Chapter 4: Life Insurance Industry in India: Post Nationalisation

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4.1 Growth of Life Insurance Corporation of India

After the nationalization of life insurance sector, Life Insurance Corporation of India (LIC) worked as a monopoly in the industry. The following paragraphs discuss about the various performance aspect of the only public sector giant since its formation in 1956.

Business in force

It can be undoubtedly believed that LIC has contributed immensely to the growth of the nation. This may be contributed to the premium it has generated over the years. The table below depicts the performance of LIC in terms of total life insurance business which includes the quantum of new business.

Table: 4.1. Business in Force of LIC (Rs. in Crores)

YEAR	INDIVIDUAL	GROUP
1957	1476.52	5.29
1969-70	6348.09	77.17
1979-80	19242.55	6137.46
1989-90	94823.22	23049.64
1999-2000	536450.82	76384.53

Source: Tripathy and Pal(2005)

It is evident that during the period from 1957 to 2000 the performance of LIC is praiseworthy. The total business in force of the public sector giant has escalated at a very fast pace for both individual and group insurance business. In the case of individual, it increased from Rs. 1476 crores in 1957 to Rs. 19242.55 crores in 1979-80. From 1980 to 2000, the total business in case of individual category increased from Rs.95000 crores in 1989-90 to Rs. 536450 crores in 1999-2000. In the case of group insurance business also an icresing trend is evident. From Rs.5.29 crores business in 1957, it increased to more than Rs.75000 crores by 1999-2000. It is prominent from the above table that LIC grew enormously during the post- nationalisation period.

The table below relates to the new business generated by LIC after the New Economic Policy (NEP) was approved by the Indian government in 1991. It is evident from the table below that the new

individual business premium increased more than double during the period 1993-94 to 1999-2000. In terms of number of policies sold, there was an increase by 60% during the same period. So it may be inferred that the premium per policy had increased during the period. In terms of sum assured, there was an increase from Rs. 41813 crores in 1993-94 to Rs. 91214 crores in 1999-2000, an increase of 120%.

Table 4.2: New Business Procured in India (Individual Assurance)

Year	Annual Premium (Rs. In crores)	No. of Policies (in lakhs)	Sum Assured (Rs. in crores)
1993-94	2507.73	107.25	41813.83
1994-95	2533.90	108.74	55228.50
1995-96	2813.63	110.20	51815.54
1996-97	3345.39	122.68	56740.50
1997-98	3841.12	133.11	63617.69
1998-99	4863.41	148.43	75316.28
1999-2000	6008.28	169.76	91214.25

Source: Bawa (2007)

Life Insurance Fund

The performance of any life insurance company can be judged by the Life Insurance Fund it has generated. Life insurance fund means the corpus fund lying with the life insurer using which investments are made in different avenues to generate income and also loans are disbursed for various purposes. Table below reflects the growth in Life Insurance Fund during the period 1957-58 to 1999-2000.

Table 4.3: Life Insurance Fund of LIC

YEAR	LIFE INSURANCE FUND (in Crores)
1957-58	447.81
1963-64	808.37
1966-67	1123.90
1969-70	1611.03
1974-75	3033.79
1979-80	5818.09
1984-85	11191.09

1987-88	16631.84
1990-91	28400.97
1992-93	40998.29
1993-94	49665.52
1994-95	59978.90
1995-96	72780.06
1996-97	181759.96
1997-98	105832.89
1998-99	127389.06
1999-2000	154043.73

Source: Sadhak (2009) Adapted

The above table reflects that huge corpus was lying with LIC in the aforementioned years. In 1957-58, it was only Rs.447 crores which increased to Rs.49665 in 1993-94. Further, it increased to Rs. 154043 crores at the end of 1999-2000. Hence, LIC efficiently performed its' job in generation of premium income and investment which led to creation of such a huge corpus fund. It should be noted that after the economic reforms took place in 1991, the corpus of the only public sector giant almost quadrupled between 1990-91 and 1999-2000.

Rural Business

Prior to nationalization of the life insurance sector, one of the major deficiencies in the operation of the then life insurers and the provident societies were that they neglected the rural areas. To change this situation, one of the objectives that was set for LIC was to draw its focus towards the rural sector and increase the insurance spread to all corners of the country.

Table below gives information about the progress of LIC and depicts the extent to which it has been able to meet its social obligatory objectives.

Year	% of Policies	% of Sum Assured
1969-70	33.00	24.54
1974-75	31.85	26.37
1979-80	28.20	22.09
1984-85	35.26	29.20

1989-90	41.23	34.33
1993-94	45.3	39.9
1994-95	45.1	39.1
1995-96	47.7	41.0
1996-97	49.1	42.80
1997-98	51.0	43.3
1998-99	54.7	47.0
1999-2000	57.5	48.7

Table 4.4: Rural Business of LIC

Source: Bawa (2007) and www.pib.nic.in

In terms of percentage of policies sold in the rural areas, a continuously increasing trend is observed. From 33% in 1969-70, it has increased to 45% in 1994-1995 and further went up to 57.5% at the end of the last century. In proportion to sum assured also, there was a tremendous increase during the same period. In 1969-70, only 25% of the total sum assured was from policies sold in the rural region which improved slightly over the years. In 1989-90, it increased to 34% which increased further to almost 49% by the end of 1999-2000. Thus, the commendable performance of LIC has justified one of the prime causes behind nationalization of the industry in 1956. The rural-oriented focus of LIC is evident from the supporting data. Despite LICs overwhelmed performance for 44 years since its formation, even today, nearly 80% of the country's population remains uninsured. At the national level also, our country is highly under-penetrated compared to those of the developed as well as the other developing nation of the world. This paves the way for the potential insurance companies to grow their market in India.

