

# Liberalisation of Life Insurance Market and Performance of LIC: An Empirical Analysis

Manisha Choudhary

Govt. College, Jatauli, Haily Mandi, Gurgaon  
E-mail: manishachoudhary81@yahoo.co.in

---

**Abstract**—Life insurance has an important social objective especially in a country like India where public social security schemes are not so developed. Keeping in view this social objective, the life insurance sector was nationalized in 1956 with the setting up of Life Insurance Corporation of India (LIC) which continued to enjoy a monopoly position for almost fifty years. In 1999, the insurance market was liberalized in line with the general economic reforms in the country and private players were allowed to enter the market to induce competition and harness the full potential of the untapped market. At present, there are twenty four life insurance companies including LIC. It is interesting to see how LIC i.e. the only public sector life insurance company was affected by the private entry. This paper studies empirically, the pre and post liberalization performance of LIC.

## 1. INTRODUCTION

Life insurance is a contract between the buyer and the life insurance company (the insurer). The insurer promises the buyer to make good the loss arising at the time of death of the life insured (who may be the buyer or any other person in whom the buyer has an insurable interest) in return for a regular payment in the form of premium. Since it is very difficult to measure the monetary value of human life, an amount is still fixed taking into account the financial loss arising out of the death of the insured. This amount is known as the sum assured or the value of life insurance which is to be paid to the beneficiaries under the contract.

The origin of life insurance in India dates back to 1818 and the first life insurance company to be set up in India was in Bombay by the name of Oriental Life Insurance Company. Many companies entered thereafter but it was seen that they catered only to the affluent class. Also, many irregularities were seen in their functioning. Keeping these factors in view, the life insurance market of India was nationalized in 1956 and all the existing life insurance companies were merged to form a single life insurance company i.e. the Life Insurance Corporation of India which is popularly known as LIC. LIC remained the single life insurer for almost fifty years and performed its role quite well. There was a fair growth in the spread of life insurance even to rural areas under the LIC Regime. But it was felt that the market remained untapped

and the monopoly status of LIC brought in some efficiency issues. So, it was thought of liberalizing the life insurance sector in line with the general economic reforms going on in the country since 1991. On the basis of the recommendations of Malhotra Committee which was constituted in 1993 to suggest measures to improve insurance sector, the life insurance market of India was opened for private participation in 1999. Insurance Regulatory and Development Authority (IRDA) was set up to regulate the market. The first entry of a private life insurance company was seen in 2001 in the form of HDFC Life Insurance Company. At present there are twenty four life insurance companies including LIC and twenty three private life insurance companies. It is interesting to study how these liberalization measures affected the functioning of LIC.

## 2. LITERATURE REVIEW

There are various studies that have been carried on life insurance in general and LIC in particular.

Kumar (2008) found that LIC dominates in the sale of traditional products i.e. Endowment and Money-back plans [1].

Singh (2009) found through a primary survey that more people prefer LIC as compared to private life insurance companies [2].

Kaur and Negi (2010) found that there is not much of a difference between the satisfaction levels of buyers of life insurance of private companies and the only public company i.e. LIC [3].

Dhanbhakya and Anitha (2011) found that there is a significant difference in the problems faced by the buyers of public and private life insurance companies [4].

Narula (2012) found that more buyers of LIC recommend it to friends and relatives and the service quality of LIC has improved in the post-reform period [5].

We wish to study the performance of LIC in terms of total premium income and first year premium income to reflect upon its growth before and after liberalisation.

### 3. OBJECTIVES OF THE STUDY

The current study aims to study the performance of LIC when it was the single life insurance company and after the entry of private players in the market or liberalization of the market. So, the specific objectives are:

1. To study the growth of LIC since its formation.
2. To study the impact of liberalization on the performance of LIC.

### 4. HYPOTHESES

In line with the objectives of the study, we wish to test the two null hypotheses which are as follows:

H<sub>0</sub>1: There is no growth in the life insurance business of LIC.

H<sub>0</sub>2: There is no difference in the performance of LIC in the pre and post liberalization period.

### 5. DATA AND METHODOLOGY

The performance of LIC is measured in terms of its Total Premium Income and the First year premium income (which includes premium on single premium policies). The data on these parameters is taken from LIC Annual Reports for the period before the setting up of IRDA i.e. from 1964 to 2000. Continuous data before that could not be accessed. Since 2001, data is taken from the IRDA Annual Reports and Handbook of Statistics. Simple regression is used to measure the growth of LIC starting from the year for which the data was available i.e. 1964 to 2014 by regressing the log of total premium and first year premium on time. Secondly, a difference dummy is introduced at the year 2000 (marking the liberalization of life insurance market) in order to study the difference in LIC's performance in the pre and post liberalization period in terms of growth of total premium and first year premium. This is also done by regressing the log of total premium and first year premium over time with a structural break at 2000 represented by the dummy variable D1.

### 6. DATA ANALYSIS

Table 1.1

Growth of LIC's Total Premium from 1964 to 2014				
	Coefficients	Standard Error	t Stat	P-value
Intercept	-311.23	5.11	-60.87	0.00
YEAR	0.16	0.00	62.53	0.00

The overall growth rate of LIC's total premium over the time period 1964 to 2014 is 16% and it is statistically significant as shown by the regression results depicted in Table 1.1.

