

# Life Insurance Corporation of India in the Light of Globalization

Amit K. Chakrabarty,  
Department of Commerce,  
Katwa Bharati Bhaban  
West Bengal

## Abstract

This paper explores the impact of globalization on Life Insurance Corporation Of India (LICI), a nationalized financial institution of the Government of India. Though the efficiency of LICI is not shaken even during the period of globalization but it is a matter of great concern that 13 private insurance companies have already started insurance business in India. In order to combat the challenges of changing situation, LICI should try to raise its efficiency by developing the ability of its agents who are the pillars of the premier organization.

**Key-words:** LICI; IRDA; Neo-liberal Globalization; Open economy; Optimum Efficiency; Liberalization.

## Introduction

In its true sense, globalization means a continuous process of historical evaluation. It means enhancement of men's productivity through scientific and technological changes. This concept is nothing new. It has been started 13000 years ago in the society. This idea of globalization is inevitable. No one can discard this concept because negligence of this concept implies negligence of human beings.

But in recent times, 'globalization' means 'neo-liberal' globalization. The theory of this globalization stands on the following seven economic principles:

- (a) The market will decide in which sector, the investment is required maximum.
- (b) 'Optimum efficiency' will be achieved by the 'private ownership'.
- (c) In respect of management, private sector will be more efficient than government
- (d) The concept of subsidy will be abolished.
- (e) The government has no responsibility to eradicate the 'social discrimination'.
- (f) "Individuals Interest" in the society will be given first preference.
- (g) No one will be able to interfere with the individual's liberty in the society.

## The Global Scenario

There was a time when the economy of USA and various European countries were deemed as the only promising economies in the world. But the emergence of Japan during the middle of the 20<sup>th</sup> Century as a major player in World economy gave an impetus to the growth of the World economy. Again the emergence of South Korea, Hong Kong, Philippines and Singapore as Asian tigers enriched the economy of 1980s. But presently the maximum attention of World centres of China and India. It is because both the countries are not only thickly populated, but also they can provide potential prosperous economy to the world because of their scientific development coupled with a large number of skilled personnel in both the countries.

We already feel that the process of globalization in terms of a market economy is a *sine qua non* for the achievement of our ends. No country can afford to follow an isolationist policy and keep itself aloof from the effect of such process. In consequence, the Indian economy is changing rapidly from a controlled economy to market-driven economy i.e. openness and competition.

The new economic policies have heralded in our country, buoyancy in the market, requiring the business world to reorganize itself under the aegis of the W.T.O. The financial sector, in particular, has been enjoying the creation of newer avenues both for the industry, as well as for the individual i.e. the consumer.

The prominent economic factors that design the course of industrial development in recent times are:

- (a) Command economy turning into market economy,
- (b) Growth in foreign exchange reserves due to economic liberalization,
- (c) Growth in the Indian stock market in consequence of the inflow of foreign capital,
- (d) New opportunities and healthy competition through regulatory controls in the interest of global integrity.

The newly created opportunities have come as a blessing to the customer. Now, a customer enjoys several rights, by choosing better products and services as well as voicing complaints and protests through grievance redressal mechanisms. The power of the customer makes it imperative for service providers to focus on Total Quality management as an approach to improve performance. In this connection, performance is not only to be considered for

evaluating individual overall growth but also, growth in respect of the overall market. These challenges have given a new lease of life to the Life Insurance Corporation of India.

### **Nationalization: Vision and Present Position**

Life Insurance Corporation (LICI) was nationalized in 1956, keeping in view the objectives – mobilization of national savings, spreading the insurance message to the poorest sections of the society, and putting the money for public utility services. The erstwhile Central Finance Minister, Mr. C. D. Deshmukh stated, “the misuse of power, position and privilege that we have reason to believe, occurs under existing conditions, is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance” (Sud, 1998, p.9). Since its inception LICI has been quite successful in fulfilling its objectives and playing a vital role in the country’s economy.

The percentage of LICI investment to national income has increased from 3.4 per cent in 1956 to 6.26 percent in 1996. Today Life Insurance Corporation of India is not only an insurance organization, but is a movement in itself (Govardhan, 1996, p.6). Up to 1996-1997 the Corporation had 7 Zonal Office, 71 Divisional Office, 2024 Branches operating at 1363 Centres and an army of over 5.5 lakh agents and nearly 18000 Development Officers. Now the figures have positively changed.