Investments made by LIC

LIC has also made huge investment for the development of the nation and the public sector of the country. The following table gives details about the investment by LIC in the public and other sectors

Table 4.5: Investments made by LIC

As on	Amount (in Rs. crores)	Percentage Investment		
		Public Sector	Cooperative	Private
31.12.57	329.75	77.3	NIL	22.7
31.12.63	678.81	76.8	3.3	19.4
31.3.70	1528.66	73.6	9.5	16.5
31.3.76	3134.64	76.3	11.8	11.9
31.3.80	5747.51	63.4	9.7	12.5
31.3.84	9613.74	79.3	10.2	10.5

31.3.90	20503.74	79.8	6.5	13.7
31.3.94	46560.63	82.1	3.9	14.0
31.3. 95	56182.44	82.9	3.3	13.8
31.3.97	82665.17	84.58	2.49	12.93
31.3.2000	139032.15	84.2	1.5	14.3

Source: Mishra and Mishra (2008)

Above table highlights the huge investment that LIC has been making over the years. In 1957, the investment amount was Rs. 329.75 crores and more than 75% of the investment was in public sector. The amount has increased in 31.3.70 which was Rs.1528.66 crores. It further increased to Rs.5747.51 crores on 31.3.80. But after the economic liberalization in 1991, the investment scenario gained momentum. It shooted up to Rs.46560.63 crores on 31.3.94 and further increased to Rs.139032.15 crores at the end of 1999-2000.

A detailed analysis at the percentage of investment in the public and private sector reveals that the focus of investment was heavily skewed towards the public sector. From 1957 to 1976, the investment in the public sector was around 75% which increased to around 80% in 31.3.90. The situation aggravated further and percentage investment in the public sector escalated to 84% on 31.3.2000.

4.2 Deregulation of Insurance Sector

The storm of economic and financial reforms and the measures taken by the Indian Government since 1991 has shaped the present life insurance industry. With the initiation of New Economic Policy(NEP) in 1991 and commencement of reforms in the banking sector and the capital market, the Government of India identified the need to bring structural changes in the insurance industry as well. In early 1990s it was realised that the growth of the economy could not be sustained if the insurance industry remained entirely state-controlled. So, there was a call for appropriate regulatory measures to end the state monopoly (C.S.Rao, 2006). Besides, opening up of the insurance market was one of the objectives of the Uruguay Round Negotiations conducted under the patronage of GATT.

<u>Gaps in the Industry Performance before Deregulation</u>

The Government of India initiated the change process because of the following weaknesses found in the sector:

- Poor insurance penetration and density levels throughout the country in both life and non-life insurance
- Lack of competitiveness in the industry
- Inadequate mobilization of long-term savings
- A large gap in pension coverage of the Indians
- Inadequate response to customers' needs
- Lack of innovation in distribution channels
- Excessive policy lapses
- Poor quality of work culture
- Poor pace of technology up-gradation.

Malhotra Committee and its Recommendations

In April 1993, the first leap towards reforms in the insurance sector was initiated. The Government appointed an eight-member Committee for bringing reforms in the Insurance Sector of India (known as the Malhotra Committee) headed by the former Finance Secretary and RBI Governor, R.N. Malhotra. It was constituted to assess the Indian Insurance Industry and recommend its future path. The prime objective of this Committee was to complement the reforms of overall financial sector of India. The reforms were aimed at "creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms…". In a nutshell, the Committee was given the responsibility to:

- Examine the structure and existing regulation of the insurance industry,
- Assess its strengths and weaknesses so that it could help in not only providing high quality services to the public but also serve as an effective instrument for mobilization of financial resources for development,
- Review of the then existing structure of regulation and supervision of insurance sector, and

- Suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment.

In 1994, the Committee submitted its report in which highlighted the following three major recommendations:

(a) To offer autonomy to the insurance service providers

(b) To open the industry to private players and

(c) To form an independent regulatory authority in order to ensure a level- playing ground to the private players.

The other key suggestions covered the following points: (Adapted from www.indiacore.com/insurance.html)

1) Structure

i. The Indian insurance companies should be formed and registered under the Companies Act, 1956
ii. Government's stake in the insurance companies was required to be brought down to 50%.
iii. Government should take over the holdings of GIC and its subsidiaries so that they can act as independent corporations.
iv. All the insurance companies should be given greater freedom to operate.
v. The aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees should not exceed 26% paid- up capital of the Indian insurance company. In other words, upto 26% foreign direct investment only was suggested by the Committee.

2) Competition

i. Private companies willing to enter the industry were required to have a minimum paid-up capital of Rs.1 billion.
ii. The required minimum paid-up capital for carrying out the re-insurance business was Rs. 2 billion.
iii. A single company should not deal in both life and non-life insurance. In other words, they were allowed to operate either life or general insurance business.
iv. Foreign companies could be allowed to enter the industry, but only through collaboration with domestic players.

v. Postal Life Insurance should be allowed to operate in the rural market.
vi. Only one State Level Life Insurance Company should be allowed to operate in each state.

3) Regulatory Body

i. The Insurance Act should be changed.
ii. An Insurance Regulatory body should be set up.
iii. The Controller of Insurance (then a part of the Finance Ministry) should be made independent.

