

PERFORMANCE EVALUATION OF LIFE INSURANCE SECTOR- A COMPARATIVE STUDY OF PUBLIC & PRIVATE LIFE INSURANCE COMPANIES IN INDIA

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Abstract: *Indian financial system is highly influence with the banking and insurance sector which attracts flow of savings and investments to the country. Insurance sector in India is one of the growing sectors of the economy. The insurance sector, along with other elements of marketing, as well as financial infrastructure, have been touched and influenced by the process of liberalization and globalization in India. The customer is the king in the market. Life insurance companies deal in intangible products. With the entry of private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customers. This research paper attempts to study the Public & Private Life Insurance Companies in India and compare the perception of customers in terms of service quality and analyze the performance of public and private life insurance companies in India.*

Key Words: *Insurance Sector, Service Quality, Perception of Customers, Risk.*

INTRODUCTION:

The need for insurance is as old as commerce and trading in the civilized world. Risk is inherent to life, commerce, trading etc. The insurance will provide safety to it. Insurance sector has been playing a leading role in the financial system of India. It has also been facilitating an objective to build an efficient, effective and a stable economic environment in India. It also caters to the needs of the both real economy and socio-economic objective of the country. It is making inroads into the interiors of the economy and is being considered as one of the fast developing areas in the Indian financial sector. It has been mobilizing long-term saving through life insurance to support economic growth and also facilitating economic development.

LIFE INSURANCE:

Life Insurance is a professional service which is characterized by high involvement of the consumers, due to the importance of tailoring specific need, the variability of the products available, the complexity involved in the policies and processes and ultimately the need to involve the consumer in every aspect of the transaction. Life insurance more fondly known as Life Assurance has, in recent times ceased to be only a 'Protection' or 'Legacy' for the family and has turned into an important investment outlet. India's economic development made it a most lucrative Insurance market in the world.

GROWTH OF LIFE INSURANCE INDUSTRY:

At the time of opening of the insurance sector in India there was no cut throat competition in the market. Till 2000, there was only one life insurance company

operating in India i.e. Life Insurance Corporation (LIC) in the public sector. Indian government allowed privatization in insurance industry in 1999 setting up Insurance Regulatory Development Authority (IRDA) to regulate and develop insurance industry. IRDA issued licenses and has opened life insurance market to private companies. As a result, insurance sector in India has grown at a rapid rate after liberalization in 1999 and private players have been allowed to enter in life insurance market in India. The Indian Life insurance industry expanded tremendously from 2000 onwards in terms of premium income, new business policies, number of offices, agents, products, riders etc. Insurance industry in India is moving through a phase of high growth which is led by players who tries to change the dynamics of market through modernization and improvement. Presently there are 23 private life insurers and 1 public life insurers operating in India. According to McKinsey study 2007, it was estimated that India is likely to emerge as the fifth largest market in the world by 2025.

PUBLIC & PRIVATE SECTOR'S LIFE INSURANCE:

Public sector Company: Life insurance Corporation of India Life Insurance Corporation of India (LIC) is only one public sector Company in life insurance. It was created on 1st September, 1956, Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. It is the largest insurance company in India with an estimated asset value of 1560481.84 crore (US\$250 billion). As of 2013 it had total life fund of Rs.1433103.14 crore with total value of policies sold of 367.82 lakh that year.

Growth as a Monopoly

From its creation, the Life Insurance Corporation of India, which commanded a monopoly of soliciting and selling life insurance in India, created huge surpluses. The Corporation, which started its business with around 300 offices, 5.7 million policies and a corpus of INR 45.9 crores (US\$ 92 million as per the 1959 exchange rate of roughly 5 for US\$1), had grown to 25,000 servicing around 350 million policies and a corpus of over 800000 crore (US\$130 billion) by the end of the 20th century.

Private companies that are in life insurance sector are as under:

- AEGON Religare Life Insurance
- Edelweiss Tokio Life Insurance Co. Ltd
- Aviva India
- Shriram Life Insurance
- Bajaj Allianz Life Insurance
- Bharti AXA Life Insurance Co Ltd
- Birla Sun Life Insurance
- Canara HSBC Oriental Bank of Commerce Life Insurance
- Star Union Dai-ichi Life Insurance
- DLF Pramerica Life Insurance
- Future Generali Life Insurance Co Ltd
- HDFC Standard Life Insurance Company Limited
- ICICI Prudential Life Insurance Company Limited
- IDBI Federal Life Insurance
- IndiaFirst Life Insurance Company
- ING Life Insurance
- Kotak Life Insurance
- Max Life Insurance
- PNB MetLife India Life Insurance
- Reliance Life Insurance Company Limited
- Sahara Life Insurance
- SBI Life Insurance Company Limited
- TATA AIA Life Insurance

THE PERFORMANCE OF PUBLIC AND PRIVATE LIFE INSURANCE COMPANIES:

The relevant and required data were collected from the text books, national and international articles, as well as annual reports of LIC. Secondary data were collected from annual reports of IRDA, IRDA journal and Life Insurance Today.