Year-wise business performance of the Corporation shows the basic tendency of its growth. The year 2003 – 2004 saw the LICI registering substantial growth in all facets of new business (i.e., sum assured, number of policies, first premium income) activities reflecting its continued efforts towards increasing life insurance awareness and coverage all over India. The year 2003 –2004, which was the 4<sup>th</sup> in competitive era, was yet another year of great significance for the corporation. Despite unfavorable tax regulations, especially the amendments to section 88 (2 A) and 10 (10 D) of Income Tax Act. 1961, the Corporation was able to bring in a total new premium of Rs. 12,179 crore under both individual and group business as against Rs. 11,335 crore in the previous year recording a growth of 7.45%. LICI continued to be the market leader and was able to extend coverage of Rs. 1,99,698 crore of Sum Assured (S.A.) under 2.70 crore policies with First Premium Income (F.P.I.) of Rs. 8,567 crore in individual assurance. The growth rate was 9.87% in terms of Number of Policies (N.O.P) and 11.14% in terms of S.A., while there was a negative variation of 11.58% in F.P.I., which was driven largely by the deficit in single premium and short-term premium policies (Mather, 2004, p.6).

The Central Office of LIC disclosed the above information, which shows the total new business of all the LIC offices of India only. With modest pride, LIC can claim to have emerged over the years as a symbol of financial security and as a premier financial institution in the country, which encompass over 12 core people in its protective fold (Govardhan, 1996, p.6).

In the year 1991 the Government of India took a decision to change its economic policy. From that year economic reforms started in India. In consequence of that, India's pattern of economy is changed in to market economy. The term 'market economy' is closely associated with 'open economy'. The impact of globalization on country's public sectors is significant. They are on the verge of direct competition due to open up of the economy and insurance industry. Many private life insurance organizations have already started their insurance business in India.

In the context of globalization, the position of life insurance industry in India has radically changed. So far, thirteen private insurance companies have started insurance business in the Indian insurance market. As a result, the market share of the State incumbent (LIC) has declined. After opening up of insurance industry in 1999, the market share of LIC has decreased to about 76% from 100% (as of August 2005). The private players occupied about 24% of market share, though they are suffering from the problem of negative profit. The business statistics (Insurance Regulatory & Development Authority, Annual Report, 2003-2004) of life insurance industry for the year ended 31<sup>st</sup> March 2004 shows that LIC was able to achieve a profit of Rs. 551.81 crore, whereas the accumulated loss of thirteen private life insurance companies was Rs. 966.37 crore. But in the field of general insurance, six out of eight private players have been able to achieve a profit of Rs. 95.38 crore during the period ended 31<sup>st</sup> March 2004. Only two private insurers have suffered loss amounting to Rs. 28.34 crore during the period 2003-2004. However, the public sector companies were able to make profit of Rs. 1343.99 crore during the period 2003-2004. Hence, we can conclude that the performance of the public sector in insurance business has been better than private players in the post-liberalization period. The name of new entrants (Table-I), the market share occupied by them (Table-II), and the profit and loss of insurers during the period ended in 31<sup>st</sup> March 2004 (Table-III) are shown below:

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**Table – I**

**Private Joint Venture Insurance Companies**

Sl No.	Company	Indian	Foreign
1.	ICICI Prudential	ICICI	Prudential (U.K)
2.	Max New York Life	Max	New York Life (New York) Standard Life (U.K)
3.	HDFC Standard Life	HDFC	Allianz Holding (Germany)
4.	Allianz Bajaj	Bajaj	Zurich Insurance (Switzerland) American Int. Group (USA)
5.	Birla Sun Life	C.K. Birla Group	Chubb (USA) Allstate (USA)
6.	Tata AIG Life	Tata	ING (Netherlands) Cardiff SA (BNP Paribas Bank)
7.	OM Kotak Mahindra	Kotak Mahindra	GIO (Australia)
8.	AVIVA LIFE	Dabur	Met Life (USA)
9.	ING Vysya Life	Vysya Bank	
10.	SBI Life	SBI Bank	
11.	AMP Sanmar Group	Sanmar Group	
	Met Life	MA Chidambaram	
13.	Sahara Life	Sahara India	

Source: Deccan Herald, Dated 14<sup>th</sup> May 2005 and The Economic Times, 21 March 2004.

