



LIFE INSURANCE CORPORATION OF INDIA: DURING PRE-LIBERALIZED ERA

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ABSTRACT

LIC of India has played its first inning in the life insurance industry in India from 1956 to 2000. Since 1956, LIC of India has done a great job in providing social security to the Indian people. LIC was the only player in Indian life insurance sector up to 2000. It played a phenomenal role in providing insurance cover and financial inclusion to the masses. It provided warm blanket of life insurance cover to the Indians. However, in the year 2000 when the Indian life insurance market was opened for private and multinational insurers, the monopoly of LIC of India came to an end and that began the competition in this sector. The private sector insurance companies encroached the existing market of LIC with their innovative products, professional attitude and huge experience in this field. Still LIC holds the majority of the share in this sector. The present paper highlights the performance of LIC in pre-liberalized era taking into account the variables such as New Business, Rural Business, number of offices and investment in social sector. The paper further highlights the process of liberalization in life insurance sector. The study revealed that Total New Business of LIC increased five hundred and fifty nine times of the first year i.e. 1956-57. However, the life insurance has not yet reached the masses.



KEYWORDS: Social Security, New Business, investment in social sector, Rural Business liberalization, nationalization.

INTRODUCTION

LIC of India has played its first inning in the life insurance industry in India from 1956 to 2000. On Saturday, January 19, 1956, an ordinance was passed by the President of India to take over the management of 154 Indian insurers, 16 non-Indian insurers and 75 Provident Societies carrying life insurance business in India. Then, on September 1st

1956, government of India amalgamated these private insurance companies under a corporation by passing Life Insurance Corporation of India Act. The parliament set up Life Insurance Corporation of India (LIC of India) as a public undertaking having monopoly over life insurance business expecting- Elimination of competition, better and more economical management, safety and liquidity of the invested funds,

reduction in administrative expenses, improvement in the quality of service, increase in volume of business and maximization of social security. After its establishment, the LIC of India showed a remarkable performance in achieving various objectives of nationalization. Being a lonely player in life insurance market LIC provided insurance cover to crores of people. It spread life insurance in all corners of the nation.

SETTING-UP OF IRDA:

No doubt LIC has played a phenomenal role in the development of life insurance market in India, government of India decided to open this sector to private and global insurers after signing GATT. It accepted the recommended the recommendations of R.N. Malhotra committee. Accordingly, government allowed private and multinationals to operate in Indian life insurance market. For the purpose of regulation and development of insurance sector in India, government enacted the Insurance Regulatory and Development Authority Act, 1999 and set up Insurance Regulatory and Development Authority (IRDA) in 1999. With this the monopoly of LIC of India came to an end and it was forced to compete with the private and global life insurers. Since 2000, a number of private life insurers entered into the market with huge capital, innovative products, lot of experience and professional attitude.

REVIEW OF LITERATURE:

Dharmaraj S. (2007), highlighted the contribution of LIC towards social welfare. Since its inception LIC has made significant progress in the various activities in profits, investment and efforts in the field of rural development. After nationalization LIC started two schemes for rural areas viz. Rural Career Agent Scheme (RCAS) and Jan Raksha Policy. The RCAS did the business of Rs. 61.40 crores under 48,533 policies in 1984-85 while it was Rs.8.394 crores under 61,977 in 1985-86. Under group insurance schemes the LIC covered seventy five lacks of lives up to March 1986. It has made a great contribution in welfare schemes in water supply, sewerage, poser and public transport by providing Rs. 4,052 crores as loans as on 31-03-1986. It provided Rs. 1,748 crores for power generation and distribution while Rs. 1,302 crores for housing. However, the writer opined that the major drawback in the LIC's contribution was that it was able to tap urban population and therefore the rural and weaker sections were deprived of.

Rajendran R. and Natarajan B. (2009), found that there is remarkable improvement in the Indian insurance industry soon after the acceptance and adaptation of LPG policy. After 1991, the Indian life insurance industry has geared up in all respects along with a lot of healthy competition from private sector Indian and foreign life insurance companies. The research paper throws light on the pre-independence, pre-nationalisation, post nationalisation and post liberation position of life insurance industry.