Besides, a few websites have also been consulted. For the analysis of data, statistical tools like percentages, ratios, growth rates and coefficient of variation were used. The study aimed to examine the financial performance of Indian life insurance companies through analyzing the determinants of their profitability. Measuring the performance of insurance companies has gained the relevance because they are not only providing the mechanism of saving money and transferring risk but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support

the investment activities in the economy. Performance of companies can affect economy as a whole and therefore it requires empirical analysis to judge the performance. For measuring financial performance, financial ratios such as current ratio, solvency ratio, return on assets ratio and insurance leverage ratio have been calculated.

SHORT TERM SOLVENCY RATIO OF LIC & SELECTED PRIVATE LIFE INSURANCE COMPANIES:

Table 1: Current Ratio of LIC of India & Selected Private Life Insurance Companies

Year	LIC	ICICI Prudential Life Insurance	SBI life Insurance	HDFC Standard Life Insurance	Birla Sun Life Insurance
2010	06.78	0.67	0.64	1.39	0.89
2011	13.10	0.63	0.40	1.08	0.84
2012	01.34	0.38	0.85	0.63	0.85
2013	154.4	0.42	0.78	0.81	0.91
2014	06.23	0.58	2.55	0.86	0.91

Liquid Ratio of LIC & Selected Private Life Insurance Companies

Year	LIC	ICICI Prudential Life Insurance	SBI Life Insurance	HDFC Standard Life Insurance	Birla Sun Life Insurance
2010	1.16	0.10	0.64	0.07	0.63
2011	04.65	15.30	0.18	0.46	0.70
2012	02.44	0.33	0.32	0.23	0.70
2013	58.60	0.21	0.16	0.29	0.73
2014	02.89	0.17	1.84	0.36	0.66

Long term solvency Ratio of LIC & Selected Private Life Insurance Companies

Debt Equity (D/E) Ratio of LIC & Selected Private Life Insurance Companies

Year	LIC	ICICI Prudential Life Insurance	SBI Life Insurance	HDFC Standard Life Insurance	Birla Sun Life Insurance
2010	0.501	1.30	0.27	0.54	5.93
2011	0.047	0.13	0.16	0.61	3.78
2012	0.043	0.99	0.13	0.51	2.20
2013	0.041	0.73	0.12	0.40	1.61
2014	0.046	0.54	0.01	0.28	1.34

The study evaluated that public sector player LIC has sound liquidity position among all life insurers. As far as private players are concerned Companies like Future Generali, IDBI, Sahara, Shri Ram and SBI life have sound liquidity position. In case of solvency position, life insurers like Aviva, Bajaj Allianz, IDBI, Max Life, Sahara and SBI life insurance have higher solvency ratio as compared to others. Public life insurer is showing stability in its solvency position in five years. Study also proves that LIC shows the better financial performance

than private life insurance companies. LIC has invested more out of its internal equities than the external equities. As far as leverage analysis is concerned the performance of LIC is far better than that of private players. Regression analysis of the study shows that profitability has significant positive relationship with liquidity and size. On the other hand there is significantly negatively relationship between profitability and capital. The result also illustrates that profitability has no significant relationship with solvency and insurance leverage. It is therefore imperative to identify factors which can help insurance companies and investors to increase their profitability.

Table 2: Influencing Factors of selection of Insurance Policy

Factors	LIC		Private Insurance Companies	
	Mean Score	Rank	Mean Score	Rank
Tax Saving	5.0	4	5.2	4
Good Return	5.6	3	6.9	2
Security	8.4	1	7.1	1
Risk Coverage	6.0	2	5.8	3

In order to understand which factor is more influence the policy holders towards insurance, mean score is used. The analysis shows that in both public and private life insurance companies mean score is higher in case of security. While selecting the life insurance policy, security is a major factor considered by policyholders in both public and private life insurance companies.

Table 3: Satisfaction level of Quality of service

Factors	LIC	LIC
	Mean Score	Mean Score
Rider facility	3.16	3.12
Switching facility	2.96	2.56
Top up facility	2.29	3
Bonus	2	2.24
Loan facility	2.04	2.68
Surrender facility	2	2.16
Customer Complaint	2.4	2.2
Total	2.49	2.56

In order to understand whether the policyholders are satisfied with different attributes of insurance products, the study conclude that policyholders of both Life insurance companies are not satisfied with the quality of services provided by their life insurance companies.

After ceding market share to LIC in the life insurance business for the past four years, private insurers have made a comeback in 2014-15. Private life insurers saw their combined new premium inflows rise 17 per cent in the first nine months of this fiscal, while LIC's inflows declined 21 per cent, according to IRDA data. The market

share of private life insurers rocketed to 30 per cent by December 2014, up from 22.3 per cent a year ago. ICICI Prudential Life, HDFC Standard Life and SBI Life have gained the most. LIC saw its market share drop from 78 per cent to 70 per cent.

CONCLUSION

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. Though privatization of the insurance sector is feared to affect the prospects of the LIC, the study shows that the LIC continues to dominate the sector. Private sector insurance companies also tried to increase their market share. Private life insurers used the new business channels of marketing to a great extent when compared with LIC. Selling more unit-linked plans helps private players grab market share from LIC. Investment pattern of LIC and private insurers also showed some differences. Solvency ratio of private life insurers was much better than LIC in spite of big losses suffered by them. Lapsation ratio of private insurers was higher than LIC and servicing of death claims was better in case of LIC as compared to private life insurers.

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