A STUDY OF GROWTH AND PERFORMANCE OF LIFE INSURANCE CORPORATION OF INDIA IN NORTH EASTERN REGION

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This is to certify that the work recorded in the thesis titled "**A STUDY OF GROWTH AND PERFORMANCE OF LIFE INSURANCE CORPORATION OF INDIA IN NORTH EASTERN REGION**" is submitted by Mr. Sant K. Gupta M. Com, M. Phil (IM), Research Scholar, Department of Commerce, Nagaland University, for the degree of Doctor of Philosophy is faithful and bonafide research work carried out under my personal supervision and guidance.

I certify that this thesis is a record of work done by the candidate himself and that to the best of my knowledge the contents of the thesis did not form a basis of award of any previous degree to anybody else.

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PREFACE AND ACKNOWLEDGEMENT

Human life is full of risk. The effective solution of reducing the burden of these risks/losses is insurance. Insurance occupies an important position in the financial sector of an economy. In a period of more than half a century the insurance sector in a country has come in a full circle from being an open competitive market to compete nationalization and then back to a liberalized market. The entry of private player's in the Indian insurance market has changed the nature of competition. But LICI (Life Insurance Corporation of India) continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and its moving fast on a new growth trajectory surpassing its own past records. Insurance Regulatory and Development Authority (IRDA) have been established to protect the interests of holders of insurance policy and to regulate, promote and insure the growth of the insurance industry.

The present research work is an attempt to study the Growth & Performance of Life Insurance Corporation of India in North Eastern Region. The aim of this study is to evaluate the financial & business performance of LICI in general and north eastern region in particular for fifteen years from 1996-97 to 2010-11.

This study has been divided into seven chapters. The first chapter is introductory in nature and explains an overview of the insurance sector. The second chapter focuses on the organizational set up of LICI. The third chapter evaluates the globalization and its impact on LIC business in India vis-à-vis NER. The fourth chapter analyses the settlement of claims of LICI. The fifth chapter analyses the investment pattern of LICI and its impact in NER. The sixth chapter analyses the growth & performance of LICI in NER with comparative study with all India level. While Last chapter shows summary, findings, recommendations and conclusions of the present research study.

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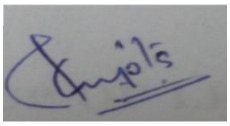

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CONTENTS

LIST OF TABLES:

LIST OF CHARTS:

LIST OF CHARTS:

ABBREVIATIONS:

2T's	Trade And Technology
AAO	Administration And Accounts Officers
AIG	American International Assurance Co
BO	Branch Office
BRO	Border Roads Organization
CAGR	Compound Annual Growth Rates
DLF	*Delhi Leasing Finance*
DO	Divisional Office
DoNER	*Development of North-eastern Region*
Exim Bank	Export-Import Bank Of India
FDI	Foreign Direct Investment
FIO	Federal Insurance Office
GIC	General Insurance Corporation Of India
HDFC	*Housing Development Finance Corporation*
HSBC	*Hongkong Shanghai Banking Corporation*
HUDCO	Housing And Urban Development Corporation
ICICI	Industrial Credit Investment Corporation Of India
IDBI	Industrial Development Bank Of India
IFCI	Industrial Finance Corporation Of India
IMF	International Monetary Fund
ING	*International Netherlands Group*
IRDA	Insurance Regulatory And Development Authority
LIC	Life Insurance Corporation
LICI	Life Insurance Corporation Of India
LPG	Liberalization, Privatization And Globalization
NABARD	National Bank For Agriculture And Rural Development

NEC	North East Council
NER	North Eastern Region
NGO	Non Government Organisation
NRIs	Non-Resident Indian
OFC	Optional Federal Charter
P&IR	Public And Industrial Relation
PIOs	People Of Indian Origin
SAP	Structural Adjustment Programme
SBI	State Bank of India
SDR	Special Deposit Receipts
SFC	State Financial Corporations
SO	Satellite Offices
VAT	Value Added Tax

CHAPTER: I

1.1 Introduction

1.2 The History of Insurance Worldwide

1.3 Historical Background of Life Insurance Business in India and in the context of NER

1.4 Need and Significance of the study

1.5 Objectives of the Study

1.6 Hypothesis of the Study

1.7 Research Methodology

1.8 Plan of Study and Chapterisation

1.9 Periodicity of the Study

1.10 Review of Literature

1.11 Limitation of the Study

CHAPTER: I

1.1 INTRODUCTION

Wherever there is uncertainty there is risk. The risk can't be averted. It involves multiple losses. And so, the risk is uncertainty of financial losses. We do not have any command on uncertainties. The insurance is a co- operative device to spread the loss. Further, it is also a social device to accumulate funds to meet uncertain losses. The main function of insurance is to provide protection against the possible chances of generating losses. It eliminates worries and miseries of losses at destruction of property and death. It also provides capital to the society as the accumulated funds are invested in the productive heads. The product of insurance benefits the industry, the business, an individual and a group of persons. Hence, the insurance is the outcome of man's constant search for security and finding out ways and means of ameliorating the hardships arising out of calamities. Here, the persons exposed to similar risk contribute some amount periodically and those who actually face the loss are indemnified out of these funds.

Life Insurance is a contract for payment of a sum of money to the person assured (or failing him/her, to the person entitled to receive the same) on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. So, there is a price to be paid for this benefit. Among other things, the contract also provides for the payment of premiums by the assured. Life Insurance is universally acknowledged as a tool to eliminate risk, substitute certainty for uncertainty and ensure timely aid of the family in the unfortunate event of the death of the breadwinner. In other words, it is the civilized world's partial solution to the problems caused by death In a nutshell, life insurance helps in two ways: premature death, which leaves dependent families to fend for itself and old age without visible means of support.

Life Insurance Corporation of India (LIC) was formed in September, 1956 by an Act of Parliament, viz., Life Insurance Corporation Act, 1956, with a capital contribution from the Government of India. The then Finance Minister, Shri C.D. Deshmukh, while piloting the bill, outlined the objectives of LIC thus: to conduct the business with the utmost economy, in a spirit of trusteeship; to charge premium no higher than warranted by strict actuarial considerations; to invest the funds in obtaining maximum yield for the policy holders consistent with the safety of the capital; to render prompt and efficient service to policyholders, thereby making insurance widely popular. Since nationalization, LIC has built up a vast network of 2,048 branches, 111 divisions and 8 Zonal offices spread over the country. The Life Insurance Corporation of India also transacts business abroad and has offices in Fiji, Mauritius and United Kingdom. LIC is associated with joint ventures abroad in the field of insurance, namely, Ken-India Assurance Company Limited, Nairobi; United Oriental Assurance Company Limited, Kuala Lumpur and Life Insurance Corporation (International) E.C. Bahrain. The Corporation has registered a joint venture company in 26th December, 2000 in Kathmandu, Nepal by the name of Life Insurance Corporation (Nepal) Limited in collaboration with Vishal Group Limited, a local industrial Group. An offshore company L.I.C. (Mauritius) Offshore Limited has also been set up in 2001 to tap the African insurance market, the latest joint venture subsidiary of the Corporation was established in Sri Lanka on

1 March 2003 in partnership with local company M/s Bartleet & Company Ltd.

In the context of North East India, the region comprising of eight states of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura is endowed with vast natural resources and has enormous potential of development. The economic structure of northeast India is similar to the general economic structure of India as a whole. But because of its topography as well as social and political conditions it has a relatively backward economy. The strategic importance of the region along with its sensitive geopolitical location extremely diverse nature of its population with different cultural, linguistic, religious and historical background makes this region characteristically different from the rest of the country. In fact region is still backward as compared to other parts of the country and could not develop much industrially despite of having vast natural resources. The NER of India covers an area of 2.62 lakh sq.km. It accounts for 7.9% of total geographical area of the country. With a total population of 45.5 million (2011), it accounts for 3.75% of the total population of India. The two offices one Zonal office in Calcutta and the other Central office at Mumbai coordinate the life insurance business of the region. There are only four divisional offices in the region – (i) Guwahati (ii) Silchar (iii) Jorhat and (iv) Bongaigaon. There are only 55 branches in the region. This provides a backdrop as to the organizational set up of the life insurance in the region. There has been always scathing attach on LIC that it is highly centralized and its unitary structure has hampered its efficiency resulting in poor performance. This warrants a careful study of the corporation and its impact in the NER.

Among the several objectives of LICI to spread life insurance widely and in particularly in the rural areas and to the socially and economically backward classes and maximize mobilization of people's saving by making insurance linked saving adequately attractive are considered to be important ones. It is an endeavor to study whether these important objectives were achieved in the NER and if so to what extent.

1.2 HISTORY OF INSURANCE WORLDWIDE

In some sense we can say that insurance appears simultaneously with the appearance of human society. We know of two types of economies in human societies: natural or non-monetary economies (without money, markets, financial instruments and so on) and more modern monetary economies (with markets, currency, financial instruments and so on). The former is more primitive and the insurance in such economies entails agreements of mutual aid. If one family's house is destroyed the neighbors are committed to help rebuild. Granaries housed another primitive form of insurance to indemnify against famines. Often informal or formally intrinsic to local religious customs, this type of insurance has survived to the present day in some countries where a modern money economy with its financial instruments is not widespread.

Turning to insurance in the modern sense (i.e., insurance in a modern money economy, in which insurance is part of the financial sphere), early methods of transferring or distributing risk were practiced by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively.[1] Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund

[1] Vaughan, E. J., 1997, *Risk Management*, New York: Wiley

his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Achaemenian monarchs of Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was performed each year in Norouz (beginning of the Iranian New Year); the heads of different ethnic groups as well as others willing to take part, presented gifts to the monarch. The most important gift was presented during a special ceremony. When a gift was worth more than 10,000 Derrik (Achaemenian gold coin) the issue was registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidants of the court. Then the assessment was registered in special offices.

The purpose of registering was that whenever the person who presented the gift registered by the court was in trouble, the monarch and the court would help him. Jahez, a historian and writer, writes in one of his books on ancient Iran: "Whenever the owner of the present is in trouble or wants to construct a building, set up a feast, have his children married, etc. the one in charge of this in the court would check the registration. If the registered amount exceeded 10,000 Derrik, he or she would receive an amount of twice as much." [2]

A thousand years later, the inhabitants of Rhodes invented the concept of the *general average*. Merchants whose goods were being shipped together would pay a proportionally divided premium which would be used

[2] http://www.iran-law.com/article.php3?id_article=61

to reimburse any merchant whose goods were deliberately jettisoned in order to lighten the ship and save it from total loss.

The ancient Athenian "maritime loan" advanced money for voyages with repayment being cancelled if the ship was lost. In the 4th century BC, rates for the loans differed according to safe or dangerous times of the year, implying an intuitive pricing of risk with an effect similar to insurance.[3] The Greeks and Romans introduced the origins of health and life insurance c. 600 BCE when they created guilds called "benevolent societies" which cared for the families of deceased members, as well as paying funeral expenses of members. Guilds in the Middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. Insurance became far more sophisticated in post-Renaissance Europe, and specialized varieties developed.

Some forms of insurance had developed in London by the early decades of the 17th century. For example, the will of the English colonist Robert Hayman mentions two "policies of insurance" taken out with the

[3] Franklin, J., 2001, *The Science of Conjecture: Evidence and Probability Before Pascal*, Baltimore:Johns Hopkins University Press, 259.

diocesan Chancellor of London, Arthur Duck. To the value of £100 each, one relates to the safe arrival of Hayman's ship in Guyana and the other is in regard to "one hundred pounds assured by the said Doctor Arthur Duck on my life". Hayman's will was signed and sealed on 17 November 1628 but not proved until 1633. Toward the end of the seventeenth century, London's growing importance as a center for trade increased demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house that became a popular haunt of ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyd's of London remains the leading market (note that it is an insurance market rather than a company) for marine and other specialist types of insurance, but it operates rather differently than the more familiar kinds of insurance. Insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667." A number of attempted fire insurance schemes came to nothing, but in 1681 Nicholas Barbon, and eleven associates, established England's first fire insurance company, the 'Insurance Office for Houses', at the back of the Royal Exchange. Initially, 5,000 homes were insured by Barbon's Insurance Office.

The first insurance company in the United States underwrote fire insurance and was formed in Charles Town (modern-day Charleston), South Carolina, in 1732. Benjamin Franklin helped to popularize and make standard the practice of insurance, particularly against fire in the form of perpetual insurance. In 1752, he founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin's company was the first to make contributions toward fire prevention. Not only did his company warn against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as all wooden houses.

In the United States, regulation of the insurance industry's primary resides with individual state insurance departments. The current state insurance regulatory framework has its roots in the 19th century, when New Hampshire appointed the first insurance commissioner in 1851. The congress adopted the McCarran-Ferguson Act in 1945, which declared that states should regulate the business of insurance and to affirm that the continued regulation of the insurance industry by the states is in the public's best interest. The Financial Modernization Act of 1999, commonly referred to as "Gramm-Leach-Bliley", established a comprehensive framework to authorize affiliations between banks, securities firms, and insurers, and once again acknowledged that states should regulate insurance.[4]

Whereas insurance markets have become centralized nationally and internationally, state insurance commissioners operate individually, though at times in concert through the National Association of Insurance Commissioners. In recent years, some have called for a dual state and federal regulatory system (commonly referred to as the Optional federal charter (OFC)) for insurance similar to the banking industry.

In 2010, the federal Dodd-Frank Wall Street Reform and Consumer Protection Act established the Federal Insurance Office ("FIO"). FIO is part

[4] http://www.naic.org/documents/consumer_state_reg_brief.pdf

of the U.S. Department of the Treasury and it monitors all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that may contribute to a systemic crisis in the insurance industry or in the U.S. financial system. FIO coordinates and develops federal policy on prudential aspects of international insurance matters, including representing the U.S. in the International Association of Insurance Supervisors. FIO also assists the U.S. Secretary of Treasury with negotiating (with the U.S. Trade Representative) certain international agreements.

Moreover, FIO monitors access to affordable insurance by traditionally underserved communities and consumers, minorities, and low- and moderate-income persons. The Office also assists the U.S. Secretary of the Treasury with administering the Terrorism Risk Insurance Program. However, FIO is not a regulator or supervisor. The regulation of insurance continues to reside with the states. [5]

1.3 HISTORICAL BACKGROUND OF LIFE INSURANCE BUSINESS IN INDIA AND IN THE CONTEXT OF NER

The life insurance business in India started in the 19th century when the first Indian company, the Bombay Mutual life assurance society ltd., was formed at Bombay on December 3, 1870.[6] In the beginning, the number of life insurance companies was small and the scales of operations were also very limited. In real terms the life insurance business in India began when British Companies started life insurance transactions in India mainly for the benefit of European civilians and soldiers. Occasionally, they also issued policies on Indian lives, but it cannot be termed as Indian insurance in the

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[5] http://www.treasury.gov/about/organizational-structure/offices/Pages/Federal-Insurance.aspx
[6] Bajpai, O.P., Elements of life insurance, Kitab Mahal, Allahabad, 1959, p.168

true sense of the term. The very first policy on Indian lives was issued in 1945 by the "Royal" in favour of 'Cursetjee Furdoonjee'.[7]

In 1874, a company, namely, the Oriental Government Security Life Assurance Company Ltd., was formed followed by the Indian life of Karachi (1892), The Bharat of Lahore (1896) and the Empire of India, Bombay (1897). To start with the progress of Indian insurance companies was slow mainly due to competition from the foreign companies having longer standing, bigger resources and Governmental patronage. However, a larger number of companies were formed after the Swadeshi Movement of 1905. According to an investigation of life insurance in foreign countries made by the Consular Officers of the United states in the year 1905, 26 foreign life insurance companies, including one American life office, operated in Indian in that year[8]. Between 1903 and 1912 alone, 38 life insurance companies were formed all over the country[9]. These included the National (1906), the Asian (1911) etc. of theses, as many as 26 were closed down within a short period of time. During the same period about 500 provident societies were floated and many of them also closed down their business shortly after inception. To exercise a measure of control, therefore, the Government passed the first Insurance Act in 1912.

The passage of the Act was a landmark in the history of life insurance in India. During the First World War, the life insurance in the country suffered a setback. The investments of the life insurance companies depreciated in value and so they had to suffer considerable losses. The Swadeshi Movement led to a resentment for the control of this vital sector

[7] Ahmad, M,M & Khan, M.A., Theory and Practice of Insurance, Aligarh, A.M.U., 1977, p.406
[8] Agarwal, A.N., Life Insurance in India, Allahabad Law Journal Press, Allahabad, 1961, 1.10.
[9] Ahmad, M.M & Khan, M.A., Theory and Practice of Insurance in India, op.cit., p.407.

of India's economic life by foreigners and a number of life insurance companies were set up many of which were financially and actuarially unsound and came to grief in the wake of 1912 legislation. The 1912 Act, as the first legal step taken to regulate life insurance business in India, which put it on a sound footing, proved instrumental in creating a healthier atmosphere but the number of Indian life offices working during this period was not large.

In the year 1919, the Indian companies had to face severe competition from foreign companies which were better managed and better run. The management expenses of Indian companies were also mounting up. A significant trend in the development of life insurance business was visible from 1930 onwards when Indian companies started doing business outside India also. They started insuring lives in British East Africa and in Near East. They also offered attractive terms and bonuses to policyholders. During 1929-1939 alone, as many as 172 insurance companies were floated all over the country. But the end of 1938, the competition among the Indian insurers themselves had begun. In the reckless competition they completely ignored the principles of constant vigilance, strict economy, careful management, skilled underwriting and, above all, the principles and criteria of investment. In order to create confidence among the policy-holders and to exercise a closer control over the numerous matters of management, investment of funds and expenditure of insurance offices, the government enacted the insurance act 1938 [10] which was an improvement over the 1912 Act. The Act provided for the establishment of the Department of Insurance under authority of the Superintendent of Insurance (Later designated as Controller of Insurance). The main feature of the Act was that for the first time in the history, the whole business was unified and controlled by

[10] Ahmad, M.M & Khan, M.A., Theory and Practice of Insurance in India, op.cit., p.409.

statutory rules and regulations at Government level.

In 1947, with the attainment of independence the growth of insurance business became the responsibility of the State. A committee headed by Sir Cowasjee Jahangir was appointed by the then Government to enquire into the acquisition of control of insurance companies, the manipulation of their funds on acquisition, and the possible repercussion of the interlocking of funds between banks and insurance companies. The act sought, among other things, to place restrictions on investment of funds, to prohibit interlocking of funds of insurance and banking companies and to limit their expenses. The Act succeeded in checking the expansion of insurance business to unhealthy directions.

In 1951, when India embarked upon a planned economic development of the country and launched the first five year plan, the country required substantial funds which only and organized life insurance business could have provided. Unfortunately, a large number of cases involving misuse of funds of the new offices by the directors were noticed. One of the most important lacunas was that no effort was at all made by the insurers to penetrate into the rural areas.

By the year 1955, approximately 170 insurance companies and about 80 provident societies has been registered for transacting life insurance business in India. A few of these were foreign companies with their head office outside India. In addition to these insurers a large number of other insurers who had registered themselves for transaction of life assurance business had either gone into liquidation or had been taken over by the existing insurers.

From a study conducted at about that time it was found that the concept of trusteeship which should have been the cornerstone of life insurance was entirely lacking and most management had no appreciation of the clear and vital distinction that existed between trust money and those belonging to stock companies owned by shareholders. Therefore, it become necessary to nationalize Insurance business with a view to –

- Provide 100 per cent security to policy holders
- Ensure use of the fund for national building activities
- Avoid wasteful effort in competition
- Save the dividend paid to the shareholders of insurance companies
- Avoiding of certain undesirable practices adopted by some insurance companies
- Speeding up of insurance business in rural areas

The first step in this direction was taken on January 19, 1956 by promulgation of an ordinance vesting the management and control of life insurance business in India in the Central Government. On this occasion, the then finance minister Sir C. D. Deshmukh in his broadcast to the nation said. “The nationalization of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of second five year plan it is bound to give material assistance to the lives of millions in the rural areas. It will introduce a new sense of awareness building, for the future in the spirit of clam confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubter's and make it a resounding success.”

Thus, the life insurance industry was nationalized in the year 1956 and the "LIFE INSURANCE CORPORATION OF INDIA" came into existence on the 1st day of September 1956. To remember this historic event insurance week is celebrated from 1st to 7th September every year thereafter. The objectives of nationalization were defined as conducting the business with utmost economy in true sense trusteeship, to charge premium no higher than narrated by strict actuarial consideration, and to invest the fund for obtaining maximum yield consistent with safely of capital and render prompt and efficient services to the policy holders, etc. The mission given to LIC at that time can be summarized as-

- Providing protection of insurance to people in every nook and corner of the country
- Mobilizing savings for the development of country
- Responding to customer sensitivity

Consequent to that, tracing the development of life insurance industry is nothing but wading through the progress of LIC itself.

Since nationalization, Life insurance business in India has been run by the State owned LICI i.e. Life Insurance Corporation of India which has a dominant position in the country's economy. In 1999, the insurance sector opened up for private companies in life as well as Non-life insurance companies. It was followed by the establishment of IRDA (insurance Regulatory and Development Authority) in April 2000. The foreign companies looked upon the untapped profit potentials in Indian, insurance industry and rushed over here. Thus, the Life Insurance public sector giant, i.e. LIC, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world.

In the context of North East India (NER), the Life Insurance began very late in comparison with other parts of the country. This is because no local entrepreneur came up with the idea of starting insurance business in this region. The established insurance companies of Calcutta (Kolkata) and Bombay (Mumbai) never came forward to open their business office in Assam, because of the inaccessibility of the region from the main stream of the country. In the circumstances the region had to wait till 1921 when a Calcutta (Kolkata) based company started functioning in this area. As shown in Table1.1, it was the Hindustan Co-operative Society Ltd. which began transacting business in the region in 1921, followed by the oriental government security life insurance Co. ltd. in 1925. But this outside insurance companies never took a care for the economic and social development of the region, as they did not invest their fund here which is evident from insurance year books.

However, during the 1930's, the spirit of Swadeshi Movement swept the country and Assam did not lag behind. This found expression in the establishment of the first insurance company of the region named Bhaskar Insurance Company in 1936 with its registered office at Gauhati. This was the only indigenous company of the NER and it's continued to function till 1955 i.e., till the date of nationalisation of life insurance on September 1, 1956. The pioneering zeal and entrepreneurships of a few such as Dr. HariKrishna Das, IMS, the retired civil Surgeon, Gauhati; Sri Jogendra Nath Barua, B.L,Additional Judge, Ghy; Sri Gopinath Bordoloi, M.A, B.L, Pleader, Judge's Court, Ghy (Who later became the prime minister of Assam after the fall of Sir Saddullah ministry); Sri Bishnu Ram Medhi, M.Sc,B.L.Advocate, Ghy (who later rose to the Governor of Madras) and some other leading businessman were primarily responsible for the establishment of the Bhaskar Insurance Company Ltd. Sri Jogendra Nath Barua was appointed the first director of the company. The authorized capital of the company was ₹ 10,00,000 divided into 1,00,000 shares of ₹ 10 each. It commenced business from 1938.

In the 1940's several other companies-big or small started functioning in this region. It is seen from Table-1.1 that most of the insurance companies functioning in the region had their registered offices outside the region and many of them acted through either organizing office with an organizer for selling the policies or branch offices. Only Hindustan Co-operative Assurance Society Ltd. and Oriental Govt. Security Life Insurance Co. Ltd. established their Head Office at Gauhati. The rest of the enlisted companies (Table 1.1) operated through organizing offices excepting industrial and prudential co. (which had a branch office at Shillong). It is further observed from Table 1.1 that no life insurance office was located in the present territorial limit of Arunachal Pradesh, Nagaland, Mizoram and Manipur. Even no life insurance was transacted in those states. The life insurance activities were confined to the townships of Gauhati, Shillong, Tezpur, Jorhat and Dibrugarh.

Table 1.1 INDIAN LIFE INSURANCE COMPANIES FUNCTIONING IN THE NORTH EAST REGION PRIOR TO NATIONALISATION

Year of Est.	Name of Insurer	Year of functioning in the NER	Regd. Office	Organisational Pattern of Functioning
1917	Hindustan Co-operatives Assurance Society Ltd.	1921	Calcutta	H.O-Gauhati Plus Branches
1874	The Oriental Govt. Security Life Insurance Co. Ltd.	1925	Bombay	H.O-Gauhati Plus Branches

1919	New India Mutual Life Insurance Society	1928	Bombay	Br.- Calcutta Org.Off.-Shillong
1871	Bombay Mutual Life Insurance Society	1929	Bombay	H.O-Calcutta Br.-Gauhati
1906	United India Life insurance co. Ltd.	1931	Madras	C.O- Calcutta Org.Off.- Gauhati
1907	The National Indian Life Insurance Co. Ltd.	1932	Calcutta	H.O- Gauhati
1936	Bhaskar Insurance Co. Ltd.	1936	Gauhati	C.O- Gauhati Plus Branches
1936	The Sadam Insurance Co. Ltd.	1939	Calcutta	Org. Off.-Palasbari, Boko
1936	Insurance of India	1936	Comilla	C.O- Comilla
1936	Sadam Provident Insurance Co. Ltd.	1940	Calcutta	Br. Gauhati
1929	East India Insurance Co. Ltd	1940	Calcutta	Br. Comilla
1913	Industrial & Prudential Assurance Co. Ltd.	1940	Bombay	H.O-Calcutta Org. Off.- Gauhati
1930	The Metropolitan Insurance Co. Ltd.	1940	Calcutta	Org.Off.- Gauhati
1933	Aryastham Insurance Co.	1943	Calcutta	Org.Off.- Gauhati
1943	Prithi Insurance Co. Ltd	1948	Madras	Org.Off.- Gauhati

H.O – Head Office; B.O – Branch Office; C.O – Chief Office; Org.Off. -Organising Office

Source:- The Asamiya, Regd. No.C1819 May 4,1921,Feb7,1925,April 20,1940,April 27,1940,July 20, 1940,June3,1959 etc.

On nationalization of life insurance business in the year 1956, Bhaskar insurance company Ltd., the 1 (one) insurance company of the Region was brought under the life insurance corporation of India, Since then the administration of life insurance business in the North Eastern Region has been controlled by the Zonal office in Calcutta (Kolkata). The Zonal office coordinates the activities of the divisional office in the region.

Till the establishment of the newly inaugurated Silchar Division in 1961, the entire North Eastern region comprising seven states- Assam, Meghalaya, Manipur, Mizoram, Nagaland, Tripura and Arunachal Pradesh was served by the Gauhati Divisional Office. Thus the two divisional offices with 31 branches supervise over the region which covers an area of 2.55 thousand square kilometers and a population of about 299 less. The Silchar Division covers an area of 75 thousand kilometers comprising undivided

Cachar district and North Cachar district of Assam, Manipur, Mizoram and Tripura with a population of 48 lakhs, while Gauhati division has been heavily burdened with the rest of the region. Hence, a divisional office at Jorhat was created in the early eighties, with a view it will be able to supervise and control the business effectively over the undivided districts of North Lakhimpur, Dibrugarh and Sibsagar of Assam; Arunachal Pradesh and Nagaland covering an area of 1224 thousand Square Kilometers and 50 losses of population, leaving the rest for the jurisdiction of Gauhati division. In this respect a division of Jorhat would be richer and more economical than Silchar division itself. The business potentiality of the proposed Jorhat division and its future prospect of growth are also brighter than Silchar division. Further, there is the possibility of opening new life offices at places such as Moran, Bokakhat, Mokokchung, Kohima, Sonari, Tezu and Direct Career Agents Branches at the prosperous towns, while under Silchar division opening new life offices are not so bright. The areas under Jorhat divisional jurisdiction is marked by coal, mining and oil industries, paper and pulp industries, plywood industries and plantation industries which contributed added advantage to the proposition. Till 1997 the life insurance business in NER was carried and controlled by three divisional offices i.e. Guwahati, Silchar and Jorhat. Due to increase in the business in the region and three divisional offices was heavily burden it was decided to open another divisional office at Bongaigaon in 1998. Now the two offices one Zonal office at Kolkata and the other Central office at Mumbai coordinate the life insurance business of the region. There are only four divisional offices in the region – (i) Guwahati (ii) Silchar (iii) Jorhat and (iv) Bongaigaon. There are only 55 branches in the region.

1.4 NEED AND SIGNIFICANCE OF THE STUDY

The corporation which came into existence and started functioning from September 1, 1956 has completed 52 years of service to its policyholder and to the nation. The LIC has been carrying on life insurance business for a fairly long period of time as to warrant a critical look at its operation with a view to delineating the major achievement and failure particularly in north eastern region and all India in general.

A critical examination of the working of LIC would involve a no. of important issues such as:-

- Whether organizational set up in the region for carrying on life insurance business is sufficient ;
- Whether the present monopolistic structure of the organization of the corporation (which has emerged itself into a gigantic financial institution) is a hindrance for furthering the noble cause of life insurance to the masses;
- How far the LIC is successful in tapping the life insurance potentialities in the region;
- To find out the strategies to be adopted for spreading life insurance cover to every eligible person in the region, and
- How far the degree of efficiency with which the corporation provides post sales service to its policy holder in the region in respect of claims settlement.

LICI has emerged itself into as the biggest investor in the country. It has at its disposal a huge growing fund seeking investment outlets. The way these funds are invested will have significant impact on social and economic development of the various states and the region and finally the country as a whole. Hence a study of the various facets of the investment portfolios of the LIC in the region and its underlying principles and policies appearing to be well warranted. Therefore, there is an urgent need to examine the growth and performance of LICI in NER towards socioeconomic development of the region and enough research, establishes the truth and suggest measures thereof to know the reality of the performance of the organization. It is with this background that the present piece of research is conceptualized and taken up. The present study will be highly significant to the northeastern states. This study will be helpful to the LICI for taking the necessary steps and measures for successful performance of the organization towards the development of the NER. It is our endeavor to study the **"GROWTH AND PERFORMANCE OF LICI IN NORTH EASTERN REGION"**, so it is hoped that this study will be of immense importance for all the concerns.

1.5 OBJECTIVES OF THE STUDY

The main objectives of the study are-

1. To study the organizational set up of life insurance corporation of India.
2. To study the globalization & its impact on LICI business in NER.
3. To examine the settlement of claims to policyholders of LICI.
4. To evaluate the investment of life insurance funds of LICI in NER.
5. To analysis the growth & performance of LICI in NER
6. To recommend the suggestions to accelerate the growth and performance of LICI in North East Region.

1.6 HYPOTHESIS OF THE STUDY

The following are the hypothesis for the study:-

1. The performance of LICI in NER is not satisfactory.
2. There is no significant effect on the performance of LIC in spite of being opened up for private players.

3. The LICI have failed to mobilize the investment in potential area of NER.

1.7 RESEARCH METHODOLOGY

The method of the study is an empirical one. The analysis is to be done both in qualitative and quantitative approach. The study is based on both primary as well as secondary data.

TOOLS OF DATA COLLECTION:-

The relevant secondary data will be collected mainly from the relevant Annual Reports of the Life Insurance Corporation of India, Statistical year books of Life Insurance Corporation of India, Yogakshama and various news bulletins of the LIC. The Annual Reports of Insurance Regulatory and Development Authority (IRDA) and other related literature available both as hard copy and on the net have been consulted for collection of data. Apart from these two major sources various magazines devoted to the issues related to insurance, like Life Insurance Plus, Insurance Times, Business Today, Business World, etc. have also been used to supplement data and information required for the study. The study is based upon the published material realized senior people working in the corporation or those who had been connected with the institution in some capacities have been interviewed to discuss the practical aspects of the problem. Earlier working in life insurance business has duly been considered.

The primary data is collected through a comprehensive interview, schedules and discussions with the customers of LIC and customers of private companies. The research is divided into two parts. The first part helps us to understand the level of awareness, service quality, problems faced and the investor's motive of investment, the second part deals with extracting important findings from this information and analyzing the measures required to correct problems if any. A sample of 300 respondents, 151 from LIC and 149 from the private sector were identified randomly for detailed study and analysis. The researcher used stratified random sampling technique for collecting the primary data. The population of North East region is divided into eight areas and an equal number of samples are drawn from each stratum. Statistical tools like weighted averages, percentages, Chi-square test, mean and standard deviation etc. are used for the analysis of data. For the purpose of analyzing the awareness level a two point rating scale is used. A two point and a three point scale are used to test the various aspects covering the awareness level, service quality and problems faced by the consumers.

The raw data were first subjected to simple tabulation and then these have been further processed to get the required form so as to represent various variables required for the study. These variables have been identified as per the objectives of the study. Broadly the chapters have been formed to devote one chapter to each of the objectives so as to arrive at analytically correct conclusions. Line graphs, bar charts have also been drawn wherever necessary to provide a visual pattern of growth and comparison.

Analytical Tools

The accounting tools used for the study are as under,

1. Ratio Analysis
2. Trend Analysis.
3. Compound Annual Growth Rates (CAGR)

The statistical tools used for the study are as under,

1. Average
2. Index
3. Time series analysis

4. Regression analysis
5. Chi square test

1.8 PLAN OF STUDY AND CHAPTERISATION

The study covers a period from 1996-97 to 2010-11. The study has been organized into seven chapters as follows.

Chapter 1: Introduction: This chapter is introductory in nature and explains overview of the insurance sector.

