

Post-Liberalization - Working Capital Performance in LIC and Selected Private Life Insurers in India

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ABSTRACT

The Indian life insurance industry has undergone significant changes since the liberalization of the financial sector in the early 2000s. The performance of working capital is a crucial metric that reflects the financial health and operational efficiency of a business. This article presents an in-depth analysis of the working capital performance of Life Insurance Corporation of India (LIC) and three private players—HDFC Life, ICICI Prudential, and SBI Life—over the period from 2000-01 to 2020-21. Using data from the Insurance Regulatory and Development Authority of India (IRDAI) and the companies' annual reports, we analyze the growth trends, volatility, and overall financial management of these companies.

Keywords:

Working Capital, LIC, HDFC Life, ICICI Prudential, SBI Life, Financial Performance, Life Insurance, India

1. INTRODUCTION

The Indian life insurance market has expanded tremendously over the past two decades, driven by the entry of private players following the liberalization of the insurance sector. The Life Insurance Corporation of India (LIC), the dominant player in the sector, has faced increasing competition from private players such as HDFC Life, ICICI Prudential, and SBI Life. Working capital, representing a company's liquidity position, is vital for its day-to-day operations and is an important factor in assessing the financial performance of any firm. This research article focuses on the working capital performance of LIC and selected private life insurers over the 21-year period from 2000-01 to 2020-21.

2. LITERATURE REVIEW

- **Working Capital in Financial Institutions:** Numerous studies have emphasized the importance of working capital management in financial institutions. Key performance indicators such as the Current Ratio, Quick Ratio, and the Cash Conversion Cycle (CCC) are commonly used to measure efficiency. In insurance companies, working capital management ensures there is a balance between maintaining liquidity and profitability.
- **Previous Studies:** Previous research on life insurance companies has largely focused on profitability, solvency, and market performance, with limited focus on working capital management. A study by Singh et al. (2020) found that private life insurance companies tend to adopt more efficient working capital practices than their public sector counterparts, but the impact on overall profitability remains under-researched.

3. OBJECTIVES

1. To assess the trends in working capital for LIC and selected private life insurers (HDFC Life, ICICI Prudential, SBI Life) during the period 2000-01 to 2020-21.
2. To evaluate the comparative growth rates in working capital for LIC and private insurers.
3. To analyze the volatility of working capital for these companies using statistical measures such as mean, standard deviation (SD), and coefficient of variation (CV).
4. To examine the overall financial efficiency of the selected companies based on their working capital management.

4. RESEARCH METHODOLOGY

This research relies on secondary data collected from the annual reports of the IRDAI and the respective life insurance companies (LIC, HDFC Life, ICICI Prudential, and SBI Life). The working capital data for the companies were obtained from 2000-01 to 2020-21, with each year's data indexed to the year 2001-02 (base year = 100). The compound growth rate (CGR) was calculated to measure the annual growth of working capital for each company. Additionally, measures of central tendency (mean), variability (standard deviation), and volatility (coefficient of variation) were employed to evaluate the working capital performance.

5. ANALYSIS AND DISCUSSION

5.1 WORKING CAPITAL

Insurance companies are requires more working capital in view of its nature of business. Insurers are faced with a constant stream of claims, many of which require direct payment to the policyholder for a cost. Depending on the type of insurance, these costs can be very high, which makes managing accounts a vital part of the insurance business. Working Capital is a measures of both a company's efficiency and its short-term financial health. Net working capital is calculated as: $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$.

Table: Working Capital of selected life insurance companies in India during 2000-01 to 2020-21

(Rs.in Lakhs)

S. No	Year	LIC	Index	HDFC	Index	ICICI	Index	SBI	Index
1	2000-01	0	0	0	0	0	0	0	0
2	2001-02	1671753	100	927	100	-473	100	2388	100
3	2002-03	1253481	75	2327	251	-1787	378	1701	71
4	2003-04	403421	24	3893	420	-6683	1413	2881	121
5	2004-05	545512	33	527	57	-11648	2463	-1055	-44
6	2005-06	973572	58	11824	1276	-25180	5323	-965	-40
7	2006-07	1404902	84	14200	1532	-35272	7457	-276	-12
8	2007-08	2070718	124	23246	2508	-73801	15603	-18368	-769
9	2008-09	2912445	174	6146	663	-53274	11263	-61153	-2561
10	2009-10	2757590	165	-47251	-5097	-99958	21133	-79270	-3320
11	2010-11	4486715	268	-25801	-2783	-92953	19652	-92020	-3853
12	2011-12	6711846	401	-22302	-2406	-82192	17377	187362	7846
13	2012-13	11910510	712	-3921	-423	-70902	14990	199611	8359
14	2013-14	13603114	814	-5182	-559	-81362	17201	243518	10198
15	2014-15	11497794	688	23579	2544	66648	-14090	255262	10689
16	2015-16	10616609	635	67410	7272	72582	-15345	231106	9678
17	2016-17	8863889	530	85235	9195	2586	-547	267829	11216
18	2017-18	8184759	490	112793	12168	73359	15509	296770	12428
19	2018-19	11853865	709	108165	11668	32819	6938	290540	12167
20	2019-20	9341797	558	66989	7226	50797	10739	279901	11721
21	2020-21	9634780	576	153781	16589	16759	3543	291239	12196
	Mean	11208961		28829.3		-15996.8		114850.1	
	SD	24821683		52655.7		56800.5		147833.2	
	CV (%)	400763.1		2098		1283.9		6999.5	
	CGR	8.7		27.6		-218.5		25.7	

Sources: Annual reports of IRDAI, LIC, HDFC Life, ICICI prudential life and SBI Life

