

Financial Performance of Life Insurance Corporation of India in Indian Financial Market

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Abstract

As far as insurance sector of India is concerned, a major boom was observed after the announcement of Industrial Policy, 1991. Accordingly private and foreign players were allowed in the sector which affected the monopoly of LIC in the sector but then the legacy of last 40 years supported the financial performance of LIC and as a result only 7% to 8% of business was affected. At the next level, there was a major turnaround in the insurance industry i.e. the input of FDI. After this the fate of insurance sector has changed forever. This present study will evaluate the financial performance of the firm in 21st century during the study period which is 2010 to 2019 i.e. 10 years. This study is based on secondary data and tools used are ratio analysis and CAGR.

Keywords: LIC, Financial performance, profitability.

Introduction

Before Life Insurance Corporation of India there was no official agency in India that is ready to deal with the trail of this necessity, then in 1956 Life Insurance Corporation of India took shape based on the “Life Insurance of India Act” and within few years after the establishment of the act more than 200 insurance agencies were made official and start to work according the guidelines of this act. Then a major boom was observed after the announcement of Industrial Policy, 1991; as per the policy private and foreign players were allowed in the sector, obviously this has broken the monopoly of LIC in the sector but then again the legacy of last 40 years supported the financial performance of LIC and as a result only 7% to 8% of business was affected. Then at the next level, there was a major turnaround in the insurance industry i.e. the input of FDI. After this the fate of insurance sector has changed forever. This is also a fact that after the announcement of industrial policy 1991, overall insurance sector has played a vital role in the economic development of the country. It is not so that LIC alone was not able to contribute at the national level, rather since 1956 LIC has emerged as one of the major contributor in the sector and helped in shaping the economic structure of all the five year plans till 1991. As discussed above LIC operated as a monopoly from 1956 to 1991 but the fruits of this monopoly were enjoyed by the respective government, as all the financial resources were directed towards the financial planning of the country. The very success of LIC is dependent on the trust and worthiness that the agency has developed in the last few decades, common man in India came to know about life insurance when LIC told them about the same and today also people have blind faith on LIC. Considering the business of Life Insurance Corporation, after the incorporation in 1956, in the first year itself total accumulated policies were around 55 lakhs and the same raised to more than 1100 lakhs by the year 1999 and more than 2700 lakhs by 2018. Then on the other hand, the business value was 1400 cr. In 1957 that rose above 5, 00, 000 crore in 1999 and finally to 40, 00, 000 cr. in 2018. These vales include the total premium and sum assured. If we consider the premium itself, in the starting it was around 13 cr. In 1957 and rose to 5000 cr. by 2000 and the same reached 75000 in

2018. These values are just the glimpse of never ending growth of LIC and the agency is still growing by leaps and bounds for the last 50 years.

Some of the financial results of LIC can be viewed from the below given table:

S.N	Year	1957	2000	2015
	Components			
1	No. of policies (in Lakhs)	55.75	1,011.79	2,699.82
	Sum Assured (Crores)	2,363.00	7,35,439.71	41,39,437.09
2	Premium Income			
	First Year (Crores)	12.69	4,899.10	77,527.69
	Renewal (Crores)	71.36	17,199.87	1,59,147.93
	Total Premium (Crores)	91.53	13,459.69	1,79,657.53
3	Policy Payments			
	Death Claims (Crores)	6.88	5,599.70	10,139.64
	Maturity Claims (Crores)	19.80	18,617.54	75,369.06
	Total	27.69	28,253.23	89,397.63
4	Life Funds (Crores)	399.28	1,43,137.69	17,14,098.83
5	Investment (Crores)	299.75	1,40,112.09	19,26,137.26
6	Share to Govt, of Surplus (5%)(Crores)	14.25	286.12	1,795.13
7	No. of Divisional Office	33	102	118
8	No. of Branch Office	225	2,122	2,135
9	No. of Agents on Roll	2,29,299	7,05,113	11,55,595
10	No. of Employees on Roll	30,695	1,19,695	1,18,451
11	Overall Expenses Ratio (%)	25.95	19.75	17.55

Source: Annual Reports of respective years.

As far as the claim settlements of LIC are concerned, only the death claims that were settled in 1957 were around 8 cr. and rose to 1100 cr. in 2018 then on the other hand maturity claims were around 20 cr. in 1957 and rose to 85000 cr. in 2015.