Chapter 2: Organizational setup of LICI business in NER: This Chapter contains the study of organizational set up Life Insurance Corporation of India business in north eastern region.

Chapter 3: Globalisation and its impact on LIC business in India vis-à-vis NER: This chapter contains the study of business performance of life insurance corporation (LIC) vis-à-vi's North Eastern Region after the liberalization policy regime and as also the changes that might have occurred or any restructuring that might have been done by the LIC in the wake of entry of private players in the Life insurance sector.

Chapter 4: Settlement of Claims of LICI: This Chapter contains the performance of LIC is evaluated on the basis of claims settlement operations. For this data relating to claims intimated, claims settled and claims outstanding at the end of the year of the period of study were collected and analyzed.

Chapter 5: Investment Pattern of LICI and its impact in NER: This chapter contains the analysis and study of the portfolio management i.e.

investment pattern of the Life insurance Corporation of India and its impact in North Eastern Region.

Chapter 6: Growth and Performance of LICI in North Eastern Region (A comparative study with all India level): In this Chapter, the analysis of the overall business performance of Life Insurance Corporation of India for the period of 15 years has been done in new business as well as business in force. Other aspects of the performance have also been considered for evaluation. It also includes the business performance of LIC in North Eastern Region on the basis of new business (individual) and Group business

Chapter 7: Summary of Findings, Recommendations and Conclusions.

1.9 PERIODICITY OF THE STUDY

The study, in general, encompasses the period commencing from 1 April 1996 and ending with 31 Marches, 2011. Where, however, data and information for the period subsequent to 1996 are available, they will be provided at appropriate places. Although the study is primarily concerned with the period after 1996 of life insurance business in the country, however an objective assessment is done so as to provide a backdrop for evaluating the growth and performance of the LIC in the North Eastern Region. Area of the study is primarily concerned with the growth and performance of the life insurance Corporation of India in general and northeastern region in particular; however, there will be a comparative analysis of northeastern region in the nation.

1.10 REVIEW OF LITERATURE

Existing literature on the subject matter of the research is a boon for the researcher, since it provides him with background material on the subject. Such literature also provides the scholar with an opportunity to draw up his research plan i.e., what areas of the subject matter have already been probed into and what new areas may be emphasized or covered in the present study. Such is the importance of literature review.

Unfortunately the present researcher is handicapped in this respect since not many published literature is available on the subject matter of insurance. However, in the course of his visit to different libraries, institutes and insurance offices, the researcher could lay his hand on some publications, books, pamphlets, journals etc. where the subject matter of insurance has been dealt with from a different point of view. The researcher attempts to concentrate on those publications in the following pages:

The publication of "Insurance Institute of India" entitled "General Insurance" while highlighting the role of insurance in economic development has emphasized that the insurance companies while pooling and investing its resources, should keep in mind that its decisions should benefit the community.

Existence of risk and uncertainty always dissuades people from undertaking business or economic activities. Insurance encourages commercial and development activities, by undertaking to shoulder such uncertainty or risk. System of insurance not only provides benefits to individuals but protects and ensures the industry and commerce from the consequences which may be caused by natural or unnatural events or accidents.

“Practice of General Insurance” another publication by the insurance institute of India, has made elaborate discussion of insurance legislations, like insurance act, 1938, General Insurance Business (Nationalization) Act, 1972. Statutes like Marine Insurance Act, Motor Vehicles Act, which directly or indirectly affect general insurance, are also discussed in this publication.

Establishment of General Insurance Corporation of India, reorganization of general insurance business, function of the general Insurance Corporation and its companies are also covered in this book. Risk management and risk evaluation, investment guidelines for the GIC, etc. have also been discussed in this book.

Mishra in his book – “Insurance: Principle and Practices”, while discussing the evolution of insurance has referred to the term “YOGAKSHEMA’, the oldest term of insurance as used in the Rig Veda. Mishra has classified insurance into three categories from the business point of view, of which general insurance is prominent categorical. General insurance covers property insurance, liability insurance and other forms of insurance.

The author while analyzing the role and importance of insurance examines the importance of insurance to business and industry. Enhancement of business efficiency, minimizing the uncertainty of business losses, enhancement of credit, continuity of business in the event of death of a partner etc., are some of the areas emphasized by Mr. Mishra.

In a recent publication “Fundamentals of insurance : Principle and Practice” the authors –Dr. Sikidar, Dr. P.Nath & Dr. G. Nath, have discussed contribution of insurance to economic development. The numerous direct and indirect benefits to trade and commerce through insurance, implementing loss prevention measures and minimizing risk and uncertainty, channeling of savings to productive investments, pooling of resources for the purpose of investment are some of the areas highlighted by the authors.

The author has also referred to the observation of Dr. C. Rangarajan the former Governor of Reserve Bank of India, the mutually beneficial interaction of insurance and economic developments.

The authors have also thrown light on the organizational profile of the GIC before and after commencement of the Insurance Regulatory and development Authority Act, 1999.

In another publication "Law and Economics of Insurance", Insurance Institute of India has dealt with the law and the regulatory framework with particular reference to insurance business. The publication also devotes considerable space on the role of insurance in economic activities. The interrelationship of insurance and economic system has been discussed under the sub-heading market demand for insurance, Price elasticity of demand for insurance etc.

Dr. H.k. Saharoy and Dr. N. K. Saha have given a very brief definition of General Insurance as per the Insurance Act, 1938. This definition is incorporated in their book entitled "Commercial and Industrial Law". The authors have also elaborated the characteristics of contract of insurance.

Insurance Institute of India has published another book entitled "Insurance Business Environment" which primarily deals with legal, economic and commercial environment" which primarily deals with legal, economic and commercial environment of business. The legal environment deals with various legislations affecting insurance business. The role of insurance in the industrial economy as the effect of globalization and liberalization of Indian economy and the volumes and quantity outside India have been discussed in this book.

'Insurance Law Manual' is an authorized publication of insurance regulatory & development authority. In its August 2002 issue, the publisher gives description of IRDA Act, 1999. It also narrates various rules and regulations framed under the IRDA Act, 1999. These regulations relate to insurance agents, investments, surveyors. The book also deals with third party administrator for health services. TPAs is authorized on settling claims under mediclaim policies. TPAs tie-up with various Hospitals and Nursing Homes and provide cashless medical treatment. Recent amendments to the insurance Act have also been included in this publication.

Office of insurance Ombudsman, Calcutta has published a booklet giving details of principles and procedures of ombudsman system. As per this publication, the object of ombudsman scheme is to resolve all complaints relating to settlement of a claim on the part of insurance companies with cost effective, efficient and impartial manner.

Prof. M.N. Mishra gives a critical appraisal of the Malhotra Committee Report which is the beginning of the reforms in insurance sector in the Indian journal of commerce a quarterly of the Indian commerce association. In the same Journal, Dr. Neetu Andhora has mentioned that liberalization is an opportunity to be exploited, not necessarily a threat.

Dr. D.C. Srivastava and Shashank Shrivaastava in their edited volume " Indian Insurance Industry" have rightly stated that the growth of insurance industry is associated with the general growth of industry, trade and commerce. The role of insurance in capital formation has also been elaborately described. Description of growth of insurance in other countries of the world has also been highlighted. Other authors have described about health insurance, agriculture insurance and the role of intermediaries.

Dr. M. Rammohan Rao, Director, Insurance Institute of Management, Bangalore has mentioned in his address (as published in "The Journal: July-December 1998 issue) bout UNCTAD announcement that 'a sound national insurance and reinsurance market is an essential characteristic of economic growth'. The author writes about the unique features of insurance marketing. It has to identify uncertainties by selling the insurance product.

Sri J.R Joshi, former chairman of LICI highlights the economic well-being of insurance and emphasizes how insurance compensates the sufferer. (The Journal, July-December 2001 issue)

Dr. C. Rangarajan Governor of Andhra Pradesh has rightly mentioned that insurance and economic growth mutually influence each other. Dr. Rangarajan further states that a well developed insurance sector promotes economic growth by encouraging risk taking. (The Journal, July-December 2001 issue)

S. Rachappa & Prof. K.V. Achalapathi published article entitled "Impact of Privatization of Life Insurance Industry on LIC" study the profile of policyholders of LICI pre and post privatization of life insurance industry in India. It is found that there is a significant difference in age, occupation, educational qualification, marital status of policyholders of

LICI, and profession of spouse of policyholders of LICI before and after privatization of life insurance industry in India. On the other hand, there is no significant difference in household structure and income of the policyholders of LIC before and after privatization of life insurance industry in India. The impact of privatization on LICI is positive in terms of premium income, return on investments, the rate of interest realized on investments, business in force, claims, management expenses, rural business and average life insurance business per agent. There is also improvement in performance of LICI in reducing the number of complaints per thousand mean numbers of policies in force.

The Cambodian Management Journal 2009, Vol 1, No.2, 18-28, The impact of liberalization, privatization and globalization on life insurance corporation of India by R. Rajendran & B. Natarajan The Indian life insurance industry has its own origin and history, since its inception. It has passed through many obstacles, hindrances attain the present status. The income earning capacity of an individual citizen of a nation and the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry. For that they should provide wider and mass-employment opportunities and sound educational system. Moreover, the general public must be inculcated with more knowledge, awareness and importance about life insurance, and these steps help to boost the growth of insurance industries. In this Indian context, the insurance habit among the general public during the independence decade was quite rare and in the following decades, it slowly got increased. There was a remarkable improvement in the Indian insurance industry soon after the acceptance and adaptation of Liberalization, Privatization, and Globalization (LPG) in the year 1991. After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of healthy competition from many national as well as international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the Mutual Fund posed serious challenges before LIC.

Mishra (1990), ‘Productivity Management in LICI’ found that there were enough market potentialities for the insurance people in India. He highlighted the prevailing competition among agents. He highlighted the prevailing competition among agents. He viewed that many insurance policies in the past could not continue for the tenure because of lack of services to the policy holders. He suggested opening of new branches, training of LICI agents at periodical intervals, arranging regular meetings of agents with a pace setter agent, a new class of agents as leaders, challengers, followers and nicer to put the morale of agents at a higher level.

Banerjee (1992) in the article, ‘Branch Image in the 90’s inculcating the PR Culture’ opined that the Public Relations activities should not be confined to a few persons meant exclusively for that purpose but should be exercised by all right from sub-staff to the branch manager and also by agents and development officers in a branch office. He stressed smiling, courteous and efficient service to the policyholders to meet the rising consumer aspirations. He suggested the need for free flow of information from LICI’s branches to divisional, Zonal and Central Offices.

In an interview on reorganization of LICI Prof. Ishwar Dayal (1992) expressed his satisfaction with the implementation of the reorganization scheme by LIC. However, he reorganized that present customers were demanding better and far more superior services. He opined that changes in the behavioral patterns of LIC’s customers, the attitudinal changes and the shift in customer expectations in the recent past would have to permeate the whole organization if it wanted to become customer driven. He further suggested review of the reorganization scheme for further improvements.

Sinha (2000) in his paper titled ‘Privatization of Insurance Market in India’ concluded that one sure sign is emerging in the insurance business is the convergence of the different parts of the financial sector. The IRDA has taken a slowly-slowly approach. It has been very cautious in granting licenses. Too many regulations kill the incentive for the newcomers while two related regulations may induce failure and fraud that led to nationalization in the first place.

Ayyar (2001) in the article examines the various issues of significance to LICI and to policyholders on the entry of new players into the industry. New entrants in this area have a technical collaboration with companies having headquarters in countries like the USA, UK, Australia, etc. They will bring in new insurance products and administrative procedures. This will be like opening of all windows and allowing the wind to blow in from all directions. Thus, it is expected that the life insurance business in India will benefit and grow on sound lines. Competition will be in the form of new products from other insurers. If the LICI agents are not fully conversant with the new products of other competing insurers, they will lose out in the race and miss the bus. The way to ensure that such a situation would not develop is the train agents on what is happening around and help them to convert the emerging challenges to opportunities. Moreover, LICI is gearing itself up to attain newer heights through involvement of its entire vast workforce. LICI is marketing its products more aggressively and identifying new markets, which it plans to tap with specially trained agents. Agency training should emphasize the principle that the interests of the consumer and not what the agent earns should be supreme. Corporate agents may eventually be allowed. Legislation is on the anvil for brokers to be appointed. New distribution channels for insurance products are being tried. Banks have been roped in and are authorized to sell insurance.

Gupta and Chuganee (2001) in their article 'LICI learns to Tango' emphasized on the various steps to be taken by LICI in order to compete with the new players. As the insurance sector has opened up the monopoly of the giant has been challenged with this. LIC is to face world class competition at last. Several major steps are to be taken to rise to the occasion in the areas of products, services, information technology, etc. LIC is gearing to attain new heights through involvement all its vast work force. There is an excess of manpower in the corporation but the management is not going to be any downsizing instead the surplus is going to be utilized in raising business volumes through skill up gradation.

Kumar (2002) emphasized in the investment management in the light of an asset liability match, interest rate risk, risk mitigation measures and derivative instruments by the life insurers. Life insurance is a long term business and for determining the premium the expected interest rate over the term of the policy is one of the key inputs. Bonus rates are decided on the basis of surplus determined by actuarial valuations which is done every year. Investment income, which depends also upon the return on fixed interest investments, is a significant contributor for surplus. A decline in rates of returns obtainable from time to time revision of rates of returns offered by the insurers. A life insurer puts money in government bonds and government guaranteed bonds whi9ch carry almost no default risk and consequently have lower expected returns in comparison to riskier investments. This is done because the security of the funds is among the life insurers' foremost concerns.

In an article titled, "LIC faces stiff challenges" published in the national newspaper 'The Hindu' in 2002, S. B. Mathur, Chairman of LIC, emphasized on the theory and stiff competition from new entrants in the life insurance sector. 12 new players had entered Indian Life insurance Sector and posed a challenge to the growth of the world's biggest insurance corporation LIC of Indian. They all had sound back ground and high brand equity. According to Mathur, the new players might not be very ethical in all respects but they pose a big challenge to LIC. Competitors would concentrate on those areas which was not covered by us and development officers must work carefully to ensure that the people are not weaned away from LIC. LIC was set apart Rs. 55 crores to be utilized for giving Laptops to its 19000 DO's countrywide.

Dhunna and Kumar (2002) in their article titled 'Liberalization of Insurance Sector: Social Implications' emphasized that IRDA has to create an environment where insurers, consumers and other groups can co-exist and operate from the promotion of the insurance. The success of the insurance reforms depends on the transparency in the work environment and an effective regulatory authority, so as to prevent liquidation, speculative trading and restrictive business practices.

Jayakar (2003) says that new product innovation, distribution and better use of technology are helping the new breed of private life insurers take market share away from the monopolists of yesterday. Earlier it used to be the nationalized companies, i.e. the Government owned insurance companies that had an edge over any other company. With the privatization of the insurance sector and with the entrance of many players, the world of insurance served to have a cut throat competition with the private sector gaining an ever increasing edge over the public sector.

Kumar (2003) in his article titled, ‘Development of Insurance in India’ had emphasized on the various issues relating to the insurance business in India like liberalization, privatization, regulator’s issues and future possibilities, etc. A thriving insurance sector is of vital importance to every modern economy. It encourages the savings habit, provides safety to rural and urban enterprises and productive individuals. It generates long term investible funds for infrastructure building. This characteristic of their business makes insurance companies the biggest investors in long-gestation infrastructure development project in all developed and aspiring nations. This is the most compelling reason why private sector (and foreign) companies which will spread the insurance habit in the society and consumer interest are urgently required in this vital sector of the economy. Potential private entrants therefore expect to score in the areas of customer service, speed and flexibility. Their entry will mean better products and choice for the customer. As is witnessed in other countries where liberalization took place in recent years, nationalized players will continue to hold strong market share positions, but there will enough business for new entrants to be profitable.

Samuel (2003) traces the evolution of the insurance market in India. The paper deals with the theoretical aspects, historical perspectives of insurance in India, the business and investments of life and non life insurance and an assessment of insurance penetration in India compared with world standards. This article also discusses the role of insurance in financial savings of the households sector and regulation of insurance in India. Though the performance of the public sector insurance companies –

LIC and GIC was quite satisfactory, the Indian insurance business, both life and non-life, left much to be desired as compared to international standards. There is low penetration and general lack of efficiency. The per capita premiums are very low when compared to the standards of both industrialized countries and other emerging markets. With the entry of private players in the insurance business, it is expected that competition would increase and overall functioning of the insurance sector would improve. The liberalization process initiated in the insurance sector is expected to bring about better integration of the financial markets and promote financial development of the country.

1.11 LIMITATION OF THE STUDY

The study though based on scientific, representation and analytical approach and also an in depth field study, it may have some infirmities and also some handicaps which may arise due to errors or omission in human efforts. Besides, there are some other limitations of the study which may arise due to negligence of some branches to give a proper answer with true spirit, lack of uniformity of the contents of the annual report of LICI, hesitating and incomplete answer given by most of the illiterate people at the customer level and also some proxy answer given in case of individuals due to non-presence of the head of the family at the time of our field investigation. However, utmost care has been taken while eliciting information from the respondents. All the relevant data and information derived from both secondary and primary source have been duly scrutinized processed and finally, the results have been deducted out of it. Therefore, it is hoped that the conclusion derived from the study will be useful for the LIC and policyholders.

Thus to conclude, the LICI has been carrying on life insurance business for a fairly long period of time as to warrant a critical look at its operation with a view to delineating the major achievement and failure particularly in north eastern region and all India in general. A study of the various facets of the investment portfolios of the LIC in the region and its underlying principles and policies appearing to be well warranted. Therefore, there is an urgent need to examine the growth and performance of LICI in NER towards socioeconomic development of the region and enough research, establishes the truth and suggest measures thereof to know the reality of the performance of the organization. It is with this background that the present piece of research is conceptualized and taken up. The present study will be highly significant to the North Eastern States. This study will be helpful to the LICI for taking the necessary steps and measures for successful performance of the organization towards the development of the NER. So it is hoped that this study will be of immense importance for all concerned.

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CHAPTER: II

ORGANIZATIONAL SETUP OF LICI BUSINESS IN NER

2.2 Organisational Set up of LIC of India

2.3 Organisational set-up of LICI in the North Eastern Region

CHAPTER: II

The life insurance corporation was established by an Act Parliament which received the assent of the President on 18th June, 1956. The Act came into force on 1st July 1956 and the Corporation began to function on 1st September 1956. Since that day the corporation has had the exclusive privilege of carrying out life insurance business in India. The corporation is an autonomous body and has necessarily to run on sound business principles. The corporation has been fully carried out the role assigned to it and justifying the confidence of the public by offering absolute security, attractive policy terms, dependable service, economic management and favorable returns to the nation at large. Life Insurance Corporation of India is the largest life insurance company in India. It is fully owned by the government of India. LIC happens to be the biggest investor in the country. Headquartered in Mumbai, which is considered the financial capital of India, the Life Insurance Corporation of India currently has 8 Zonal Offices located at Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Kanpur, Bhopal and Patna. There were 111 divisional offices located in different parts of India, at least 2048 branches located in different cities and towns of India along with 1123 Satellite Offices (SOs) and has a network of around 13,37,064 agents for soliciting life insurance business from the public.[11] Divisional Offices monitor and control the operations. Branch Offices procure business and are responsible for all customer interface transactions. Satellite Offices also procure business and are responsible for immediate customer services required.

The Life Insurance Corporation of India (LICI) is performing a very encouraging business in North Eastern Region. The Guwahati Division of LICI came to be a constituent unit of the Corporation with various Branch Offices and Sub-Offices. Due to increase in the volume of business the

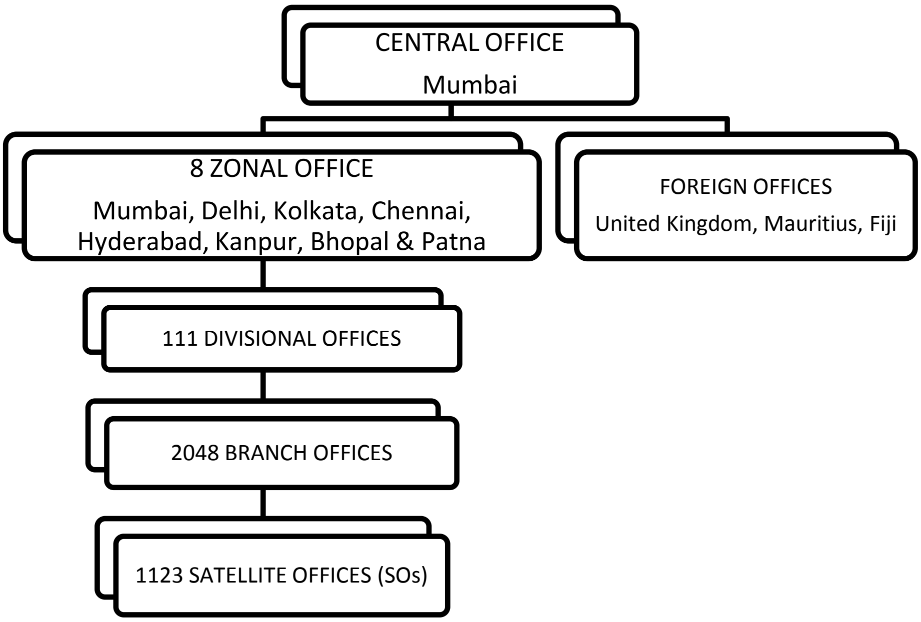
[11] Annual report LIC of india 2010-11

bifurcation took place with the creation of its Jorhat, Silchar and Bongaigaon Divisions and opening of various new branches in the northeastern region.

2.1 ORGANISATIONAL SET UP OF LIC OF INDIA

The life insurance corporation of India has a well planned organizational set up based on a continued reforms procedure. Organizational structure of corporation envisaged by L.I.C of India Act consists of a 4 tier structure with a central office at the top, primarily concerned with the formulation of policies. Zonal offices assist the central office in the matter of development, planning and review of the business and supervision of divisional offices within their jurisdiction. Under each divisional office, there are various branch offices and sub-offices. There is also a lower category of media of procurement of business called Development Centers. The following details give us a clear picture about organizational set up of LICI.

Chart 2.1 ORGANISATIONAL STRUCTURE OF LICI



The LIC’s Central Office is situated in Mumbai. It has 8 Zonal Offices, 111 Divisional Offices, 2048 Branch Offices in India, 1123 Satellite Offices

(SOs) & 3 Branches outside India. The existing position of LICI in terms of Number of Offices in all over the country till date can be represented in the following table as follows:-

TABLE 2.1 NUMBER OF OFFICES OF LICI

As on	Zonal Offices	Divisional Offices	Branch Offices	Satellite Offices	Total Offices
Dec.31, 1957	5	33	105		278
Mar.31, 1963	5	36	340		735
Mar.31, 1970	5	36	424		703
Mar.31, 1980	5	41	738		888
Mar.31, 1990	5	69	1528		1603
Mar.31, 1996	7	100	2021		2128
Mar.31, 1997	7	100	2023		2130
Mar.31, 1998	7	100	2046		2153
Mar.31, 1999	7	100	2048		2155
Mar.31, 2000	7	100	2048		2155
Mar.31, 2001	7	100	2048		2155
Mar.31, 2002	7	100	2048		2155
Mar.31, 2003	7	100	2048		2156
Mar.31, 2004	7	101	2048		2156
Mar.31, 2005	7	101	2048		2156
Mar.31, 2006	7	101	2048	24	2180
Mar.31, 2007	7	101	2048	109	2265
Mar.31, 2008	8	106	2048	323	2485
Mar.31, 2009	8	109	2048	800	2965
Mar.31, 2010	8	109	2048	1004	3169
Mar.31, 2011	8	111	2048	1123	3290

Source: Annual Report of LIC various issues.

The integral organization & management of the LIC comprises of:

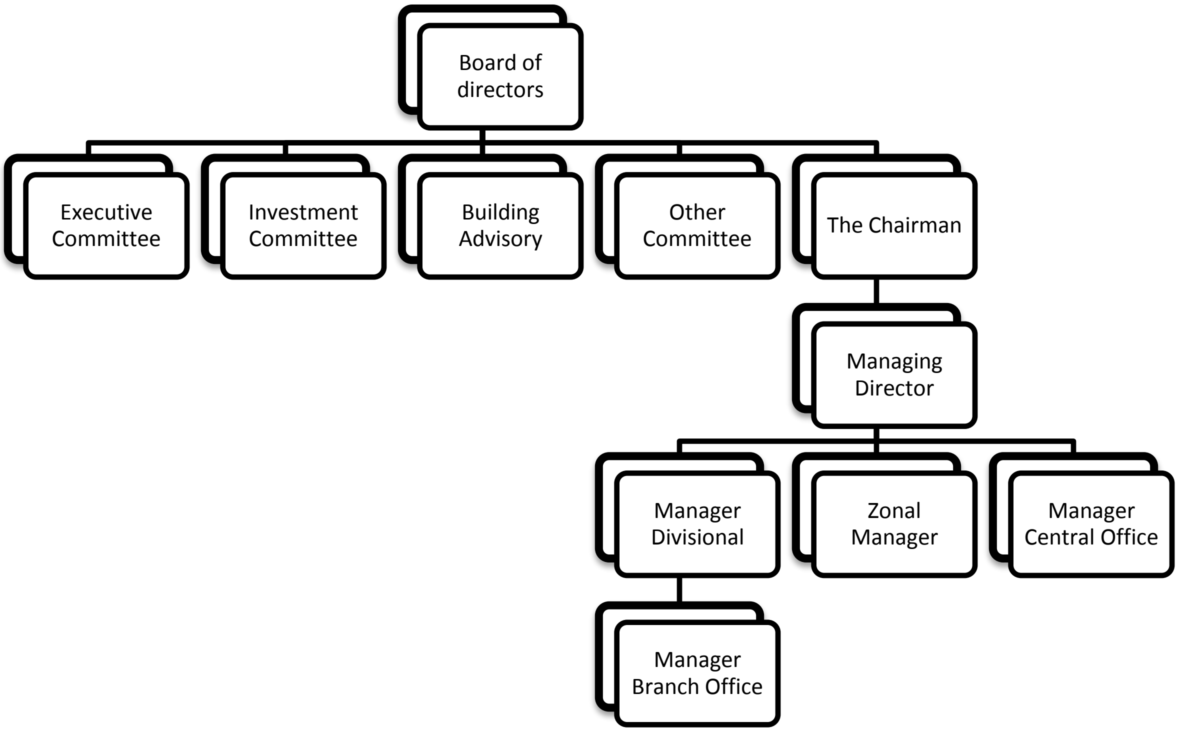
i. Board of Directors

ii. Committees of Corporation

iii. The Chairman &

iv. Managing Director

Chart 2.2 THE STRUCTURAL FRAMEWORK OF LICI



BOARD OF DIRECTORS

Board of Directors is the highest authority of the Corporation. They are appointed by the Central Government. The maximum number of Directors can be 15, but at present (in 1993) there are only11 Directors. No specific qualifications have been prescribed for a director, but one should not have a personal interest in the functioning of the Corporation. The functions of the Board are as under:

1. To determine the long-term policies of the Corporation.
2. To take decision for doing any work prescribed under the Act.
3. Decentralization & delegation of authority at different levels.
4. Tasks to be assigned to the top level, which are not delegated to lower levels.
5. Constitution of committees according to requirements.

6. To take decision in regard to promotions & conditions of services of important officers.

COMMITTEES OF THE CORPORATION

The Board of Directors has the power to appoint different committees for the effectively discharging, directing & control as well as advising the Board on such matters. Some of the important committees are as below:

1. Executive Committee
2. Investment Committee
3. Personal Advisory Committee
4. Building Advisory Committee
5. Development Advisory Committee
6. Budget Advisory Committee
7. Legal Advisory Committee
8. Policy holders Service Advisory Committee

THE CHAIRMAN

The chairman of the LIC is the Chief Executive Officer of the Corporation. He heads all the committee of the Corporation. But he has no authority to exercise the power of the investment committee. In the matters of investment of funds, the Chairman has to follow the advice of the Investment Committee. But he can ask the Board of Directors to reconsider any decision or advice given by the committee. There are restrictions on the exercise of the powers of the Chairman, but in emergencies he has all the powers of the Corporation.

THE MANAGING DIRECTOR

The Managing Director is the whole time officer of the Corporation. He discharges all the functions entrusted to him by the executive committee of the Corporation. The Corporation can appoint one or more persons as Managing Director. The Managing Director needs are not a member of the Board. He delegates some of his powers to the officers working at different levels, but before such delegation taken place, prior approval of the Board of Directors / Chairman is necessary.

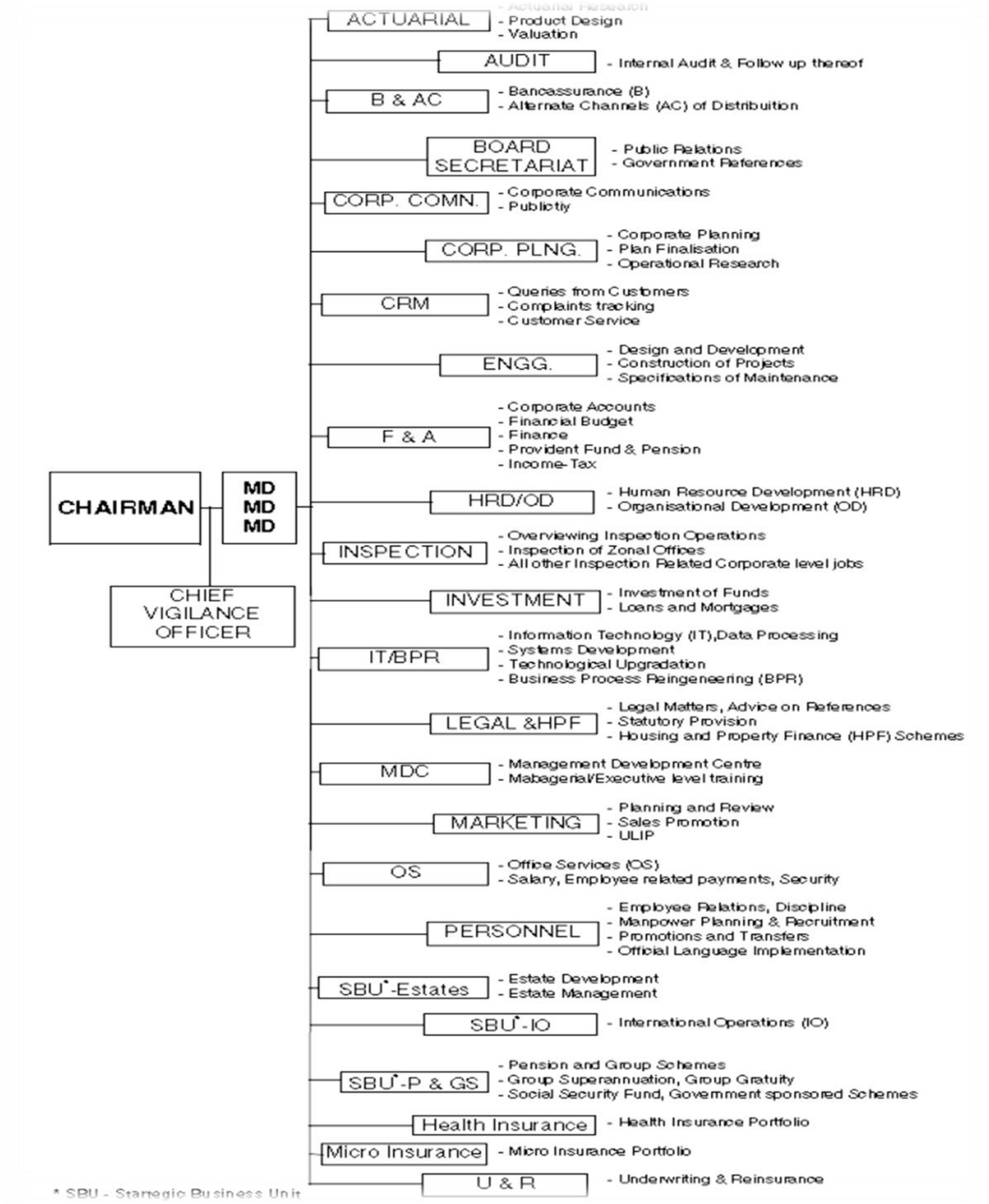
DEPARTMENTS AND THEIR FUNCTIONING AT VARIOUS LEVELS OF ORGANIZATION

(i) ORGANIZATION OF CENTRAL OFFICE

The central office of the corporation is located in Bombay. The main functions of this office are as follows-

1. The central office confines itself mainly to give broad policy directions and decisions and co-ordination of the activities of the various zonal offices.
2. To make the investment policy and to invest the funds in accordance with that policy are the sole responsibilities of the central office.
3. The underwriting of large proposals which are beyond the limits of the operating zonal offices particularly policies for large sums assured and policies on the lives of sub-standard nature are also attended by the Central Office.
4. The inspection of various offices and control on an internal audit of the same are also done by the central office.
5. The submission of statutory returns to the government, standardization of procedure, forms, drawing up of the prospectus, formulation of underwriting standards, premium rates, policy conditions and making arrangement with regard to reinsurance are the responsibilities looked after by the Central Office.

