

## A Study on Financial Performance of Life Insurance Corporation (LIC) of India

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### ABSTRACT

The present study is based on the financial performance of LIC and perception of the policy holders towards life insurance products. In the post Covid period people are more concerned about their safety of health and life. This leads to more demand for insurance product in general and life insurance product in particular in this region. Insurance penetration is also growing with more competition among the players in insurance sector. Over the period more innovation is taking place with insurance products. This leads to improvement in awareness about the insurance products and brings more competition in the insurance industry. The present study has undertaken with objective to determine the existing research gap in the perception of policy-holders towards the products of Life Insurance Corporation India. The research is based on secondary data. The systematic literature review method is used in the determination of research gap on the policy holder's perception towards LIC products.

**Keywords: Life Insurance, Financial Performance, Operating Performance, Source of Income, Expenditure.**

### INTRODUCTION

LIC plays an important role in the society. Insurance helps us by giving protection against the possible chances of generating uncertain losses. It helps personnel to get rid of worries and miseries of losses or destruction of property and death. Life insurance is a contract between us and the life insurance company, which provides us death benefits during the contract term. Buying insurance is extremely useful if there is a principal earning member in the family. In the unfortunate premature demise of our family, we can remain financially secure because of the life that we have purchased to protect us, our family and our future. The primary function of life insurance is therefore protection of the family. Even the insurance is also seen as a tool to plan effectively for our future years.

The market offers insurance plans that not only cover our need but also at the same time it grows our wealth too. If we have dependants and financial responsibilities towards us, then we certainly are in need of it. Having a family means dependants, which in turn means financial commitments. Finance comes in different forms as

loans, children education, medical expenses etc. what would happen if a person loses his life or suddenly become disabled being insured in a situation like this is a necessity. When our life is insured we feel safe an secured future. Even after a person death the amount from insurance is useful for the family to build up their future. There are also many plans available today come with a savings element built into it. These policies are not only for financially independents future, and to have a comfortable retirement. Life was not designed to be risk free so LIC has made the future and also helps to reduce risk.

### An over view of Indian Insurance Sector

Phase I		
Life Insurance	1818 to 1956 (About 198 years)	Many 245 private players Competitive market
General Insurance	1850 to 1972	Many 107 private players Competitive market
Phase II		
Life Insurance	1956-2000 (About 44 years)	Nationalization One public sector company State Monopoly
General Insurance	1972 to 2000 (about 28 years)	Nationalization One public sector company with 4 subsidiaries. State Monopoly
Phase III		
Life insurance and General insurance	After 2000	Opened to entry of Private and foreign companies. Public and private sector participation. Joint with Domestic and foreign partnership

### History of Insurance in Modern India:

The tale of insurance in modern India started during the 1800 AD. The foreign insurance agencies started a marine insurance business which led to the start of the modern history of insurance in India.

**1818:** In the year 1818, the birth of the first insurance company in India took place. The name of the insurance company was, Oriental Life Insurance with its HQ ay Calcutta.

**1870:** In the year 1870, the history of insurance in India received a native touch with Bombay Mutual Life Insurance society becoming the first Indian insurance company to be established.

**1912:** The year of 1912 led to the beginning of The Indian Life Insurance Companies Act. The act regulates the business of Life Insurance in the country.

**1938:** With the aim to protect the interests of the insured people the earlier consolidated legislation was amended by the Insurance Act.

**1956:** The business of Life Insurance was nationalized on the 1st of September of 1956. The year of 1956 also witnessed the formation of LIC Act that led to the formation of Life Insurance Corporation of India. The Government of India made a capital contribution of rupees 5 crore. During that period a total of 170 companies and seventy-five provident fund societies were doing the business of life insurance in the country. During the period between 1956 and 1999 the LIC held the solo rights of doing the business of life insurance in the country.

**1972:** The year of 1972 led to the nationalization of the non-life insurance in the country. The enactment of General Insurance Business Nationalization, the business of non-life insurance was also nationalized. The four subsidiaries of General Insurance Corporation of India were also set up. During that period a total of 106 insurers were doing the business of non-life insurance in the country and those were amalgamated with the formation of GIC's four subsidiaries.