LIC is in the process of mobilizing the savings and finances since last 50 or more years and the agency has expanded its operation in the most remote areas of the country. By the virtue of these savings LIC has contributed a lot towards the development of the country. The growth of investment made by LIC is the proof of the same i.e. the investment was around 400 cr. in 1957 that became 1, 40, 000 cr. in 1999 and reached 19, 40, 000 cr. in 2018. This is just a glimpse of multifold growth of the agency. It is not so that the business of LIC was not affected by the entry of private and foreign players but the differential proportion of business was just 10%-12% and that too was recovered by increasing the avenues of investment.

It is the faith of general public and reach of LIC in every nook and corner of the country that today the agency is having 113 divisional offices, 2000 branch offices and more than 1000 satellite offices all over the country. As far as the strength of the organization is concerned, the total number of on roll employees was around 1, 20, 000 in 2018 and the number of active agents was around 11, 00, 000 in 2018.

As stated above, the entry of private and foreign players in the business has affected the business of LIC to a certain extent, though the far reaching affects are not negative but then again the overall growth rate of the company get influenced. This present study try to study the overall growth of the agency for last 10 years i.e. 2010 to 2019 and will also comment on the financial performance of the same.

Literature Review

Ramanathan (2014) has conducted a study on the performance evaluation of LIC and the focus of the study was on the cost effectiveness and efficiency. The study period was from 2002 to 2011. The findings of the study stated that in the beginning of the study period the agency was not able to control the flow of expenses or in other words it can be said that the ratio of expenses was more than the respective income. The researcher has provided score to the financial

efficiency of the agency and it was found that from 2008 to 2012 the score was more for the income and less for expenses, the researcher elaborated that this variation in the result was due to the entry of private and foreign players in the business.

Bhat et al (2015) worked on comparative performance of public sector and private sector insurance companies operating in the country and the findings of the study indicated and in terms of growth the private players are ahead of public sector agencies but as far as business is concerned public sector agencies are still the first choice of general public. Rather it was also found that the investors are more aggressive in the present times and for better returns they are considering the schemes of private and foreign companies.

Solanki (2016) assessed the profitability of Life Insurance Corporation for the period of 10 years i.e. 2005 to 2015 and the findings of the study stated that the profitability of the agency was affected by major competition in the market and it is required that the agency should concentrate on increasing the distribution of policies so that the respective profit may increase in near future. This will also help the agency in ensuring the sustainability in the present competitive market and increase the share as well.

Objective

The objective of the study is to evaluate the financial performance of the Life Insurance Corporation of India using the tool of ratio analysis and to suggest ways and means to increase the profitability.

Hypothesis

H₀: There is no significant variation in the annual growth rate of LIC considering all the internal and external financial components.

H₁: There is a significant variation in the annual growth rate of LIC considering all the internal and external financial components.

Research Methodology

Data Source

This present study is based on secondary data, as the financial performance of LIC is evaluated and data of financial performance of any given company is secondary nature. The researcher has followed the guideline of IRDA (year wise) and collected data from the following sources:

- www.moneycontrol.com
- Annual reports of LIC
- www.financialexpress.com
- Articles published in newspapers and magazines
- Research papers from national international journals

Tools of Data Analysis

It is very tedious and cumbersome to analyze the annual reports and it becomes even more difficult when the data is evaluated for different years. In the span of this study, the best suited tool was ratio analysis.

Study Period

This present study evaluates the record of LIC for 10 years i.e. 2010 to 2019.

Data Analysis and Interpretation

Table 1: Income of LIC from Different Sources (in %)

Year	Income I(From Premium)	Inocme II (Investment)	Income III (Other Sources)	Total
2009-10	69.3	28.7	2.0	100.0
2010-11	68.4	29.2	2.3	100.0
2011-12	64.7	31.4	3.9	100.0
2012-13	68.4	27.1	4.5	100.0
2013-14	70.2	24.9	4.9	100.0

2014-15	72.4	21.9	5.7	100.0
2015-16	72.9	20.9	6.2	100.0
2016-17	67.4	25.7	6.9	100.0
2017-18	60.6	33.5	5.9	100.0
2018-19	61.5	31.8	6.7	100.0