Chart 2.3 ORGANISATION OF CENTRAL OFFICE IN LIC OF INDIA



To fulfil its responsibilities with a systematic manner, the Central Office is assisted by various departments mentioned below:

1. Marketing Department

Marketing department basically deals with the planning and review of marketing policies of the corporation. Sales promotion, publicity, policy servicing etc. is the prime activities of this department. Matters related to foreign operations are also handled by this office.

2. Policy and Group Scheme Department

This department has a responsibility to look after different group schemes announced by the corporation such as Group Insurance, Group Superannuation, Group Gratuity, Social Security Fund, Government Sponsored Schemes etc.

3. Personnel and Industrial Relations Department

Human Resource plays as vital role in any institution. Therefore, personnel and industrial relations departments control the heartbeats of the corporation. It looks after the human resource development programs and tries to maintain good industrial relations in the corporation.

4. Management Services Department

The management services department is attached with the following activities-

(i) To arrange cost and other specific studies.

(ii) To check the managerial and organizational activities regularly.

(iii) To control and manage a data processing section of the central office.

5. Actuarial Department

The actuarial department is the in charge of various actuarial aspects of insurance. Actuarial aspects include the premium rates, terms and conditions of Life insurance policies including group insurance, a constant review of underwriting methods and standards at various offices as well as administrative procedure in the matter of underwriting and policy holders servicing, actuarial research relating to mortality investigations, medico actuarial investigates, expenses analysis, lapse policy investigations, actuarial valuation, reinsurance etc. It has also the responsibility of submitting the various relevant statutory returns in terms of LIC Act.

6. Secretarial and Personnel Department

The secretarial and personnel department deals with all staff matters as well as establishments needs of the various offices.

7. Investment Department

The investment department is one of the most important departments of the corporation. Due to the nature of the life insurance business, large funds get accumulated. These funds have to be invested properly and effectively to insure their security and at the same time to yield maximum possible profit thereon. All investment activities are carried out on the advice of the investment committee of the corporation. This department has also to maintain individual ledger accounts of the various investments.

8. Development or Long ranges planning department

The development department at the central office is primarily responsible for long range planning for development of new business. As a part of the process of this planning the department has to conduct research into the development potential of the various areas and identify centres where opening of new offices would be in the interest of development of business. It is also the function of the development department to organize training programme for branch officials, development officers and agents.

9. Engineering Services department

The engineering services department has the responsibility of planning and executing the buildings construction programme and the development of corporation's properties including its general maintenance.

10. Finance and Accounts Department

The finance and accounts department is to coordinate and consolidate the accounts of various units of the corporation. The accounts department also reviews the various accounting procedures of the corporation. It is also concerned with the preparation of the budgets of various operating offices and affecting budgetary control.

11. Legal and Housing & Property Finance Schemes Department

The legal department has the responsibility to advice other departments on legal issues and to look after the conduct of the litigations in the court. Implementation on a house and property finance schemes are also made by this department.

12. Inspection and Audit Department

This department is responsible for the periodic inspection of various offices. This department ensures that the practice in the various offices of the corporation is in tune with established principles and manuals. In the same manner, this department has to make do current audit of the transaction of the corporation in the light of the administrative policy standards and procedures laid down.

13. Estate and office services department

The estate and office services department controls the estate management of the corporation. Besides, this department also has a responsibility of servicing and security arrangement of other departments of control office and properties of the corporation.

(II) ORGANISATION OF ZONAL OFFICE

The corporation has seven zonal offices situated in Delhi, Calcutta, Madras, Bombay, Bhopal, Hyderabad and Kanpur. In the beginning of the corporation, zonal offices were fully responsible for all the organization and development functions in the area allotted to them but as a result of the reorganization of the administrative set up, which is being implemented in a phased manner, most of the advisory and control functions have been transferred to the central office while a good part of the original function of Zonal Offices have been decentralized to Divisional Offices. New Zonal Offices have limited functions which are as follows-

1. These are responsible for the planning and implementation of the development programmes for the whole Zone.
2. The Zonal Offices have the responsibility to execute the decisions of the Corporation and to co-ordinate the working of the various Divisional Offices under their respective control.
3. These Offices also have a responsibility to ensure that uniformity of working is maintained by the Divisional Offices under their respective control and that efficiency of operations of these offices is kept at the highest level.

To fulfill its responsibilities in an effective manner, Zonal Offices are assisted by various departments mentioned below-

1. Marketing Department

Marketing department is the most important department in a zonal office. It is linked with the following functions:

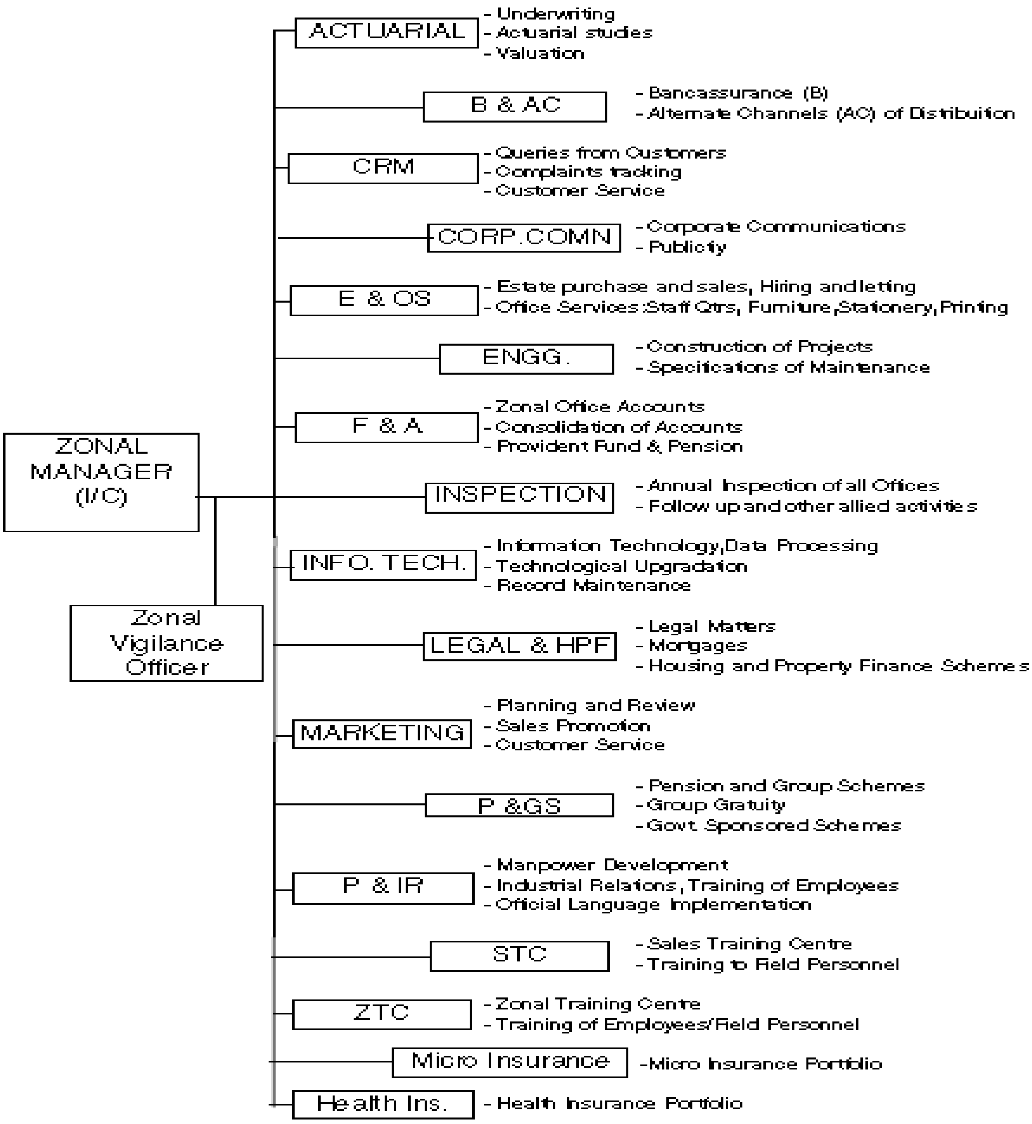
(i) To plan and review of sales activities of divisions.

(ii) To motivate sales promotion activities such as market research, product development etc.

(iii) To issue guidelines and monitor the performance in the field of policy servicing in divisions.

(iv) To design group and superannuation schemes etc. and monitoring them.

CHART 2.4 ORGANISATION OF ZONAL OFFICE IN LIC OF INDIA



2. Personnel and industrial Relation Department

Personnel and industrial relation department is related with human being working in the concerned Zonal Office. The main functions of this department are as under:

(i) To plan for the development of manpower as well as management at all levels.

(ii) To control the personnel administration.

(iii) To arrange training programmes for all levels of officials.

(iv) To improve industrial relations for maintaining the industrial harmony.

(v) To attend the disciplinary cases of the zone.

3. Finance and Accounts Department

Finance and accounts department deals with the following activities:

(i) To maintain Zonal Office accounts.

(ii) Consolidation of divisional offices accounts and to prepare the final statements for central office.

(iii) To prepare and control provident funds accounts of all employees working in the zone,

(iv) To check and control cash flow and short-term investment.

(v) To watch the activities of audit cell.

4. Actuarial Department

Actuarial department is associated with different actuarial studies and research. To prepare valuation schedules and to underwrite the cases beyond divisional office authority are the main functions of this department. It also has the control on the issue of polices to policyholders.

5. Legal Department

The legal department has the responsibility to advise other departments and divisional offices on legal issues and to look after the conduct of litigations in the court.

6. Estates and Office Services Department

Estates and Office Services Department deals with the following activities:

(i) To operate the house keeping operations in concerned Zonal Office including Guest houses, Cars etc.

(ii) To print all the required stationery for the Zone as a whole and to keep control thereon.

(iii) Supply of office equipments and furniture's in different offices.

(iv) Maintenance of Estate and L.I.C. property.

(v) Purchase and Hiring of Officer and residential premises for the Corporation.

7. Management Service Department

The main functions of Management Services Department are as under:

(i) Maintenance and observation of records prepared by other departments.

(ii) Installation of Micro-processor based machines in divisional offices and branches.

(iii) To operate O and M related studies including costs, new equipments etc.

(iv) To arrange periodical conferences of Heads of divisional offices under the zonal jurisdiction to discuss the progress of business and plans for the future.

III. ORGANISATION OF DIVISIONAL OFFICE

The Divisional Office is akin to a Head Office of an erstwhile insurer and is concerned with all the activities of the insurers from procurement of new business to settlement of claims. Divisional Offices work under the broad framework of the policy laid down by the Central Office and under the guidance, supervision and control of the Zonal Office. These Offices are not concerned with the investment of surplus funds. These have only to ensure regular transfer of surplus funds. These have only to ensure regular transfer of surplus funds to the Central Office to enable them to make suitable investment thereof. Now the Corporation has 101 Divisional Offices all over the country as on 31st March 2007.

Chart 2.5 ORGANISATION OF DIVISIONAL OFFICE IN LIC OF INDIA

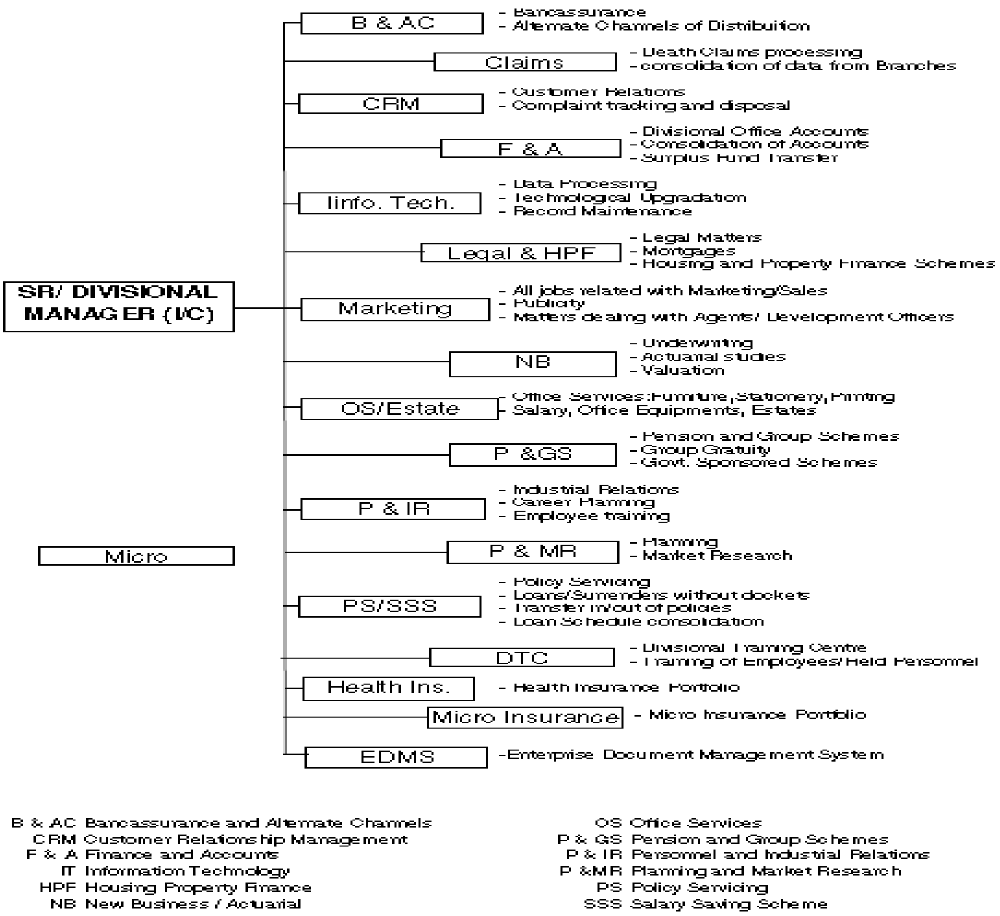


TABLE 2.2 DIVISIONAL OFFICES

Zone	No. of Divisional	Place where situated

	Offices	
Central Zone	7	Bhopal, Gwalior, Indore, Jabalpur, Raipur, Satna & Shandole
North-Central Zone	11	Agra, Aligarh, Allahabad, Bareilly, Dehradun, Gorakhpur, Haldwani, Kanpur, Lucknow, Meerut & Varanasi
Eastern Zone	10	Asansol, Bongaigaon, Kolkata-1,2,3, Gawahati, Howarh, Jalpaiguri, Jorhat, Silchar
East Central Zone	8	Berhampur, Bhagalpur, Cuttack, Hazaribagh, Jashedpur, Muzaffarpur, Patna, Sambalpur,
Northern Zone	16	Ajmer, Amritsar, Bikaner, Chandigarh, D.O. Cell Jammu, Jaipur, Jalandhar, Jodhpur, Karnal, Ludhiana, New Delhi-1, 2,3, Shimla, Srinagar, Udaipur
South Central Zone	16	Bangalore-1,2, Belgaum, Cuddapah, Dharwad, Hyderabad, Karimnagar, Mochilipatnam, Mysore, Nellore, Raichur, Rajahmundry, Secundrabad, Udupi, Vishakhapatnum, Warangal.
Southern Zone	12	Chennai-1,2, Coimbatore, Ernakulam, Kottayam, Kozhikode, Madurai, Salem, Thanjavur, Thiruvananthapuram, Tirunelveli, Vellore
Western Zone	21	Ahmedabad, Amravati, Aurangabad, Bhavnagar, Gandhinagar, Goa, Kolhapur, Mumbai-1, 2,3,4 & SSS Division, Nagpur, Nanded, Nashik, Pune, Rajkot, Satara, Surat, Thane, Vadodara,.

Source: Annual Report IRDA 2006-07

To fulfill their liabilities in a significant manner, Divisional Offices have the following seven important departments-

1. Marketing Department

The marketing department of divisional offices is known as a branch supporting unit of divisional office. It is directly concerned with sales department and the Policy servicing Department. The prime functions of the marketing department can be divided in two parts – (i) Functions of Sales Department; and (ii) Functions of Policy Servicing Department.

(i) Functions of Sales Department

Sales Department relates to all activities concerned with the field force of an organization. The leading functions of this department are mentioned below-

(i) Selection, appointment and transfer of Development officers.
(ii) To maintain the records of all agents and development officers under their respective control.
(iii) To review and appraisal of the performance of the development officers and agents to determine the incentives due to them.
(iv) To check the organizational cost of branch offices and to make proper arrangement for budgetary control.
(v) To organize training programmes for agents.
(vi) To control the publicity campaign of Divisional Office.
(vii) To arrange the periodical conferences of branch officials and field force of the divisional office to review the progress of business activities and to plan for the future programme.

(ii) Functions of Policy Servicing Department

The Policy Servicing Department deals with all the servicing required by the policyholder during the entire duration of their policy from the date of issue to the time when the claim is settled under the policy. The main functions of this department are mentioned below-

(a) To provide different types of policy servicing to policyholders such as age admission, nomination, revival of lapse policies, and by alteration in policy etc.

(b) To enable itself to render all services to the policyholders. Various records such as policy ledgers, policy files, loan ledgers etc. are maintained by this department.

(c) The department has also to handle all the work connected with the settlement of claims.

(d) All the work related to salary saving schemes are also looked after by this department.

2. New Business and Actuarial Department

This department looks after all the work involved in the underwriting of proposals received from branch offices till their completion and issue of policies. The other main functions of this department are as under-

i. Appointment of medical examiners in respect of those branches, who have common area.
ii. To take various actions against medical examiners from the consent of the concerned branch as – suspension, reduction in limit, termination etc.
iii. Appointment of specialist examiners – radiologist, cardiologists etc.
iv. Training of administrative staff of branches in underwriting and new business administration.
v. Supervisory inspection of the functioning of the new business section of the branches.
vi. Submission of " D-Returns", "Valuation Schedules" and other allied data, like 'Surplus Analysis", "Continuous mortality investigation" etc.
vii. To maintain the records related to underwriting activities as declining cases, check dishonored at proposal stage arts

3. Planning and Review Department

This department is concerned with the following activities.

(i) Review of the budgets and monthly performance reports of the branches.

(ii) To arrange training programme for Branch Personnel in planning technique and processes.

(iii) Analyzing the trends noted in the performance reports and to forward suggestions at higher levels.

(iv) Maintaining liaison with various authorities who bring out reports on environmental data.

(v) Location of data most suitable for purposes of planning and constantly exploring other secondary sources for improving the accuracy of the database.

(vi) As required by divisional management to do any special statistical studies or investigations.

4. Personnel and Industrial Relations Department

The working of this department is spread out in the following three sections:

(i) Management Development Section

The main functions of this section are as under-

(a) To forecast the manpower needs for various levels of the branches and divisional office.

(b) Recruitment, Placement, Transfer, Promotions and Disciplinary matters relating to staff.

(c) In respect of the overall corporate policies, to arrange management development programmes and career planning of the staff.

(d) To make arrangement for carrying out periodic "Personnel Audit" of the branches.

(ii) Industrial Relations Section

This section is concerned with the following functions-

(a) To establish better understanding with the trade unions and promoting better management – employees understanding.
(b) Carrying out negotiations with the trade unions on those matters relating to the Divisions as a whole.
(c) To handle grievances of the employees.

(iii) Training Section

This section of P. & I.R Department operates the organizes the training programmes for the staff of the Branches and Divisional Offices, according to the needs of the individual department.

5. Accounts Department

The accounts department of the divisional office has a control on the cash flow of the whole division. To fulfill its responsibilities in a significant manner, this department has two parts in itself-

(i) Branch Accounts Section

The prime functions of this section are as under-

(a) To check and to control branch expenses.
(b) Analysis and review of the Trial Balances sent by branches from time to time.
(c) To have an administrative control over the opening of both operating and non-operating collection bank accounts by the branches.

(ii) General Accounts Sections

The prime functions of this section are as under-

(a) To check and to control overall accounting transactions of the Divisional Office and to transfer the surplus funds to Central Office.

(b) Payment of salary and other monetary benefits to Divisional Office staff.

(c) To maintain the accounts of Divisional Office.

(d) To consolidate the trial balances received from branch offices and to prepare final accounts of Divisional Office.

6. Legal and Mortgages Department

The legal and Mortgages Department of Divisional Office deals with all the matters regarding sanction of mortgage loans on properties in the Divisional Office within the financial powers delegated to the Divisional Office. For the purpose it maintains a panel of legal advisors and property valuers.

The department maintains complete particulars and records of mortgage and loan accounts and all the relevant legal documents. This department also has a responsibility to advise the other departments on legal issues connected with staff matters and interpretation of terms and conditions of policy contracts.

7. Office Services Department

This department has a responsibility to take care of corporate property and to fulfil day to day requirements of Divisional Office. For this purpose the department is related with the following functions –

(i) Printing and supplying of various forms needed for the use of the Branches and the Divisional Office.

(ii) Purchase and supply of other stationary required by branches and Divisional office.

(iii) Exercising control over the inventory of forms and stationery and their utilization.

(iv) Purchase and supply of furniture items and other equipments like typewriters, water-coolers, electrical goods etc.

(v) To finalize 'service contracts' for the maintenance of office equipments like type-machines, electric equipments etc.

(vi) To make arrangement for the security of office premises.

(vii) Maintenance and control over staff cars and their movements.

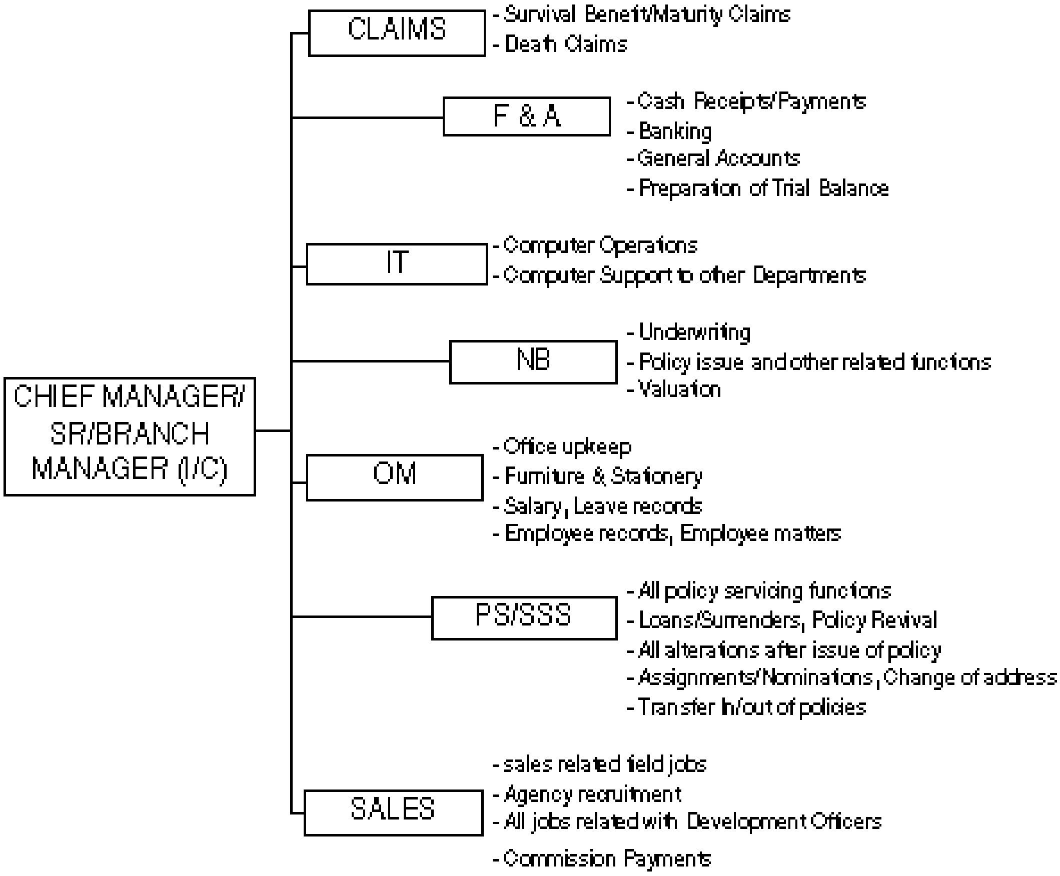
(viii) Negotiating and finalizing space for the branches.

With the growth of the business handled by the Divisional Office, the Corporation has adopted the policy of progressive decentralization of policy-holder's servicing functions to the branch offices as also of some items of work connected with the payment of commission and other monetary benefits to field staff and agents. The extent to which this decentralization has been done varies from division to division. So the functions of various departments of Divisional Offices given in this chapter may be decreased or increased according to the nature of the division.

IV. ORGANISATION OF BRANCH OFFICE

Branch Offices have been set up under the direct control of Divisional Offices. Branch Offices are the primary centers of LIC through which the insurance business is obtained. A major part of the LIC employees & officers are working in Branch Offices. The problems of policy holders are mostly solved by the Branch Offices. Nearly 2/3rd of the total income of the LIC is earned through the Branch Offices. Nearly 75% of the managerial expenses are spent by the Branch Offices. Branches have first contacted place for the proposer's. The Branch Manager is the head of the Branch & he is responsible for the effective functioning of the Branch Office. There is provision for setting up a management committee at every branch office. At present 2048 Branch Offices are functioning in the country as on 31st March 2007. The branch offices of the Corporation are the primary business procuring centres. A network of Branch Offices 2048 in number is spread all over India so that an office of the Corporation is available to every policy holder within his reach.

Chart 2.6 ORGANISATION OF BRANCH OFFICE IN LIC OF INDIA



F & A	Finance and Accounts	SSS	Salary Saving Scheme
IT	Information Technology		
NB	New Business		
OM	Office Management		
PS	Policy Servicing		

The prime functions of Branch Offices are the increase the insurance business and to provide the satisfactory servicing to policyholders in the area allotted to them. To fulfill their responsibilities in a satisfactory manner, branch offices have the following departments:

1. Sales Department

The primary function of sales department of a Branch Office is to maintain business records for all Agents and Development Officers attached to it. The records are kept up to date everyday to facilitate review of progress of the branch as also to enable preparation and submission of periodical business statements to the Divisional Office. The registrations of new proposal are also done by this department.

The sales department of the branch has to supervise and control the work of the Development Officers and to appoint agents. The functions covered under this include review of tours undertaken by the Development Officers appraisal of their business performance, issue of licenses to agents and their periodical renewal on behalf of the Controller of Insurance and settlement of agents' commission in its jurisdiction.

2. New business department

After registration of new business proposals, Sales Department transfer those to the New Business Department for further processing. The department scrutinizes the proposals to ensure that these are complete in all respects including the payment of the first installment of the premium. Such complete proposals are underwritten by the department. This department's also takes follow up actions on incomplete proposals and try to get them completed by acquiring required information and data.

This department has also to maintain complete records of medical examiners in its area of operation in order to be able to facilitate settlement of their bills and to ensure reasonable uniformity in the distribution of cases among the medical examiners. The responsibility of issuing the policy bonds and first premium receipts also lies in this department.

3. Policyholders Servicing Department

The policyholder servicing department at the branch office maintains the policy ledgers and index for policies serviced by the branch. The primary functions of the department, that are carried by all branches, are revivals of lapse policies, granting of loan, settlement of claims, calculation of the surrender value of policies and rendering assistance to policyholders in all matters. Each and every branch office of the Corporation has a pre-sanctioned financial limit in case of settlements of claims and the revival of lapse policies. For the matters beyond their sanctioning power, it is necessary to obtain approval from Divisional Office.

4. Accounts Department

The accounts department at the branch office performs the function of maintenance of daily cash income and cash paid book, transfer of surplus to divisional office, reconciliation of imprest cash accounts and maintenance and reconciliation of collecting bank accounts.

This department also handles the work of settlement of the agent’s commission. For this purpose, the Branch Account Department has to maintain agent’s earning records.

5. Office Services Department

The main function of the Office Servicing Department at Branch Office is the maintenance of service records for all the administrative staff at the branch office. It also deals with the granting of leaves and maintenance of leave records of the staff.

The department has the responsibility of providing the inward and outward mail services to all the departments of the branch as also to meet the stationery and literature requirements of the departments. It has also to maintain the inventory of furniture and office equipment. Branch is also responsible for their repairs and maintenance.

The department has also to look after the upkeep of the branch office premises are owned by the corporation. Under some specific circumstances also Sub-Offices and Development Centers are attached to Branch Offices for the purpose of searching for and developing of new areas for insurance business. Sub-Offices have mainly the function of procurement of new business and usually serve as a meeting place of local field organization for planning of business activities. Some of sub-offices, though continued to be called as such because of smallness of business handled by them, do all the functions that a full fledged Branch office does. At present, opening of new sub-offices are not being encouraged by the corporation.

Development centers are opened in places which are not presently fully developed for business procuration, yet have the potentiality of developing into full fledged Branch Offices. A development official is posted at such a development centre. His function is to organize intensive field activities in the area by keeping in constant touch with the agents and development officers operating in that area.

2.2 ORGANISATIONAL SET-UP OF LIC IN THE NORTH EASTERN REGION

The zonal office for the North East region is located at Kolkatta. This office also has jurisdiction over the entire eastern region of the country, besides the eight states of the northeastern i.e., Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh, Mizoram and Sikkim. Other states of eastern region wherein the zonal office, Kolkatta has jurisdiction are Bihar, Orissa, West Bengal, and the Union Territories of Andaman and Nicobar Islands. There was only one divisional office in this region till 1961. Till 1997 the life insurance business in NER was carried and controlled by three divisional offices i.e. Guwahati, Silchar and Jorhat. Due to increase in the business in the region and three divisional offices was heavily burden it was decided to open another divisional office at

Bongaigaon in 1998. At present One Central Office at Mumbai and One Zonal Office at Kolkata coordinate the life insurance business of the region. Further Four Divisional offices supervise 55 Branches in the region. The growth of LICI offices in the region given below.

TABLE 2.3 GROWTH OF LIC OFFICES IN THE NORTH EASTERN REGION

State/Region	**31st Dec, 1957**	**31st Mar, 1967**	**31st Mar, 1977**	**31st Mar, 1983**	**31st Mar, 2007**	**31st Mar, 2011**
Assam	11	13	13	22	56	80
Manipur	-	1	1	1	4	4
Meghalaya	1	1	1	1	1	1
Mizoram	-	-	-	1	1	1
Nagaland	-	-	-	2	4	4
Tripura	1	1	1	3	4	16
Arunachal Pradesh	-	-	-	1	2	3
Sikkim	-	-	-	-	1	2
Total : N. E. R	13(1)	16(1)	16(1)	31(1)	73(4)	111(4)
All India	324(33)	549(36)	688(41)	985(43)	2301(101)	3371(111)

Note: Figures within brackets indicate number of Divisional offices

Source: Compiled from Reports & Accounts LIC, 1957, 1967, 1977, 1983,2007,2011 and IRDA Annual Report2007, 2011.

Table 2.3 gives a decadal growth of LIC in the north eastern region since 1957. It is seen from the table that the number of branches increased to 111 at the end of 31st march 2011 from 73 at the end of March, 2007 and 31 at the end of March, 1983 and 13 branches as on 31st December, 1957. The expansion of branches indicates that LIC has taken interest to spread life insurance in the region during the last fifty five years, but the achievement was rather slow. Further as against this Northern, Central, Eastern, Southern and Western Regions which had 311 branch offices as at 31st December, 1957, rose to 927 as of 31st march 1983, further rose to 2228 as of 31st march 2007 and further rose to 3260 as on 31st March 2011 respectively. Viewing from this angle the expansion of LIC office in the North Eastern Region is not at all satisfactory. The branch of LIC as a whole increased from 324 as of 31st Dec, 1957 to 958 as of 31st Mar, 1983 to 2301 as on 31st March 2007 and 3371 as on 31st March 2011.

DISTRICT-WISE DISTRIBUTION OF LIC OFFICES

The effort of LIC in the Region to spread the gospel of life insurance and bring it to the doorsteps of the people can be measured in terms of district-wise distribution of branch offices. The number of LIC branch offices district-wise under different States in the N.E Region is shown in Table 2.4. It is evident from the table that there are 111 offices only as against 86 districts. Whereas the LIC office per district in all India is 5.27 but in the North Eastern Region it only 1.29 per district. It is, thus, evident that the LIC has not able to spread life insurance widely and in particular to the rural areas and to the socially and economically backward classes of the North Eastern Region with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

TABLE 2.4 DISTRICT-WISE DISTRIBUTION OF LIC OFFICES

Name of States	No. of Districts	No. of Offices (2010-11)	Office per district
Assam	27	80	2.96
Arunachal Pradesh	16	3	0.19
Meghalaya	7	1	0.14
Manipur	9	4	0.44
Mizoram	8	1	0.13
Nagaland	11	4	0.36

Tripura	4	16	4.00
Sikkim	4	2	0.50
Total: N.E. Region	86	111	1.29
Total: All India	640	3371	5.27

Source: Compiled from: 1) IRDA Annual Report 2010-11; 2) Statistical Handbook of Assam, Directorate of Economics & Statistics, Govt. of Assam, Arunachal Pradesh, Meghalaya, Nagaland & Tripura; 3) http://en.wikipedia.org/wiki/List_of_districts_of_India

STATE-WISE DISTRIBUTION OF LIC BRANCH OFFICES AND N.E.REGION'S POSITION

It is noticed from table 2.5 that Maharashtra is leading in having the highest number of life offices. The total life offices which were 35 in 1957 rose to 140 in 1983-84 and rose to 291 in 2006-07 and further rose to 358 in 2010-11which accounts for 10.62 % of the total offices in 2011. The table reveals the position of other states.