#### **Commendable milestones in the history of insurance in India.**

- ❖ In 1993 the establishment of the Malhotra committee took place. R.N Malhotra was the chairperson of the committee.
- ❖ The year of 1994, witnessed the publishing of recommendations by the Malhotra committee.
- ❖ The year of 1995 led to the establishment of the Mukherjee committee.
- ❖ In 1996 the setting up of the (interim) Insurance Regulatory Authority (IRA) took place.
- ❖ The Mukherjee committee was set up in the year 1997 but wasn't made public.
- ❖ In the year 1997 the Indian Government transfers greater authorities to General Insurance Corporation, Life Insurance Corporation and the subsidiaries of those. It was with the respect to the flexibility of the insurance rules that were targeted to channelize the funds to the structure of infrastructure.
- ❖ In the year of 1998, the cabinet decided to permit 40% of the foreign equity in the companies of private insurance.
- ❖ In the year of 1999 the standing committee chaired by Mr. Murali Deora decided that the equity in the sector of private insurance should be limited to a total of 26%. The year also witnessed the renaming of the bill of IRA as Insurance Regulatory and Development Authority Bill.
- ❖ The year of 1999 witnessed the clearance of the Bill of Insurance Regulatory and Development Authority.
- ❖ In the year 2000, the President of India gave assent to the Insurance Regulatory and Development Bill.

## REVIEW OF LITERATURE

**Panigrahi & Azizan, (2018)** Identify the important SERVQUAL criteria for consumer purchase intention in the context of life insurance products in Malaysia in their paper. We used descriptive statistics as well as exploratory and confirmatory factor analysis. The findings demonstrated that customer satisfaction and trust, in conjunction with SERVQUAL variables, influence purchase intent. In contrast, this article demonstrates that life insurance agents with problem-solving skills and helpfulness enhance consumers' intent to purchase life insurance products. The validation of the framework makes it clear that all quality functions must be aligned with expanding competitive advantage as well as organisational objectives.

**Dr.T.Unnamalai (2018)** has analysed the customer satisfaction and customer awareness about service rendered by the Life insurance corporation. Life insurance corporation of India competes other players in the market very aggressively with their human resource of agents because the policy holders are having more faith with agents.

**Arora & Sharma, (2019)** tries to find out the various factors that effect the perception of investors, CFA technique is used to identify the factors. In Life Insurance there are so many factors which affect customer's investment decision and it has been concluded by the study that demographic factors of the people play a major and critical role in deciding the purchase of life insurance policies. Other identified factors are influence by others, claim settlement, medical benefits, bonus rates etc.

**Patel, n.d. (2019)** examines factors influencing life insurance investors' investment decisions The goals of this research are to identify the many elements influencing investors' life insurance investment decisions and to assess investors' preferences while making life insurance investment decisions. According to the study, agents/advisers, personal interests, present health and family and friends, and form of premium payment are the elements influencing investors' investment decisions in life insurance. Policyholders select an insurance firm for the money-back promise and greater risk coverage.

**Singh, (2020)** A comparison of the service quality of public and private life insurance companies has been attempted. The analysis clearly shows that the public sector company (LIC) has a good track record of providing people with life insurance. Customers have more faith in LIC than in private sector enterprises. Return on investment in private and public enterprises differs dramatically. The majority of respondents believed that public life insurance is more dependable than private life insurance.

**Rajinikanth, (2021)** In their study, they look at how customers feel about life insurance businesses in Kumbakonam. This study's major purpose is to measure consumer satisfaction with LIC. To evaluate the characteristics that influence customer satisfaction with LIC, the data was analysed using percentages and the chi-square test. Despite the high level of competition in the market, the general public sector LIC leads the Indian insurance industry, according to the study. According to the report, practically all of the respondents are aware of the Life Insurance Corporation of India.

**Kuhlemeyer, A. G., and Allen, H.G., (2014)** Examine consumer happiness in the purchase of life insurance products and compare it to satisfaction in a broker or agent-assisted transaction to satisfaction in a direct placement transaction without the involvement of a broker or agent. Consumer satisfaction with life insurance policies, providers, and institutions is measured against standards. According to the survey, characteristics such as confidence, competence, and product suitability influence consumer satisfaction.