**Table – II**

**Market Share of Private Life Insurance Insurers As On August 2005**

Serial No.	Name Of Player	Market Share (%)
1.	ICICI Prudential	6.93
2.	Max New York Life	1.28
3.	HDFC Standard Life	2.98
4.	Allianz Bajaj	4.73
5.	Birla Sun Life	1.72
6.	Tata AIG Life	1.66
7.	OM Kotak Mahindra	0.71
8.	AVIVA LIFE	1.08
9.	ING Vysya Life	0.54
10.	SBI Life	1.46
11.	AMP Sanmar Group	0.46
12.	Met Life	0.37
13.	Sahara Life	0.03
<b>Total</b>		<b>23.93</b>
14.	LICI	76.07
<b>Total</b>		<b>100.00</b>

Source: IRDA Reports

**Table – III**  
**Statement of Profit & Loss Of Life Insurers For The Period Ended 31<sup>st</sup> March 2004**

(Rs. In Crore)

Life Insurer	Losses	Profits
1. ICICI Prudential	221.58	
2. Max New York Life	232.76	
3. HDFC Standard Life	23.44	
4. Allianz Bajaj	26.81	
5. Birla Sun Life	77.74	
6. Tata AIG Life	58.09	
7. OM Kotak Mahindra	92.42	
8. AVIVA LIFE	64.2	
9. ING Vysya Life	62.99	
10. SBI Life	16.41	
11. AMP Sanmar Group	77.6	
12. Met Life	12.13	
13. Sahara Life	Not Available	
<b>Sub Total</b>	<b>966.37</b>	<b>551.81</b>
<b>LICI (Profits)</b>		
<b>Life Insurance</b>	<b>966.37</b>	<b>551.81</b>

Year-wise business growth of LICI (Table-IV) and also year-wise investment growth of LICI (Table-V) are shown below:

**Table – IV**  
**Year Wise Business Growth of LICI During Post Liberalization Period**

Year	'99-'00	'00-'01	'01-'02	'02-'03	'03-'04
<b>Particulars</b>					
<b>Total New Business</b>					
<b>Individual (Rs. In Crore)</b>	4343.54	5940.82	9170.11	8562.44	9509.44
<b>Group (Rs. In Crore)</b>	3172.35	3720.70	4735.53	7836.88	17201.40
<b>Business In Force</b>					
<b>Individual (Rs. In Crore)</b>	25545.28	30716.27	38619.57	45555.96	53034.99
<b>Group (Rs. In Crore)</b>	3637.36	4253.63	4790.36	5919.67	6909.69
<b>N.O.P. In Force (In Lakh)</b>	48.28	53.86	59.94	67.22	74.40
<b>Life Fund (Rs. In Crore)</b>	7335.41	8858.32	10809.95	13412.59	16094.57
<b>[Surplus]</b>					

Table – V  
Year Wise Investment Growth Of LIC I During Post Liberalization Period

Years	'99-'00	'00-'01	'01-'02	'02-'03	'03-'04
<b>Particulars</b>					
<b>Investment (Rs. In Crore)</b>					
a) Book Value Of Total Investments	6969.71	8356.71	10327.76	12621.14	16339.47
b) Book Value Of Socially Oriented Investments	5613.71	6663.14	8255.71	10165.57	12195.47

### **New Avenues for Life Insurance Industry**

After the Report of the Malhotra Committee on Insurance Reform's is tabled, the prospect of opening up of the Indian insurance market becomes bright. At this moment Indian Insurance market has been opened up. Thirteen Private Insurance Companies and Brokers have started their insurance business in India. But, again a general perception that the Indian insurance market cannot stand to any competition and it has become weak with so many ills, easily dampens the spirit of such a bright prospect. Now LIC I is not the only organization that deals in life insurance business in this country. The Private Insurance Companies and Brokers have got themselves involved in direct competition with LIC I to acquire the insurance market in India. Despite that fact, LIC I is the market leader still today. But in respect of tapping the household savings, LIC I is used to face a tough competition here.

It is also a noteworthy fact that in our country people's first choice is never any insurance. To them insurance is nothing but a mere saving opportunity. But the people of advanced countries like United Kingdom, United States of America etc. always welcome insurance as their first choice, since insurance means to them not a pure savings instrument. Consequently, LIC I there faces a tough competition in savings market.

### **Insurance Regulatory Development Authority: The Way Forward**

To execute the policies on reforms and liberalization and probable entry of private players following the recommendations of the Malhotra Committee on Insurance Reforms (1994), an Insurance Regulatory and Development Authority (IRDA) is built up (1999). It is determined that Insurance Regulatory & Development Authority's chief function is to regulate, elevate and ensure orderly growth of the insurance business. It will also operative actively to safeguard the interests of the policyholders regarding to assigning of their policies,

nomination by policyholders, insurable interest, settlement of insurance claims, surrender value of policy and other conditions of insurance contracts. Insurance Regulatory & Development Authority will also enjoy the power to undertake inspection and conduct enquiries and investigation including audit of the insurers. It can also issue licenses to private sectors to enter into Insurance Business. After the entry of private players from the year 2000, the difference created by the new players is self-evident. The business, which was once controlled by monopolistic LIC to almost 100%, was reduced considerably. As per the figures available with Insurance Regulatory and Development Authority for the period ended August, 2005, the 13 private players have grabbed nearly 24 percent market share from LIC in terms of premium underwritten as against 17.70 % in August, 2004.