There has been largest concentrating of LIC offices in Assam has 80 offices, Tripura has 16 offices, Manipur and Nagaland have 4 offices each, Arunachal Pradesh has 3 offices, Sikkim has 2 offices and Meghalaya and Mizoram have only one office each. The N. E. Region's position altogether appears to be twelfth which accounts for 3.29% of total offices in 2011.Among the entire North Eastern Region Assam accounts for 72.07%, Tripura 14.41%, Manipur & Nagaland 3.60% each, Arunachal Pradesh 2.70%, Sikkim 1.80% and Meghalaya & Mizoram 0.90% each. In the region Assam & Tripura accounts for 86% and remaining 6 states of the region have only 14% offices. On the whole the organizational set up of the life insurance in the region is not satisfactory as it is highly centralize and its unitary structure has hampered its efficiency resulting in poor performance.

Among the several objectives of LICI to spread life insurance widely and in particularly in the rural areas and to the socially and economically backward classes and maximize mobilization of people's saving by making insurance linked saving adequately attractive are considered to be important ones. LICI has failed to achieve these important objectives in the NER.

Table: 2.5 STATEWISE DISTRIBUTIONS OF LIC OFFICES

STATE/UINION TERRITORY	**1957**	**1984**	**2007**	**2011**	**Percentage (%) of a state holdings to total offices in 2011**
Andhra Pradesh	17	78	198	274	8.13%
Arunachal Pradesh	-	1	2	3	0.09%
Assam	11	22	56	80	2.37%
Bihar	27	57	68	127	3.77%
Chattisgarh			35	62	1.84%
Goa			14	16	0.47%
Gujarat	24	70	157	185	5.49%
Haryana	9	21	44	69	2.05%
Himachal Pradesh	1	10	27	37	1.10%
Jammu & Kashmir	2	9	20	28	0.83%
Jharkhand	-	-	41	63	1.87%
Karnataka	25	75	154	226	6.70%
Kerala	10	42	95	180	5.34%
Madhya Pradesh	14	68	130	203	6.02%
Maharashtra	35	140	291	359	10.65%
Manipur	-	1	4	4	0.12%
Meghalaya	1	1	1	1	0.03%
Mizoram	-	1	1	1	0.03%
Nagaland	-	2	4	4	0.12%
Orissa	9	23	62	106	3.14%
Punjab	7	38	69	101	3.00%
Rajasthan	8	51	120	176	5.22%

Sikkim			1	2	0.06%
Tamil Nadu	31	84	193	308	9.14%
Tripura	1	3	4	16	0.47%
Uttar Pradesh	44	119	240	358	10.62%
UttraKhand			36	46	1.36%
West Bengal	38	71	154	235	6.97%
Andaman & Nicobar Islands			1	2	0.06%
Chandigarh	-	4	9	10	0.30%
Dadra & Nagrahaveli			-	1	0.03%
Daman & Diu			-	0	0.00%
Delhi	9	29	67	81	2.40%
Lakshadweep			-	0	0.00%
Puducherry			3	7	0.21%
Others	1	3			0.00%
Company Total	324	1023	2301	3371	100.00%

*Office opened after seeking approval of the Authority

Note: 1) Data as furnished by the insurers 2) Office as defined under Section 64VC of the Insurance Act, 1938

Source: Compiled from Reports and Accounts, 1957, 1983, 1984, LICI, Bombay IRDA Annual Report 2006-07, 2010-11.

Life Insurance Corporation of India is the largest public sector enterprise in the country, having a well developed organizational structure spread all over the country in a systematic manner. The general supervision and direction of the affairs and business of the corporation are entrusted to Executive Committee consisting of the Chairman, two managing directors and two other members of the Executive Committee are drawn from the Board of the Corporation. The main control of the Life insurance Corporation is exercised by the Central Office. It uses to delegate its authority to zonal offices and zonal offices further to divisional offices.

Each Branch operates as an independent unit under the direct supervision of Divisional Office. In the context of NER, organizational set up of the Corporation is not satisfactory as it is highly centralize and its unitary structure has hampered its efficiency resulting in poor performance except Assam.

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CHAPTER: III

Globalization and its impact on LIC business in India vis-à-vis NER

3.1 Basics of Globalization

3.2 Impact of Globalization on the Performance of LICI

3.3 Impact of Globalization on the Performance Of LIC in NER

CHAPTER: III

Since nationalization, Life insurance business in India has been run by the State owned LICI i.e. Life Insurance Corporation of India which has a dominant position in the country's economy. The Structure of the insurance industry has undergone a drastic change since Liberalization, Privatization and Globalization (LPG) of the Indian economy, in general, and insurance sector in particular. For almost more than four decades LICI has been the sole player with a virtual monopoly in the life insurance sector. In the early 90's the Govt. of India ventured into the policy of liberalization, privatization and globalization. This policy envisaged opening up of the economy along with most of its core sectors to the private entrepreneurs. Along with this the entry of international corporations into various business and service sectors was also planned. This decision of the govt. attracted some private and international players in the insurance sector also because insurance sector has been one of the major financial sector earners.

Privatization aims at providing benefits of the growth of the industry of the society by providing better customer service and a variety of quality products at reasonable prices. It focuses on penetrating the insurance business to the rural and semi-urban areas. Consequently by the year 2000-01, 12 private players in this sector were likely to affect the performance of Life Insurance Corporation. Thus, the Life Insurance public sector giant, ie. LICI, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. They are also coming up with different types of innovative policies and other strategic plans. It is also expected that the total business of Life Insurance Corporation, in terms of premium, sum assured and number of policies and its market share would have changed its strategies of marketing as also its market structure and might lead to new, bolder and aggressive marketing polices to hold its position in the market. It has to improve customer service and increase the level of training to its agents.

It is, therefore, necessary to study the business performance of life insurance corporation (LIC) vis-à-vis North Eastern Region after the liberalization policy regime and as also the changes that might have occurred or any restructuring that might have been done by the LIC in the wake of entry of private players in the Life insurance sector.

The chapter is divided into three sections. In the first section, the basics of globalization and the economic reforms initiated in India are presented. In the second section, the globalization and its impact on the performance of LICI are discussed. In the last section, the impacts of globalization on the performance of LICI in NER are discussed.

3.1 BASICS OF GLOBALIZATION

According to the World Bank globalization is the Freedom and the ability of individuals and firms to initiate voluntary economic transactions with residents of other countries. The International Monetary Fund (IMF) defines it as "the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology". According to Stiglitz "Globalization is the closer integration of the countries and peoples of the World which has been brought about by the enormous reduction of costs of transportation and communications, and the breaking down of artificial barriers to the flow of goods and services, capital knowledge and (in a lesser extent) people across borders." In the words of Jagdish Bhagwati "Economic Globalization constitutes integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short term capital flows, international flows of workers and humanity generally, and flows of technology".[12] In a broad sense, the term 'globalization' refers to the integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

The cross-border integration or connectivity aspect of globalization has several dimensions such as social, economic, cultural, environmental and political. Needless to state that globalization is a deliberately adopted economic strategy that stands on trade and technology (2 T's). But, the effects of globalization are not just economic; they are social, cultural, environmental and political. While social or cultural or political integration is inevitable in the process of economic globalization, they are to be treated as the effects and not the cause. The elements such as trade in goods and services, movement of capital, flow of finance and movement of people ensure the economic integration.

Historically speaking, globalization is not a new concept. There are several evidences of integration across countries through several forms and flows of goods and services, transfer of capital and technology, and migration of people. The 18th and 19th century evidences are more of imperialist nation's efforts towards the colonies and they laid their base on military or political power. The present form of globalization is basically trade and technology based and driven by market power. In fact, globalization perceives the economy and politics i.e. market and state, as

[12] Bhagwati, Jagdish. In Defense of Globalization. Oxford University Press, 2004.

autonomous units and the nation-state as a minimalist entity. And therefore, the process of globalization envisages liberalization, privatization, minimizing economic regulations, rolling back welfare, reducing expenditures on public goods, tightening fiscal discipline, favoring free flows of capital, strict controls on organized labor, tax reductions and unrestricted currency repatriation. In this process, as nations come together some sacrifice of sovereignty is inevitable, but it need not lead to surrender of nation's objectives and individuality.

The players of globalization could be broadly grouped as pro-globalization and anti-globalization players. The pro-globalization players include international organizations such as World Trade Organization, World Bank, International Monetary Fund, The World Economic Forum, United Nations Conference on Trade and Development, Organization for Economic Development and Cooperation; public affairs organizations like World Growth, Institute of Economic Affairs, International Policy Network, Competitive Enterprise Institute and World Business Council for Sustainable Development; and countries, institutions and individuals receiving benefits due to globalization. The anti-globalization players include anti-free trade NGOs, Environmentalists, Cultural Nationalists; Business Groups threatened by international competition and left critics of capitalism.

The supporters of globalization argue that globalization as the engine of growth, technical advancement, access to international resources and their optimal use, raising productivity, enlarging employment, increasing choice on commodities, lowering of costs, improving standard of living, and bringing out poverty reduction along with modernization. Whereas, the critics argue that the causality is more and more severe, widens the gap within and between nations, exploitation of resources, decay of the environment and loss of national sovereignty.

It is the challenge of every nation to take efforts towards maximizing the benefits of globalization and minimizing the evils of globalization. To achieve the goals of globalization, countries are forced to orient their policies towards exports and outward oriented growth. Several agreements are signed between countries and efforts are initiated to fulfil the accepted terms and conditions. The Stabilization and Structural Adjustment Programmes introduced in India and the subsequent Economic Reform initiatives indicate the efforts of the Indian Government towards this direction.

Economic Reforms in India

India's experience in globalization could be divided into two phases. The first phase of economic liberalization began in 1981, under pressure from the International Monetary Fund and the World Bank. During this phase, India received the SDR 5 billion loan that was conditional on an 'adjustment programme' from the IMF. The second phase of globalization began in 1991 where the economic measures initiated were based on the World Bank's Structural Adjustment Programme (SAP) designed to restructure the economy.[13] However, India's entry into globalization is relatively later than most of other third world countries.[14]

The Government of India embarked wide range of reform measures in the beginning of July 1991. Five different governments were in office during this reform era – The Congress Government which initiated the reforms in 1991, United Front coalition (1996-98) which continued the

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[13] Dalip S.Swamy:1997
[14] Neeraj:2001

process, BJP-led coalition which took office in March 1998 and then again BJPled National Democratic Alliance (NDA) during 1999- 2004, and subsequently the Congress-led United Progressive Alliance Government, which came to power 2004 till date. In short, it seems that India's political system is more than ever in consensus about the basic direction of reforms. The experience of successful coalition Governments in India has been ideal for democratic governance, balancing divergent views and accommodating regional and sectoral interest more effectively.

The reforms were multidimensional and aimed to make changes on many fronts to break away from the earlier approach which was characterized by extensive government control over private sector activity, a preferred position in the public sector over the private sector, high levels of protection to encourage domestic production and a restrictive approach to foreign investment.

The principal areas in which reforms were initiated in India are listed below:

Agricultural Sector Reform: Agriculture is the only sector that obtained less priority in the reform initiatives. However, the reform agenda on agriculture has been focussed on removal of restrictions on domestic trade and processing, and strengthening infrastructure, research and extension and delivery of credit.

Industrial Sector Reform: This reform sought to remove the barriers preventing entry of new firms and the limits to growth in the size of existing firms. The strategies are:

(i) Abolition of industrial licensing as an instrument of control over private investment.

(ii) Abolition of the restriction on investment by large industrial groups.

(iii) Drastic reduction in the list of industries reserved for the public sector.

(iv) Elimination of price control on several industrial items.

(v) Reduction of the list of items reserved for production in the small-scale sector.

(vi) Opening the economy to FDI

Trade Sector Reform: The objective of the trade reform is to encourage free flow of imports and exports to the maximum possible extent. This involves,

(i) Elimination of quantitative import licensing.

(ii) Reduction in import tariff levels.

(iii) Abolition of subsidies on exports

(iv) Adoption of a flexible exchange rate regime.

Financial Sector reforms: The financial sector reforms aimed at profit oriented financial services and the better functioning of the money and capital markets. The three major
sub-divisions are:

- **Reforms in the banking sector:** The efforts are liberalization of interest rate controls and controls over bank credit allocation, introduction of prudential norms and improved supervisory standards, liberalization of entry for private banks and introduction of minority private share holding in public sector banks.
- **Reforms in the capital market:** The major elements are elimination of government control over the issue of capital, attract foreign portfolio capital, establishment of an independent regulator for the securities market and opening the mutual funds sector for private mutual funds.
- **Reforms in insurance:** Insurance sector is being opened to new private sector insurers but with a capital of 26 per cent in foreign equity.

Fiscal reforms: The fiscal reforms are aimed at reducing the financial burden of the state and improve the stability of the nation. The specific strategies are adopted:

(i) Reducing the fiscal deficit of both the central and state governments.

(ii) Tax reforms at the central and state government levels including moderation of rates of tax, simplification and introduction of VAT principles in domestic indirect taxation by the central government and more recently by state governments also.

(iii) Sale of minority equity in public sector organizations to mobilize resources for the budget.

(iv) Adoption of a general strategy for public-private partnership in developing infrastructure.

(v) Efforts to open up the following sectors under varying regulatory structures: power, telecommunications, roads, post, airports and most recently, railways.

In broad terms, the reforms undertaken in India were similar to those attempted in other developing countries integrating more with the world economy. Due to the reform measures, the Indian economy has been undergoing significant changes in all the sectors in recent years. The impact of globalization on the Indian economy are wide and could be seen from several angles such as internal and external trade, production, consumption and distribution, overall and sector wise performance, social, economical, political and cultural impacts, and macro and micro level impacts. Nagire Woods (2000) rightly pointed out that the impact of globalization is the source of endless debate. While certain impacts are quantifiable, the others are just qualitative. Similarly, the impact of globalization is already getting released in certain areas while on the rest, one could just visualize its impacts. We shall examine the life insurance scenario in India in the context of globalization,

3.3 IMPACT OF GLOBALISATION ON THE PERFORMANCE OF LIC

Suddenly Insurance has come to be a way of life. Even though many of the private Insurance Companies came into the market during 2001, only now the market is highly dynamic. In India, Insurance has been synonymous with LIC. Life Insurance Corporation (LIC) was created as an entity in 1956 through LIC Act. Since then, until recently (2000), the insurance sector, both life & non-life was monopolized by public sector Insurance corporations. Now, with the impact of LPG (liberalization, Privatization and Globalization), many private business houses have come up as joint ventures, with partnerships from multinational insurance companies. The Private players are introducing innovative insurance products, appointing qualified persons as agents and advisors. They are aggressively promoting their products and are going for multi-channel distribution. At present, there are 23 private life insurers. The name of these private life insurers, their partners, date of registration, and year of operation have presented in Table 3.1

Table 3.1 LIFE INSURANCE COMPANIES OPERATING IN INDIA AS on 31st Dec, 2011

Sl. No.	Insurers	Foreign Partners	Regn. No.	Date of Registration	Year of Operation
1.	HDFC Standard Life Insurance Co. Ltd.	Standard Life Assurance, UK	101	23.10.2000	2000-01
2.	Max New York Life Insurance Co. Ltd.	New York Life, USA	104	15.11.2000	2000-01
3.	ICICI-Prudential Life Insurance Co. Ltd.	Prudential , UK	105	24.11.2000	2000-01
4.	Om Kotak Life	Old Mutual, South Africa	107	10.01.2001	2001-02

Sl. No.	Insurers	Foreign Partners	Regn. No.	Date of Registration	Year of Operation
	Insurance Co. Ltd.				
5.	Birla Sun Life Insurance Co. Ltd.	Sun Life, Canada	109	31.01.2001	2000-01
6.	Tata-AIG Life Insurance Co. Ltd.	American International Assurance Co., USA	110	12.02.2001	2000-01
7.	SBI Life Insurance Co. Ltd.	BNP Paribas Assurance SA, France	111	29.03.2001	2001-02
8.	ING Vysya Life Insurance Co. Ltd.	ING Insurance International B.V., Netherlands	114	02.08.2001	2001-02
9.	Allianz Bajaj Life Insurance Co.	Allianz, Germany	116	03.08.2001	2001-02
10.	Metlife India Insurance Co. Ltd.	Metlife International Holdings Ltd., USA	117	06.08.2001	2001-02
11.	Reliance Life Insurance Co. Ltd. (Earlier AMP Sanmar Life Insurance company from 3.1.02 to 29.9.05)	---	121	03.01.2002	2001-02
12.	AVIVA	Aviva International Holdings Ltd., UK	122	14.05.2002	2002-03
13.	Sahara Life Insurance Co. Ltd.	---	127	06.02.2004	2004-05
14.	Shriram Life Insurance Co. Ltd.	Sanlam, South Africa	128	17.11.2005	2005-06
15.	Bharti AXA Life Insurance Co. Ltd.	AXA Holdings, France	130	14.07.2006	2006-07
16.	Future Generali India Life Insurance Company Ltd.	Pantaloon Retail Ltd.; Sain Marketing Network Pvt. Ltd. (SMNPL), Generali, Italy	133	04.09.2007	2007-08
17.	IDBI Federal	Ageas, Europe	135	19.12.2007	2007-08
18.	Canara HSBC OBC	HSBC, UK	136	08.05.2008	2008-09

Sl. No.	Insurers	Foreign Partners	Regn. No.	Date of Registration	Year of Operation
19.	Aegon Religare	Aegon, Netherlands	138	27.06.2008	2008-09
20.	DLF Pramerica	Prudential of America, USA	140	27.06.2008	2008-09
21.	Star Union Dai-ichi	Dai-ichi Mutal Life Insurance, Japan	142	26.12.2008	2008-09
22.	India First	Legaal & General Middle East Limited, UK	143	05.11.2009	2009-10
23.	Edelweiss Tokio	Tokio Marine Holding Inc, Japan	147	12.05.2011	2011-12
	Life Insurance Corporation of India		512	01.09.1956	1956-57

Source: IRDA Annual report 2010-11

Every life insurance company, private as well as public offers variety of products catering to the need and demand of the customers. The life insurance products of the public and private insurers have more than 240 products are cleared during the financial year 2010-11. Apart from these products, Life Insurance Companies have continued with some of their old products also cleared in the previous years.

The life insurance business largely depends upon the skill and capabilities of the agents working for an insurance company. There are individual agents as well as corporate agents. At times when an agent is not able to fulfil the condition required to continue his agency, the agency is revoked. In that case, there is a provision of renewal of the agency within the stipulated times. Table 3.2 gives the information regarding the agents both individual and corporate licensed by the authority for the year ending March 2002 to March 2011.

Table 3.2 (I) NUMBERS OF INDIVIDUAL AGENTS OF LIFE INSURERS

Insurer	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Aegon Religare	10861	7617	2309	-	-	-	-	-	-	-
Aviva	23219	32728	30838	35307	29052	10974	3806	5002	1868	-
Bajaj Allianz	189667	167741	204941	250239	216191	109141	32565	36251	14157	4377
Bharti AXA	15210	32661	28495	11749	1266	-	-	-	-	-
Birla Sunlife	144573	168124	164363	109034	56490	17738	5288	12696	6179	2009
Canara HSBC*	-	-	-	-	-	-	-	-	-	-
DLF Pramerica	5199	2115	113	-	-	-	-	-	-	-
Future Generali	52666	42613	24437	11	-	-	-	-	-	-
HDFC Standard	136009	198879	207626	144714	79109	34887	10305	19038	11237	3214
ICICI Prudential	190407	241830	299879	306354	234460	72383	29890	46639	23825	10861
IDBI Federal	7882	7737	6509	279	-	-	-	-	-	-
IndiaFirst	296	-	-	-	-	-	-	-	-	-
ING Vysya	34957	53273	76058	52760	33944	18683	7622	11671	3906	1135
Kotak Mahindra	38269	35897	42083	34723	24484	12523	2900	6511	3730	1348
Max New York	43542	72828	84651	36901	25044	15275	6997	10296	5773	2620
MetLife	28840	63300	60727	36798	20848	9985	3336	3155	1454	417
Reliance Life	189433	195565	149613	184194	95622	19956	5005	6381	1599	484
Sahara	14180	13856	13515	12839	9797	78	-	-	-	-
SBI Life	79628	65532	68993	40643	25356	8128	2165	24690	2218	719
Shriram	10139	21554	19759	17659	10384	5759	-	-	-	-
Star Union Dai-ichi	128	69	-	-	-	-	-	-	-	-
TATA AIG	87223	151557	107670	52544	28105	35336	17737	32890	15451	7038
Private Total	**1302328**	**1575476**	**1592579**	**1326748**	**890152**	**370846**	**127616**	**215220**	**91397**	**34222**
LIC	1337064	1402807	1344856	1193744	1103047	1052993	353634	1341597	947405	442680
Industry Total	**2639392**	**2978283**	**2937435**	**2520492**	**1993199**	**1423839**	**481250**	**1556817**	**1038802**	**476902**

* the number of Individual agents was Nil as on 31st March, 2011.

Note: "-" indicates that the company has not started its operations.

Table 3.2 (II) NUMBERS OF CORPORATE AGENTS OF LIFE INSURERS

Insurer	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Aegon Religare	4	10	7	-	-	-	-	-	-	-
Aviva	11	15	17	21	5	3	13	42	2	-
Bajaj Allianz	289	864	682	520	87	26	115	91	45	18
Bharti AXA	13	13	12	2	2	-	-	-	-	-
Birla Sunlife	164	380	317	161	93	34	187	511	139	33
Canara HSBC	7	5	3	-	3	-	-	-	-	-
DLF Pramerica	7	11	2	-	-	-	-	-	-	-
Future Generali	12	9	4	-	-	-	-	-	-	-
HDFC Standard	8	374	371	848	33	15	51	171	75	35
ICICI Prudential	15	22	47	46	17	7	40	179	136	80
IDBI Federal	6	8	41	2	2	-	-	-	-	-
IndiaFirst	6	2	-	-	1	-	-	-	-	-
ING Vysya	1027	58	53	41	22	-	98	161	8	3
Kotak Mahindra	25	95	100	235	53	11	76	225	55	12
Max New York	55	81	84	29	21	12	1	12	4	-
MetLife	12	29	37	35	21	2	38	41	10	5
Reliance Life	67	225	126	39	12	4	8	43	9	1
Sahara	8	9	5	1	1	-	1	-	-	-
SBI Life	100	127	94	23	27	8	10	172	6	-
Shriram	7	9	4	4	-	-	-	-	-	-
Star Union Dai-ichi	9	2	2	-	1	-	-	-	-	-
TATA AIG	18	72	83	63	29	20	42	186	108	68
Private Total	**1870**	**2420**	**2091**	**2070**	**430**	**142**	**680**	**1834**	**597**	**255**
LIC	295	510	415	345	226	74	139	602	160	20
Industry Total	**2165**	**2930**	**2506**	**2415**	**656**	**216**	**819**	**2436**	**757**	**275**

Note: "–" indicates that the company has not started its operations.

Among all the players, LICI has the largest agency force of 13.37 lakh agents, ICICI PRU has 1.90 lakh agents and Bajaj Allianz is coming at the third position having 1.89 lakh numbers of agents as on 31st march 2011. LICI has more number of individual agents than all private life insurers put together. At the end of the year, while the number of agents with LICI stood at 13.37 lakh, the corresponding number of private sector insurers was 13.02 lakh. One major concern that emerges from the data is the high per cent of turnover of agents. In 2010-11, while the total number of agents appointed was 7.02 lakh, the number of agents terminated was as high as 10.40 lakh. The scenario was worse for private insurers as compared to LICI. While private insurers appointed 3.95 lakh agents, they terminated 6.69 lakh agents. On the other hand, LICI has terminated 3.72 lakh agents while it appointed 3.06 lakh agents. Such high turnovers may have negative consequences. Firstly, it is a huge drain on the finances of the insurers who spend a lot of money and time on prospecting, appointing and training of these agents. Secondly, the policies procured by these agents are rendered orphan on their termination and thereafter often result into lapsation due to lack of servicing support. Thirdly, the image of the profession of agency too suffers a setback from the public in general and prospective agents in particular perceive it as lacking in stability, thus making it more difficult for insurers to find the best agents. It is therefore in the interest of all stakeholders to work at reducing the turnover of agents. As on 31st March 2011, there were 2,165 corporate agents. When compared to 31st March 2010, the number of corporate agents in life insurance fell drastically by 765 (26 per cent). While 1,935 new agents were added during 2010-11, licenses of 2,700 corporate agents were cancelled. LICI has terminated 231 corporate agents when compared to 16 new recruitments. The private insurers have terminated 2,469 corporate agents while recruiting 1,919 new corporate agents.[15]

The structure of the insurance industry has undergone a drastic change since liberalization, privatization and globalization of Indian economy, in general, and the insurance sector in particular. The life insurance public sector giant ie. LICI which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. They are also coming up with different types of innovative policies and other strategic plans. So there is a need to study the impact of the entry of private

[15] Annual Report IRDA 2010-11, page 62,63

players in the performance of LICI. Thus, the analysis covers a period of 2001-02 to 2010-11. The impact of privatization on the performance of LICI has been evaluated on the basis of the following parameters:

1. Total premium income.
2. Market share of all the insurers in total premium.
3. No. of policies.
4. Market share of all the insurers in terms of policies.
5. Growth rates of premium and number of policies.

The analysis has been done on the basis of total premium income, number of policies and the growth rates of premium and policies for the different years of the study of all the players of the life insurance industry. The comparison has also been made on the basis of market share of different players in the life insurance industry based on total premium income and number of policies

1. **Total Premium Income**

Total premium income is one of the important and the main indicators of the performance of the insurance business. The total premium income of LICI and the private players during 2000-01 to 2010-11 has been presented in Table 3.3. This table shows the trend in total premium income of various players after the privatization of insurance business till the period of study. The total premium income relates to the first year premium income which includes Individual Single Premium, Individual Non-Single Premium, Group Single Premium and Group Non-Single Premium.

The insurance market was opened only in August 2000 and the initial batch of new registrations was granted on 23rd October, 2000. Many of the new companies had not started doing business by the end of March 2001. It can be seen from Table 3.3 that in 2000-01, the total premium income of LICI was ₹ 34892.02 crore and that of private players is only 6.45 cores. In 2001-02 total premium of LICI has increased to ₹ 49821.91 crore, it further has slightly risen to ₹ 54628.49 crore in 2002-03 and further increased to ₹ 63533.43, ₹ 75127.29, ₹ 90792.22, ₹ 127822.84, ₹ 149789.99, ₹ 157288.04, ₹ 186077.31 and ₹ 203473.40 in 2003-04,2004-05,2005-06,2006-07, 2007-08,2008-09, 2009-10 and 2010-11 respectively

Table 3.3 TOTAL LIFE INSURANCE PREMIUM

(₹ Crore)

INSURER	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
LIC	**203473.40 (9.35)**	**186077.31 (18.30)**	**157288.04 (5.01)**	**149789.99 (17.19)**	**127822.84 (40.79)**	**90792.22 (20.85)**	**75127.29 (18.25)**	**63533.43 (16.30)**	**54628.49 (9.65)**	**49821.91 (42.79)**	**34892.02**
Aegon Religare	388.61	165.65	31.21	-	-	-	-	-	-	-	-
Aviva	2345.17	2378.01	1992.87	1891.88	1147.23	600.27	253.42	81.50	13.47	-	-
Bajaj Allianz	9609.95	11419.71	10624.52	9725.31	5345.24	3133.58	1001.68	220.80	69.17	7.14	-
Bharti AXA	792.02	669.73	360.41	118.41	7.78	-	-	-	-	-	-
Birla Sun Life	5677.07	5505.66	4571.80	3272.19	1776.71	1259.68	915.47	537.54	143.92	28.26	0.32
Canara HSBC	1531.86	842.45	296.41	-	-	-	-	-	-	-	-
DLF Pramerica	95.04	38.44	3.37	-	-	-	-	-	-	-	-
Future Generali	726.16	541.51	152.60	2.49	-	-	-	-	-	-	-
HDFC Standard	9004.17	7005.10	5564.69	4858.56	2855.87	1569.91	686.63	297.76	148.83	33.46	0.002
ICICI Prudential	17880.63	16528.75	15356.22	13561.06	7912.99	4261.05	2363.82	989.28	417.62	116.38	5.97
IDBI Federal	811.00	571.12	318.97	11.90	-	-	-	-	-	-	-
IndiaFirst	798.43	201.60	-	-	-	-	-	-	-	-	-
ING Vysya	1708.95	1642.65	1442.28	1158.87	707.20	425.38	338.86	88.51	21.16	4.19	-
Kotak Mahindra	2975.51	2868.05	2343.19	1691.14	971.51	621.85	466.16	150.72	40.32	7.58	-
Max New York	5812.63	4860.54	3857.26	2714.60	1500.28	788.13	413.43	215.25	96.59	38.95	0.16
MetLife	2508.17	2536.01	1996.64	1159.54	492.71	205.99	81.53	28.73	7.91	0.48	-
Reliance	6571.15	6604.90	4932.54	3225.44	1004.66	224.21	106.55	31.06	6.47	0.28	-
Sahara	243.41	250.59	206.47	143.49	51.00	27.66	1.74	-	-	-	-
SBI Life	12911.64	10104.03	7212.10	5622.14	2928.49	1075.32	601.18	225.67	72.39	14.69	-
Shriram	821.52	611.27	436.17	358.05	184.17	10.33	-	-	-	-	-
Star Union Dai-ichi	933.31	530.37	50.19	-	-	-	-	-	-	-	-
TATA AIG	3985.22	3493.78	2747.50	2046.35	1367.18	880.19	497.04	253.53	81.21	21.14	-
Private Total	**88131.60 (11.04)**	**79369.94 (23.06)**	**64497.43 (25.09)**	**51561.42 (82.50)**	**28253.00 (87.31)**	**15083.54 (95.19)**	**7727.51 (147.65)**	**3120.33 (178.83)**	**1119.06 (310.59)**	**272.55 (4124.31)**	**6.45**
Industry Total	**291605.00 (9.85)**	**265447.25 (19.69)**	**221785.47 (10.15)**	**201351.41 (29.01)**	**156075.84 (47.41)**	**105875.76 (27.78)**	**82854.80 (24.31)**	**66653.75 (19.56)**	**55747.55 (11.28)**	**50094.46 (43.54)**	**34898.47**

"–" indicates the company has not started its operation.

Note: Figure in bracket indicates the growth over the previous year in per cent.

. But a rise in the total premium income of private players is quite high as compared to public sector insurer. In 2000-01 total premium income of private insurers was only ₹ 6.45 crore because many of the new companies had not started doing business by the end of March 2001. In 2001-02 total premium income of private insurers was ₹ 272.55 crore. But in 2002-03, it increased to ₹ 1119.06 crore showing tremendous growth in the third year of business. In 2003-04, total premium income reached to ₹ 3120.33 crore and further to ₹ 7727.51, ₹ 15083.54, ₹ 28242.48, ₹51561.42, ₹ 64497.43, ₹ 79369.94 and ₹ 88131.60 in the year 2004-05, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10 and 2010-11 respectively which shows a healthy growth rate of total premium income in case of the private players.

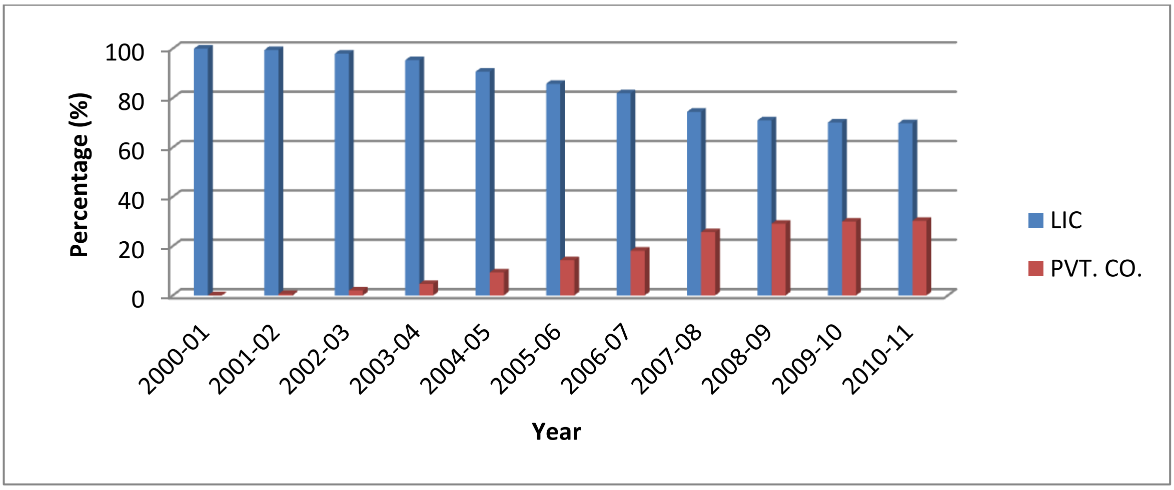
2. **MARKET SHARE OF ALL THE INSURERS IN TOTAL PREMIUM.**

The monopolistic character of the sector with the LICI as the sole player has changed into a vibrant multiplayer competitive industry. Some more companies have announced their intentions to join the party and this will increase the existing number of 23 players. Since the advent of the private players in the market the industry has seen new and innovative steps taken by the players in the sector. The new players have improved the service quality of the insurance. As a result LICI down the years have seen the declining in its career. The market share was distributed among the private players. Though LICI still holds 70% of the insurance sectors the upcoming nature of these private players are enough to give more competition to LICI in the near future. The LICI market share has decreased from 100 % (1999-2000) to 69.78 % (2010-11). The following table 3.4 holds the market share of the insurance industry.