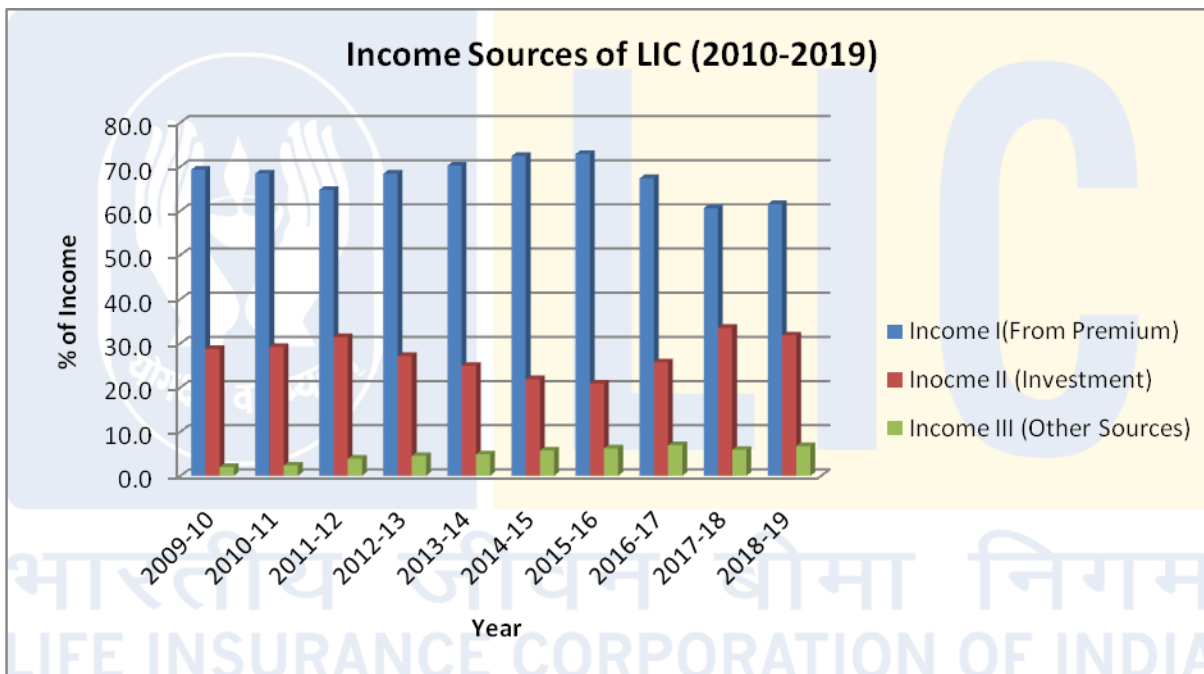


Figure 1: Income of LIC from Different Sources (in %)

Interpretation

Analysis given in table 1 and figure 1 shows that the income from premium was sustainable till 2015-16 and decreased till 2019 and income from investment was increased by 2012 and decreased to a substantial level by 2016. In the study period more than 65% of the income was coming from investment and around 28% from other sources. Highest amount of income was coming from premium with a growth of around 2.5% on an average.

Table 2: CAGR of LIC (2010-2019) considering 2005 as Base year

Year	CAGR
2009-10	10.2

2010-11	13.8
2011-12	13.4
2012-13	20.5
2013-14	17.9
2014-15	14.6
2015-16	13.5
2016-17	8.7
2017-18	14.9
2018-19	18.6