4) Investments

i. The mandatory investments in government securities by LIC out of its Life Fund were to be reduced from 75% to 50%.
ii. GIC and its subsidiaries should not hold more than 5% in any company.

5) Customer Service

i. LIC should pay interest on delays in payments beyond 30 days.
ii. Insurance companies should be encouraged to set up unit linked pension plans to give them higher returns.
iii. Upgradation of technology and computerization of operations was proposed to be carried out in the insurance industry
iv. The industry should be opened up to competition which would lead to an increase in the coverage of insurance.

Few other important proposals included the following:

i. Improving the commission structure for agents so that they procure business from the rural areas.
ii. Developing insurance plans for the economically backward sections of the society.
iii. Focusing on sale of life insurance policies to the rural areas and the social sector of the society.
iv. Creating the provision for selling life insurance policies through co-operative societies. (Source:http://lawcommissionofindia.nic.in/consult_papers/insurance%201-27.pdf)

4.3 Formation of IRDA

In the month of September of the year 1996, the government issued an executive order to establish an interim regulatory authority and thereby decided to implement a regulation for setting up an independent authority and end state monopoly in the insurance sector. After another three months i.e. in December 1996, the Insurance Regulatory Authority Bill was introduced in the Parliament of India with a view to protect the interests of the policyholders and also to ensure growth and prosperity of the insurance sector. The Bill was then referred to the Standing Committee in the Ministry of Finance which submitted its report in the month of May 1997. The recommendations of the Committee were incorporated in the bill but it could not be passed and thus the bill was withdrawn.

When the new government was formed in the Centre, it was announced in the budget speech that the sector would be opened up to the private players and a separate regulatory authority would be set up. Subsequently, the Insurance Regulatory Authority (IRA) Bill was introduced in December 1998. The Standing Committee considered the Bill and suggested certain modifications which were incorporated. Further on 16th March, 1999, the Indian Cabinet approved Insurance Regulatory Authority (IRA) Bill which was intended to liberalize the insurance sector which further awaited ratification by the Indian Parliament. But the BJP government fell in April 1999 and the deregulation was again put on hold. However, an election was held in late 1999 and new BJP-led government came to power. In the latter half of the year 1999, a new Bill containing the proposed changes was placed before the Lower House. Finally on 7th December, 1999, the Parliament passed the Insurance Regulatory and Development Bill which was subsequently passed by the President of India on 29th December, 1999. With the enforcement of the Insurance Regulatory and Development Authority Act, 1999 (IRDA Act) and the formation of IRDA (on 19th April, 2000), the insurance sector was deregulated and opened up for competition from Indian Private firms and joint ventures of Indian private and foreign insurers (with 26% FDI restriction). The Act aimed to regulate, promote and assure orderly growth of the insurance industry on one hand and also to protect the interests of policyholders on the other.

After the passage of Insurance Regulatory and Development Authority Act, 1999 (IRDA Act) and formation of the IRDA on 19th April, 2000, the responsibility for better regulation of the industry and taking measures for protecting the interests of the policyholders, in particular and the society at large was transferred to IRDA. The following paragraphs discusses about the mission, duties, powers and functions of IRDA and also highlights the initiatives taken by it to meet its objectives.

Mission Statement of IRDA (Adapted from www.irdaindia.org)

The IRDA has a very important role to play. On the one hand, it has to ensure the development and growth of the industry and on the other, it has to protect the interest of the policyholders. The long-term objectives of the regulator as given in the mission statement are as follows:

i. To protect the interest of policyholders and secure fair treatment to them.
ii. To bring about speedy and orderly growth of the insurance industry for the benefit of the common man and to provide long term funds for accelerating the economic growth.
iii. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing, and competence of those it regulates.
iv. To ensure that insurance customers receive precise, clear, and correct information about products and services and make them aware of their responsibilities and duties in this regard.
v. To ensure speedy settlement of genuine claims, to prevent insurance frauds, and other malpractices and put in place effective grievance redressal machinery.
vi. To promote fairness, transparency, and orderly conduct in financial markets dealing with insurance and to build a reliable management information system to enforce high standards of financial soundness amongst market players.
vii. To take action where such standards are inadequate or ineffectively enforced.
viii. To bring about optimum amount of self-regulation in day to day working of the industry, consistent with the requirements of prudential regulation.

Duties, Powers and Functions of the IRDA (Adapted from www.irdaindia.org)

The basic responsibility of the regulator is to regulate, promote and ensure orderly growth of the insurance and re-insurance business. Section 14(1) of the IRDA Act, 1999 lays down the following duties, powers and functions of the insurance regulator:

i. Issuing the certificate of registration and renewing, modifying, withdrawing, suspending or cancelling such registration,
ii. Protecting the policyholders' interests,
iii. Specifying the requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents,
iv. Specifying the code of conduct for surveyors and loss assessors,
v. Promoting efficiency in the conduct of insurance business,

vi. Promoting and regulating the professional organizations connected with the insurance business,

vii. Imposing / levying penalty / fees on the companies as and when required,

viii. Regulating the investment of funds by insurance companies,

ix. Asking for information and clarifying issues from insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business,

x. Undertaking investigations / enquiries / inspections including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business,

xi. Controlling and regulating the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938),

xii. Specifying the manner in which books of account shall be maintained and Statement of Accounts shall be submitted by insurers and other insurance intermediaries,

xiii. Regulating the maintenance of solvency margin,

xiv. Resolving disputes that may arise by putting in place appropriate mechanisms,

xv. Supervising the functioning of the Tariff Advisory Committee,

xvi. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector, and

xvii. Exercising such other powers as may be prescribed.