Table 3.4 **MARKET SHARE OF DIFFERENT PLAYERS IN TERMS OF TOTAL PREMIUM (in percent)**

Year	**LICI**	**PVT. CO.**	**TOTAL**
2000-01	99.98	0.02	100
2001-02	99.46	0.54	100
2002-03	97.99	2.01	100
2003-04	95.32	4.68	100
2004-05	90.67	9.33	100
2005-06	85.75	14.25	100
2006-07	81.90	18.10	100
2007-08	74.39	25.61	100
2008-09	70.92	29.08	100
2009-10	70.10	29.90	100
2010-11	69.78	30.22	100

Chart 3.4 **MARKET SHARE OF DIFFERENT PLAYERS IN TERMS OF TOTAL PREMIUM (in percent)**



3. **NO. OF POLICIES: New Business**

New business in terms of number of policies is another indicator of the growth and performance of the insurance companies. It is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of life insurance as well as the existing policyholders. The data regarding the number of new policies of different insurers for year 2002-03 to 2010-11 has been shown in Table 3.5.

Table 3.5 depicts the complete picture of the performance of new business in terms of number of policies for all the players during 2002-03 to 2010-11. In case of a number of policies, the pattern of figures quite resembles that of total premium income. In this case also, the performance of LICI has deteriorated and that of private players has improved tremendously. Results show that in 2002-03, the new business in terms of number of policies of LICI was only 245.46 lakhs which increased to 269.68 lakhs in 2003-04. But in 2004-05, instead of increase, there is fall in number of polices to 239.78 lakhs which is even lesser than the number of policies in 2003-04 this due to the devastation caused by the Tsunami on December 26, 2004 and its aftermath affecting the eastern coast of India. In 2005-06 number of policies have slightly increased to 315.91 lakhs and further increased to 382.29 in 2006-07. In 2007-08 have decreased to 376.13 lakhs and further decreased to 359.13 lakhs in 2008-09 . The global financial system, which witnessed a significant crisis in the calendar year 2008, continued to move forward on the path of recovery in the year 2010 with many other uncertainties and concerns in terms of high inflation, low growth, unemployment etc., in respective parts of the world. Whereas in case of private players, in the year 2002-03, the number of policies was only 8.25 lakhs which almost doubled and increased to 16.59 lakhs in 2003-04. In 2004-05, there is a further increase in number of polices of private players from 16.59 lakhs to 22.33 lakhs. Similarly it further increased to 38.71 lakhs, 79.22 lakhs, 132.62 lakhs and 150.11 lakhs in the year 2005-06, 2006-07, 2007-08 and 2008-09 respectively. But in 2009-10, instead of increase, there is fall in number of polices to 143.62 lakhs and further decline to 111.14 lakhs in 2010-11.Thus, the number of policies of all the private players has increased tremendously except in year 2009-10 and 2010-11 these mostly due to financial crisis in 2008. This indicates that with every successive year, private players are gaining the trust of the public and have been quite successful in snatching the business from LICI.

Table: 3.5 NUMBERS OF NEW POLICIES ISSUED: LIFE INSURERS

(in Lakhs)

INSURERS	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
LIC	370.38 (-4.70)	388.63 (8.21)	359.13 (-4.52)	376.13 (-1.61)	382.29 (21.01)	315.91 (31.75)	239.78 (-11.09)	269.68 (9.87)	245.46 (96.75)
Private Sector	111.14 (-22.61)	143.62 (-4.32)	150.11 (13.19)	132.62 (67.40)	79.22 (104.64)	38.71 (73.37)	22.33 (34.62)	16.59 (101.05)	8.25 (3.25)
Total	**481.52 (-9.53)**	**532.25 (4.52)**	**509.23 (0.10)**	**508.74 (10.23)**	**461.52 (30.14)**	**354.62 (35.29)**	**262.11 (– 8.44)**	**286.27 (12.83)**	**253.71**

Note: Figure in bracket indicates the growth over the previous year in per cent.

4. **MARKET SHARE OF ALL THE INSURERS IN TERMS OF POLICIES**

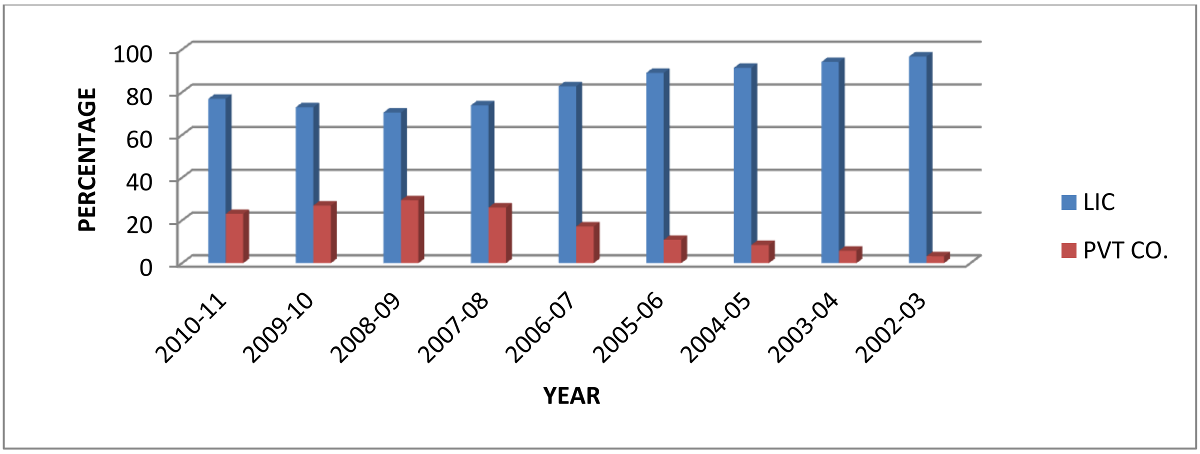
The market share of different players in terms of number of policies during the period of the study has been presented in Table 3.6.

Table 3.6 Market share of different players in terms of policies (in %)

INSURER	**2010-11**	**2009-10**	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**
LICI	76.92	73.02	70.52	73.93	82.83	89.08	91.48	94.21	96.75
PVT CO.	23.08	26.98	29.48	26.07	17.17	10.92	8.52	5.79	3.25
Total	100	100	100	100	100	100	100	100	100

Table 3.6 and Chart 3.6 clearly show that the market share of all the private players has risen from 3.25% in 2002-03 to 23.08% in 2010-11. Contrary to this the market share of LICI is decreasing year by year with the entry of private players in the insurance market. The market share of LICI was 96.75 % in 2002-03 which decreased to 76.92% in 2010-11.

Chart 3.6 **MARKET SHARES OF LICI VS. ALL PRIVATE PLAYERS IN TERMS OF POLICIES (in %) FROM 2002-03 TO 2010-11**



6. GROWTH RATES OF PREMIUM AND NUMBERS OF POLICIES

The growth rate of premium as well as a number of policies has been calculated for all players in the insurance sector to make comparison of performance and to show the effect of the entry of private players in the performance of LICI.

Table 3.7 GROWTH RATE OF TOTAL LIFE INSURANCE PREMIUM

(IN % OVER PREVIOUS YEAR)

Insurer	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
LICI	**9.35**	**18.30**	**5.01**	**17.19**	**40.79**	**20.85**	**18.25**	**16.30**	**9.65**
Private Total	11.04	23.06	25.09	82.50	87.31	95.19	147.65	178.83	310.59
Industry Total	9.85	19.69	10.15	29.01	47.38	27.78	24.31	19.56	11.28

The figures related to the growth rate of premium in *table 3.7* indicate that there has been a tremendous growth in the business of each and every player. Individually, each and every private company has shown a huge growth of total premium in one year. The total growth rate of all the private companies is 310.59% in year 2002-03 but it decreased to 178.83% in 2003-04. However, the growth rate in is 147.65%, 95.19%, 87.31%, 82.50%, 25.09%, 23.06% and 11.04% in 2004-05, 2005-06,2006-07, 2007-08, 2008-

09, 2009-10 and 2010-11 respectively which is a healthy growth rate. Whereas LICI has growth rate is only 9.65% in 2002-03 and growth rate is 16.30%, 18.25, 20.85% , 40.79%, 17.19, 5.01%, 18.30% and 9.35% in 2003-04, 2004-05, 2005-06,2006-07, 2007-08, 2008-09, 2009-10 and 2010-11 respectively. However, the growth rate was not quite satisfactory for LICI as the total premium income as compared to Private players.

Table: 3.8 <u>GROWTH RATE OF NUMBER OF POLICIES (*IN %OVER PREVIOUS YEAR*)</u>

INSURER	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
LICI	-4.70	8.21	-4.52	-1.61	21.01	31.75	-11.09	9.87	96.75
PVT CO.	-22.61	-4.32	13.19	67.40	104.64	73.37	34.62	101.05	3.25
Total	-9.53	4.52	0.10	10.23	21.01	31.75	-11.09	9.87	96.75

In terms of the new number of policies, private players recorded a growth rate of 3.25%, 101.05%, 34.62%, 73.37%, 104.64%, 67.40% and 13.19% in the year 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 respectively. Whereas in the year 2009-10 and 2010-11 it has a negative growth. The growth rate in terms of the new number of policies of LICI in 2002-03 is 96.75% and decreased to 9.87% in 2003-04 whereas in 2004-05 it has a negative growth rate of -11.09%. However, in 2005-06 it increased to 31.75% and further decreased to 21.01%. Further, it shows a negative growth rate of -1.61% in 2007-08 and -4.52% in 2008-09. In the year 2009-10 it increased to 8.21% and further showing a negative growth rate of -4.70% in 2010-11.

On the basis of the foregoing analysis, it may conclude that there has been a tremendous growth in the insurance business after the entry of private players. But this growth is only of private players. As far as the performance of the LICI is concerned, there has been a constant fall in the market share. This indicates that the entry of private players has given a tough competition to LICI. The performance of LICI in terms of total premium and the number of policies has been affected badly after privatization of the insurance sector.

3.4 IMPACT OF GLOBALIZATION ON THE PERFORMANCE OF LICI in NER

The three words of Liberalization, Globalization and Privatization (LPG) have brought about radical changes in the world and have given a new orientation to the market conditions. The life insurance has to face severe competitions from different angles. Due to privatization, more than twenty three players have come into the life insurance sector in India. As a result of liberalization, many private companies with the collaboration of foreign insurance companies have started insurance business in some major cities in India. These life insurance companies tend to extend their operations into the rural areas also. The new players have come out with varieties of innovative products and so the life insurance finds it difficult to reach the customer's expectations in terms of product offering and quality of service provided. The life insurance has to face severe problems from the distribution side also. Further, the insurance business is not at par within each region and hence the present study specifically designed to study the impact of globalization on the performance of Life Insurance Corporation of India in the northeastern region of the country. Since only few life insurance companies started their business in the region the comparative analysis was done from 2006-07 to 2010-11.

The Life insurance industry in the NER of India flourished during the era of globalization. Before LPG, the LICI could not able to tap the small and medium investors of the NER and the network of LICI was very poor. Only four divisional offices look after the entire region. During LPG regime the life insurance market in the region gets a new thrust area for extension of a marketing network. Table 3.9 depicts the trends of life insurance business in NER in terms of individual new business policies. It is observed that the overall trend in respect of individual new business policies in NER is better than that of India.

Table 3.9: Trends in Life Insurance Business in North East Region (Individual New Business Policies)

Year	LICI	Pvt. Co	Total
2006-07	1018888	180632	1199520
2007-08	915392	348599	1263991
2008-09	937395	431550	1368945
2009-10	946915	527537	1474452
2010-11	939381	382913	1322294
CAGR	-1.3 %	19.17%	3.49%

Source: Annual Reports of LICI & IRDA various issues

Again, from Table 3.9 it is observed that the position of NER is very favorable than that of India in respect of both private and LICI. Further, it is observed that private insurer has a positive trend in both NER and all India and negative trend is followed in case of LICI. The compound annual growth rate of LICI in NER is -1.3% but at all India level it is 0.03%. The performance of LICI in NER is not satisfactory as CAGR is negative. But private insurance companies in NER have a CAGR of 19.17% and at all India level it is only 7.54%. The performance of the private insurance companies in NER is showing an increasing trend and even its CAGR is more than 2.5 times that means in NER the private insurance company's performance is very good and giving a tough competition to LICI. However, the CAGR in Individual New Business Policies with respect to the total life insurance industry is very high in NER i.e. 3.49% and very low at all India level i.e. 1.29%. Hence, there are the ample scopes for the industry to tap the potentials of the NER market.

Table 3.10: Comparative Trend Analysis on Life Insurance Business (Individual New Business Policies) in NER & all India level

	LICI		Pvt. Co.		Life insurance Industry	
Year	**NER**	**All India**	**NER**	**All India**	**NER**	**All India**
2006-07	1018888	38208575	180632	7919223	1199520	46127798
2007-08	915392	37589995	348599	13257201	1263991	50847196
2008-09	937395	35891332	431550	15013539	1368945	50904871
2009-10	946915	38838653	527537	14356538	1474452	53195191
2010-11	939381	37012277	382913	11094391	1322294	48106668
CAGR	-1.3%	0.03%	19.17%	7.54%	3.49%	1.29%

Source: Annual Reports of LICI & IRDA various issues

From the standpoint of Individual New Business Premium from Table 3.10 it is observed that the early years of LPG are very favorable in the case of private insurers particularly for the NER. However, during 2008-09 and 2009-10 the life insurance industry suffers from global issues and this was also reflected in NER also.

Table 3.11: Trends in Life Insurance Business NER (Individual New Business Premium) (₹ in Crore)

Year	LICI (NER)	Pvt. Co (NER)	Total
2006-07	1038.14	336.69	1374.83
2007-08	1130.53	585.25	1715.78
2008-09	904.39	663.02	1567.41
2009-10	1201.02	808.65	2009.67
2010-11	1252.06	745.79	1997.85
CAGR	4.35%	19.14%	9.06%

Source: Annual Reports of LICI & IRDA various issues

Again, from Table 3.11 and Table 3.12 it is observed that the position of NER is very favorable than that of all India level in respect of both private and LICI particularly in case of Individual New Business Premium. Further, it is observed that private insurer has a positive trend in both NER and at all India level, but the compound growth rate of NER is much higher than that of all India level. Further, it is observed a positive trend is followed in case of LICI in both NER and India but the rate of growth is very tardy. However, the growth rate in Individual New Business premium with respect to the industry is very high in the NER and quite low at all India level. Hence, there are the ample scopes for the industry to tap the potentials of the NER market and India as a whole.

Table 3.12: Comparative Trends in Life Insurance Business (Individual New Business Premium)

	LICI		Pvt. Co.		Life insurance Industry	
Year	**NER**	**India**	**NER**	**India**	**NER**	**India**
2006-07	1038.14	44673.25	336.69	16944.58	1374.83	61617.83
2007-08	1130.53	49316.62	585.25	30106.35	1715.78	79422.97
2008-09	904.39	40403.11	663.02	29126.3	1567.41	69529.41
2009-10	1201.02	50413.69	808.65	31593.36	2009.67	82007.05
2010-11	1252.06	52732.09	745.79	30441.94	1997.85	83174.03
CAGR	4.35%	3.54%	19.14%	12.20%	9.06%	6.32%

Source: Annual Reports of LICI & IRDA various issues

If we see the position of life insurance market in terms of Individual New Business Policies within the NER, it is observed from Table 3.13 that share of Assam is much higher than within other NER states. Again during 2006-07, the share of private life insurance in NER was 2.28% which rose to 3.45% in 2010-11. During 2006-07, the share of LICI in NER was 2.67% which declined to 2.54% in 2010-11. Further, during 2006-07, the share of life insurance industry in NER was 2.60% which rose to 2.75% in 2010-11.

It is observed that the fruits of globalization are reflected in the NER life insurance market in the form of private entry and losing share of LICI. However, the life insurance industry as a whole shows rapid progress. In the context of NER, the share of LICI in Assam is much higher than other states of North East region. In the region on an average basis for the period the Assam share is about 80%, Tripura share is 10% , Manipur share is about 4% and other northeastern states share is less than 2% each.

Table 3.13: Percentage (%) Share of NER States in Life Insurance Market Individual New Business Policies

Year		Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	NER % OVER ALL
2006-07	Pvt. Total	0.012	1.793	0.088	0.111	0.017	0.042	0.080	0.137	2.28
	LICI	0.002	0.372	0.018	0.023	0.004	0.009	0.017	0.028	2.67
	Industry Total	**0.026**	**2.039**	**0.089**	**0.049**	**0.018**	**0.052**	**0.051**	**0.277**	**2.60**
2007-08	Pvt. Total	0.074	2.016	0.127	0.097	0.037	0.040	0.066	0.211	2.63
	LICI	0.026	1.914	0.102	0.042	0.014	0.046	0.035	0.253	2.44
	Industry Total	**0.027**	**1.940**	**0.108**	**0.056**	**0.022**	**0.046**	**0.043**	**0.242**	**2.49**
2008-09	Pvt. Total	0.037	2.083	0.291	0.086	0.032	0.067	0.051	0.228	2.87
	LICI	0.026	2.105	0.111	0.053	0.017	0.056	0.038	0.206	2.61
	Industry Total	**0.029**	**2.099**	**0.164**	**0.063**	**0.021**	**0.059**	**0.042**	**0.213**	**2.69**
2009-10	Pvt. Total	0.050	2.802	0.288	0.093	0.030	0.106	0.034	0.272	3.67
	LICI	0.037	1.918	0.107	0.037	0.013	0.046	0.039	0.242	2.44
	Industry Total	**0.040**	**2.156**	**0.156**	**0.052**	**0.018**	**0.062**	**0.037**	**0.250**	**2.77**
2010-11	Pvt. Total	0.046	2.280	0.595	0.087	0.030	0.043	0.046	0.324	3.45
	LICI	0.025	2.054	0.070	0.047	0.009	0.040	0.034	0.259	2.54
	Industry Total	**0.030**	**2.106**	**0.191**	**0.056**	**0.014**	**0.041**	**0.037**	**0.274**	**2.75**
	Avg. % (LICI) within NER	1.12	79.44	3.78	1.70	0.59	1.90	1.50	9.98	
	Avg.% (Pvt) within NER	1.11	74.01	8.78	3.32	0.99	2.03	2.01	7.75	

Table 3.14: Percentage Share of NER States in Indian Life Insurance Market (Individual New Business Premium)

Year		Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	NER %
2006-07	Pvt. Total	0.015	1.473	0.020	0.141	0.086	0.026	0.132	0.113	1.98
	LICI	0.031	1.621	0.112	0.048	0.081	0.092	0.066	0.273	2.32
	Industry Total	**0.027**	**1.575**	**0.087**	**0.074**	**0.083**	**0.074**	**0.084**	**0.229**	**2.23**
2007-08	Pvt. Total	0.033	1.401	0.034	0.117	0.080	0.034	0.092	0.153	1.94
	LICI	0.045	1.481	0.175	0.099	0.060	0.067	0.063	0.302	2.29
	Industry Total	**0.041**	**1.451**	**0.122**	**0.106**	**6.726**	**0.054**	**0.074**	**0.245**	**2.16**
2008-09	Pvt. Total	0.043	1.569	0.085	0.112	0.146	0.045	0.070	0.206	2.27
	LICI	0.034	1.567	0.112	0.109	0.044	0.085	0.038	0.250	2.23
	Industry Total	**0.038**	**1.568**	**0.100**	**0.110**	**0.087**	**0.068**	**0.051**	**0.232**	**2.25**
2009-10	Pvt. Total	0.080	1.714	0.109	0.115	0.066	0.084	0.072	0.209	2.56
	LICI	0.029	1.627	0.145	0.103	0.033	0.055	0.050	0.332	2.38
	Industry Total	**0.040**	**2.156**	**0.156**	**0.052**	**0.018**	**0.062**	**0.037**	**0.250**	**2.45**
2010-11	Pvt. Total	**0.048**	**1.658**	**0.132**	**0.107**	**0.045**	**0.066**	**0.058**	**0.287**	2.45
	LICI	0.025	2.054	0.070	0.047	0.009	0.040	0.034	0.259	2.37
	Industry Total	**0.030**	**2.106**	**0.191**	**0.056**	**0.014**	**0.041**	**0.037**	**0.274**	**2.40**
	Avg. % (LICI) within NER	**1.52**	**67.86**	**5.98**	**4.07**	**2.39**	**3.47**	**2.17**	**12.54**	
	Avg.% (Pvt) within NER	**2.08**	**71.53**	**2.97**	**5.22**	**3.97**	**2.20**	**4.00**	**8.03**	

Further, if we see the position of life insurance market in terms of the Individual New Business Premium within the NER, it is observed from

Table 3.14 that share of Assam is much higher than within other NER states. Again during 2006-07, the share of private life insurance in terms of Individual New Business Premium in NER was 1.98% which rose to 2.45% in 2010-11. During 2006-07, the share of LICI in NER was 2.32% which rose to 2.38% in 2009-10. Further, during 2006-07, the share of life insurance industry in NER was 2.23% which rose to 2.37% in 2010-11. It is observed that the fruits of globalization are reflected in the NER life insurance market in the form Individual New Business Premium. However, the life insurance industry in terms of Individual New Business Premium as a whole shows slow progress in both NER and India. However, the life insurance industry as a whole shows rapid progress. In the context of NER, the share of LICI in Assam is much higher than other states of North East region. In the region on an average basis for the period the Assam share is about 67.86%, Tripura share is 12.54% , Manipur share is about 6% and other northeastern states share is less than 4% each.

From Table 3.15 it is observed that the percentage share of private insurer in terms of Individual New Business Policies is in increasing trend i.e. from 2.28% in 2006-07 to 2.63% in 2007- 08 in NER. Further it increased to 2.87% in 2008-09 and to 3.67% in 2009-10. But in 2010-11 the percentage share slight decreased to 3.45%. Again the percentage share of LICI in terms of Individual New Business Policies is in fluctuating trend i.e. from 2.67% in 2006-07 to 2.44% in 2007-08 in NER. In 2008-09 it increased slightly to 2.61% and further its decline to 2.44% in 2009-10. In 2010-11 it slight increased to 2.54% As a whole the insurance industry in NER is in increasing trend particularly in respect to Individual New Business Policy of private companies. Similarly, it is observed that the percentage share of private insurer in terms of Individual New Business

Premium is in increasing trend i.e. from 1.99% in 2006-07 to 1.94% in 2007-08 in NER. Further it increased to 2.28% in 2008-09 to 2.56% in 2009-10 and a slight decline to 2.45% in 2010-11.Again the percentage share of LICI in terms of Individual New Business Premium is in decreasing trend i.e. from 2.32% in 2006-07 to 2.29% in 2009-10 to 2.24 % in 2008-09 in NER. Further it is increased to 2.38% in 2009-10 and remain same in the year 2010-11.As a whole the insurance industry in NER is in fluctuating trend particularly in respect to Individual New Business Premium.

Table 3.15: Percentage Share of NER in Indian life Insurance Market

	Individual New Business Policy			**Individual New Business Premium**		
Year	**Private (%)**	**LICI (%)**	**Share of NER (%)**	**Private (%)**	**LICI (%)**	**Share of NER (%)**
2006-07	2.28	2.67	2.60	1.99	2.32	2.23
2007-08	2.63	2.44	2.49	1.94	2.29	2.16
2008-09	2.87	2.61	2.69	2.28	2.24	2.25
2009-10	3.67	2.44	2.77	2.56	2.38	2.45
2010-11	3.45	2.54	2.75	2.45	2.37	2.40

It is observed from the Table 3.16, the compound annual growth rate (CAGR) of private life insurer in NER in terms of Individual New Business Policies very positive except Sikkim which shows a negative growth rate of -17.70% during the study period. The CAGR of Private companies of NER is 19.17% and in all India is 7.54% it shows that the private company's performance is even far better than all India level and giving a tough competition to LICI in the region. Again, within NER states the CAGR is very high in Manipur 46.41% followed by Arunachal Pradesh 22.95%, while Sikkim -17.70% records lower growth rate in case private life insurance. Again in case of LICI, the CAGR is very high in Arunachal Pradesh 54.04 % followed by Tripura 44.05% and the lower growth rate recorded by Meghalaya 13.03% in terms of Individual New Business Policies in the NER. However as a whole the growth rate of life insurer in terms of Individual New Business Policies in NER of private life insurance is 19.17% and that at all India level of 7.54% and in the case of LICI in NER the CAGR is having a negative rate of -1.3% and that at all India level at 0.03%. As a whole the total life insurance industry in NER has 3.49% and at all India level of 1.29%. The performance of life insurance business in NER comparatively better when compares at all India level. In the context of NER the private insurance players' performance is quite satisfactory but the performance of LICI is not satisfactory. So the private players the giving tough competition to the LICI in the region.

Table 3.16: Compound Annual Growth Rate (CAGR): Life Insurers in NER (Individual New Business Policies)

	Arunachal Pradesh	**Assam**	**Manipur**	**Meghalaya**	**Mizoram**	**Nagaland**	**Sikkim**	**Tripura**	**N.E. Region**	**All India**
Pvt. Total	22.95%	8.10%	46.41%	5.30%	9.26%	10.22%	-17.70%	19.75%	19.17%	7.54%
LICI	54.04%	34.19%	27.64%	13.03%	15.48%	29.83%	14.95%	44.05%	-1.3%	0.03%
Total	6.79%	1.70%	18.95%	1.93%	-7%	-1.80%	-7.90%	0.11%	3.49%	1.29%

Finally, the Compound annual growth rate (CAGR) of life insurance in NER in terms of the Individual New Business Premium is shown in Table 3.17 very positive during the study period and it is much higher than all India average. Again, within NER states the average growth rate is very high in Manipur 49.39% followed by Arunachal Pradesh 32.12%, while Sikkim -18.90% records lower average growth rate in case private life insurance followed by Mizoram -7.54%. Again in case of LICI, the compound annual growth rate of Assam is showing a positive rate of 5.68%

and remaining other states of the regions is showing a negative rate in terms of the Individual New Business Premium during the study period. However, as a whole the average growth rate of life insurer in terms of Individual New Business Premium in NER during the study period is comparatively very in higher than all India average.

Table 3.17: Compound Annual Growth Rate (CAGR): Life Insurers in NER (Individual New Business Premium

	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	N.E. Region	All India
Pvt. Total	32.12%	4.38%	49.39%	-5.70%	-14.90%	27.68%	-18.90%	21.76%	19.14%	12.20%
LICI	-8.70%	5.68%	-11.30%	-4%	-49.90%	-18.60%	-15.60%	-0.10%	4.35%	3.54%
Total	1.86%	9.77%	18.19%	-12.70%	-94.80%	-10.40%	-23.30%	3.79%	9.06%	6.32%

On the basis of the foregoing analysis, it may conclude that there has been a tremendous growth in the insurance business after the entry of private companies. But this growth is only of private companies. As far as the performance of the LICI is concerned, there has been a constant fall in the market share.A number of districts, especially in the northeastern states do not have a single insurance company branch. The Northeast, as a matter of fact, was among the country's top performing zones of private life insurer like Aviva Life, ICICI etc. The growth rate is even higher in the small towns. ICICI Prudential is piloting the delivery of a term life insurance product with a savings component to groups of tea workers through intermediary agencies. The intention is to significantly reduce transaction costs and improve customer service and overall efficiency by using an aggregating distribution channel that is supported by technology. Intermediary agencies are trained to create awareness, enroll policyholders, collect premiums, facilitate claims settlement and provide customer service. Being the largest insurance company in India, it is obvious that LICI has the largest strength of insurance agents and insurance business. It is further seen that LICI is well ahead of private insurers in terms of premium collection. It is worth noticing that all private companies suffered huge losses, but again, only LICI earned profits. It can be said that, LICI is the only life insurer in India that is fairly settled but the market share of LICI is decreasing day by day. Private players play a rivalry role in the insurance market. Further, it is observed that there should be a large gap between the new business premium amount and renewal premium, but in case of Indian insurance business, this gap is too narrow. Moreover, the operating expenses of both private and public players are too high which needs to be minimized. Over the past three years, around 40 companies have expressed interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. The threat of new players taking over the market has been overplayed. As is witnessed in other countries where liberalization took place in recent years, we can safely conclude that nationalized players will continue to hold strong market share positions, but there will be enough business for entry to be profitable.

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CHAPTER: IV

Settlement of Claims of LICI

4.1 Claims Management Department

4.2 Procedure for settlement of claims:

4.3 Claims Settlement Operations of Life Insurance Corporation of India

4.4 Claims Intimated, Claims Outstanding and Ratio of Claims Outstanding to Claims Intimated

4.5 Claims Settlement Operations of Life Insurance Corporation of India in NER

4.6 Claims Intimated, Claims Outstanding and Ratio of Claims Outstanding to Claims Intimated in NER

CHAPTER: IV

Every life insurance company has two gateways – the Underwriting Gateway when the insurer under certain terms select a proposal for life insurance, and the Claims Gateway, through which policy benefits are passed on to the life assured/ policyholder or a beneficiary in the event of death or survival of the term. Needless to add, Claims performance is the litmus test of a life insurer's credibility. If it repudiates or delays payment of a claim, a customer is going to be very unhappy and many more customers and prospects would have cause to doubt the promise made by the insurer. At the same time, if claims are paid blindly, overlooking fraudulent claims that can arise, it can seriously erode the financial soundness of the insurer and put its other customer's interests in jeopardy. Again, it is not just important to know whether a claim has been paid. It is perhaps equally important to ask whether the claim actually serves to benefit the beneficiary. A claim need not necessarily be the end of all relationships with a customer. It could also be the beginning of another relationship.

The Life Insurance Corporation (LICI) was established about 55 years ago with a view to provide an insurance cover against various risks in life. A monolith then, the corporation, enjoyed a monopoly status and became synonymous with life insurance. LICI of India is one of India's leading financial institutions, offering complete financial solutions that encompass every sphere of life. From commercial banking to stock broking to mutual funds to life insurance to investment banking, the group caters to the financial needs of individuals and corporate. It has been started with the objectives of spreading Life Insurance widely and in particular to the rural areas, meets the various life insurance needs of the community that would arise in the changing social and economic environment.

The organization is the form having independent or co-ordinate parts of unified action for the accomplishment of common objectives. As such the organization relating to insurance business is a form having different functional divisional units with the ultimate aim of providing effective services to the customers of the insurance products. An effective organization is essential to share information and effectively execute the managerial decisions. The organizational structure differs for different types of business. The organization structure is based on the objectives or mission of the business organization. The organization should be structured with an aim to coordinate, not only with internal managers or groups, but also with the external world, the customers, authorities and other persons directly or indirectly interested in it.

The insurance business is concerned with the functions of marketing of insurance products and its related functions like premium collections and premium fixings, accepting the insurance proposals, issuing policy documents, maintain records relating to the policies issued everyday in chronological order, and also payment of claims. The claims department is associated with the receipt of claims and arrangement of claims investigations. After it is decided whether to make a payment to the assured or to defer it, the insurance company may seek guidance from the panel of advocates. The insurance company needs to protect the company from the claims litigations of the clients by defending the claims in the courts and supervise other alternative dispute resolutions. Thus the insurance organization is associated with the marketing of policies, underwriting of policies, claims payment, claims defending and staff matters. The delegation of duties to each unit with well-defined limitations, responsibilities and decision making are all related to the organizational structure and management. Today, most of the functions, nearly 90%, related to the marketing and other related activities of the insurance consumers are dealt and handled at the branch level. The branch office, depending upon its business, is headed by a manager and each function of insurance business like marketing, underwriting of policies, accounts, claims payments, staff and administration matters are identified as departments of the branch office with responsible officials such as Administration and Accounts Officers(AAO).

The managerial decisions are based on the information supplied by the AAO, the functional head at root level. All the functions of claims will be settled at the branch level. The AAO of life insurance business will deal with maturity and death claims. If the branch is smaller, all the types of claims will be dealt by one AAO and if the branch is bigger with a good number of claims, they will be settled by, separate offices. At the branch level, these officials have to maintain cordial relations and establish a system of sharing information with the other departments, relating to the policy documents, payment of premium and using the staff or the agents for the settlement of claims disputes. The branches maintain records relating to the claims payment and claims rejections. They will submit the reports to the Zonal Officer, who in turn will forward it to the Head Office or Corporate Office.

The branches report to their respective divisional office. If any branch gets a claim and there is a problem in identifying the correct claimant among the claimants, or otherwise, a dispute of risk crops up, which will be forwarded to the divisional office with its comments. The divisional office after receiving the papers, verifies them, applies legal knowledge and skills, or seeks advice from skilled persons and tries to solve the problems. The divisional office is responsible to settle the claims referred by the branch office and also report the same to the zonal office, which in turn will consolidate the data and submit the same as required by the statute or otherwise under any law to the government. The government will put the same for the approval of the both the houses.