Joseph Vijayakumari (2010), observed that life insurance is not growing substantially in spite of enormous market potential. In her view the major challenge before insurance industry are product unawareness, lack of innovative promotion techniques, inadequate research and development activities, too much dependence on personal selling and salesmanship. The writer traced that the insurance company should create, implement and sustain appropriate marketing programmes to create awareness among the people about insurance and effort should be made to satisfy them by providing the products suiting their financial needs.

Shinde B. K. and Rao Neelkanth P.(2010), examined and compared the trends in total premium business of LIC of India, private insurance companies and total premium business of insurance industry in India. They opined that the NBFCs, especially, insurance institutions play important role in the growth of financial market. The study found that the life insurance market in India is under-developed and the insurance penetration is hardly 20% of the total insurable population.

Bose Rajendra (2011), commented that insurance business today, is one of the most potential financial sectors with global insurance industry valued at approximately \$2.5 trillion servicing both life and non life markets. The potential in the insurance sector was realized by government in the mid

nineties and took a landmark decision in the year 2000 to open insurance market to private sector and foreign companies by establishing IRDA. Since then, the insurance companies are vying and competing each other through innovative products, distribution channels and aggressive sales and marketing strategy to acquire major share in the pie. He further commented that though the annual growth of insurance in India is 15 to 20% and largest number of insurance policies in force, the potential of Indian insurance industry is enormous. He stated that 92% of world's insurance premium is generated by industrially developed countries while the share of emerging countries is hardly 8%. He further stated that there is a close relationship between economic development and insurance.

OBJECTIVE OF THE STUDY:

The study was undertaken to assess the performance of LIC in the pre-liberalized era in regard to New Business Procured, Number of Branches, Social Sector Investments and the rural business.

METHODOLOGY:

The study is descriptive in nature that highlights the performance of LIC in pre-liberalized era i.e. before 2000. The statistical tools such as average, percentage etc. are brought in use. MS Excel and SPSS software were used for analysis and interpretation of data.

Data Collection:

The study mainly depends up on the secondary data. References books, Research journals, Reports, related web sites are the main sources of data collected.

Analysis and Interpretation of Data:

The performance of LIC of India is assessed with the help of the parameters such as New Business procured, Rural Business, Investment in Social Sector and Number of Offices of life insurers. This has been shown in the following tables.

New Business:

New business procured is one of the important indicators of the assessment of performance of an insurance company dealing in life or non-life segment. New business comprises of sale of new policies of different types by the insurer in a particular year. The policies lapsed after within first year of its selling are excluded.

Following table shows the picture of New Business of LIC of India after nationalization but before opening of life insurance market:

Table 1
New Business Procured by LIC after Nationalisation
(Including group business)

(In Rs. Crore)

Year	Business In India	Business Outside India	Total Business
1956-57	277.67	5.40	283.07
1969-70	1025.80	10.28	1036.08
1979-80	7998.16	11.22	8009.08
1989-90	43490.34	100.00	43590.34
1999-2000	158110.37	340.00	158450.37

Source: Bodla B.S., Garg M.C. and Sing K.P.(2004), Insurance: Fundamentals, Environment and Procedures, Deep and Deep Publications Pvt. Ltd., New Delhi, p.133.

In the above table, it is observed that the growth of new business in India is beyond expectation in the post nationalization period and before the establishment of Insurance Regulatory and Development Authority (IRDA). In 1957 new business procured was just Rs. 277.67 crores which increased to Rs.7998.16 crores in 1980 and Rs.158110.37 crores in the year 2000. The percentage growth of new business is really astonishing which is 2780.45 % in 1980 and 59841.85 % in the year 2000. The growth of new business of LIC outside India also showed same trend. In 1957, new business of only Rs.5.40 crores was procured which reached to Rs 11.22 crores i.e. 107.77 % and Rs 340.00 crores i.e. 6196.29% in the years 1980 and 2000 respectively.