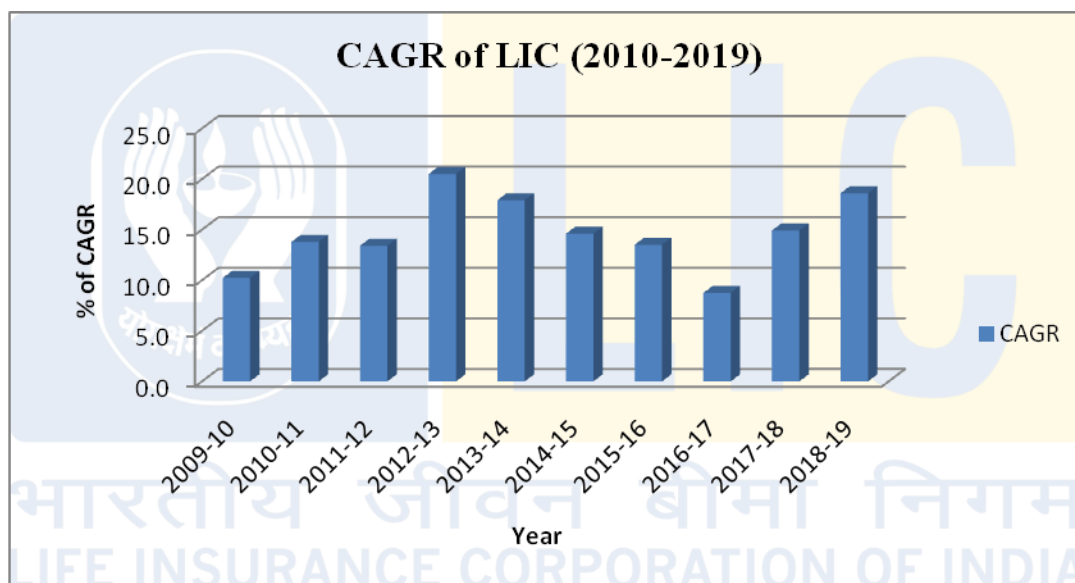


Figure 2: CAGR of LIC (2010-2019) Considering 2005 as Base year

Interpretation

The CAGR (*Compound Annual Growth Rate*) of LIC is given in the above table 2, and evaluation of the same states that the highest growth rate was experienced in the 2012 and the lowest growth rate was observed in the year 2017. In rest of the years the CAGR was stable as compared to income of the agency from different sources. Here it is important to mention that overall profitability of the agency was not affected by this increasing and decreasing of CAGR.

Table 3: Total Assets of LIC (2009-2019) In Rs. Cr.

Year	Total Assets
2009-10	863231.0

2010-11	1057841.0
2011-12	1288509.0
2012-13	1378451.0
2013-14	1465987.0
2014-15	1698205.0
2015-16	2021477.0
2016-17	2176508.0
2017-18	2236843.0
2018-19	2354256.0

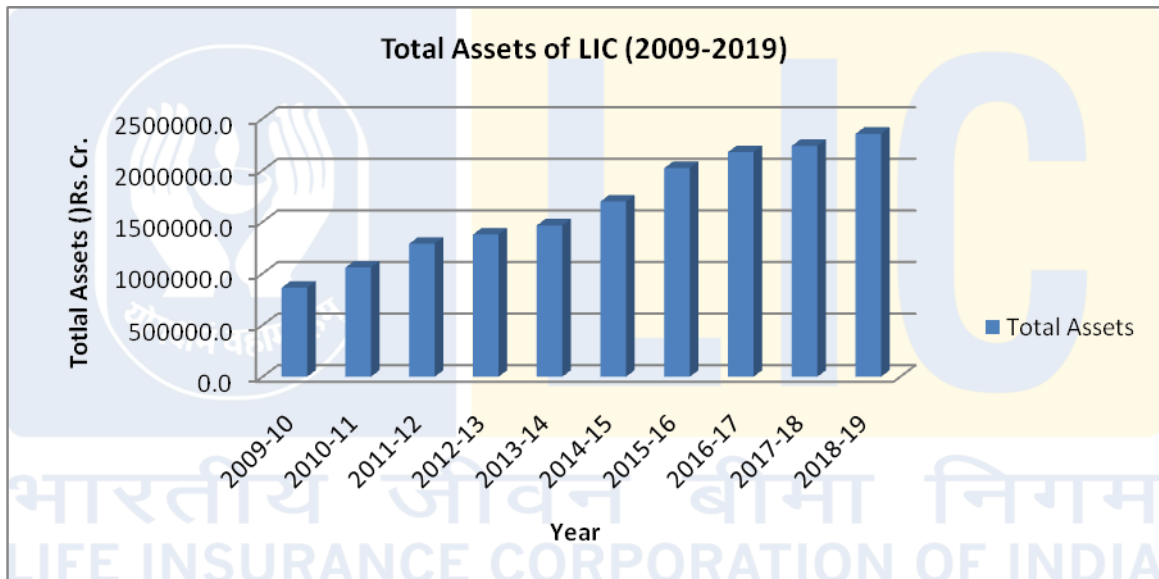


Figure 3: Total Assets of LIC (2009-2019) In Rs. Cr.