4.4 ROLE OF IRDA

Since its establishment in the year 2000 IRDA has been playing a key role in ensuring the development and growth of the insurance sector in our country. The Malhotra Committee, set up in 1993, pointed out that the sectoral reforms in the country should be such that it ensures better regulation and supervision. Accordingly, with the formation of IRDA, the regulator has been dynamically bringing about necessary changes/modifications from time to time in accordance to the demand of the economy. It has been a watch dog on the prominent areas to ensure that the interests of both the policyholders and society are well protected.

Determining Investment Norms of the Insurers

In the first year of its operation, IRDA passed a regulation which specified certain limits on investments to be made in different securities by the insurance companies. The objective was to ensure that the insurers do not expose too much of their investments to market risk and also to trim down the

volatility of their returns. But with the introduction of newer financial products in the market, the regulator has been continuously making amendments so that the insurers can create a balance between income from investments and protection of policyholders' interests by monitoring the limits to be invested in different categories of securities.

In respect to investment in ULIPs, it has been specified that the maximum limit of investment in "other than approved category" is 25% in order to restrict the limit of riskiness in the portfolio and also to ensure its good quality. To ensure investment in good-quality securities, the authority has clearly specified that the money should be invested in only AA grade assets/securities. It has been also mentioned that investment in equities should be restricted to actively traded shares only. However for LIC, which already had a huge portfolio when the market was deregulated, the investment norms were made applicable only on the new investments. Apart from this regulation, the management of life insurers has been asked to submit half-yearly reports to the IRDA with regard to the investments so that constant monitoring is possible. For further closer supervision on the overall portfolio of insurers, guidelines have been passed by IRDA by initializing the concept of "Internal and Concurrent Audit".

Forming other Financial Norms

All companies are required to prepare financial statements that would include all important details like cash flow statements, related party transactions, segment reporting, investments etc. This important information would help the various end users to completely assess the companies correctly. The regulator has also passed certain relevant measures to ensure financial stability of insurers viz. insurers are required to file solvency status four times yearly with effect from 2007-08. The regulator has also passed guidelines for audit of the investment risk management systems and processes. In 2009-10 the IRDA annual report mentioned that henceforth all insurers will be required to submit details about their economic capital in order to develop the capital efficiency.

Making Rural and Social Sector Obligations Mandatory

One of the major drawbacks in the performance of insurance sector in the pre-liberal period was the neglecting attitude towards the rural areas and needy sections of the society. Thus, to break this practice, the IRDA has drawn regulations from time to time with regard to mandatory business in the rural areas and towards the social class. The regulator also imposed serious penalty provisions on the non-complier(s). However, the regulation has been updated from time to time and the present mandated business is as follows:

Table 4.6: Mandatory Business Requirement for Private Life Insurers

Financial Year	Rural business (in %)	Social Sector (in %)
First	7	5
Second	9	7
Third	12	10
Fourth	14	15
Fifth	16	20
Sixth	16	20
Seventh	18	25
Eighth	19	35
Ninth	19	45
Tenth	20	55

Source: IRDA Annual Reports

Note: The percentage is calculated based on total policies issued.

However, the business quantum in respect of LIC is slightly different from what is mentioned in the above table. Moreover, if the period of operation is less than six months and the starting point of operation is in the second half, there would be no rural / social obligation. Further, in the case of operation for more than six months, the mentioned obligations will be discounted by 50%.

"Rural sector" shall mean any place as per the latest census which has —

(i) a population of not more than five thousand;

(ii) a density of population of not more than four hundred per square kilometre; and

(iii) at least seventy five per cent of the male working population is engaged in agriculture.

The term "Social sector" includes unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas.

(a) "Unorganised sector" includes self-employed workers such as agricultural labourers, bidi workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and khadi workers, lady tailors, leather and tannery workers, papad makers, vegetable vendors, washerwomen, working women in hills, or such other categories of persons.

(b) "economically vulnerable or backward classes" mean persons living below the poverty line.

(c) "other categories of persons" includes persons with disability as defined in the Persons with Disabilities (Equal Opportunities, Protection of Rights, and Full Participation) Act, 1995 and who may

not be gainfully employed and also includes guardians who need insurance to protect spastic persons or persons with disability. Thus, it is clear that the definition covers all types of people who should be covered by insurance. The regulator has clearly mentioned the responsibility of the insurer in terms of doing business in rural areas and amongst the social sector / vulnerable classes of the society. To boost the matter further, Micro- insurance Regulations have been also passed by the IRDA in 2005 to promote micro insurance products which are low-premium products targeted for the social sector.