NUMBER OF OFFICES:

Numbers of offices of LIC of India are the different types of operational offices spread over the country. The offices include- The Zonal Offices, Divisional Offices, Branch Offices, Sub-Offices and Departmental Offices. After nationalization LIC of India has established a wide spread network of these offices all over the country so as to have access to the people residing in any corner of the nation. The following table gives an idea of the number of offices of LIC of India in India after nationalization but before opening of life insurance market:

Table 2
Number of Offices of LIC since Nationalization

Sr.	Year	Zonal Offices	Divisional Offices	Branch offices	Total Offices
1	1957	5	33	195	278
2	1963	5	36	340	735
3	1975	5	41	651	831
4	1985	5	43	1107	1160
5	1995	7	100	2021	2128
6	2000	7	100	2048	2155

Source:

- Bodla B.S., Garg M.C. and Sing K.P.,(2004), Insurance: Fundamentals, Environment and Procedures, Deep and Deep Publications Pvt. Ltd., New Delhi, p139.*
- Kothari N. S. and Bahl Pravin, (1990), 'Principles and Practice of Insurance', 1st ed., Sahitya Bhavan, Agra-282003, p177.*

Above table shows that during the post nationalisation period, the number of offices of LIC of India has increased to a large extent. Especially, after 1975 there is rapid increase in the number of both Divisional and Branch Offices. After 1975, each decade shows almost double increase in the number of branch offices. In 1963, the number of Branch Offices was just 195 which increased to 2048 in the year 2000. While the Divisional Offices increased from 33 to 100 the same period. However, taking into account the geographical spread of India, the network seems insufficient.

Rural Business of LIC of India After nationalisation:

One of the main objectives of nationalisation of life insurance business was to spread the life insurance business in rural India. LIC has played a very important role in rural life insurance penetration in the post nationalization period. Following table shows business of LIC after nationalization but before opening of life insurance market:

Table 3
Rural Business of LIC of India after Nationalization

Year	Policies (in Rs.lakh)	Percentage of rural business to total policies	Sum assured (in Rs.Crore)	% of rural business to sum assured
31-08-1956*	4.21	N.A.	145.51	N.A.
1961	14.62	36.53	598.79	30.49
1965-66	15.75	35.88	789.29	27.95
1969-70	4.61	33.00	251.76	24.50
1975-76	20.09	32.35	2103.92	26.78
1979-80	5.91	28.16	603.77	22.00
1985-86	32.86	37.34	9067.45	30.85
1989-90	30.48	40.29	5818.22	33.69
1999-2000	81.23	54.70	44168.19	47.00

Source:

1. Ali Sajid et. al., 2007, 'Insurance in India', 1st ed., Regal Publications, F-159, Rajouri Gardam, New Delhi-110-027, p59.
2. Narayanan H. 2008, Indian Insurance: A Profile, 1st edⁿ., Jaico Publishing House Mahatma Gandhi Roadm,121, Mumbai 400 001 p59-60.
3. Kothari N. S. and Bahl Pravin, (1990), 'Principles and Practice of Insurance',1st ed., Sahitya Bhavan, Agra- 282003, p.179.
4. 'Tryst With Trust: The LIC Story',(1991), edited by Dharmendra Kumar, published by Bajpai G. N., Manager, (PR &publicity), LIC of India, Central Office, Yogakshema, Bombay- 400 021, p.280.

N. A.; Information Not Available

* On the eve of nationalization.

The above table indicates that both the number of policies issued and sum assured in rural areas by LIC of India have increased tremendously over post nationalization period. Further, the share of rural business also shows growth during the said period which is almost 50% in case of sum assured and more than half of the number of policies issued in the financial year 1999-2000. LIC could procure

14.62 lakh policies and 598.79 crore sum assured in the year 1961 which increased to 81.23 lakh 44168.19 crore respectively in the year 1999-2000.