**Koranne & Suneeta, (2014)** investigates the link between service quality and consumer satisfaction. Primary data responses were analysed using factor analysis. The association between Service Quality and Customer Satisfaction in the life insurance industry was tested using multiple regressions. According to the findings of the study, consumer expectations and perceptions of the tangibility, assurance, competency, and credibility dimensions of service quality have a greater impact on customer satisfaction. The survey also found that customers are more aware of remarks connected to these dimensions.

**Rao, (2015)** Life insurance has grown considerably in terms of new business policies and premium business since 2000. The main drivers include good economic foundations, a growing middle-income class, a better regulatory framework, and increased risk awareness.

**Sharma, (2016)** attempts to find out the determinants of Customers perception towards Life Insurance Investment decision. This research is focused on customer's belonging different demographic levels. The validity, reliability and explanatory factor analysis tests are applied to make the study more effective and reliable. Finally the significance of the results has been tested applying independent t-test and one way anova test.

**Madan, (2012)** In his study "Comparison of Customers Perception with Regard to Service Quality in Public and Private Insurance Companies Using SERVQUAL," he concluded that because the government of India has opened the insurance sector to private sector competition, companies want to differentiate themselves from competitors and stay ahead in the race.

**Arun et al., (2012)** The number of children or dependents in the home is strongly connected with enrolment in micro life insurance, indicating a possible bequest motive. They also discovered that financially better-off households participate in micro-life insurance at a higher rate than their poorer counterparts.

**Selva Kumar and J Vimal Priyan, (2012)** concluded that LIC continues to dominate insurance sector. Private sector insurance companies also tried to increase their market share. Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. The study compared premium, policies and market shares of companies.

**Ulbinaite et al. (2013)** demonstrated that demographic and socioeconomic factors had a considerable impact on life insurance purchasing decisions in Lithuania. They discovered that families without children evaluate a wide range of considerations when selecting a life insurance policy, but families with children consider only a few factors.

**Kalani, Salunkhe and Ahirrao, (2013)** examined claim settlement ratio of LIC with other insurance companies in India. Study observed that there are cases of frauds in claim settlement that may happened but if the policyholder uses proper precautions he will prevent himself from fraud. LIC of India provides better corporate services for settling the customers claim. D-mat may improve transparency and efficiency of the claim settlement. Authors studied comparison of claim settlement ratio of LIC with other life insurance industry and survey of policyholders and opinion regarding claim settlement.

### Objectives of the Study

- To measure the performance of LIC of India.
- To examine the comparison between the income and expenditure of LIC
- To analyze the trend of income and expenses of LIC

### RESEARCH METHODOLOGY

#### DATA COLLECTION

The present study covers auxiliary information. Information and data have been extricated from annual reports of LIC. The scientist has gathered five years balance sheet and profit and loss account of the examined unit. It is additionally upheld by differently distributed diaries, written works of LIC.

#### DATA ANALYSIS

Life Insurance Corporation (LIC) is doing business of Insurance in India since 1961. By providing insurance, as such it tries to secure the human life value and there by adds further security to the person having insurance policy. As mentioned earlier that as per the type and nature of the data available researcher has analyzed major five components of the expenses of the sampled unit. All Expenses are analyzed through statistical measures. This chapter goes further, and Descriptive Analysis has been being carried out. The following table shows the major five variables which are taken for the analysis.

The above table shows the performance of claims paid. Table also indicates that base year (2021-22) amount of claims paid, and in the same line calculated percentages of five years during the period of the study. The highest percentage was in the year. The lowest percentage was in the year 2022-23, depicts that year by year amount paid by Way of claims get increased. All other components Commission paid, Operating Expenses, Investments 1 (Shareholders'), and Investments (Policyholders') showing upward trend. Now, following table depicts the descriptive statistics taking the base year 2021-22 as 100%.