Passage of Micro-insurance Regulations, 2005

With the need to insure the social sector, IRDA passed the Micro-insurance Regulations in 2005. It refers to the type of insurance that has the following characteristics:

(i) Low premium

(ii) Pricing based on individual or group risk

(iii) Low coverage limits

The aim was to promote Micro-insurance (MI) products through distribution channels with the license being granted to NGOs, SHGs, Microfinance institutions and the Primary Agricultural Credit Societies. The above named licensees have been considered as agents because of their nearness to the members of the rural society which will help to collect the correct inputs which will ultimately result in a right combination of product and price. Further, the IRDA has allowed insurers to issue policies with a maximum cover of Rs. 50,000 for general and life insurance under these Regulations. The insurer will be required to take IRDA's prior approval for launching MI products through the "file and use" mode. The maximum cover allowed is Rs. 30,000 per annum for a dwelling and contents or livestock or tools or implements or other named assets or crop insurance against all perils. For individual and group health insurance, the maximum cover is Rs.30,000 per annum per individual. In case of life micro-insurance products, the cover amount for term insurance ranges between Rs. 5,000- Rs.50,000 for a minimum term of five years and maximum of 15 years. The entry age for this product is kept between 18-60 years. Endowment insurance policy provides cover for Rs. 5,000-30,000 for a minimum five years and maximum 15 years for people aged between 18 and 60.

Customer-Centric Approach

The first initiative of IRDA was to ensure that the policy documents are simple and understandable. So, it passed a regulation requiring insurers to publish documents written in a manner that it could be easily understood. This would enable the interested buyers in understanding the policy terms and take a learned decision. In 2001-02, the regulator had also introduced the provision of free look-in period

wherein an insurer had the right to try a policy and return it, if s/he is not satisfied. Further, in order to see that policyholders receive justice at proper time, IRDA has been keeping an eye on the speedy settlement of claims. In case of any disputes, a grievance handling cell has been asked to be opened by each insurer to speedily resolve such matters. Customer servicing is an important ingredient in determining the level of customer satisfaction. With this view, a system of premium calculator has been asked to be introduced in the website of each company apart from the system of online payments. Few other recent customer-centric measures include to have simplicity of language in documents in respect of premium amount, payment period, risks, consequences of discontinuance, charges etc. and also policy verification call acknowledging the policy details so that the customers are made known about all important characteristics before investing in a particular policy.

The recent trend is towards investment in Unit Linked Insurance Products (ULIPs). Policyholders are giving more priority towards appreciation of investments rather than risk management which is the prime reason behind insurance. But, due to the financial meltdown, these market linked policies have taken a severe beating and in most of the cases, market value of the investment is less than the capital invested. As a result, the premium payment is discontinued due to which a huge loss is incurred by the investor. So, to combat this situation, the regulator has stipulated minimum premium payment period of five years (i.e. raised from three years) in September, 2010, the range of risk coverage and also net asset value calculation method. With effect from the year 2009-10, some of the initiatives taken on ULIPs include the payment of a minimum guaranteed return and allocation of the management expenses over five years, instead of dumping maximum amount in the initial years. In order to protect the interest of the investors, it has been made mandatory for the insurers to submit to the IRDA, guaranteed and non-guaranteed benefits for each policy year in the case of ULIPs. From the year 2009-10, the regulator has asked all insurance companies to disclose information in print media and in the website of companies. The regulator is also in a continuous process of collecting, processing and disseminating information through the Insurance Information Bureau which has been assigned task for the same. Therefore, all these measures are in favour of the customers and will definitely lead to increase the confidence of the public on the insurers.

Ensuring better Corporate Governance

IRDA introduced a regulation in the year 2000 to maintain transparency in the disclosure in financial statements. It ensured that the management report mentions different important aspects relating to insurance business like the overall risk exposure of the business, claims settlement time record, solvency margin ratio etc.

The directors and top management of insurers adopted measures to concentrate on better corporate governance practices. In this view, Corporate Governance Guidelines have been passed in 2009-10 which were actually put into effect from 01.4.2010. The management of companies required to take increased interest and responsibility in areas like governance structure, disclosures, formation of mandatory committees, whistle blowing policy and investor protection amongst others. To improve the role of the senior management, the structure, responsibility and the functions of the Board of Directors have been mentioned in the guidelines. Further, to ensure better performance and unbiased decision-making, the formation of certain committees like Audit, Investment, Risk Management, Asset-Liability Management and Policyholder Protection have been made compulsory while Remuneration, Nomination and the Ethics Committee have been made optional.

Measures adopted for better Training and Service

IRDA has been taking active measures from time to time to improve the quality of agents. So, it has mandated 100 hours of training for them (at the time of granting new license) and 25 hours (at the time of renewal). It has also taken active steps for ensuring better and more responsible, long-term focused intermediaries. The regulator has accredited more than 500 agents training institutes across the country in order to generate more number of jobs for the young generation.

IRDA has taken initiatives to make sure that there are no new cases of mis-selling, grievances of customers are settled fast, businesses are conducted as expected and maximum disclosure is made in advertisements. This will in turn not only increase the trust of the public on the overall insurance industry but also raise the standards of ethical and professional performance. Thus, this will help to raise the confidence on insurance as a product which will help to realize future dreams.

Spreading Insurance to all parts of the Country

One of the major objectives of any regulator is to ensure growth by emphasizing on professional and ethical conduct. So, IRDA has rightly allowed several forms of financial institutions and bodies like the banks, NBFCs, RRBs, Co-operative Banks, Panchayats, and NGOs etc. to carry out insurance business. In order to increase the insurance awareness among the public, awareness campaigns, seminars, consumer education programmes are regularly taken up by the regulator.

Therefore it is obvious that IRDA has been actively coming up with different regulations and practices from time to time. The pace at which the industry is growing reflects the development that the regulator has been able to spawn. Though the overall industry has been doing better, still there is a lot to be done.