INVESTMENTS IN SOCIAL SECTOR:

As expected by the then Finance Minister C. D. Deshmukh, it is noteworthy that LIC of India has contributed substantially for social sector. It has been investing huge amount of funds in the social sector since its inception. Following table shows the trend of LIC's investments in social sector after nationalization to the year 2002:

Table 4
Investments of LIC in Social Sector

Year	1957	1967	1977	1987	1997	2002
Total Investment (in crores)	255	799	3281	11806	68068	215392
Social Sector Investment (in crores)	N.A.	198	1554	5193	21749	26582
Social Sector Investment (Percentage)	N.A.	24.8	47.35	45.5	31.90	12.35

Source: Narayanan H., (2008) 'Indian Insurance: A Profile', Jaico Publishing House, Mumbai- 400001, p 62.
N.A.= Not Available

Above table indicates that LIC of Indian has contributed a lot for social sector through investment of the funds. In 1967 investment of LIC in social sector was only 198 crore which increased to 21749 and 26582 crores in 1997 and 2000 respectively. 31.90% and 12.35 % share of the total investment has been in the social sector. However, as compared the share of social sector investment in the years 1977 and 1987, it has come down in the later period.

LIFE INSURANCE IN POST REFORM ERA:

Constitution of Narasimhan Committee for banking sector was the beginning of reforms process in the Indian, Retired Governor of Reserve Bank of India to review the structure of both life and non-life financial sector. The Union Government went a step ahead to make the financial sector reforms meaningful and complete by announcing on February 28, 1993 to appoint a committee under the Chairmanship of R. N. Malhotra insurance industries in India. The committee was assigned the job to examine and recommend the measures for the introduction of the reforms process in the insurance sector.

RECOMMENDATIONS OF MALHOTRA COMMITTEE¹:

1. Private sector should be allowed to enter the insurance sector. This will create competition and lead to improved customer services, improved quality and price of products will increase insurance penetration in the country.
2. There should not be composite insurance companies. No single company should be allowed to transact both life and general insurance business. If a company desires to undertake other line of business, it may do so by forming a separate company.
3. Number of new entrants should be checked by government.
4. The committee recommended that a new company entering in to insurance sector must have minimum paid up capital of ` 100 crores with 40% cap on maximum equity of promoters. While, minimum equity of promoters should not fall below 26% at any time. Further, it was recommended that except promoters, at no time share holdings of a single holder should be more than 1% of the total shares.
5. The committee further recommended that there should be obligation on the new entrants to procure business from rural areas and weaker sections of the society.
6. Any foreign company entering in to this segment should be allowed to do the business in joint venture with Indian company.
7. The insurance companies should upgrade the technology so as to provide effective service and claim management.
8. Income Tax exemption should be given up to a prescribed limit, to self employed, professionals, traders and workers in unorganized sector for the investment in individual pension schemes of insurance companies.
9. Share of government in equity of LIC should be reduced to 50% or 49%.
10. After examining the role of Controller of Insurance and recommended that there should be a regulatory body for the insurance sector.

Considering recommendations of the committee, government of India constituted an interim authority called Insurance Regulatory Authority (IRA) to look into the implementation aspects of the said report. In August 1997, when the IRA bill was put before Lok Sabha, it could not pass. The same bill with some changes was renamed as Insurance Regulatory And Development Authority (IRDA) Bill and was passed by Lok Sabha in December 1999. The establishment of IRDA ended the monopoly of state in insurance sector. IRDA started functioning from April 19, 2000 with N. Rangachary as its first Chairperson along with four full time directors, two part-time directors and twenty five members Insurance Advisory Council.

CONCLUSION:

Thus Indian life insurance has completed a full circle from private insurers prior to independence and up to 1956, then to nationalization of life insurance business and establishment of LIC in 1956 and to opening up of life insurance sector for private insurance companies in the year 2000.

¹ Bodla B.S., Garg M.C. and Sing K.P., (2007), Insurance: Fundamentals, Environment and Procedures, Deep and Deep Publications Pvt. Ltd. New Delhi, p326-329, 409-423.

Narayanan H. 2008, Indian Insurance: A Profile, Jaico Publishing House, Mahatma Gandhi Roadm,121, Mumbai 400 001 1st Edⁿ,p94-99.

LIC enjoyed absolute monopoly over the Indian life insurance market during 1956 to 2000. It played a crucial role to provide social security to the masses in every corner of the country. However, the life insurance density as well as the penetration was at low level as compared to the developed countries.

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