We have further divided the whole time period i.e. 1964 to 2014 into two periods by introducing a difference dummy at 2000. So, we have the pre-liberalisation period i.e. 1964 to 2000 and the post-liberalisation period i.e. 2001 to 2014. Table 1.2 shows the regression results with the dummy variable. D1 shows the difference in intercept and D1T shows the difference in growth rate. Both D1 and D1T Coefficients are not statistically significant at 5% level of significance. Therefore we can say that the performance of LIC in terms of total premium is not statistically significantly different in the post liberalization period as compared to the pre-liberalisation period. However, if we look in terms of magnitude, then slope shows a positive change. So, we can say that LIC's performance in terms of growth of total premium is higher in the post liberalization period as compared to the pre liberalization period but this result should be read cautiously as it is not statistically significant.

Table 1.2

Growth of LIC's Total Premium from 1964 to 2014 with difference dummy at year 2000				
	Coefficients	Standard Error	t Stat	P-value
Intercept	-279.24	6.47	-43.13	0.00
T	0.14	0.00	44.24	0.00
D1	-20.61	25.27	-0.82	0.42
D1T	0.01	0.01	0.84	0.40

As shown in Table 1.3, both the regression exercises (without and with dummy) are statistically significant shown by high Multiple R and R Square values and also a statistically significant F statistic.

Table 1.3

Significance of Regression (without and with dummy variables)				
	Multiple R	R Square	F	Significance F
Total Premium	0.99	0.99	3910.20	0.00
Total Premium with dummy at 2000	1.00	0.99	2307.05	0.00

Another measure of performance is the new business which LIC is able to generate. It is reflected in the first year premium data. The first year premium includes premium on new regular premium policies issued and the premium on new single premium policies. Table 2.1 shows the growth of first year premium from 1964 to 2014.

Table 2.1

Growth of LIC's First Year Premium from 1964 to 2014				
	Coefficients	Standard Error	t Stat	P-value
Intercept	-344.39	6.92	-49.73	0.00
T	0.18	0.00	50.75	0.00

The growth rate of first year premium from 1964 to 2014 is 18% which is statistically significant. If we divide the entire time period into pre and post-liberalisation period, we get the difference between intercept and slope of the two periods reflected in D1 and D1T Coefficients. However, the interpretation of slope coefficient is more relevant for the purpose of our analysis as it reflects the growth rate. The results depicted in Table 2.2 show that slope coefficient i.e. D1T shows a positive change which is statistically significant. The pre-liberalisation growth rate is 15% and the difference between the pre and post liberalization growth rate is 4%. Therefore, the post liberalization growth rate is 19% (15%+4%).

Table 2.2

Growth of LIC's First Year Premium from 1964 to 2014 with difference dummy at year 2000				
	Coefficients	Standard Error	t Stat	P-value
Intercept	-295.41	7.88	-37.50	0.00
T	0.15	0.00	38.21	0.00
D1	-76.90	30.75	-2.50	0.02
D1T	0.04	0.02	2.53	0.01

Table 2.3

Significance of Regression (without and with dummy variables)				
	Multiple R	R Square	F	Significance F
First year Premium with dummy at 2000	1.00	0.99	1891.98	0.00
First year Premium	0.99	0.98	2575.25	0.00

As shown by Table 2.3, both the regressions of first year premium i.e. without and with dummy are statistically significant at 5%.

**7. RESULTS**

On the basis of the data analysis, we can comment on the two hypotheses that we stated in the beginning. The first hypothesis that there is no growth in the life insurance business is rejected because LIC shows statistically significant

growth both in terms of Total premium and First year premium income over the time period 1964 to 2014.

There is no statistically significant change in the total premium income of LIC in the pre and post liberalization period. But if we look at the new business in terms of first year premium, then it has grown at a statistically significantly higher rate in the post liberalization period as compared to the pre-liberalisation period. Since the new business is a better measure of growth, so we reject the second hypothesis that there is no difference in the performance of LIC in the pre and post liberalization period.

**8. CONCLUSION**

On the basis of the empirical analysis carried out in relation to performance of LIC in terms of total premium and first year premium, it becomes clear that LIC has grown faster in the post liberalization period. So, liberalization had a positive impact on the performance of LIC. Therefore, we can say that the liberalized insurance environment has made LIC more efficient and it is able maintain a dominant position even after the entry of twenty three private players in the life insurance market. This shows that inducing competition in the market was a wise move.

**REFERENCES**

- [1] Kumar, J. (2008) Life Insurance Industry- Past, Present and Future. *Bimaquest - VIII* Issue I, 41-55.
- [2] Singh, B.K. (2009) Empirical study on perception of Consumers in Insurance Sector. *E-journal of Business and Economics Issues*. 4(3), 1-17.
- [3] Kaur, P. and M. Negi (2010) A study of customer satisfaction with life insurance in Chandigarh tricity. *Paradigm- The Journal of Institute of Management Technology*, 14 (2), 29-44.
- [4] Dhanabhakyaam, M. and V.Anitha (2011) Intruders Altering the perception of customers in the Life Insurance Sector of India- A Comparative Study between Public and Private Life Insurance Companies. *International Journal of Research in Commerce and Management*. 2 (8), 97-101.
- [5] Narula, S. (2012) Service Quality: A Study of Life Insurance Industry in Punjab. *Thesis, Punjabi University, Patiala*. [Online] Available from: <http://hdl.handle.net/10603/10357> [Accessed: 28 July 2013]