Interpretation

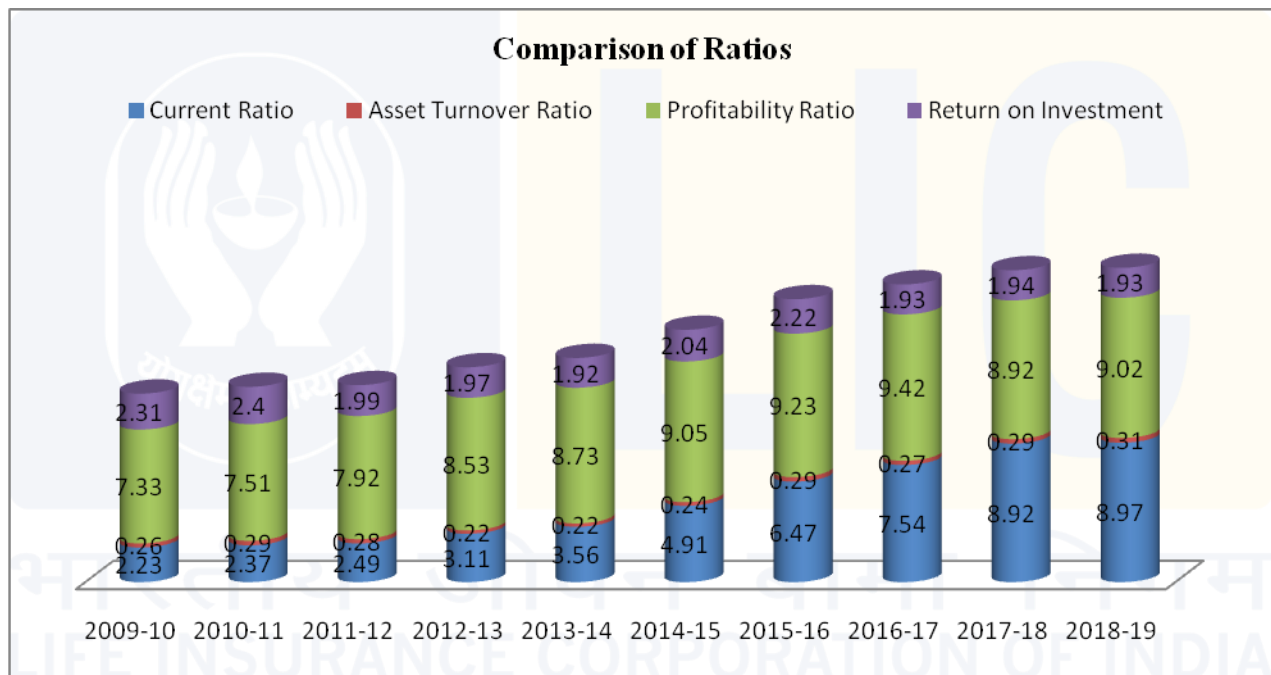
As can be seen from the above table 3 that the total assets of LIC shows an increasing trend for the study period, the respective percentage of growth was more than 10% during the study period. This growth rate is an indication that the agency is in expansion mode and is expected to achieve the growth rate of 12% in near future. Agency has made it possible by controlling its expenses and increasing the number of agents in most remote areas of the country.

Ratio Analysis

1. *Current Ratio*
2. *Asset Turnover Ratio*
3. *Profitability Ratio*
4. *Net Profit Margin*
5. *Return On Investment*

Table 4: Ratio Analysis of LIC (2009-2019)

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Current Ratio	2.23	2.37	2.49	3.11	3.56	4.91	6.47	7.54	8.92	8.97
Asset Turnover Ratio	0.26	0.29	0.28	0.22	0.22	0.24	0.29	0.27	0.29	0.31
Profitability Ratio	7.33	7.51	7.92	8.53	8.73	9.05	9.23	9.42	8.92	9.02
Return on Investment	2.31	2.40	1.99	1.97	1.92	2.04	2.22	1.93	1.94	1.93



Findings

- In case of current ratio, it is clear that LIC is having sufficient solvency for short term and this stands true for all the years of study period. For the period of 5 years i.e. 2011 to 2016 the ratio is showing high solvency as compared to rest of the period.
- In case of asset turnover ratio, LIC was not able to keep the track and appeared as lowest income earner for the study period, if we calculate the value of capital employed then for the year 2009 to 2011 the value of 1 rupee stands for around Rs. 0 .30. Till 2011 LIC has generated maximum amount of income but in the later years market competition has forced the growth downwards.
- In case of profitability or the calculation of net profit margin shows that in the initial years the net profit margin increased by 0.18% but in the later years the growth rate was reduced but then again value of turnover ratio kept on increasing.
- For ROI (*Return on Investment*) LIC was not the major gainer during the study period, rather for the first two years i.e. 2010 and 2011 the growth rate was attractive but then again till 2014 it decreased. Considering the net assets of agency, LIC appears as a good performer for the whole study period, but only for first 4 years of the study period.

Conclusion

In the present times, LIC is still one of the most preferred insurance companies, as far as life insurance is concerned and this is the reason that after so much competition in the market the number of policy holders are increasing at a high rate. The results of the analysis shows that there were no major changes in the financial performance of the agency during the study period, rather the growth rate was comparatively low but then again it never came down or reached to a substantially lower level. This is an indication that the agency is working on business expansion and working on maintaining cost efficiency. There are a number of insurance companies that are trying to enter the market or are in the process of establishment but are not able to break the 50 years legacy of LIC to a major extent.

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Web Resources

- www.licindia.com
- www.irda.org
- www.insure.com