Adhering to International Standards

IRDA is continuously developing regulatory standards so that they are in commensurate to the policies being adopted by the developed nations. Thus, in due course of time it will help to raise the industry standard at par to those of the developed economies. So, it is trying to harmonise with the 17 core principles issued by the International Association for Insurance Supervisors (IAIS). Further, to upgrade the regulatory level, it is in continuous touch with several international bodies like the IAIS, National Association of Insurance Commissioners (NAIC), Canadian Institute of Actuaries etc.

Promotion of Insurance as Profession

With a to make insurance more popular as a profession, IRDA has taken steps like granting approvals to a few selected institutes to provide diploma or degrees on various courses in insurance. Along with creating chances for having more number of intermediaries, the regulator is imposing a culture that will develop professionalism in insurance, risk management and actuarial sciences. Thus, customers will get better guidance through correct financial counselling.

4.5 Liquidity Structure of LIC: A comparative study

The life insurance companies are vulnerable to the liquidity risk and might run into insolvency if proper precautions are not adopted. Life Insurance Corporation of India (LICI) enjoyed a monopoly since its inception in 1956 to the opening up of insurance sector to private participants in the year 2000. The study aims to analyze the liquidity position of LICI in the past two decades. The study tries to identify the changes in the liquidity structure of LICI after opening up of the insurance sector in India. The study also tries to throw some light on the profitability aspect of LICI in this liberalized regime. It is revealed from the analysis that LICI posses a sound liquidity position with an increasing trend of profitability even after opening up of the insurance sector during last one decade. Liquidity can be termed as having sufficient resources to meet the financial obligations on time at a minimum cost. It is the amount of firm's internal cash flow which may be used to meet its current obligations. Liquidity can pose a threat to the firm as there are chances of funding crisis and this is termed as liquidity risk. Unforeseen events such as a large claim, a write down of assets or a legal crisis can cause liquidity risk. Considering the financial services sector, it is generally believed that there is a lower probability of the insurance companies to run into difficulties over liquidity issues as compared to the banking companies. (Newton et al, 2009; Lorent, 2008). But in any case if liquidity becomes a problematic issue for the insurance companies, then that will generally become a serious issue and sometimes it may push a company to become insolvent.

The insurance companies operate with many unknown threats from the environment, like: i) loss due to natural calamities may result in bulk claims payments or ii) a sudden change in the rate of interest

may instigate the policy holders towards withdrawals through surrender of policies. Simultaneously, if we concentrate on the assets of the insurance companies it will be observed that their assets are sometimes less liquid as they invest in private placement and real estates. When these assets are not enough liquid to cover the liabilities due it is obvious that an insurer will certainly become insolvent. Thus, it is important for an insurer to maintain sufficient funds (i.e. liquidity) to easily handle any demand for cash due to expected or unexpected events.

Liquidity of a firm also has an impact over the firm's ability to obtain finance. The better the liquidity position of the firm, the better will be its position in the market to obtain funds, the more are the prospects for its growth. On contrary lack of liquidity may adversely affect the continuity of the activities of the life insurance companies'. Liquidity analysis reflects the firm's ability to meet its current liabilities using its current assets. It measures resource availability of the firm for discharging its short term debt obligations. The various interested stakeholders viz. investors, lenders and regulators usually analyze liquidity of any firm in order to ascertain how well equipped it is to meet its debt obligations in future.

Liquidity ratios are used to measure the company's ability to meet its short term debt obligation. Low or decreasing ratios generally indicate that a firm is over leveraged i.e. paying bills too fast or collecting receivables too slowly. On contrary if the ratios are high or increasing it implies that a firm is under-leveraged i.e. quickly converting receivables into cash and thereby easily able to meet it's financial obligations. At the same time it should be borne in mind that a high current ratio is not always good and a low current ratio is not always bad. Further, liquidity ratios have its inherent drawbacks. It does not take into account the level and timing of cash flows which determine the ability of a company to pay off its liabilities when it becomes due. The quick ratio also assumes that accounts receivables are readily available for collection which may not be always true. Finally, the formulae assume that a firm would liquidate its current assets to pay current liabilities, which may not always materialize, as some amount of working capital is always required to maintain operations. In spite of these limitations, liquidity ratios are most commonly used because it provide an insight into firm's ability to pay off its current liabilities and also reflects the firm's efficacy with which it manages its current assets.

In the financial services sector, it is believed that there is a lower probability of the insurance companies to run into difficulties over liquidity issues as compared to the banking companies.(Newton et al, 2009; Lorent,2008).The insurance theory states that the Life insurers require less liquidity than the non-life insurers due to the sufficiently long-term nature of the business (Shiu 2006). The life insurers imposes high surrender charges which are either explicitly stated or implied implicitly as one of the feature in the contract issued by them(Babel and Santemaro, 1997). Therefore, these charges lowers the

vulnerability of life insuring companies to liquidity risk which may happen due to premature policy withdrawals(Herrington 1994).

Basically two distinct features, first the long duration of liabilities in the life insurance industry(compared to banks and non-life insurers) and second high surrender charges make the life insurance companies less susceptible to liquidity risk(Lorent, 2008). But that does not eliminate the chances of a life insurance company to go into doldrums due to liquidity risk. A glimpse from history reminds us of various experiences where several well known life insurance companies ended up to be big failures due to liquidity problem (Shiu 2006;Babel and Santemaro, 1997). Thus, it can be well established that the life insurance companies does need to manage the liquidity risk in an efficient manner otherwise severe consequences may be waiting ahead.

The objectives of the Study are:

- To analyze the overall liquidity aspect of the Corporation.
- To examine the relationship with liquidity and profitability.
- To analyse the changes in the liquidity aspect of LICI after opening up of the insurance sector.