The packaging of new products and the effective use of delivery channels, have woken up the State incumbent (LIC) to get prepared for stiff competition.

### **Vision 2000 and Beyond**

The last decade of the 20<sup>th</sup> century will remain famous forever as it brings forth a massive change in our economic environment. As a result, every possible industry in our country now will have to combat some new challenges to clear out its passage for progress. The decade will also remain memorable forever as it carries some logical innovation in association with some excellent economic opportunities.

It is now a conjecture that in the 21<sup>st</sup> century the Insurance will face a major challenge. The challenge is of course that of the management of funds. When IRA becomes established and it starts functioning, the investment norms are gradually relaxed. What happens then? There will be more investible funds to be invested in the capital market. So, there lies every possibility that some of those funds may not find rich opportunities for their investment. Such a problem can be resolved by using scientific professional fund management.

Due to the integration of the Indian Economy to the global market and the public sectors becoming an open field for competition. Indian market now observes the dawn of a new era. Under the liberalization policy of the Government, some visible and significant changes as natural by-products of the above said policyholder over the Indian economy. The significant changes are furnished below:

- (a) In decision making Information Technology plays the role of a prime mover.
- (b) The durability of product largely depends on technological innovations.
- (c) Customers have become too much conscious so far as their rights and availability of marketable products are concerned.

(d) Steps to ascertain the consumers' rights and interests are duly taken up.

The formation of Consumers Forum and Consumer Service Organizations and competition in the market have created a vast scope before the consumers to make their right choice among innumerable products and services. Today a consumer enjoys the power to punish or reward an organization. It is imperative that from an "era of customer satisfaction", we move to an era of "Consumer Expectation" and then of course graduate to "Customers Delight" (Sahoo, 1997, p. 29). Such a transformation in market economy requires all to do what they are ascribed to do. And to attain success in this field, punctuality as well as Zero defect in performance are mostly desirable.

The insurance market that is gradually developing in the 21<sup>st</sup> Century will certainly give vent to the new kinds of products to come into the markets by its command of constant technological up gradation. So with the turn of a century, consumers would be able to use a different market from the conventional one. Lastly to manage such a new market and to satiate the customers' growing demands, there must be an urge for competition working among all the business quarters.

## **Conclusion**

Among the public sector financial institutions, LICI plays a vital role in various governmental welfare and financial activities. Its contribution in employment generation has also been remarkable. Before nationalization, LICI and General Insurance Corporation Of India (GICI) procured 50% of total insurance business from rural areas. In recent times, LICI's investment in the Indian money market is Rs. 230923.88 crore. 80% of that investment is on sectors like electricity, housing, drinking water, and road transport. LICI's contribution towards the 10<sup>th</sup> five years plan is also notable. This apart, LICI gives dividend and tax to the government every year. An important question that arises in this regard, is: Can the private insurance companies and brokers, who have already started insurance business in Indian market, give something from their profit to the government. Infiltration of these companies in the Indian insurance market will somewhat hamper the progress of LICI. In consequence, LICI's contribution towards nation building, the interest of policyholders and agents, and service security of the employees will be affected. In this way, the economic liberty and political sovereignty of India may be endangered. The experience of Mexico and Argentina's economy may serve as an alarm signal.

Globalization of insurance industry, thus puts LICI face to face with a few challenges, namely: (a) Low awareness level, (b) Product innovation, (c) Distribution, (d) increasing

penetration of insurance and (e) Customer service and investments. To develop the life insurance business, the LICICI should use the following strategies:

- 1) Creation of insurance awareness
- 2) Maximize wealth
- 3) Product customization
- 4) Plunge in to the rural markets
- 5) Taping the niche markets
- 6) Societal marketing
- 7) Well established distribution network

In order to combat the changing situation, LICICI should try to raise its efficiency. The efficiency can be raised by rendering best 'after-sale-service' and developing agents' traits viz. behaviour, conduct, 'new plan/scheme introducing capacity', 'beyond business service', 'social familiarity' etc. Because the agents are the pillars of LICICI, procure the business of LICICI from the grass root level, utilizing their traits. If the efficiency of LICICI is possible to increase by this way, then the premier financial institution can face the challenge of neo-liberal-globalization.

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