.14, 12.23 and 7.02 in the years 2002, 2003, 2004, 2005, 2006 and 2008 respectively. While the private players met with the statutory requirements in all these years as their percentage exceeds the required limit.

In the third case, there is a requirement of up to 20 percent investments to be governed by the exposure prudential norms. LIC kept up the required percentage and even more in the years 2004, 2005, 2006, 2007 and 2008 with 30.49, 29.86, 25.42, 24.59 and 27.92 percent respectively. The private players also kept up more than 20 percent of investments in this cadre ranging between 20 to 28 percent in all these years.

IRDA has put a ceiling on the other than approved investments. Not more than 15 percent of the controlled funds is to be invested in other than approved investments. LIC has kept up their requirements in this sector as their investments are below 15 percent in all the year of the study period. Even private players have kept up their investments within the prescribed norms as it mainly ranges from 5.23 to 5.71 percent in all the years of the study period.

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

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. 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. However, 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.

5.1.2 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.

5.1.3 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 throughout 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 up to 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, overall 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. Mis-selling 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 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 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, 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 flattering 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 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 policyholder 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 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

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