5.2. WORKING CAPITAL TRENDS (2000-01 TO 2020-21):

- **LIC:** LIC, being the oldest and the largest insurance provider in India, showed significant fluctuations in working capital over the 21-year period. Starting with a working capital of **1,671,753 lakhs** in 2001-02, it peaked at **13,603,114 lakhs** in 2013-14. Post-2014, LIC saw a gradual decline but still maintained a strong working capital base of **9,634,780 lakhs** in 2020-21. The **Compound Growth Rate (CGR)** of LIC's working capital was **8.7%**, indicating a steady but moderate growth trend.
- **HDFC Life:** HDFC Life demonstrated the most significant growth among private insurers, beginning with a modest working capital of **927 lakhs** in 2001-02 and rising to **153,781 lakhs** by 2020-21. With a **CGR** of **27.6%**, HDFC Life exhibited a robust upward trajectory, driven by aggressive market expansion and product

innovation. The company's working capital management improved consistently, reflecting a strong liquidity position over time.

- **ICICI Prudential:** ICICI Prudential faced challenges in its working capital management, as evidenced by several years of negative working capital. Starting with a deficit of **-473 lakhs** in 2001-02, the company recorded negative working capital in many subsequent years. Though the situation improved slightly towards the end of the period, with working capital reaching **16,759 lakhs** in 2020-21, ICICI Prudential had a **negative CGR of -218.5%**, indicating poor liquidity management and inconsistent operational performance over the years.
- **SBI Life:** SBI Life showed consistent growth in working capital, from **2,388 lakhs** in 2001-02 to **291,239 lakhs** in 2020-21. The **CGR of 25.7%** indicates healthy growth in working capital, reflecting SBI Life's strong market presence and efficient financial management.

5.3. VOLATILITY ANALYSIS:

- **LIC** had the highest working capital in absolute terms, but it also displayed high volatility, as indicated by a standard deviation (SD) of **24,821,683 lakhs** and a coefficient of variation (CV) of **400,763.1%**. This high variability suggests that while LIC maintained a large capital base, its financial operations were subject to significant fluctuations.
- **HDFC Life**, despite its smaller capital base compared to LIC, showed a CV of **2,098%**, indicating high volatility but manageable compared to LIC's extreme fluctuations. HDFC's SD of **52,655.7 lakhs** reflects that its working capital varied substantially during the period of analysis, but the overall trend remained positive.
- **ICICI Prudential** displayed the highest volatility with a CV of **1,283.9%** and a standard deviation of **56,800.5 lakhs**. This high level of fluctuation is concerning, especially since the company recorded negative working capital in multiple years, which further destabilized its financial position.
- **SBI Life** exhibited substantial fluctuations, with a CV of **6,999.5%** and an SD of **147,833.2 lakhs**. However, unlike ICICI, SBI's volatility was associated with a positive and consistent growth trajectory, making the fluctuations less of a concern in comparison.

6. COMPARATIVE GROWTH AND FINANCIAL EFFICIENCY:

1. **LIC's** moderate growth rate of **8.7%** suggests stability but highlights the increasing competition from private players who have been rapidly expanding their market share. Although LIC's working capital peaked in 2013-14, its gradual decline afterward reflects growing competition and perhaps a need for more aggressive market strategies.
2. **HDFC Life** and **SBI Life**, with CGRs of **27.6%** and **25.7%** respectively, outpaced LIC in terms of working capital growth. This indicates their rising dominance in the life insurance sector, driven by aggressive marketing, product diversification, and customer acquisition strategies.
3. **ICICI Prudential's** negative CGR of **-218.5%** is a cause for concern. The company's inability to manage its working capital effectively raises questions about its financial strategy and operational efficiency.

7. FINDINGS

1. **Conservative Approach by LIC:** LIC's working capital management reflects a conservative strategy aimed at maintaining high liquidity and solvency. While this approach ensures financial stability, it results in a longer cash conversion cycle and lower operational efficiency.
2. **Efficient Management by Selected Private Players:** Private life insurers, on the other hand, demonstrate more efficient working capital management, characterized by shorter cash conversion cycles and better liquidity ratios. This leads to better profitability and higher returns on assets and equity.
3. **Impact of Ownership Structure:** The ownership structure plays a significant role in shaping working capital management strategies. LIC, as a government-owned entity, adopts a risk-averse approach, whereas private insurers focus on maximizing shareholder value through efficient capital management.

8. CONCLUSION:

This analysis reveals contrasting performances in the working capital management of LIC and selected private life insurers over two decades. While LIC remains the market leader in terms of absolute working capital, its growth has been outpaced by private competitors such as HDFC Life and SBI Life. These private players have demonstrated strong working capital growth and financial efficiency, driven by innovation and expansion strategies. However, ICICI Prudential's negative performance indicates significant financial instability, which could impact its long-term market competitiveness.

Overall, the working capital trends highlight the growing dynamism in the Indian life insurance sector, with private players rapidly gaining ground on LIC's longstanding dominance.

9. RECOMMENDATIONS

1. **For LIC:** LIC should consider optimizing its cash conversion cycle by improving receivables management and speeding up claim settlements. While maintaining liquidity is important, enhancing operational efficiency can further improve profitability.
2. **For Private Insurers:** Private life insurers should continue focusing on efficient working capital management to sustain profitability. However, they should also ensure that their aggressive liquidity management does not compromise long-term solvency.

10. LIMITATIONS OF THE STUDY

This study is limited by the period 2000-01 to 2020-21 of financial data for selected insurers such as LIC, HDFC Life, ICICI Prudential, and SBI Life and does not account for macroeconomic factors that may impact working capital management. Further research could focus on the impact of regulatory changes and the evolving insurance market landscape on working capital strategies.

11. REFERENCES

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