As per data shown in above table the base year 2021-22 is taken as 100. As compare to this base year Expenses of all other years are showing increasing trend. As all components of the expenses are increasing, but the increase in the operating expenses are much higher than any other component/variable.

**Descriptive Statistics (Table No. 1.1)**

Descriptive Analysis	Claims	Commission	Oper. Exp.	Inv. 1	Inv. 2
Mean	143.50	122.75	136.99	187.18	142.92
Standard Error	13.00	13.00	19.86	9.83	14.93
Median	134.85	116.25	125.66	184.10	137.41
Standard Deviation	25.99	23.00	39.72	19.66	29.87
Sample Variance	675.72	528.91	1577.39	386.62	892.19
Kurtosis	2.33	0.10	-0.15	-0.81	1.84
Skewness	1.56	1.12	1.07	0.71	1.03
Range	57.52	49.61	84.76	44.65	71.10
Minimum	123.38	104.45	105.94	167.94	112.88
Maximum	180.90	154.06	190.70	212.59	183.98
Sum	573.98	491.01	547.96	748.72	571.68
Count	4.00	4.00	4.00	4.00	4.00
Largest(1)	180.90	154.06	190.70	212.59	183.98
Smallest(1)	123.38	104.45	105.94	167.94	112.88
Confidence Level (95.0%)	41.36	36.59	63.20	31.29	47.53

## F-Test

Ho: There is no significant difference in expenses of sampled unit during the period of the study.

H1: There is significant difference in expenses of sampled unit during the period of the study.



**F-Test (Table No. – 1.2)**

Variables	Standard Error	Standard Deviation	Sample Variance
Insurance Claims	12.997	25.995	675.717
Net Commission Paid	12.997	22.998	528.908
Operating Expenses	19.858	39.716	1577.395
Investments ( Shareholders')	9.831	19.663	386.619
Investments ( Policy Holders')	14.935	29.870	892.191
Critical Value			2.770
F- test Value – Estimate of largest variance/Estimate of smallest variance			4.80
Hypothesis			Rejected

As the above table shows that analysis of variance (F –Test), variance on operating expense was highest amongst all, while variance of In- vestments (shareholders') was lowest. So as a result of F-Test is 4.08. While the critical value is 2.77. So the hypothesis is rejected.

## SUGGESTIONS :

1. LIC should try to introduce new plans and insurance products to the prospective insurers in order to increase the revenue through collecting premium.
2. As there are many private insurance companies functioning in the country there is increased competition in the insurance industry. To retain the position of industry leader, LIC has to introduce innovative plans to attract customers
3. There is a need to issue more and more policies for LIC to retain the market share in this competitive scenario
4. LIC has to make a secured investment so as to maintain the interest of the policy holders
5. A comparison between the different insurance companies may help in reducing the cost for the company
6. The LIC has to make efforts to reduce their operating cost which is been constantly increasing over the years.
7. The company has to make efforts to increase their premium which has been fluctuating from year to year.
8. A compa.rative study of performance between LIC and other companies may help in narrow growth.
9. As private insurance companies capture the market now a day, therefore, LIC should launch plans with more facilities.



## CONCLUSION

LIC has wide market since the concept of life insurance is gaining a lot of significance in India. LIC is successfully creating value to its policyholders. During the study period there was no major change in the performance of the LIC. It can be said that the performance is consistent and maintained good market value for its products. As many private insurance companies are establishing its business, competition is certainly set to increase and LIC has to make efforts to retain its top position. Apart from this, LIC need to control the investment level. The above discussion shows that the investment (Policy holders'') has second highest variance, so investment (policyholders'') needs to be controlled. Research has evaluated the various components of expenses with scientific methodology to justify the performance; so to conclude, LIC is doing good, managing the products, and related marketing strategies effectively. But as per analyzed data we can say that LIC need to control the Operating Expenses by not affecting its income. The Indian life insurance has reported strong growth in the past decade, mainly benefitting from low degree of insurance penetration in the country. The performance of LIC has been constantly good over the years. LIC being one of the significant players in Indian economy has to achieve effective results and ensure good performance. "The woods are lovely dark and deep, but LIC has to keep its promises and there are miles to go before it sleeps.

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