The study has considered the annual reports of Life Insurance Corporation of India (LICI) for a period of last twelve years which falls in the liberalized regime. The annual reports and published accounts are obtained from the different annual reports of LICI in the post competitive decade. Here, the various components of working capital are evaluated on the basis of its fundamental principles. Here, Ratio analysis and other relevant statistical tools have been used to evaluate the relationship between liquidity and profitability of LICI. Here, the regression equation has been used to find out the change in the profitability due to change in the working capital employed.

Findings and Analysis

Table:4.7: Liquidity Position of the Insurance sector (1988-89 to 2011-12)

Year	Rate of Change in Current Assets(%)	Rate of Change in Current Liabilities(%)	Current Ratio	Year	Rate of Change in Current Assets(%)	Rate of Change in Current Liabilities(%)	Current Ratio
1988-89	24.2	39.1	2.62	2000-01	23.17	-9.04	3.62

1989-90	41	13.4	3.26	2001-02	35.41	42.95	3.43
1990-91	26.1	23.9	3.32	2002-03	10.17	94.56	1.94
1991-92	22.8	14	3.57	2003-04	-2.41	59.36	1.19
1992-93	9.2	21.8	3.20	2004-05	4.94	-0.79	1.26
1993-94	27.8	42.6	2.87	2005-06	16.60	0.66	1.46
1994-95	26.4	34.1	2.70	2006-07	10.54	-4.88	1.69
1995-96	20.9	17	2.79	2007-08	24.71	8.99	1.94
1996-97	13.9	14.1	2.79	2008-09	13.83	-11.31	2.49
1997-98	47.1	8	3.80	2009-10	1.57	11.80	2.26
1998-99	7.7	31.9	3.10	2010-11	23.98	-24.77	3.72
1999-2000	7.1	24.2	2.67	2011-12	61.83	95.16	3.09

Source: Calculated

In this liberalized era, the current assets have been gradually increasing except the year 2003-04 where there was a negative growth. The current assets increased 4.69 times in these twelve years which indicates a strong growth in the business of LICI. The current liabilities have also grown up simultaneously. In the year 2002-03 the increase was as high as 94.56% as compared to the year 2001-02. Again in the year 2011-12, the growth was the highest during this period (95.16%). In many

occasions we find that there has been a negative growth in the current liabilities viz. financial years 2004-05, 2006-07, 2008-09 & 2010-11.

Current Ratio (CR) is an important indicator of the liquidity position. It has been revealed that CR of LICI was 3.62 in the year of liberalization. It dripped down to as low as 1.19 by 2003-04 because the current assets faced a negative growth whereas the current liabilities experienced a high rate of positive growth. But it can be inferred that LICI had tried to manage its liquidity position by reducing its current liabilities whenever the CR came down.

According to the study by Wild et al.(2007) and Walsh(2006), current ratio of 1:1 is considered to be the ideal ratio for the insurance sector. LICI had a higher current ratio in all the years as compared to the industry standard. So, it can be inferred that that there are least chances of LICI to face the liquidity trouble as it has a high current ratio. LICI had the least Current ratio of 1.19 in the year 2003-04 but that is also above the industry standard. The study further tries to analyze the working capital position of the firm which is enumerated in the following section.

Table 4.8: Working Capital (rate of change)

Year	Working Capital (Rs.In Lakh)	Rate of Change (%)	Year	Working Capital (Rs. In Lakh)	Rate of Change (%)
2000-01	1261354	42.41	1988-89	97247.84	17
2001-02	1671753	33	1989-90	153684.5	58
2002-03	1260913	-25	1990-91	195304.4	27
2003-04	403421	-68	1991-92	247140.1	27
2004-05	545512	35	1992-93	257667	04
2005-06	973572	78	1993-94	311951.9	21
2006-07	1404902	44	1994-95	381442.5	22
2007-08	2070718	47	1995-96	470091.6	23
2008-09	2912445	41	1996-97	534507.5	14
2009-10	2757590	-05	1997-98	903265.3	69

2010-11	4486715	63	1998-99	894493	-01
2011-12	6711846	50	1999-2000	885720.3	-01

Source: Calculated

Working capital is the excess of current assets over current liabilities of a firm. Working capital is the capital required to carry out the day to day activities of the firm. Insurance Industry is considered to be a capital intensive industry.The investments are blocked for a long period of time; thereby it is considered to have lower level of liquidity. The life insurance companies are appraised on the basis of their ability to settle the claims of their customers. So, it is very essential for the life insurance companies to have sufficient liquid funds to settle the claims of the insured as and when it occurs.

The working capital position of the firm reflects an overall increase of 432% in these twelve years. It was found that in the year 2003-04, the working capital was lowest because the cash balance and the advances decreased by 2.41% but the current liabilities had a steep increase of 59.6% from the last year. However it can be observed from the above bar diagram that from the year 2004-05 onwards the working capital position of the firm has been gradually increasing. The year 2009-10 experienced a decline of 5% but after that in the last two years there has been a commendable growth in the working capital position of the firm. It is because in the year 2010-11 the current assets has increased to a great extent but current liabilities decreased; it indicates the strong liquidity position of the corporation after opening up of the insurance market. In the year 2011-12 we can observe that the current assets and the current liabilities both increased but the increase in the current assets is quite less than the increase in the current liabilities as a result the working capital has increased but not at a lower pace than the earlier year.