At the division office level, the claims department generally deals with the claims, which are pending with the branches because of any disputes, or some claims which are of high value. The investment portfolio and establishment and maintenance of reserves for the purpose of claims payment or otherwise required under the law is the important function of the central office. Thus the organizational structure of the insurance business is more flexible and decided, based on the above said factors.

4.1 CLAIMS MANAGEMENT DEPARTMENT

The claims department is one of the key departments in an insurance company. The claims department has the following functions to perform:

- To provide the customers of insurance and reinsurance companies with high quality of service. This role gives a long-term edge to the company and hence is referred to as the strategic role.
- To monitor the claims and see that whether the benefits of insurance exceed the costs of claims. This role is referred to as the cost-monitoring role of the claims department.
- To see that the expectations of the customers are met with regard to speed, manner and efficiency of the service. This is called the customer service role of the claims department.
- To meet the standard of service, to keep up to the customer's expectations and still operate within the budget. This is the managerial role of the claims department.

Both the quality of the service and cost of claims is the responsibility of the claims department. The department has to look after the proper mix of the two. The cost of claims must not exceed a given level in trying to render a very good service to the customer. So the claims department should work with due diligence to balance the two parameters. The estimation of future liabilities is just as important as control over the claim payments. As the claims department is in direct touch with the customer, it has to ensure the quality of service.

The claims department has the sole responsibility of managing claims. Claims management by far is the most complex issue in an insurance company. The people in the claim department should have good interpersonal skills. If they are not able to irk in harmony the customers will not receive quality service. There should be sufficient number of people as managers so as to simplify job and proper human resource systems in place so that such persons are recruited whose philosophy goes with the mission and vision of the organization. It has become imperative for the claims department to provide quality service to the customers so that the corporate goals are achieved. The claims department, in effect, acts as an interface between the customer service quality and insurance company’s objectives. It has to be given the proper weight age and motivation so that the business as a whole function well.

Understanding the requirements for various life insurance benefits (claims) is important for the customers. The overriding condition on claims is the payment of premiums i.e. claims are only payable if premiums are paid up to date. There are various types of claims under life policies. The general requirements for each of these claims are briefly explained below.

Death Claims: This is a claim paid when then the person insured dies. For a death claim to be paid the following basic conditions must be fulfilled.

- The policy document, original death certificate, a burial permit copy of the ID of the deceased must be provided to the insurance company.
- A report from the doctor who treated the deceased must be presented to the insurance company.
- Claim forms must be completed
- A report from the doctor who last treated the deceased person may be required.
- A police abstract report may be required where death occurs through an accident.

The documentation required for payment of death claims are easily available and claimants need to immediately inform the insurance company where problems are encountered in securing the documents. The documents are usually required so as to reduce on the possibility of paying fraudulent claims or paying the wrong claimants. Many insurance companies will frequently waive certain requirements under certain special circumstances.

Maturity Claims: A maturity claim is paid out mostly on endowment and education insurance policies whose duration has expired. For example in an insurance policy with duration of 15 years, the maturity value will be paid on the 15th anniversary after affecting the policy. Payment of a maturity claim is a straightforward affair where the customer returns the original policy document and signs a discharge form. The claim cheque is usually released in a period of about two weeks once all required conditions are fulfilled.

Partial Maturity Claims: Most endowment and education policies provide for payment of partial maturities after a given duration. The partial maturity is normally paid on set dates in the policy document. A typical education policy of 10 years provides for payment of 20% of the sum insured after four years and every year thereafter until the expiry of the policy. The life insurance company usually prepares partial maturity cheques in an automated manner and the customer does not have to claim. The cheque is either sent directly to the customer or the nearest branch office for ease of collection.

Surrender Value Claims: When a customer is unable to continue with the payment of premiums due to unplanned events like retrenchment or dismissal he has the option of encashing the policy to receive the surrender value so long as the policy has been in force for more than 3 years. The procedure for lodging this type of claim is very simple and is similar to the maturity claim whereby the customer returns the policy document and signs a discharge form. The claim cheque is then paid to the customer within two weeks.

Policy Loans: This is strictly not a claim but a benefit given out by life companies for life policies that have been in force for at least three years. To receive a policy loan directly from a life company entails assigning the policy to the life company and receiving a loan cheque. The insurance policy can also be assigned to a bank and the loan is then granted by the banks and the policy document utilized as security for the loan.

Disability Claims: This will arise in life policies where the customer purchases a personal accident policy rider as an additional benefit. Disability claims are payable subject to sufficient medical evidence being provided as proof of disablement.

4.2 PROCEDURE FOR SETTLEMENT OF CLAIMS

Settlement of maturity claims:

Under LICI, claims can arise on the maturity of the policy of the policy holder. The processing of claims by maturity is normally undertaken by the Divisional Office of LIC about two months before the date of maturity. . The LICI sends intimation before the maturity date. If the notice of maturity is not received and the date of maturity is known to the policyholder, then the policyholder can take the necessary steps to get the due Maturity amount. The Corporation sends Maturity Intimation along with the discharge forms to the policyholder informing him about the requirements of the settlement of claims.

- In case the maturity intimation is not received by the policyholder till around 2 months before the date on which the policy matures, he should contact the concerned Divisional Office and obtain a copy of the maturity intimation.
- Policy Document (if not in the custody of LICI as security for loan): On receipt of the maturity intimation, the policyholder should send the original policy document along with the last receipt of insurance premium paid. The policy document needs to be submitted in original unless it is in custody of LICI as security for the loan.
- Age proof document (if age has not been admitted earlier): The policyholder should also submit his age proof to the Corporation in case it has not already been submitted. In case, the policyholder has already submitted his age proof to LICI, the form of Discharge (Form No. 3825) to be executed by the policyholder, is also sent along with the Maturity Intimation.
- L.I.C. accepts following documents as valid age proofs:
- Horoscope of the assured

- Certificate relating to the baptism ceremony among Christians
- Birth certificate from the Municipal Corporation
- High School Certificate
- Service book.
- Discharge Form No. 3825 duly stamped & signed, attested by a witness: The form of Discharge (Form 3825) should then be properly filled, signed and sent to the Office of LICI from which it was issued. The signature must be on a revenue stamp and must be attested by a witness.
- Assignment / Reassignment Deed, if any: In case the policy or any Deed of Assignment or Reassignment are lost by the policyholder, he has to submit an indemnity bond along with a reliable surety of sound financial standing acceptable to LICI. The indemnity bond has to be in a particular format (Form 3815). In such a case the claim is settled in the absence of the policy document.
- Existence certificates in case of children's Deferred Assurance & Pure Endowment Policies.
- In due course, LICI sends a cheque to the policyholder for the money due to him as per the terms of the policy.

LICI upon the receipt of the claim form will act in the following manner:

- LICI will send an acknowledgement to the effect that the claim form has been received and the aforesaid document will also state that the insurer is in the process of checking all the necessary items and will get back to the claimant shortly.
- Then the insurer will ask for necessary documents that are required for settlement of claims. The claimant has to provide all the necessary documents that are being asked by the insurer.

- After verification, the insurer arrives at the final amount that has to be paid to the claimant and then prepares a cheque or such mode of payment as has been agreed upon in the policy or between the claimant and the insured.

Settlement of Death claims:

The death claim amount is payable in case of policies where premiums are paid up-to-date or where the death occurs within the days of grace. The following is the process of settlement of claims in the case of death claims:

1) Intimation of death:

The first requirement of the Corporation in the case of death claim is that an "intimation of death"' should be sent to the branch office of the LICI from where the policy was issued.

The intimation needs to be sent by the person who is entitled to get the proceeds of the policy. It may be:

- The nominee or
- The assignee of the policy or
- The deceased policyholder's nearest relative.

The letter of intimation of death should contain the following information:

- Name of the life assured
- A statement that the life assured is dead;
- The date of death;
- The cause of death;
- The place of death; and
- Policy number /s
- Claimant's relationship with the assured or his status (nominee, assignee, etc.).

Soon after the receipt of the intimation of the death, the branch office sends the necessary claim forms along with instructions regarding the procedure to be followed by the claimant.

2) Submission of Proof of Death

The proof of death required to be submitted is a certificate by the Municipal Death Registry or by a Public Record Office which maintains the records of births and deaths in the locality. Besides this some other statements or certificates are also required to be given in the prescribed Claim forms:

- A statement from the doctor who attended the deceased policyholder's last illness.
- Certificate of treatment in the hospital where the policyholder died or was treated by the hospital authorities.
- Certificate of burial or cremation to be given by an independent person who attended the funeral and has seen the dead body.
- A certificate from the employer if the policyholder was in employment at the time of death.

3) Submission of Proof of Age

The claimant should submit age proof of the policyholder to LICI in case it has not already been submitted.

L.I.C. accepts following documents as valid age proofs:

I. Horoscope of the assured
II. Certificate relating to the baptism ceremony among Christians
III. Birth certificate from the Municipal Corporation
IV. High School Certificate
V. Service book.

4) Certificate of Ownership.

When the policy is validly assigned, or a nominee has been designated in the policy, no further proof of title is necessary. In any other case, the certificate of title is necessary. In such a case the corporation would require legal evidence of title such as a Succession Certificate or Letters of Administration or Letters of Probate or a Will.

5) Payment and Discharge

After completing all the above formalities, the insurance company issues a discharge form for completion, which is to be signed by the person entitled to receive the policy money. That is, it should be signed by:

- The nominee, in case nomination was made under the policy;
- The assignee, in case the policy was valid and unconditionally assigned;
- The legal representative or successor.

In due course, LICI sends the cheque for the amount due to the person entitled to receive the same.

6) Early death claims:

If death occurs in less than three years from the date of the policy, the following requirements must be complied with:

- Policy Document
- Discharge Form 3801
- Assignment / Reassignment Deed, if any
- Age Proof Document (if age has not been admitted earlier)
- Certificate of treatment issued by the hospital authorities where the deceased policyholder was treated last, on Claim Form ‘B1’ (F No. 3816)
- A certificate by the employer if the deceased was an employee, on the Claim Form ‘E’ (F No. 3787 revised)
- Certificate of Death
- Legal Evidence of Title (if policy is not assigned / nominated)
- Claim Form ‘A’ (F No. 3783)

- A statement from the Doctor who attended last the deceased policyholder, on Claim Form ‘B’ (Form No. 3784 revised)
- Certificate of Identity and burial by a person who attended the funeral on Claim Form ‘C’ (F No. 3785 revised)

7) Non early claims:

If death occurs exactly or after 3 years from the date of the policy the following requirements must be complied with:

- Policy Document
- Discharge Form 3801
- Legal Evidence of Title
- Death Certificate
- Claim Form No. 3783A
- Assignment / Reassignment Deed, if any (if policy not assigned /nominated)
- Age Proof Document (if age has not been admitted earlier)

8) Ex-gratia Settlement of Death Claims

Ex-gratia Settlement of Death Claims are not a right claim but on grounds of humanity presently LICI is giving such claim amount for the policies which are not in force but

- If Death occurred after the expiry of grace period of premium due date then Full Sum Assured along with the bonus will be payable as Ex-gratia settlement
- If Death occurred after three months but less than six months after the expiry of first unpaid premium date half of the Sum Assured without bonus will be paid as Ex-gratia

If the death occurred between six months and one year from the due date of the first unpaid premium date, a claim may be considered to the extent of the proportionate notional paid-up value on the basis of actual premium paid.

In this chapter the performance of LICI is evaluated on the basis of claims settlement operations and claims settlement operations in the North Eastern Region.

4.3 CLAIMS SETTLEMENT OPERATIONS OF LIFE INSURANCE CORPORATION OF INDIA

The performance of LICI is evaluated on the basis of claims settlement operations. For this data relating to claims intimated, claims settled and claims outstanding at the end of the year of the period of study were collected and analyzed. Ensuring fair and quick claims settlement is considered as one of the objectives of the insurers' business mission. In case of settlement of claims, the corporation settles a large number of claims every year. The settled claim includes the written back claims also. Table 4.1 shows the claim settlement in terms of number of policies and the amount by LICI for the study period from 1996-97 to 2010-11.

Percentage growth over previous year $= \frac{current\ years\ value}{previous\ years\ value}$ x 100-100

Table 4.1 reveals that total claims settled in terms of number of policies and amount increased every year during the study period. In case of a number of policies, it was 49.49 lakh policies settled in 1996-97, 75.86 lakh in 2000-01, 103.53 lakh in 2003-04, 135.31 lakh in 2006-07 and further it increased to 189.56 lakh policies in 2010-11. The growth rate was 14.20% in 1997-98, 15.57% in 2001-02, 11.97% in 2006-07 and negative growth rate of -12.11% in 2010-11. During the study period, the highest growth rate was observed 40.41% in 2009-10 and the lowest growth rate was observed -12.11% in 2010-11. The annual compound growth rate of number of policies during the study period from 1996-97 to 2010-11 was 9.93%. During the study period of fifteen years, it has been observed that for seven years the growth rate of claim settled in terms of number of policies was below the annual compound growth rate and for eight years it was above the annual compound growth rate.

Table 4.1 Claims settlement -Number of Policies & Sum Assured

Year	Total (Maturity & Death)			
	Number (In lakh)	% growth over previous year	Amount (₹ in crore)	% growth over previous year
1996-97	49.49		5691.49	
1997-98	56.52	14.2	6677.04	17.32
1998-99	59.83	5.86	7583.18	13.57
1999-00	66.42	11.01	9211.30	21.47
2000-01	75.86	14.21	11637.98	26.34
2001-02	87.67	15.57	14519.25	24.76
2002-03	96.91	10.54	17035.81	17.33
2003-04	103.53	6.83	19607.20	15.09
2004-05	115.05	11.13	23642.54	20.58
2005-06	120.85	5.04	28472.98	20.43
2006-07	135.31	11.97	36485.91	28.14
2007-08	143.80	6.27	38864.01	6.52
2008-09	153.60	6.82	40085.12	3.14
2009-10	215.67	40.41	53535.82	33.56
2010-11	189.56	-12.11	57490.29	7.39
CAGR	9.93%		17.09%	

Source: Annual Reports of LICI & IRDA various issues

In case of amount settled, it was ₹ 5691.49 crores in1996-97, ₹ 11637.98 crores in 2000-01, ₹ 19607.20 crores in 2003-04, ₹ 36485.91 in 2006-07 and further it increased to ₹ 57490.29 crores in 2010-11. This reflex 10 fold increase during the period of study. The growth rate was

17.32% in 1997-98, 24.76% in 2001- 02, 28.14% in 2006-07 and 7.39% in 2010--11. During the study period, the highest growth rate was observed 33.56% in 2009-10 and the lowest growth rate was observed 7.39% in 2010-11. The annual compound growth rate during the study period from 1996-97 to 2010-11 was 17.09%. During the study period of fifteen years, it has been observed that for five years the growth rate of claim settled in terms of amount was below the annual compound growth rate and for ten years it was above the annual compound growth rate.

Chi-Square Test [X2] :–

Null Hypothesis (H0):

"There is no significant difference in the trends of growth of claim settlement – Number of Policies during the period of study".

Alternative Hypothesis (H1):

"There is a significant difference in the trends of growth of claim settlement – Number of Policies during the period of study".

Chi Square Table 4.1 A

Year	Actual Growth (fo)	Expected Growth (fe)	fo-fe
1996-97			
1997-98	14.2	12.64	1.56
1998-99	5.86	12.45	-6.59
1999-00	11.01	12.27	-1.26
2000-01	14.21	12.08	2.13
2001-02	15.57	11.89	3.68
2002-03	10.54	11.7	-1.16
2003-04	6.83	11.51	-4.68
2004-05	11.13	11.33	-0.2
2005-06	5.04	11.14	-6.1
2006-07	11.97	10.95	1.02
2007-08	6.27	10.76	-4.49
2008-09	6.82	10.57	-3.75
2009-10	40.41	10.39	30.02
2010-11	-12.11	10.2	-22.31

Calculate Value of Chi-Square [x2] = 149.52

Table Value of Chi-Square [x2] at 5% level (d.f=13) = 22.362

The equation of the straight line (Y) is YC= 11.42+ (-0.1888) x

Table 4.1 A indicates that there was a significant difference in the trends of growth of claim settlement – Number of Policies during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Chi Square Table 4.1 B

Year	**Actual Growth (fo)**	**Expected Growth (fe)**	**fo-fe**	$(fo-fe)^2$	$(fo-fe)^2/fe$
1996-97					
1997-98	17.32	23.94	-6.62	43.82	1.83
1998-99	13.57	22.98	-9.41	88.55	3.85
1999-00	21.47	22.03	-0.56	0.31	0.01
2000-01	26.34	21.07	5.27	27.77	1.32
2001-02	24.76	20.12	4.64	21.53	1.07
2002-03	17.33	19.16	-1.83	3.35	0.17
2003-04	15.09	18.21	-3.12	9.73	0.53
2004-05	20.58	17.25	3.33	11.09	0.64
2005-06	20.43	16.3	4.13	17.06	1.05
2006-07	28.14	15.34	12.8	163.84	10.68
2007-08	6.52	14.39	-7.87	61.94	4.30
2008-09	3.14	13.43	-10.29	105.88	7.88
2009-10	33.56	12.48	21.08	444.37	35.61
2010-11	7.39	11.52	-4.13	17.06	1.48

Chi-Square Test [X2] :–

Null Hypothesis (H0):

"There is no significant difference in the trends of growth of claim settlement – Amount during the period of study".

Alternative Hypothesis (H1):

"There is a significant difference in the trends of growth of claim settlement – Amount during the period of study".

Calculate Value of Chi-Square [x2] = 70.44

Table Value of Chi-Square [x2] at 5% level (d.f=13) = 22.362

The equation of the straight line (Y) is YC= 17.73+(-0.955)x

Table 4.1 B indicates that there was a significant difference in the trends of growth of claim settlement – Amount during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

4.4 CLAIMS INTIMATED, CLAIMS OUTSTANDING AND RATIO OF CLAIMS OUTSTANDING TO CLAIMS INTIMATED

The claims which are not settled became outstanding at the end of the each year. The performance of the corporation also depends upon the amount and number of outstanding claims. Table 4.2 shows the claims intimated claims outstanding and ratio of outstanding claims to claim intimated by the LICI in terms of number of policies and amount for the study period from 1996-97 to 2010-11.

Table 4.2 **Ratio of outstanding claims to claims intimated**

Year	**Claims Intimated**		**Claims outstanding**		**% of claims outstanding**	
	Number (In lakh)	Amount (₹ in crore)	Number (In lakh)	Amount (₹ in crore)	Number	Amount
1996-97	49.42	5722.38	1.60	319.59	3.24	5.58
1997-98	56.51	6673.07	1.59	315.62	2.81	4.73
1998-99	60.07	7615.78	1.83	348.22	3.05	4.57
1999-00	66.19	9266.25	1.60	403.17	2.42	4.35
2000-01	75.55	11666.82	1.29	432.01	1.71	3.70
2001-02	86.99	14358.55	0.61	273.34	0.70	1.90
2002-03	96.53	16953.95	0.22	191.55	0.23	1.13
2003-04	103.46	19596.11	0.15	173.91	0.14	0.89
2004-05	114.90	23563.62	0.16	189.14	0.12	0.75
2005-06	120.68	28283.85	0.22	233.48	0.18	0.82
2006-07	135.09	36252.43	0.20	248.10	0.15	0.68
2007-08	143.60	38615.91	0.39	347.98	0.27	0.90
2008-09	153.21	39737.14	0.51	388.83	0.33	0.98
2009-10	215.16	53146.99	0.56	503.24	0.26	0.95
2010-11	189.00	56987.05	0.76	678.39	0.40	1.19

Source: Annual Reports of LICI & IRDA various issues

Table 4.2 shows the number of policies and amount of claims intimated to the corporation every year, the number and amount of claims outstanding at the end of the each year and the ratio of claims outstanding to claims intimated in terms of number of policies and amount. From 1996-97 to 2010-11, the number and amount of claims intimated increased from 49.42 lakh policies & ₹ 5722.38crores amount to 189 lakh policies & ₹ 56987.05 crores amount respectively. Thus there has been increase in the claims intimated every year except in the last year during the study period. The claims which are not settled become outstanding at the end of each year. The performance of the corporation also depends upon the number and amount of outstanding claims. In 1996-97 the number of policies and the amount was 1.6 lakh and ₹ 319.59crores respectively, which increased up to 2000-01 and it reached to 1.29 lakh policies and ₹ 432.01crores amount. But after this, from 2001-02 the outstanding claims started decreasing every year. In 2001-02 claims outstanding decreased to 0.61 lakh policies and ₹ 273.34crores amount, which again decreased to 0.15 lakh policies and ₹ 173.91 crores amount in 2003-04. However from 2004-05 the outstanding claims increased every year till 2010-11.The claims settlement is an indicator of the efficiency of the LICI in meeting claim- obligation. The ratio of outstanding claims to claims intimated should decline. It has been observed that during the study period from 1996-97 to 2010-11, the percentage of outstanding claims to claims intimated has decreased from 3.24% to 0.40% in a number of policies and 5.58% to 1.19% in amount. It was a tremendous achievement in the field of claims settlement.

Chi-Square Test [X2] :–

Null Hypothesis (H0):

“There is no significant difference in the percentage of claims outstanding to claims intimated – Number of Policies during the period of study”.

Alternative Hypothesis (H1):

“There is a significant difference in the percentage of claims outstanding to claims intimated – Number of Policies during the period of study”.

Chi Square Table 4.2 A

Year	Actual Percentage (fo)	Expected Percentage (fe)	fo-fe	$(fo-fe)^2$	$(fo-fe)^2/fe$
1996-97	3.24	-0.73	3.97	15.76	-21.59
1997-98	2.81	-0.50	3.31	10.96	-21.91
1998-99	3.05	-0.28	3.33	11.09	-39.60
1999-00	2.42	-0.05	2.47	6.10	-122.02
2000-01	1.71	0.18	1.53	2.34	13.01
2001-02	0.70	0.40	0.3	0.09	0.23
2002-03	0.23	0.63	-0.4	0.16	0.25
2003-04	0.14	0.85	-0.71	0.50	0.59
2004-05	0.12	1.08	-0.96	0.92	0.85
2005-06	0.18	1.30	-1.12	1.25	0.96
2006-07	0.15	1.53	-1.38	1.90	1.24
2007-08	0.27	1.75	-1.48	2.19	1.25
2008-09	0.33	1.98	-1.65	2.72	1.38
2009-10	0.26	2.20	-1.94	3.76	1.71
2010-11	0.40	2.43	-2.03	4.12	1.70

Calculate Value of Chi-Square [x2] = -181.95

Table Value of Chi-Square [x2] at 5% level (d.f=14) = 23.685

The equation of the straight line (Y) is YC= 0.85+(0.225)x

Table 4.2 A indicates that there was no significant difference in the percentage of claims outstanding to the claims intimated – Number of Policies during the period of study because the calculated value of chi-square [x2] was lower than table value so, null hypothesis have been accepted and alternative hypothesis have been rejected.

Chi Square Table 4.2 B

Year	**Actual Percentage (fo)**	**Expected Percentage (fe)**	**fo-fe**	(fo-fe)²	(fo-fe)²/fe
1996-97	5.58	4.62	0.96	0.92	0.20
1997-98	4.73	4.28	0.45	0.20	0.05
1998-99	4.57	3.93	0.64	0.41	0.10
1999-00	4.35	3.59	0.76	0.58	0.16
2000-01	3.70	3.24	0.46	0.21	0.07
2001-02	1.90	2.90	-1	1.00	0.34
2002-03	1.13	2.55	-1.42	2.02	0.79
2003-04	0.89	2.21	-1.32	1.74	0.79
2004-05	0.75	1.86	-1.11	1.23	0.66
2005-06	0.82	1.52	-0.7	0.49	0.32
2006-07	0.68	1.17	-0.49	0.24	0.21
2007-08	0.90	0.83	0.07	0.00	0.01
2008-09	0.98	0.48	0.5	0.25	0.52
2009-10	0.95	0.14	0.81	0.66	4.69
2010-11	1.19	-0.21	1.4	1.96	-9.33

Chi-Square Test [X2] :–

Null Hypothesis (H0):

"There is no significant difference in the percentage of claims outstanding to claims intimated – Amount during the period of study".

Alternative Hypothesis (H1):

"There is a significant difference in the percentage of claims outstanding to claims intimated – Amount during the period of study".

Calculate Value of Chi-Square [x2] = -0.43

Table Value of Chi-Square [x2] at 5% level (d.f=14) = 23.685

The equation of the straight line (Y) is YC= 2.280+(-0.345)x

Table 4.2 B indicates that there was no significant difference in the percentage of claims outstanding to claims intimated – Amount during the period of study because the calculated value of chi-square [x2] was lower than table value so, null hypothesis have been accepted and alternative hypothesis have been rejected.

4.5 **CLAIMS SETTLEMENT OPERATIONS OF LIFE INSURANCE CORPORATION OF INDIA IN NER**

The Claims settlement operations of LICI of North Eastern Region (i.e. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura) are evaluated on the basis of claims settlement operations. The details prior to 2002-03 are not available with the corporation therefore the details claims settlement from 2002-03 to 2010-11 are considered for analysis. For this data relating to claims intimated, claims settled and claims outstanding at the end of the year of the period of study were collected and analyzed. Ensuring fair and quick claims settlement is considered as one of the objectives of the insurers' business mission. In case of settlement of claims, the corporation settles a large number of claims every year in the region. Table 4.3 shows the claim settlement – policies figures of North Eastern Region (Guwahati, Bongaigaon, Silchar and Jorhat Divisions) by LICI.

Table 4.3 reveals that total claims settled in terms of number of policies increased every year during the study period except in 2010-11. In case of a number of policies(Maturity & Death), it was 2,11,669 policies settled in 2002-03, 2,47,232 in 2005-06, 3,00,005 in 2006-07 and further it increased to 4,19,711 policies in 2009-10. In 2010-11 there is a decline in the policies to 3,96,193. The growth rate was 6.59% in 2003-04, 9.58% in

2004-05, 16.61% in 2006-07 and negative growth rate of -5.60% in 2010-11. During the study period, the highest growth rate was observed 16.61% in 2006-07 and the lowest growth rate was observed -5.60% in 2010-11. The annual compound growth rate of number of policies during the study period from 2002-03 to 2010-11 was 8.77%. During the study period of nine years, it has been observed that for five years the growth rate of claim settled in terms of number of policies was below the annual compound growth rate and for three years it was above the annual compound growth rate.

Table 4.3 Claims settlement- Policies figures of North Eastern Region (Guwahati, Bongaigaon, Silchar and Jorhat divisions)

Year	Maturity		Death		Total	
	Number	% growth over previous year	Number	% growth over previous year	Number	% growth over previous year
2002-03	1,99,851		11,818		2,11,669	
2003-04	2,12,144	6.15	13,471	13.99	2,25,615	6.59
2004-05	2,32,457	9.58	14,775	9.68	2,47,232	9.58
2005-06	2,41,295	3.80	15,969	8.08	2,57,264	4.06
2006-07	2,82,074	16.90	17,931	12.29	3,00,005	16.61
2007-08	3,05,832	8.42	20,294	13.18	3,26,126	8.71
2008-09	3,22,520	5.46	20,428	0.66	3,42,948	5.16
2009-10	3,96,220	22.85	23,491	14.99	4,19,711	22.38
2010-11	3,77,818	-4.64	18,375	-21.78	3,96,193	-5.60
CAGR	8.86%		7.20%		8.77%	

Source: Annual Reports of LICI & IRDA various issues

Chi-Square Test [X2] :–

Null Hypothesis (H0):

"There is no significant difference in the trends of growth of claim settlement in NER – Number of Policies during the period of study".

Alternative Hypothesis (H1):

"There is a significant difference in the trends of growth of claim settlement in NER – Number of Policies during the period of study".

Chi Square Table 4.3 A

Year	Actual Growth (fo)	Expected Growth (fe)	fo-fe
2002-03			
2003-04	6.59	9.53	-2.94
2004-05	9.58	9.22	0.36
2005-06	4.06	8.91	-4.85
2006-07	16.61	8.60	8.01
2007-08	8.71	8.29	0.42
2008-09	5.16	7.98	-2.82
2009-10	22.38	7.67	14.71
2010-11	-5.60	7.36	-12.96

Calculate Value of Chi-Square [x2] = 63.07

Table Value of Chi-Square [x2] at 5% level (d.f=7) = 14.067

The equation of the straight line (Y) is YC= 8.44+ (-0.31) x

Table 4.3 A indicates that there was a significant difference in the trends of growth of claim settlement in NER – Number of Policies during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

4.6 CLAIMS INTIMATED, CLAIMS OUTSTANDING AND RATIO OF CLAIMS OUTSTANDING TO CLAIMS INTIMATED IN NER

The claims which are not settled became outstanding at the end of the each year. The performance of the corporation in the NER also depends upon the amount and number of outstanding claims. Table 4.4 shows the claims intimated claims outstanding and ratio of outstanding claims to claim intimated by the LICI of NER in terms of number of policies the study period from 2002-03 to 2010-11.

Table 4.4 shows the number of policies of claims intimated to the corporation every year in the NER, the number of claims outstanding at the end of the each year and the ratio of claims outstanding to claims intimated in terms of number of policies. From 2002-03 to 2010-11, the number of claims intimated increased from 2,11,384 policies to 3,95,897 policies respectively. Thus there has been increase in the claims intimated every year except in the last year during the study period. The claims which are not settled become outstanding at the end of each year. The performance of the corporation of the region also depends upon the number of outstanding claims. In 2002-03 the number of policies was 1,295 which increased up to 2005-06 and it reached to 3,444 policies. But in 2006-07 the outstanding claims decreased. However from 2007-08 the outstanding claims increased for couples of every year. Again its decline to 3,093 in 2010-11.The claims settlement is an indicator of the efficiency of the LICI in meeting claim-obligation in the region. The ratio of outstanding claims to claims intimated should decline. It has been observed that during the study period from 2002-03 to 2010-11, the percentage of outstanding claims to claims intimated has increased from 0.61%% to 0.78% in a number of policies. It was a tremendous achievement in the field of claims settlement.

Table 4.4 The ratio of outstanding claims to claims intimated of NER

Year	Claims Intimated	Claims outstanding	% of claims outstanding
	Number	Number	Number
2002-03	2,11,384	1,295	0.61
2003-04	2,25,769	1,449	0.64
2004-05	2,47,600	1,817	0.73
2005-06	2,58,891	3,444	1.33
2006-07	2,99,712	3,151	1.05
2007-08	3,25,500	3,525	1.08
2008-09	3,43,794	4,371	1.27
2009-10	4,18,722	3,294	0.79
2010-11	3,95,897	3,093	0.78
CAGR	8.75%	12.88%	

Chi-Square Test [X2] :–

Null Hypothesis (H0):

"There is no significant difference in the percentage of claims outstanding to claims intimated of NER – Number of Policies during the period of study".

Alternative Hypothesis (H1):

"There is a significant difference in the percentage of claims outstanding to claims intimated in NER – Number of Policies during the period of study".

Chi Square Table 4.4 A

Year	Actual percentage (fo)	Expected Percentage (fe)	fo-fe	$(fo-fe)^2$	$(fo-fe)^2/fe$
2002-03	0.61	0.72	-0.11	0.01	0.02
2003-04	0.64	0.75	-0.11	0.01	0.02
2004-05	0.73	0.78	-0.05	0.00	0.00
2005-06	1.33	0.82	0.51	0.26	0.32
2006-07	1.05	0.85	0.20	0.04	0.05
2007-08	1.08	0.88	0.20	0.04	0.05
2008-09	1.27	0.92	0.35	0.12	0.13
2009-10	0.79	0.95	-0.16	0.03	0.03
2010-11	0.78	0.98	-0.20	0.04	0.04

Calculate Value of Chi-Square [x2] = 0.63

Table Value of Chi-Square [x2] at 5% level (d.f=8) = 15.507

The equation of the straight line (Y) is YC= 0.85+(0.033)x

Table 4.4 A indicates that there was no significant difference in the percentage of claims outstanding to the claims intimated in NER – Number of Policies during the period of study because the calculated value of chi-square [x2] was lower than table value so, null hypothesis have been accepted and alternative hypothesis have been rejected.

The settlement of claims is a very important aspect of service to the policyholders. The claims settlement is an indicator of the efficiency of the LICI in meeting claim obligation. The Life Insurance Corporation of India (LICI) still remains the benchmark when it comes to settling death claims. However, major private players are also fast catching up. In case of a number of policies, it was 49.49 lakhs policies settled in 1996-97 which increased to 189.56 lakhs policies in 2010-11 with annual compound growth rate 9.93%. In case of amount settled, it was ₹ 5691.49 crore in1996- 97 which increased to ₹ 57490.29 crores in 2010-11 with annual compound growth rate 17.09%. Chi-Square test showed that there was a significant difference in the trends of growth of claim settlement in both categories. It has been observed that during the study period from 1996-97 to 2010-11, the percentage of outstanding claims to claims intimated has decreased from 3.24% to 0.40% in a number of policies and 5.58% to 0.95% in amount. Chi-Square test showed that there was no significant difference in the percentage of claims outstanding to claims intimated in both categories. In the context of NER, the number maturity claims have increased from 1,99,851 in 2002-03 to 3,77,818 in 2010-11 with an annual compound growth rate of 8.86% and in the case of death claims have increased from 11,818 in 2002-03 to 18,375 in 2010-11 with a growth rate of 7.20% and a compound annual growth rate of total death & maturity was 8.77%. Chi-Square test showed that there was a significant difference in the trends of growth of claim settlement in NER in terms of policies. It has been observed that during the study period from 2002-03 to 2010-11, the percentage of outstanding claims to claims intimated in NER was 0.61% to 0.78% in a number of policies. Chi-Square test showed that there was no significant difference in the percentage of claims outstanding to claims intimated in NER. Thus, after the entry of private players there has been an increase in the settlement of claims which resulted into the fall in the number of outstanding claims. This also shows improved performance of the Corporation.

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CHAPTER: V

Investment pattern of LICI and its impact in NER

5.1 Pattern of Investment

5.2 Pattern of Investment of Life Insurance Corporation of India

5.3 Analysis of Investment of LICI

Sector wise distribution of investments in India

Loans advanced for various development activities

Investments of LICI as per IRDA Guidelines

Investments of LICI in North Eastern Region

CHAPTER: V

In the broad and customary sense of the term, an investment is an asset or property rights acquired or held for the purpose of wealth acquisition or income generation. From the point of view of investors or suppliers of capital, investment is the placement of present funds and resources for the purpose of acquiring future incomes in the form of interest, dividends, rent or retirement benefits, or in the form of an appreciation in the value of the principal. The financial and economic meanings of 'investment' though distinguished from economic meaning are related to each other because investment is a part of the savings of individuals which flow into the capital market either directly or through institutions. Investors as 'suppliers' and investors as 'user' of long-term funds find a meeting place in the market.[16] As such investment depends on the capacity of individuals to save. The savings and investments, therefore, become two important aspects of any socioeconomic development Investment is both important and useful in the context of present day conditions. Some factors that have made investment decision increasingly important are: larger life expectancy, high rate of inflation, increasing rates of taxation, high interest rates, larger income and availability of a complex number of investment outlets.[17]

After having discussed the concept of investment it is essential to point out the factors which are favorable for the growth of investments. The investment market should have a favorable environment to be able to function effectively. In India where all business activities are marked by

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[16] Dougall ,Herbert E., Investments, prentice-hall, inc., Engleswood cliffs,new jersey, 1968,p.2.

[17] Singh, Preeti, investment management, Himalaya publication house, Delhi, 1986, p. 4

social, economic and political considerations, it is important that the political and economic institutions are congenial for economic investments. Generally there are three basic considerations which foster growth and bring opportunities for investment. These are: legal safeguards, existence of financial institutions to aid savings and form of business organization.

A stable government which frames adequate legal safeguards encourages accumulation of savings and investments. Investors will be willing to invest their funds if they have the assurance of protection of their contractual and property rights. In India the investors have the dual advantage of free enterprise and Government control. Freedom, efficiency and growth are ensured from the competitive forces of private enterprise, the political climate is conducive to invest as Government controls provide a sense of stability to the capital market.

The presence of financial institutions which encourages savings and directs them to productive uses helps the investment market to grow. The financial institutions generally in existence in most countries are the commercial banks, life insurance companies and investment companies. In the United States there are merchant bankers and mortgage bankers. Investment bankers are merchants of securities. They buy bonds and stocks of corporations and Government bodies for re-sale to investors. The investment bankers are distinguished from security brokers who act as agents in buying and sellings already issued securities for a commission. Mortgage bankers sometimes act as merchants and sometimes as agents on mortgage loans generally on residential properties. They serve as middlemen between investors and borrowers and perform collateral services in connection with loans. Commercial banks and financial institutions also act as mortgage bankers in giving mortgage loans and in servicing the loans[18].

In India, the presences of a large number of financial institutions under the Central Government and State Governments and Rural bodies have encouraged the growth of savings and investments. They offer a wide variety of schemes for savings and give tax benefits also. Apart from these, there is a well organized network of development banks such as Industrial Development Bank of India (I.D.B.I), Industrial Credit Investment Corporation of India (I.C.I.C.I), Industrial Finance Corporation of India (I.F.C.I), Export-import Bank of India (Exim Bank) etc. At the State level there are State Financial Corporations, and in rural areas and agriculture, the National Bank for Agriculture and Rural Development (NABARD). These financial institutions and development banks offer a wide variety of policies for encouraging savings and for investment. These institutions serve as an element of strength to the capital market and promote discipline while encouraging growth.

The form of business organization which is permanent in existence aids savings and investment. The public limited companies have been said to be the best form of organization. The three characteristics of the joint stock form of business organization which have been very useful for investors are limited liability of shareholders, perpetual succession and transferability and divisibility of stocks and shares. The public limited company with the ability to continue its business irrespective of members comprising it, gives longevity and strength to its business activity. In contrast to public limited company whose shareholders have limited liability, the sole proprietor or partners in a partnership firm are liable for all

[18] Singh, Preeti, Investment Management, Op. cit., p.8

the debts of the firm to the full extent of his personal wealth[19]. In these conditions, investors are hesitant to risk their savings in these forms of organizations. Besides, unlimited liability the partnership and proprietor also suffer from the short life of the organization. With the death or retirement of any of the partners, a partnership firm is dissolved. Similarly, a sole proprietor carries on business only during his lifetime. The public limited companies also have the characteristic of transferability of shares which is a guarantee for the liquidity of the company. In contrast, the partnership restricts stability and transferability freely from person to person. The public limited company, therefore, is a popular form of investment as the investors benefit from liquidity, convenience and longevity.

Until now we have discussed the importance and principles of investment in general terms, in the pages that follow our endeavor will be to analyze and examine the pattern of investment of the LICI and its impact in North Eastern Region of India.

5.1 PATTERN OF INVESTMENT

According to the accepted principles of investment, the LICI should invest funds in such a way that maximum yield is available consistent with safety of capital. The problem of investment assumes great importance in the case of this Corporation because huge sums are available by way of premiums. Since these funds are not required to fully meet the liabilities, the life insurance business should invest a major portion of the total assets and earn a reasonable rate of interest which can be used in reducing the cost of insurance. In this context, the Life Insurance Corporation is guided by certain basic principles, such as safety, security, yield, convertibility,

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[19] .Singh, B.P., Chhabra, T.N., Business Organisation and Management, Kitab Mahal Agencies, Allahabad, p.115.

diversification etc.. A safe investment is one which offers reasonable protection against the risk of capital loss[20]. The Life Insurance Corporation must give due regard to safety of capital in making investment mainly because its primary business is to pay claims, as and when they arise. Since in this matter, the position of the Corporation has been that of a trustee, it has to choose between the safeties and yield in as much as there is neither total nor partial loss of capital. The security of capital is essential to enable insurers to serve as true collectors of funds for paying the claims. As far as possible, investments of high denomination should be held for the life insurance funds and in the safest possible channels.

In addition to the security of capital, the adequacy of yield too is an important factor. The insurer should bring about a proper coordination between the two elements –safety and yield. The funds should be invested in such a way that they should get at least that rate of interest which has been assumed in arriving at the net premium. Interest is a factor taken into consideration while calculating premiums. On account of the security of capital and adequacy of yield, bonds and debentures of Public Sector Corporation and the Government Companies are better than the shares of Joint Stock Companies. Diversification is the most important consideration in insurance investments which may take different forms. It means that the life insurance funds should be distributed both geographically and among different classes of investments. It is considered a sound policy no to rely excessively on a single class of investment or a sectional investment. This is based on the maxim: “Do not have all eggs in one basket” but reduce the risk by dispersal of funds among different types of securities and investments. The LIC has been continuously providing funds to a large

[20] . Grewal, S.S., Grewal Narjot, Successful Stock Market Investing, Vision Books, Incorporating Orient Paperbacks, New Delhi, 1987,p.1.

number of Indian industries through the purchase of their securities i.e., debentures, preference and equity shares. The choice of the Corporation to invest the growing volume of life fund in Government securities and in establishing concerns has resulted in concentration of investments in a few industries and a few companies. The cement, cotton, textiles, electrical and electrical goods, engineering, iron and steel and minerals which are the oldest industries have attracted 60 per cent of the total LIC's investment in shares and debentures[21]. In the context of planned economic development of India, the investment of the LIC funds is of major importance. A well conceived, integrated and diversified investment plan, while furthering the interests of more than one crores of policyholders, has great potentialities of effecting a balanced development of the country. Diversification may further be assumed by having numerous securities of fixed as well as of variable yield. The corporate, Government and Semi-Government securities should be purchased in such proportion as to have a harmonious combination of security and yield. If all the funds are invested in industrials and commercials, a huge amount of taxes will have to be given. It will be a great problem, especially when the tax rates are too high today. Hence a considerable portion of the securities must be invested in tax-free securities. Convertibility of investment is one of the basic principles of investment. It means the ability with which investment are converted into cash without undue loss of capital and without much inconvenience. Normally, the present income on account of interest and premiums is sufficient to meet the future claims. But on certain occasions, the convertibility of investment into cash is a 'must' in order to pay cash for surrender values, to grant loans on demand and to meet the claims, if the funds in hand are not sufficient. Hence, in usual circumstances, ready convertibility is not a necessary

[21] Khan, M.A., Theory and Practice of insurance, Aligarh, A.M.U.,p.247

quality of an investment but from the long-range point of view, particularly, to meet the needs of maturing obligations it is a must[22]. The Corporation may also keep a portion of these funds in cash or in such securities which can be realized without delay and loss. The liquidity consideration should also be kept in mind in order to avail of an exceptionally favorable investment opportunity, which requires selling of the existing securities and purchasing of a new series of securities having better terms and conditions.

Thus, all the above guiding principles must be kept in view by the LIC while investing its funds in different securities. Great care has to be taken in selecting suitable channels of investments and supervising them. With the help of financial forecasting based on a well thought-out analysis of economic, political and financial conditions, the financial experts select that form and type of investment which gives the maximum return. It may be added, however, that keeping in view the above principles of investment, the investment policy must promote and help the life insurance business in various ways. On the one hand, these investments should reduce the cost of insurance and tempt others to have it at a lower cost and on the other; these investments should be utilized for socioeconomic needs of the country.

5.2 PATTERN OF INVESTMENT OF LIFE INSURANCE CORPORATION OF INDIA

Life Insurance Corporation of India is an investment as well as a development institution. Its primary aim is to spread the message of life insurance and while pursuing this objective, the premium form policyholders are received which are in the nature of trust funds invested and administered in the best interest of policyholders as per guidelines of

[22] Khan, M.A., Theory and Practice of Insurance, Op.cit., p.233.

the Government[23]. The investment of the Corporation's fund is governed by section 27A of the Insurance Act, 1938 and subsequent guidelines/instructions issued by the Government of India from time to time. These investments are regulated by the government to benefit the people at large by providing basic amenities like water, drainage, sanitation, power, housing, transportation, etc. The modified section 27A of the Indian Insurance Act, 1938, prescribes percentage-wise ceiling of maximum limit in different categories of investment. These have been modified from time to time with a view to pre-empting an increasing proportion of its funds in Government/Government guaranteed / approved / socially oriented investments. The LIC has been directed to concentrate more on the financing of the socially-oriented investments. LIC is one of the largest investors in government securities, infrastructure and social sector. The corporation helps to boost up the industrial growth in the country. It helps the small scale and medium scale industries by granting loans for setting up cooperative industrial estates. The corporation assists state level financial corporations and all India Financial Corporations like IDBI, IFCI, ICICI, etc. by way of subscription to bonds/debentures issued by such institutions. It also makes investment in the corporate sector in the form of long, medium and short term loans to companies/corporations.

PRE-NATIONALIZATION INVESTMENT PATTERN

Before the setting up of LIC in 1956, through the nationalization and amalgamation of 245 companies, life insurance companies were governed by section 27 and27A of the Indian Insurance Act, 1938. According to the Act, every insurance Company was required to invest as follows.

[23] P.V.Kulkarni, Corporation Finance Principles and Problems, Himalaya Publishing House, Delhi, p.846.

Table No.5.1 Pre-Nationalization Investment Pattern

Sl.No	Type of Investment	Percentage
1	Government securities	25%
2	Government securities or approved securities	Not less than 25%
3	Other investment	Not more than 15%
4	Approved investment	35%

Source: M.Y.Khan, Indian Financial System, Tata McGraw Hill Publishing Company Ltd, New Delhi,2000,p.102

POST-NATIONALIZATION INVESTMENT PATTERN

Based on the recommendation of the Jagannathan Committee to review the investment policies of the LIC, Section 27A was further amended in 1975. The amended section 27A stipulated that accretions to the controlled fund of the LIC could be invested asunder:

Table No.5.2 Post-Nationalized Investment Patten

Sl.No.	Type of Investment	Percentage
1	In central government marketable securities	25%
2	In central government, state government securities including the government guaranteed marketable securities including (a) above	50%
3	In social oriented sector including public sector, cooperative sector, own your home (OYH) scheme including second above.	75%

Source: M.Y.Khan, Indian Financial System, Tata McGraw Hill Publishing Company Ltd, New Delhi,2000,p.102

Notes: a. 8% was required for loans against policies within the surrender values.

b. About 2% could be invested in immovable properties.

c. 10% be invested was invested in the private sector.

d. Remaining 5% was not available for investment as it constituted funds in the pipeline.

INVESTMENT PATTERN AFTER INSURANCE SECTOR REFORM

The IRDA has mandated the pattern of investments to be followed by the insurance companies. Investments in Government securities, approved securities, approved investments and in infrastructure and social sectors have been prescribed in the Insurance Act, 1938. The Authority has also specified that every insurer carrying on the business of life insurance shall invest and at all times keep invested his controlled fund (other than funds relating to pension and general annuity business and unit-linked life insurance business) in the following manner:

Table No.5.3(i) PATTERN OF INVESTMENTS SPECIFIED BY IRDA - Life Insurance

S.No	Type of Investment	Percentage
i)	Government Securities	25%,
ii)	Government Securities or other approved securities (including (i) above)	Not less than 50%,
iii)	**Approved Investments as specified in Schedule-1**	
a)	Infrastructure and Social Sector	Not less than 15%
b)	Others to be governed by Exposure Norms. (Investments in 'Other than in Approved Investments' in no case exceed 15% of the Fund).	Not exceeding 35%

In the case with pension and general annuity business every insurer shall invest and at all times keep invested funds in the following manner:

Table No.5.3(ii) PATTERN OF INVESTMENTS SPECIFIED BY IRDA - Pension and General Annuity

S.No	Type of Investment	Percentage
i)	Government securities, **being not less than**	20%
Ii)	Government Securities or other approved securities inclusive of (i) above, being not less than	40%
iii)	Balance to be invested in Approved Investments and to be governed by Exposure/ Prudential Norms	Not exceeding 60%

And in the case with unit linked life insurance business every insurer shall invest and at all times keep invested his segregated fund in unit linked life insurance business as per pattern of investment offered to and approved by policyholders. Unit linked policies may only be offered where the units are linked to categories of assets which are both marketable and easily realizable. However, the total investment in other than the approved category of investments shall at no time exceed 25% of the fund.

Table No.5.3(iii) PATTERN OF INVESTMENTS SPECIFIED BY IRDA – Linked Life Insurance Business

S.No	Type of Investment	Percentage
i)	Approved Investments	Not less than 75%
Ii)	Other approved securities	Not more than 25%

5.3 ANALYSIS OF INVESTMENT OF LICI

In order to evaluate the investment portfolio of LIC, the analysis has been made on the basis of the following variables:

- **Sector wise distribution of investments in India.**
- **Loans advanced for various development activities.**
- **Investments of LICI as per IRDA Guidelines**
- **Investments of LICI in North Eastern Region**

ANALYSIS OF SECTOR WISE DISTRIBUTION OF INVESTMENTS IN INDIA

Over the years LIC has helped to spread up the tempo of economic development of our country by making investment in public, private and cooperative sector. In fact the huge fund at the disposal of LIC has proved to be that drop of useful oil, which greases and smoothen to the wheels of economic development of our country. The analysis has been done in order to see the sector wise distribution of investment in each sector and the growth in investment in each sector has been calculated for the study period. Table 5.4 depicts the broad distribution of sector wise investment of LIC in India. The book value of investments in India is considered as on 31st March of every year.

Table 5.4 Analysis of Sector wise Distribution of investment in India

	Private Sector		Public Sector		Co-operative Sector		Total	
Year	Amount (₹ in Crores)	% share	Amount (₹ in Crores)	% share	Amount (₹ in Crores)	% share	Investment (₹ in Crores)	% growth over previous year
1996-97	10078.8	12.93	65917.4	84.6	1941.8	2.5	77938.0	
1997-98	12334.3	13.18	79235.7	84.7	2030.3	2.2	93600.3	20.10
1998-99	15597.7	13.67	96410.5	84.5	2094.5	1.8	114102.7	21.90
1999-00	19843.9	14.27	117059.0	84.2	2129.3	1.5	139032.2	21.85
2000-01	23579.2	14.12	141256.2	84.6	2168.4	1.3	167003.8	20.12
2001-02	24500.6	11.82	180574.1	87.1	2128.6	1.0	207203.3	24.07
2002-03	30091.3	11.95	219596.7	87.2	2082.3	0.8	251770.3	21.51
2003-04	52883.2	16.19	271778.5	83.2	2079.5	0.6	326741.2	29.78
2004-05	69754.6	17.74	322021.8	81.9	1408.2	0.4	393184.6	20.34
2005-06	107063.5	21.97	378807.2	77.7	1356.5	0.3	487227.2	23.92
2006-07	84369.2	16.17	433810.3	83.1	3555.1	0.7	521734.6	7.08
2007-08	128541.5	20.22	503388.4	79.2	3817.6	0.6	635747.5	21.85
2008-09	187212.5	24.54	572050.3	75.0	3628.9	0.5	762891.7	20.00
2009-10	236205.5	25.73	678374.5	73.9	3336.5	0.4	917916.5	20.32
2010-11	265880.3	25.43	775992.5	74.2	3666.6	0.4	1045539.4	13.90
CAGR	24.33%		17.90%		4.54%			**18.94%**

Source: RBI- Handbook of Statistics on the Indian Economy for the year 2010-11

Chart 5.4 Analysis of Sector wise Distribution of investment in India

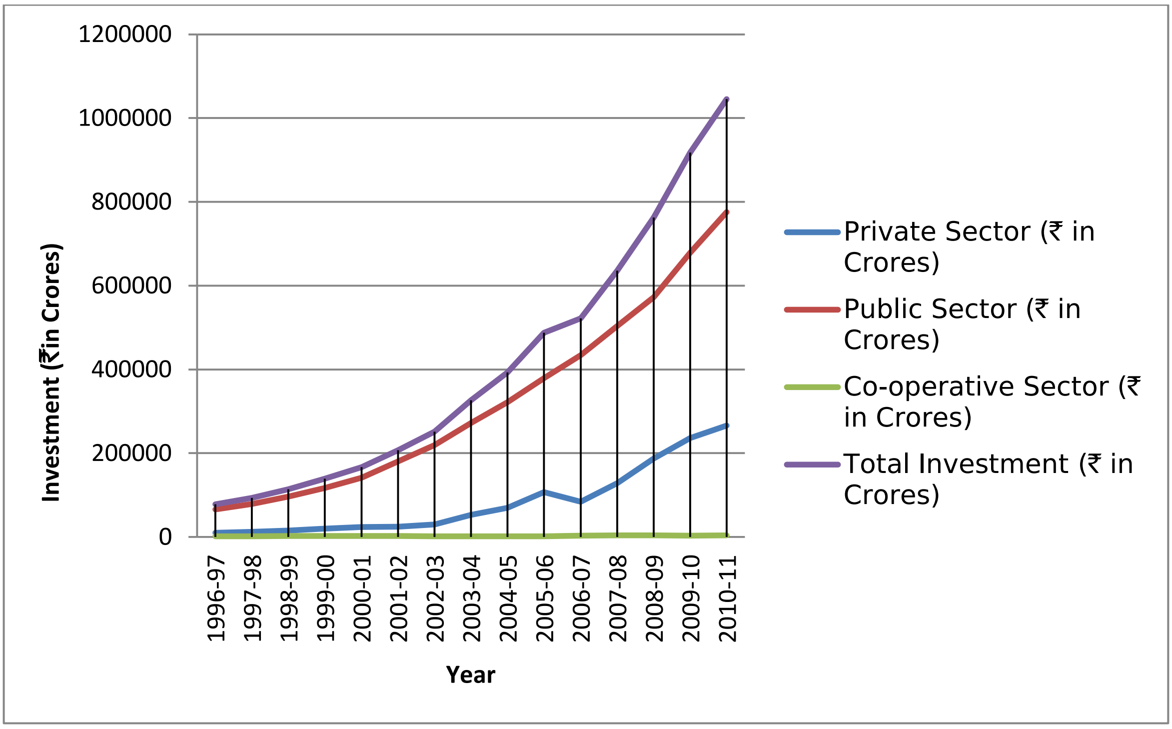

Table 5.4 show the sector wise investment of LIC in India. The book value of the investments of the corporation was ₹ 77938.0 crores in 1996-97 which increased to ₹ 1045539.4 crores in 2010-11. Thus, the figure shows the tremendous growth in the investment and it has been raised by more than thirteen times during the study period. During the study period the percentage growth over the previous year lies between 7 % and 30 %. The highest growth rate has been observed 29.78 % in the year 2003-04. The lowest growth rate has been observed 7.08 % in the year 2006-07. In 1996-97 the total investment of LIC was ₹ 77938.0 crores which increased to ₹ 93600.3 crores in 1997-98 with 20.10% growth, ₹ 114102.7 crores in 1998-99 with 21.90%, ₹ 139032.2 crores in1999- 2000 with 21.85%, ₹ 167003.8 crores in 2000-01 with 20.12%, ₹ 207203.3 crores in 2001-02 with 24.07%, ₹ 251770.3 crores in 2002- 03 with 21.51%, ₹ 326741.2 crores in 2003-04 with 29.78%, ₹ 393184.6 crores in 2004-05 with 20.34%, ₹ 487227.2 crores in 2005-06 with 23.92%, ₹ 521734.6 crores in 2006-07

with 7.08%, ₹ 635747.5 crores in 2007-08 with 21.85%, ₹ 762891.7 crores in 2008-09 with 20.00%, ₹ 917916.5 crores in 2009-10 with 20.32%,and lastly it increased to ₹ 1045539.4 crores in 2010-11 with the growth rate of 13.90%. The annual compound growth rate of total investment was 18.90% which is a welcome trend. During the study period, it has been observed that for a couple of years the growth rate was below the annual compound growth rate and for thirteen years the growth rate was above the annual compound growth rate.

Now considering the amount of funds invested in three different sectors of the economy. The share of investments in public sector has been greater throughout the study period. Among the three sectors major investment has been made in the public sector by the LIC and then comes the private sector and the least share in the co-operative sector. It is clear from the table that there has been a constant increase in the investments of the corporation in the public sector throughout the study period. The investment in the public sector was ₹ 65917.41crores in 1996-97 which increased to ₹ 775992.5 crores in 2010-11. Thus, the investment in public sector rises by more than 11times during the study period. During the study period the percentage share of investment in the public sector to the total investment lies between 73.9% and 87.2%. The highest percentage share of investment has been observed 87.22% in 2002-03 and the lowest percentage share of investment has been observed 73.9% in 2009-10. The average percentage share of investment in the public sector was 81.7% during the study period. During the study period it has been observed that for five years the percentage share of investment in the public sector was below the average percentage share of investment and for ten years the percentage share of investment in the public sector was above the average percentage share of investment. The percentage growth over the previous year of the investment in public sector lies between 14% and 28%. The highest growth rate has been observed 27.8% in 2001-02 and the lowest growth rate has been observed 14.4% in 2010-11.

In 1996-97 the total investment in public sector was ₹ 65917.4 crores which increased to ₹ 79235.7crores in 1997-98 with 20.20% growth, ₹ 96410.5 crores in 1998-99 with 21.7%, ₹ 117059 crores in1999-2000 with 21.4%, ₹ 141256.2 crores in 2000-01 with 20.7%, ₹ 180574.1 crores in 2001-02 with 27.8 %, ₹ 219596.7 crores in 2002-03 with 21.6 %, ₹ 271778.5 crores in 2003-04 with 23.8%, ₹ 322021.8 crores in 2004-05 with 18.5%, ₹ 378807.2 crores in 2005-06 with 17.6%, ₹ 433810.3 crores in 2006-07 with 14.5%, ₹ 503388.4 crores in 2007-08 with 16 %, ₹ 572050.3 crores in 2008-09 with 13.6%, ₹ 678374.5 crores in 2009-10 with 18.6%,and lastly it increased to ₹ 775992.5 crores in 2010-11 with the growth rate of 14.4%. The annual compound growth rate of investment in the public sector was 17.87% which is a welcome trend. During the study period, it has been observed that for five years the growth rate was below the annual compound growth rate and for seven years the growth rate was above the annual compound growth rate.

In case of investments in private sector, it is clear from the table that there has been a constant increase in the investments of the corporation throughout the study period. The investment in the private sector was ₹ 10078.8 crores in 1996-97 which increased to ₹ 265880.3 crores in 2010-11. Thus, the investment in private sector rises by more than 26 times during the study period. During the study period the percentage share of investment in the private sector to the total investment lies between 11% and 26 %. The highest percentage share of investment has been observed 25.73 % in 2009-10 and the lowest percentage share of investment has been observed 11.82

% in 2001-02. The average percentage share of investment in the private sector was 17.33 % during the study period. During the study period it has been observed that for nine years the percentage share of investment in the private sector was below the average percentage share of investment and for six years the percentage share of investment in the private sector was above the average percentage share of investment. The percentage growth over the previous year of the investment in private sector lies between 12% and 76% except in 2001-02 and 2006-07. The highest growth rate has been observed 75.74 % in 2003-04 and the lowest (negative) growth rate has been observed -21.20 % in 2006-07. In 1996-97 the total investment in private sector was ₹ 10078.8 crores which increased to ₹ 12334.3 crores in 1997-98 with 22.38 % growth, ₹ 15597.7 crores in 1998-99 with 26.46 %, ₹ 19843.9 crores in1999-2000 with 27.22 %, ₹ 23579.2 crores in 2000-01 with 18.82 %, ₹ 24500.6 crores in 2001-02 with 3.91 %, ₹ 30091.3 crores in 2002-03 with 22.82 %, ₹ 52883.2 crores in 2003-04 with 75.74 %, ₹ 69754.6 crores in 2004-05 with 31.90 %, ₹ 107063.5 crores in 2005-06 with 53.49 %, ₹ 84369.2 crores in 2006-07 with negative growth of -21.20%, ₹ 128541.5 crores in 2007-08 with 52.36 %, ₹ 187212.5 crores in 2008-09 with 45.64 %, ₹ 236205.5 crores in 2009-10 with 26.17 %,and lastly it increased to ₹ 265880.3 crores in 2010-11 with the growth rate of 12.56 %. The annual compound growth rate of investment in the private sector was 24.38 % which is a welcome trend. During the study period, it has been observed that for six years the growth rate was below the annual compound growth rate and for nine years the growth rate was above the annual compound growth rate.

In case of investments in co-operative sector, it is clear from the table that there hasn't been a constant increase in the investments of the corporation throughout the study period. It has been seen that sometimes there was a fall registered in the investment also. The investment in the co-operative sector was ₹ 1941.8 crores in 1996-97 which increased to ₹ 3666.6 crores in 2010-11. During the study period the percentage share of investment in cooperative sector to the total investment lies between 0.30 % and 2.50 %. The highest percentage share of investment has been observed 2.50 % in 1996-97 and the lowest percentage share of investment has been observed 0.30% in 2005-06.

The average percentage share of investment in the co-operative sector was 1% during the study period. During the study period it has been observed that for nine years the percentage share of investment in cooperative sector was below the average percentage share of investment and for six years the percentage share of investment in the co-operative sector was above the average percentage share of investment. The percentage growth over the previous year of the investment in the co-operative sector lies between -32% and 10%.The highest growth rate has been observed 4.6 % in 1997-98 and the lowest growth rate has been observed -32.3% in 2004-05. In 1996-97 the total investment in the co-operative sector was ₹ 1941.8 crores which increased to ₹ 2030.3 crores in 1997-98 with 4.6 % growth, ₹ 2094.5 crores in 1998-99 with 3.2 %, ₹ 2129.3 crores in1999-2000 with 1.7 %, and ₹ 2168.4 crores in 2000-01 with 1.8%. Then it decreased to ₹ 2128.6 crores in 2001-02 with -1.8%, ₹ 2082.3 crores in 2002-03 with -2.2%, ₹ 2079.5 crores in 2003-04 with -0.1%, ₹ 1408.2 crores in 2004-05 with -32.3%, ₹ 1356.5 crores in 2004-05 with -3.7 %, in 2006-07 there is sudden growth to ₹ 3555.1 crores with 162.1 % growth, ₹ 3817.6 crores in 2007-08 with 7.4 %. Then, further again it decreased to ₹ 3628.9 crores with -4.9%, ₹ 3336.5 crores with -8.1 %. But in 2010-11 the investment in the co-operative sector increased to ₹ 3666.6 crores with a 9.9% growth rate. The annual compound growth rate of investment in the co-operative sector was 4.33 %. During the study period, it has been observed that for ten years the growth rate was below the annual compound growth rate and for five years the growth rate was above the annual compound growth rate.

ANALAYSIS OF LOANS ADVANCED FOR VARIOUS DEVELOPMENT ACTIVITIES

Loans continued to constitute one of the major avenues of investment for the corporation's funds. It has been the constant endeavor of the Corporation to provide security to as many people as possible and to channelize the savings mobilized for the welfare of the people at large. To meet this end, the Corporation is granting the loans for promoting Social Welfare through investments in Infrastructure and Social Sector which includes:

* Projects/Schemes for generation and transmission of Power,
* Housing Sector,
* Water Supply and Sewerage Projects/Schemes,
* Development of Roads, Bridges & Road Transport.

Thus, the data related to the loans advanced in the different years has been gathered and shown in the form of a table in order to make proper analysis as well as comparison with various developmental activities like Electricity, housing, water supply and sewerage, transport, industrial development.

The details of the development activities for which loans are advanced by LIC have been given below:

Table 5.5 Details of Development Activities

Developmental Activities	**Details**
Electricity	State Electricity Boards/ Electric Power Corporations, i.e. SEBs /EPC.
Housing	a. State Govt. for Housing Schemes

	b. Apex cooperative housing finance societies c. LIC Housing Finance Ltd. d. Housing and Urban Development e. National Housing Bank
Water Supply and Sewerage	a. Municiapal Committees/ Water supply and Sewerage Boards b. Zilla parishads for Rural Piped Water Supply Schemes c. Irrigation
Transport	State Road Transport Corporation
Other infrastructure	Joint Stock Companies

The detailed information regarding the loans advanced for various development activities from 1996-97 to 2010-11 is given below.