Table 4.9: Profit After Tax (Rate of change)

Year	Profit After Tax (Rs. In Lakh)	Rate of Change(%)	Year	Profit After Tax (Rs. In Lakh)	Rate of Change(%)
2000-01	31665	13	1988-89	2944.19	38
2001-02	82179	160	1989-90	3903.05	33
2002-03	49697	-40	1990-91	4929.13	26
2003-04	55181	11	1991-92	6290.42	28

2004-05	70837	28	1992-93	6306.9	0.26
2005-06	63158	-11	1993-94	8667.53	37
2006-07	77362	22	1994-95	10313.08	19
2007-08	84463	09	1995-96	12801.16	24
2008-09	95735	13	1996-97	14979.9	17
2009-10	106072	11	1997-98	18072.93	21
2010-11	131334	24	1998-99	23069.51	28
2011-12	117180	-11	1999-2000	28066.09	22

Source: Calculated

The profitability position of the firm has been represented by Profit after Tax (PAT) position of the firm. It can be observed that there has been a huge increase in profit after tax from 2000-01 to 2001-02.The rate of increase was 160%. But after that the profit after tax has never increased to that extent. Unfortunately, LICI had a negative growth in profit after tax in three years, viz.2002-03 (40%), 2005-06(11%) and 2011-12(11%). The rise in the PAT in the year 2001-02 may be due to the strong stock market position of the nation which was to some extent affected by the global recession in the later years. However, the overall position of LICI was found to be quite satisfactory as the Profit after tax improved by 270% in the last 12 years. This resembles that LICI is quite capable to earn superior return in this competitive environment.

Table 4.10: Comparative Analysis of the Liquidity position

	Mean (after)	**Mean (Before)**	**SD (after)**	**SD(Before)**	**CV(before)**	**CV(after)**
CA(Rs. in lac)	4049915.17	657786.73	2260312	453473.23	1.791751	1.450553
% ^ in CA	0.19	0.23	0.173732	0.1248559	1.076106	1.83011
CL(Rs. in lac)	1844853.50	221335.81	732877.4	151555.43	2.517274	1.460428
% ^ in CL	0.22	0.24	0.412121	0.1110848	0.531202	2.131254
WC(Rs. in lac)	2205061.75	444376.31	1823185	298336.24	1.209456	1.489515

% ^ in WC	0.28	0.23	0.408894	0.2132914	0.683516	1.092995
CR(Rs. in lac)	2.34	3.06	0.921394	0.3789387	2.539736	8.068864
PAT(Rs.inlac)	80405.25	11695.32	28939.85	7991.295	2.778357	1.463508
% ^ in PAT	0.19	0.24	0.480226	0.1018378	0.399841	2.393495

Source: Calculated

The mean position reflects a sound position in terms of all the parameters which resembles that LICI is less likely to have liquidity trouble. The standard deviation is quite high this resembles that the Current assets, Current liabilities and Working capital are quite dispersed over the years. This is because there has been a tremendous growth in the last twelve years. However, the standard deviation of current ratio is comparatively low which depicts that the CR of the firm is quite steady. This is also a good indicator of the liquidity position of the firm. The Profit after tax position of LICI was on an average Rs. 80405 lakh in the last twelve years. The standard deviation is comparatively quite low. This implies that there has been more or less a steady growth with few exceptions in the last twelve years.

Table 4.11: Working Capital / Current Ratio and Profitability: Correlation

Correlation (Entire period)	**Working Capital**	**Current Ratio**
Profit After Tax	0.83	-.27
Correlation (Before)	**Working Capital**	**Current Ratio**
Profit After Tax	0.96	-.13
Correlation (After)	**Working Capital**	**Current Ratio**
Profit After Tax	0.80	0.38

Working capital is an important contributor to the earnings of the firm. So, the study examined the correlation between the profit after tax and the working capital of the firm. The study revealed that there is a strong positive relation between the profit after tax and the Working capital invested by the firm. To confirm the earlier findings a correlation between the current ratio and the profit after tax was undertaken. It was revealed that Current ratio has a negative correlation with the profit after tax during

the entire period. But after liberalization we find that Current ratio has a positive relationship with profit after tax. This resembles that preference for liquidity did not bring a negative impact of the profitability of the firm. In fact it may be observed that LICI had a simultaneous increase in the working capital and the profit after tax position in the liberalized regime. This finding is in commensurate with earlier studies.

Conclusion

The above discussions engulfs around the independent India to financial sector reforms of 1990. After the Indian independence, during the early years of the 1950s, there was a call for nationalization of the life insurance industry which took effect in 1956 with the formation of the LICI. Since then, the public sector giant operated as a monopoly in the industry and contributed tremendously towards the development of the nation. However, with the financial sector reforms taking shape in the 1990s, the Malhotra Committee which was set up in 1994 recommended the opening up of the sector to the private and foreign players. Consequently, the industry was deregulated in 1999 with the passage of the IRDA Act and the formation of the IRDA. The insurance regulator has been playing a very important role in ensuring the sound growth of the industry, protection of the policyholders' interests and development of the society.

The study on liquidity structure indicates that LICI has maintained a strong liquidity position in the past twelve years as in the past. The company had sufficient current assets to meet the current liabilities. The profit position of the company is also considered to be quite satisfactory. It can be inferred that the profit of the firm remains unaffected even after opening up of the insurance sector. This implies that LICI has a strong footing both in terms of its working capital management and profitability even in this era of strong competition.