Table 5.6 Loans advanced for various development activities

Amount Advanced during the year (in ₹ Crores)

YEAR	ELECTRICITY	% SHARE	HOUSING	% SHARE	WATER SUPPLY & SEWERAGE	% SHARE	TRANSPORT	% SHARE	OTHER INFRASTRUCTURE	% SHARE	TOTAL
1996-97	676.34	24.03	1146.17	40.72	146.86	5.22	62.94	2.24	782.40	27.80	2814.71
1997-98	965.10	31.97	1180.15	39.10	236.00	7.82	11.75	0.39	625.62	20.73	3018.62
1998-99	1479.23	37.24	1769.56	44.54	243.96	6.14	119.24	3.00	360.66	9.08	3972.65
1999-00	1366.11	34.76	1651.10	42.01	488.52	12.43	65.29	1.66	358.96	9.13	3929.98
2000-01	470.82	13.50	2113.31	60.58	526.82	15.10	48.05	1.38	329.47	9.44	3488.47
2001-02	1045.46	35.62	1056.25	35.99	342.87	11.68	108.84	3.71	381.31	12.99	2934.73
2002-03	1060.93	32.49	890.07	27.26	570.33	17.47	465.00	14.24	278.68	8.54	3265.01
2003-04	297.00	3.78	749.81	9.55	2511.22	31.98	15.00	0.19	4279.21	54.50	7852.24
2004-05*	4272.90	43.66	2726.83	27.86	383.01	3.91	233.22	2.38	2170.44	22.18	9786.40
2005-06	8471.90	61.17	4463.97	32.23	26.16	0.19	128.00	0.92	760.81	5.49	13850.84
2006-07	9615.25	55.59	3968.91	22.95	65.34	0.38	601.82	3.48	3045.86	17.61	17297.18
2007-08	7022.00	41.88	3935.00	23.47	14.00	0.08	45.00	0.27	5749.00	34.29	16765.00
2008-09	6689.11	30.72	6734.87	30.93	118.31	0.54	227.73	1.05	8005.55	36.76	21775.57
2009-10	13044.74	62.69	4034.77	19.39	47.00	0.23	680.87	3.27	3001.36	14.42	20808.74
2010-11	7616.61	49.99	4481.75	29.42	24.78	0.16	685.58	4.50	2427.22	15.93	15235.94
CAGR	**21.89%**		**11.78%**		**-18.50%**		**17.87%**		**19.30%**		**16.69%**
Average		**37.27**		**32.40**		**7.56**		**2.85**		**19.93**	

Source: Annual Reports of LIC & IRDA Various Issues

Chart 5.6 Loans advanced for various development activities

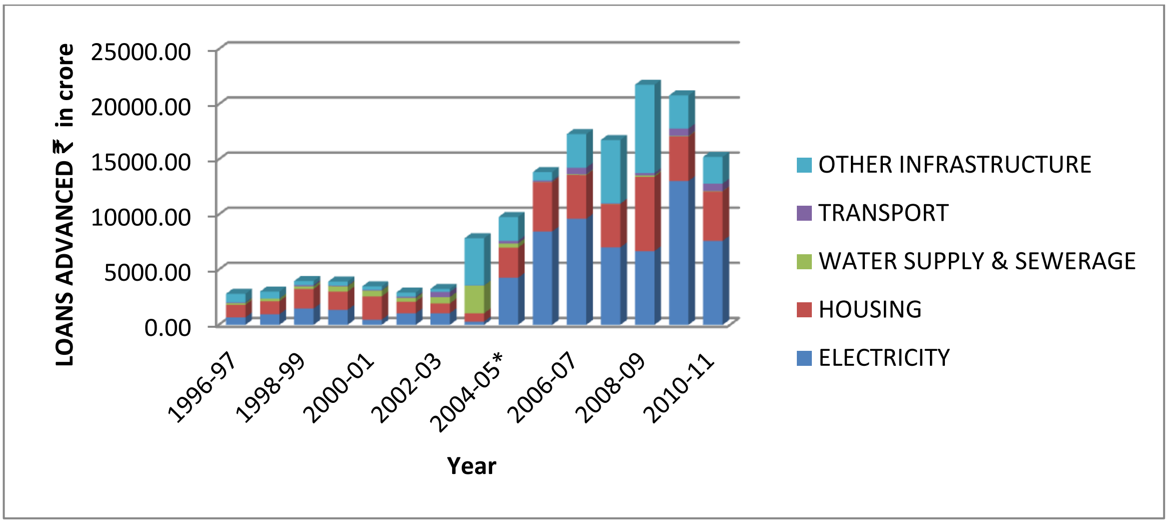

Table 5.6 and Chart 5.6 give the detailed information regarding the loans advanced for various development activities. It can be seen that the total amount of loans advanced for various developmental activities showed an increasing trend from 1996-97 to 1998-99. The amount of loans advanced was ₹ 2814.71 crores in 1996-97 which reached to ₹ 3929.98 crores in 1999-00. After the entry of private players in the insurance sector, the loan amount started dealing. But in 2002, IRDA issued new regulations for investment which lead to a huge increase in the amount of loans advanced to various authorities. Thus, in 2003-04, the amount of loans was ₹ 7852.24 cores and increased to ₹ 17297.18 crores in 2006-07. After it decreased to ₹ 16765 crores in 2007-08 and further increased to ₹ 21775.57 crores in 2008-09. During the last couple of years of the study period it declined to ₹ 20808.74 in 2009-10 further to ₹ 15235.94 crores in 2010-11. The compound annual growth rate of the total amount of loans advanced for the entire period of study is 16.69%.

The percentage share of each development activity to the total loan amount, Housing holds the major share of loans advanced throughout from 1996-97 to 2000-01. The second major share goes to electricity, followed by other infrastructure and water supply sewerage. Thus the least share is to transport from 1996-97 to 2000-01. There has been an extreme change in the percentage share of the amount of loans advancement of various activities from 2000 onwards. In 2000-01, Housing holds 60.58% share then comes water supply and sewerage with 15.10% share, after this comes 9.445 Electricity with 13.5% share, then other infrastructure with 9.44% share and the least share is to transport with 1.38%. In 2001-02 and 2002-03 there is not much difference in the percentage share of total loans for various development activities. As the new regulations were issued in 2002 by IRDA, LIC made a change in the amount of loans advanced to various development activities. In 2003-04 huge amount of the loan was provided to irrigation as well as for the infrastructure development. In 2005-06 the more than 90% of loans advanced share by Electricity and Housing. In 2007-08 the percentage share of loans advanced to Electricity by 41.88%, housing by 23.47%, other infrastructure with 34.29% and share of transport and water supply & sewerage with 0.27% and 0.08% respectively. In the last year of study period electricity and housing share about 80% share of total loans advanced. Considering the average percentage share of each development activity to the total loan amount during the study period, Electricity holds the major share of 37.27% of total loans advanced, second major share goes to housing with 32.40% followed by other infrastructure with 19.93%, water supply & sewerage with 7.56% and transport with 2.85%. The compound annual growth rate of electricity is 21.89%, other infrastructure is 19.30%, transport is 17.87%, housing is 11.78% and water supply & sewerage showing a negative rate of -18.50%.

On the basis of above analysis, it is concluded that there is huge increased in the total amount of loan advanced for various development activities after the issue of new investment regulations by IRDA in 2002.

COMPOSITION OF INVESTMENTS AS PER IRDA GUIDELINES

The Life Insurance Corporation of India has been a nation builder since its formation in 1956. True to the objectives of nationalization, the LIC has mobilized the funds invested by the people in life insurance for the benefit of the community at large. The corporation has deployed the funds to the best advantage of the policyholders as well as the community as a whole, true to the spirit of nationalization. National priorities and obligation of reasonable returns to the policy holders are the main criteria of our investments. The total investments of the Corporation amounted to ₹ 12,66,539.04 crore as at 31st March, 2011. The investment of the Corporation's funds is governed by Section 27A of the insurance Act, 1938, subsequent guidelines / instructions issued thereunder by the Government of India from time to time, and the IRDA by way of regulations. As per the prescribed investment pattern approved by IRDA, the controlled funds are invested as follows:-

- Not less than 50% is invested in Govt. Securities or other approved Investments.
- Not less than 15% is invested in infrastructural and social sector Investments.
- Not exceeding 35% in others to be governed by exposure prudential norms.

The analysis has been done in order to see the investment pattern of LIC as per IRDA regulations. Thus, controlled funds are divided into three prescribed categories of investment, i.e. 1) Central Govt. Securities 2) State Govt. & Other Govt. Guaranteed Marketable Securities and 3) Infrastructure and Social Sector Investment. The percentage of an amount of investments in each category has been calculated for the period 1996-97 to 2010-11.

Table 5.7 depicts the composition of investments of LIC for the different years.

Table 5.7 COMPOSITION OF INVESTMENTS AS PER IRDA GUIDELINES

Sl. No.	1	2		3. Infrastructure and Social Sector Investment						
Type of investment	**Central Govt. Securities**	**State Govt. & Other Govt. Guaranteed Marketable**	**SUB TOTAL (A)**	a) Housing	b) Power	c) Irrigation/ Water Supply & Sewerage	d) Road, Railways, Port & Bridges	e) Others (Including Telecom)	**SUB TOTAL (B)**	**TOTAL (A+B)**
31.3.97	54.84	13.08	**67.93**	16.18	12.07	2.98	0	0.85	**32.07**	100
31.3.98	56.68	12.94	**69.61**	15.18	11.65	2.80	0.03	0.73	**30.39**	100
31.3.99	57.33	13.19	**70.52**	14.54	11.62	2.56	0.03	0.73	**29.48**	100
31.3.00	59.83	12.01	**71.84**	13.51	11.37	2.54	0.07	0.66	**28.16**	100
31.3.01	60.88	12.78	**73.65**	12.89	10.02	2.61	0.23	0.59	**26.35**	100
31.3.02	63.41	12.38	**75.79**	11.02	9.95	2.31	0.39	0.55	**24.21**	100
31.3.03	64.30	13.58	**77.88**	9.36	9.66	2.07	0.37	0.66	**22.12**	100
31.3.04	65.18	14.60	**79.79**	8.10	8.28	2.78	0.5	0.56	**20.21**	100
31.3.05	65.72	16.88	**82.59**	5.45	7.38	2.9	0.27	1.41	**17.41**	100
31.3.06	66.12	16.44	**82.56**	5.53	8.3	2.31	0.2	1.10	**17.44**	100
31.3.07	66.38	15.66	**82.04**	5.47	9.23	1.83	0.37	1.07	**17.96**	100
31.3.08	63.50	19.02	**82.52**	5.18	8.76	1.42	0.25	1.87	**17.48**	100
31.3.09	60.11	20.88	**80.99**	6.45	9.07	1.14	1.36	0.99	**19.01**	100
31.3.10	55.45	21.74	**77.19**	6.19	11.94	0.81	1.24	2.63	**22.81**	100
31.3.11	54.45	23.52	**77.97**	5.78	10.70	0.57	1.31	3.67	**22.03**	100
CAGR	-2.47	3.99	**0.92**	-6.63	-0.8	-10.44	30.96	10.24	**-2.47**	

Source: compiled from LIC annual reports various issues, LIC diaries.

Chart 5.7 COMPOSITION OF INVESTMENTS AS PER IRDA GUIDELINES

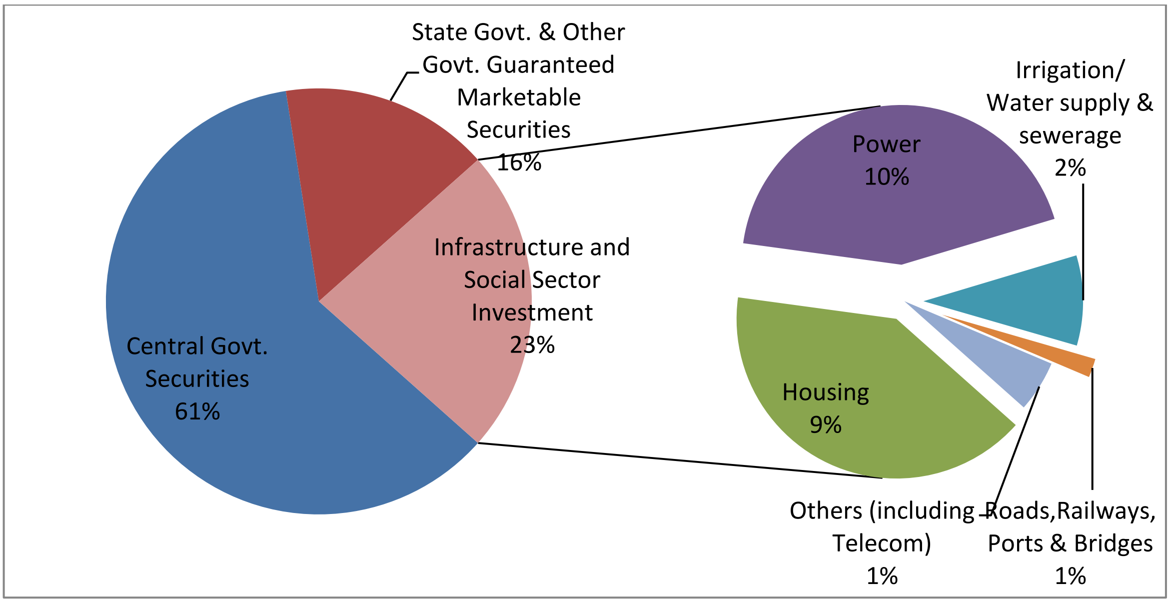

Table 5.7 reveals the investment pattern of controlled funds of LIC. As per the regulations approved by IRDA, there must be minimum 50% investment in government securities or other approved securities. It is clear from Table 5.7 that from 1996-97 to 2010-11, there has been more than 50% of investment of the Corporation in this category. The figures of various years show an increasing trend of investment up to 2004-05 and afterwards there is a slight decline in every year. During the study period the percentage share of investments in Central Government Securities and State Government & other government guaranteed marketable Securities lies between 67 % to 83 %. The highest percentage share of investment has been observed 82.59% in 2004-05 and the lowest percentage share of investment has been observed 67.93% in 1996-97. In 1996-97 the percentage share of investment in Government Securities or other approved securities was 67.93% which increased to 69.61%, 70.52%, 71.84%, 73.65%, 75.79%, 82.59% in 1997-98,1998-99,1999-00,2000-01,2001-02,2002-03,2003-04,2004-05 respectively showing an increasing trend. Then a slight decline came in a couple of years in 2005-06 and 2006-07 when percentage share

down to 82.56% and 82.04%. Again it increased to 82.52% in 2007-08. Then in the last three years of the study it declines to 80.99%, 77.19%, and 77.97% in 2008-09,2009-10 and 2010-11 respectively. The average percentage share of investment in government securities or other approved securities was **76.86%** during the study period of fifteen year. During the study period it has been observed that for six years the percentage share of investment in central government securities below the average percentage share of investment and for nine years the percentage share of investment in government securities or other approved securities was above the average percentage share of investment.

As per IRDA guidelines the approved investment in infrastructure & social sector should not less than 15% and others to be governed by Exposure norms not exceeding 35% of total investment. Looking at the figures of this category, it is concluded that LIC has failed on this front. For the entire study period the percentage share of investment in this category did satisfy the investment norms given by IRDA. During the study period the percentage share of investment in infrastructure and social sector lies between 17% and 33%. The highest percentage share of investment has been observed 32.07% in 1996-97 and the lowest percentage share of investment has been observed 17.41% in 2004-05. In 1996-97 the percentage share of investment in infrastructure and social sector was 32.07% which decreased to 30.39%, 29.48%, 28.16%, 26.35%, 24.21%, 22.12%, 20.21% and 17.41% in 1997-98, 1998-99, 1999-2000, 2001-02,2002-03,2003-04 and 2004-05 respectively. Then it increased to 17.44% in 2005-06 and 17.96% in 2006-07.Afterwards there is a slight decline to 17.48% in 2007-08 then increased for a couple of years to 19.01% and 22.81% in 2008-09 and 2009-10 respectively. In the last year of the study period there is decline to 22.03% i.e., in 2010-11. The average percentage share of investment in infrastructure and social sector was 23.14% during the study period. During the study period of fifteen years it has been observed that for nine years the percentage share of investment in infrastructure and social sector was below the average percentage share of investment and for six years the percentage share of investment in infrastructure and social sector was above the average percentage share of investment.

INVESTMENTS OF LIC IN NORTH EASTERN REGION

One of the principal aims of our planning is to correct regional imbalances in our economy and to bring about a balanced growth of all regions. This is necessary to achieve economic, social and political stability. We have to examine here the role that the LIC plays in fulfillment of this objective. The Life Insurance Corporation of India is a business organization. It should adopt and it has adopted the policy of diversification in order to ensure security and steady returns for its investments. It can invest in backward regions only when it finds that such investments are profitable from the business point of view. Between regions offering equal investment opportunities and satisfying all its canons of investment it may be expected to invest in backward regions. Because of its legal restraints and even otherwise, it is not in a position to pioneer new ventures and new industries and hence its contribution to remove existing regional imbalances is extremely limited. That will be hardly consistent with its primary duty to the policyholders in making sound investments of the life fund. Moreover, it is too much to expect from the corporation to assume the responsibility of the Central and State Governments which alone are competent to take effective steps to correct regional imbalances in the economy.[24]

[24] Bajpai, O.P., Life insurance finance in india, op. cit.,p.253.

Moreover, geographic diversification of investment depends upon the industrial and economic development of the States and regions and since it is uneven, the opportunities for investment therein are correspondingly unequal. So far as stock-exchange securities are concerned they are purchased from all the exchanges in the country subject to the availability of suitable scripts, but that does not serve the purpose beyond which the Corporation cannot go. In this context, the former Finance minister's.[25] Observations regarding studies diversification are quite significant. He said: "it (LIC) will take no parochial view. Its funds are drawn from all over India and they will as far as practicable considerations allow, be invested for the good of the entire country. Thus there will be a studied diversification of its investible funds which is an essential requirement of any insurer, particularly the sole insurer of a country". Attention has been drawn by the Reserve Bank of India [26] to the limited role the country's financial institutions can play in correcting regional economic imbalances and removing backwardness. Financial institutions can facilitate and stimulate development but they cannot initiate it. They can only finance viable and self-contained projects. In each area the programme of development has to be based on its potentialities and possibilities. It is taken as granted that development means the setting up of large scale industries. The LIC helps State Electricity Boards but even there the magnitude of the resources needed for power programme is so large for financial institutions to be in a position to make anything but a marginal contribution.

The North Eastern Region, a fascinating part of our vast country, needs to be developed and that too rapidly is accepted by one and all. However, to place the matter in a proper perspective, let us look at a few

[25] Parliamentary Debates, 1958.
[26] Reserve Bank of India – Note to the Committee of National Development Council, September 1986.

statistics. The north east comprises nearly 7.9 percent of the total land mass of India but has merely 4 per cent of the total population. However, the net domestic product of the north eastern states constituted a bare 2 percent of the country's net domestic product, thus the wealth generated per capital in our region is far less than the Indian average.[27] Unless an accelerated growth of the region is ensured in all spheres over the next few years, North East will continue to languish behind other parts of the country. Considering that the per capita income of India itself is far less than that of many other countries, the task of developing North East becomes at once urgent and important. The topic is indeed vast and all comprehensive. When we talk about the development of a Region, we have in view at least three broad facets and they are: infrastructure, agriculture, and industries.

For financing industrial development of the Region, three groups should get deeply involved and they are:

- Governments of State and Centre;
- Industrialists and Entrepreneurs; and
- Banks and Financial Institutions.

All these agencies/ groups should play a mutually supportive and complementary role. Each one of them is important in its own respect but, unless all the three moves jointly in unison, development, even if it takes place, can at best be lopsided. Fiscal space for making investments in physical and social infrastructure depends on the generation of revenue and the committed expenditure for administration, interest payments and calamity relief. A Significant proportion of the expenditure on social services falls within the revenue account and so also the expenditure on maintenance of physical infrastructure. Capital expenditure on physical infrastructure depends on the surplus generated in the revenue account and

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[27] nedfidatabank

the volume of borrowing. The latter comprises of market borrowing, which is determined by the Central Government (in consultation with the Reserve Bank of India), the share of small savings collections and Central Government loans to the states. The practice of Central Government directly lending to the states has been discontinued since 2005-06. In addition to these, the State Government borrows indirectly through special purpose vehicles (public enterprises) from the Housing and Urban Development Corporation (HUDCO), Life Insurance Corporation (LIC), NABARD and other similar institutions. In the case of the North Eastern states, each Central Government Department is required to earmark 10 per cent of its plan budget for the region and the unspent balance of it, if any, is credited to the non-lapsable fund. This fund is used for infrastructure development in the North East States through the Ministry of DoNER. It is supplemented by a separate budgetary provision for NEC for development projects/ schemes in NER. In addition, there is direct spending by the Central Government departments including those of the Border Roads Organization.

To analysis the investment LICI and its impact in North Eastern Region by using the following parameter:

- Loan sanction by LICI to North Eastern Region
- State-wise Assistance Disbursed to Corporate Sector by LIC of India
- State-wise Assistance Sanctioned to Corporate Sector by LIC of India

The data for loans sanction by LICI to northeastern states for the year 2010-11 is not available so analysis is done for 1996-97 to 2009-10. Table 5.8 and Chart 5.8 give the detailed information regarding the loan sanction by LICI to North Eastern Region for various development activities is given below.

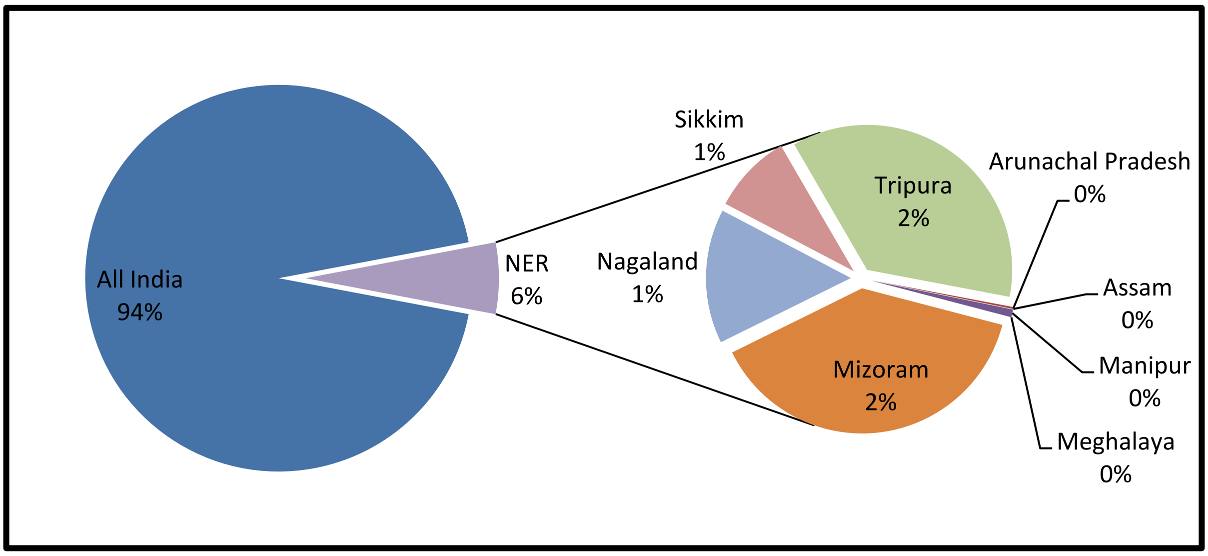
Table 5.8 LOANS SANCTION BY LICI TO NORTH EASTERN REGION

₹ in lakh

States	Arunachal Pradesh	Assam	Man ipur	Megha laya	Mizora m	Nagalan d	Sikki m	Tripu ra	Total: N.E. Region	Total: All India
1996-97	0	0	280	0	313	1000	0	990	2583	23020
1997-98	0	39	280	0	860	500	0	1000	2679	34475
1998-99	0	13	349	0	2598	1400	0	2120	6480	60847
1999-00	0	0	0	0	4098	1600	0	4544	10242	100495
2000-01	7	0	0	0	3811	500	0	6016	10334	126214
2001-02	7	0	0	0	4385	750	1606	7467	14215	105933
2002-03	0	0	0	0	4712	1224	964	5991	12891	180642
2003-04	0	0	0	0	4609	1500	964	7977	15050	277239
2004-05	0	0	0	0		900	964	2183	4047	386698
2005-06	95	-39	0	0	4396	2477	964	0	7893	129389
2006-07	113	0	0	0	4918	3040	964	0	9035	76126
2007-08	0	0	0	0	1991	895	964	0	3850	58136
2008-09	0	0	0	0	2000	0	1008	0	3008	57008
2009-10	0	0	0	0	2000	0	1008	0	3008	47008
CAGR									-1.60%	3.71%

Source: Handbook of Statistics on State Government Finances (www.rbi.org.in)

CHART 5.8 LOANS SANCTION BY LICI TO NORTH EASTERN REGION



It can be seen from Table 5.8 that the total amount of loans given to NER showed an increasing trend from 1996-97 to 2001-02. The amount of loans advanced was ₹ 2583 lakh in 1996-97 which reached to ₹ 14215 lakh in 2001-02. After the entry of private players in the insurance sector, the loan amount started decreasing. But in 2002, IRDA issued new regulations for investment which lead to a huge increase in the amount of loans advanced to NER. Thus, in 2003-04, the amount of loans was ₹ 15050 lakh which is the highest amount of loan sanction to NER during the study period. After that there was a huge decline in the amount of loans to ₹ 4047 lakh in 2004-05 with negative growth rate of -73.11% over the previous year. In the next couple of years there was increased in the amount of loans in the region of ₹ 7893 in 2005-06 and ₹ 9035 lakh in 2006-07. During the last 3 years there huge decline in the amount of loans to ₹ 3850 lakh in 2007-08, ₹ 3008 lakh in 2008-09 & 2009-10. The compound annual growth rate of the total amount of loans advanced for the entire period showing a negative growth rate of -1.60% whereas at all India basis the compound annual growth rate was 3.71%. On average basis the percentage share of the total amount of loan sanction by LICI to the region is only 6%. Within NER share of Mizoram & Tripura share is about 2% each , the percentage share of Nagaland & Sikkim is about 1% each and the remaining states of the region share is nil.

On the basis of above analysis, it is concluded that there is an increase in the total amount of loans advanced to NER upto 2003-04 but after that there is a huge decline in the amount of loans advanced to NER which is a matter of concern. While in the advanced states, getting loan for projects with reasonable feasibility outlook is not a problem and venture capital funds have mushroomed, this is not true in NER. If term loan is difficult then working capital loan is almost impossible to get. LICI pointed to low recovery rate as the main obstacle.

Assistance sanctioned and disbursed by LICI to the northeastern region is shown in the table 5.9(i) & (ii). Analysis was done for the year 1998-99 to 2004-05 as information was not available.

Table 5.9(i) Assistance Sanctioned to Corporate Sector by LIC to NER

₹ in crore

States/UTs	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	NER	**India**
1998-99	20	0	0	0	0	0	0	0	20	**4829.6**
1999-00	0	78	0	0	0	0	0	0	78	**6810.5**
2000-01	0	0	0	0	0	0	0	0	0	**10862.3**
2001-02	0	0	0	0	0	0	0	0	0	**6741.5**
2002-03	0	0	0	0	0	0	0	0	0	**4341.5**
2003-04	0	0	0	0	0	0	50	0	50	**27748**
2004-05	2	59.3	60	2	0	0	0	1	124.3	**17373.2**
Average	3.14	19.61	8.57	0.29	0.00	0.00	7.14	0.14	38.90	11243.80

Table 5.9(ii) Assistance Disbursed to Corporate Sector by LIC to NER

₹ in crore

States/UTs	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	NER	**India**
1998-99	5.8	0	0	0	0	0	0	0	5.8	**4825**
1999-00	0	0.4	0	0	0	0	0	0	0.4	**5611.4**
2000-01	0	0.4	0	0	0	0	0	0	0.4	**7090**
2001-02	0	0	50	0	0	0	0	205	255	**8914.2**
2002-03	0	0	0	0	0	0	0	0	0	**6205.8**
2003-04	0	0	0	20	0	0	0	0	20	**15781.6**
2004-05	0	32	2	1	0.2	0	8	5.7	48.9	**15617.2**
Average	0.83	4.69	7.43	3.00	0.03	0.00	1.14	30.10	47.21	9149.31

Source: indiastat.com
Note : LIC's short-term loans/unsecured short-term deposits are excluded.

Chart 5.9(i) Assistance Sanctioned to Corporate Sector by LIC to NER

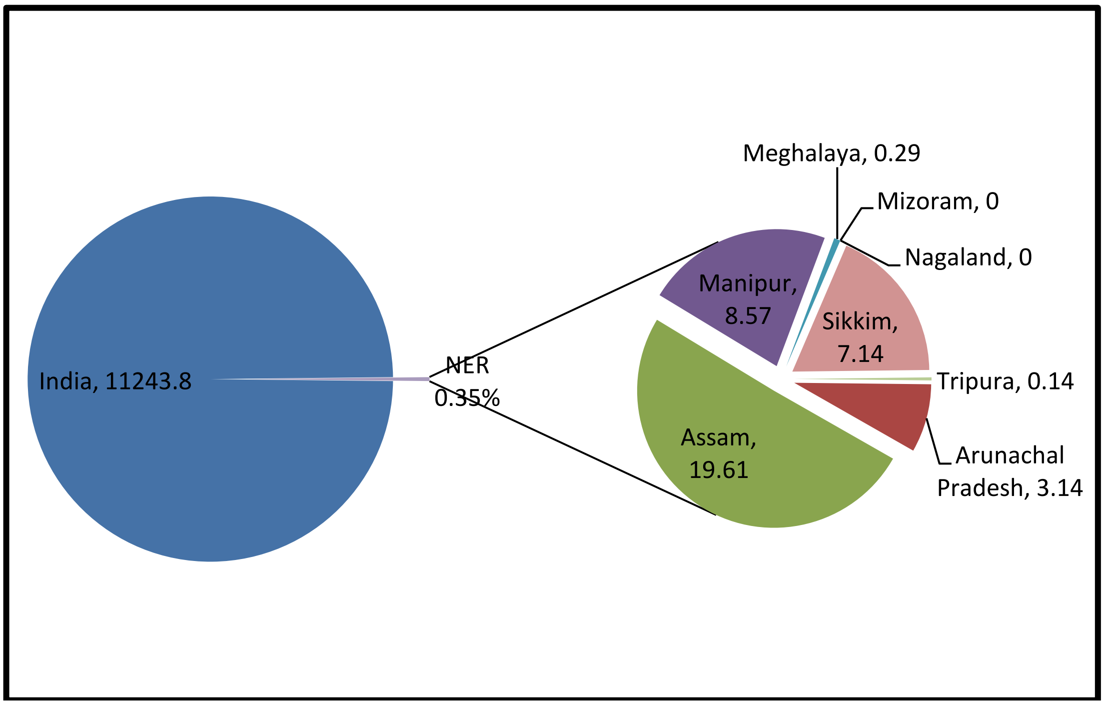
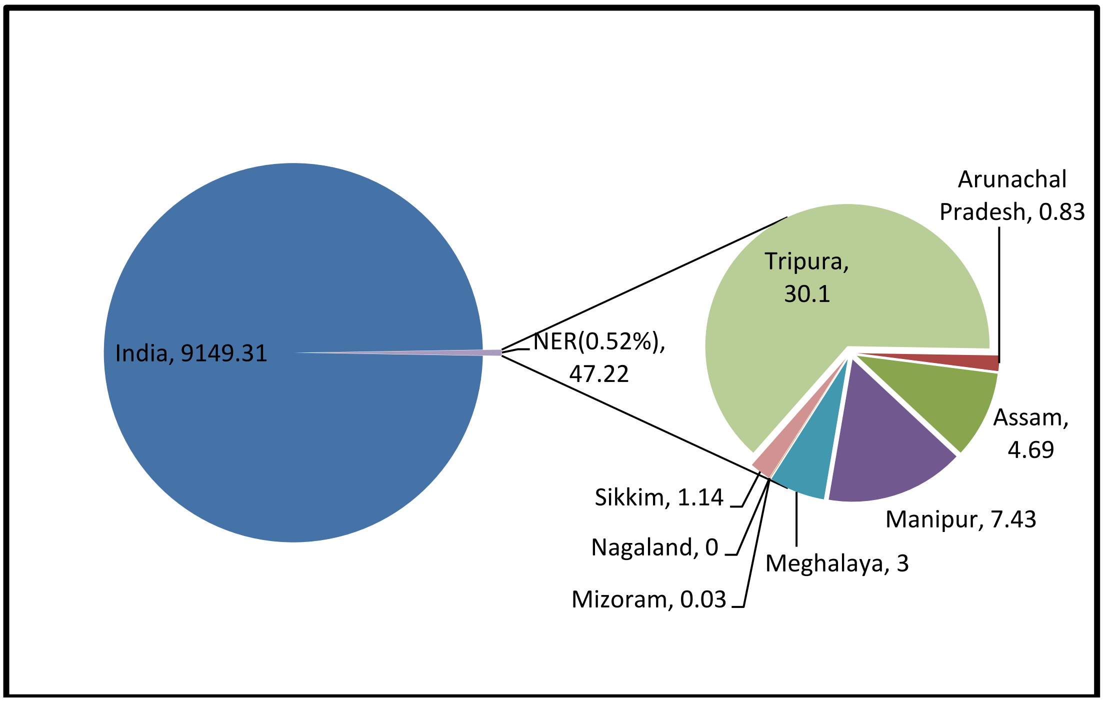


Chart 5.9(ii) Assistance Disbursed to Corporate Sector by LIC to NER



It can be seen from Table 5.9 (i) & (ii) and Chart 5.9 (i) & (ii) that the assistance sanctioned and disbursed by LICI to corporate secotr to NER . Asstistance sanctioned by LICI to showed an increasing trend from 1998-

99 to 1999-00 for two years with ₹ 20 crores and 78 crores respectively to the corporate sector. In 1998-99 only LICI sanctioned loans to Arunachal Pradesh with ₹ 20 crores and disbursed only ₹ 5.8 crores and rest of the northeastern region the corporation neither sanctioned nor disbursed any loans to the corporate sector. In 1999-00 the corporation only sanctioned loans to Assam with ₹ 78 crores and disbursed only ₹ 0.4 crores in the years 1999-00 and ₹ 0.4 in the year 2000-01. During the years 2000-01 to 2002-03 LICI have not sanctioned any loans to the corporate sector in the region. In the years 2001-02 the LICI disbursed ₹ 50 crores to Manipur and ₹ 205 crores to Tripura. In the year 2002-03 the corporation have not disbursed any loans to the regions. In the year 2003-04 assistance sanctioned by the corporation was ₹50 to Sikkim only in the regions and disbursed ₹20 crores to Meghalaya. In the years 2004-05 the corporation sanctioned ₹ 2 crores to Arunachal Pradesh, ₹ 59.3 crores to Assam, ₹ 60 crores to Manipur, ₹ crores to Meghalaya, ₹ 1 crores to Tripura with a total sanctioned amounted to ₹ 124.3 crores to NER. In the years 2004-05 the corporation disbursed ₹ 32 crores to Assam, ₹ 2 crores to Manipur, ₹ 1 crores to Meghalaya, ₹ 0.2 crores to Mizoram, ₹ 8 crores to Sikkim and ₹ 5.7 crores to Tripura with a total assistance disbursed to corporate sector in the region was ₹ 47.21 crores. During the seven years of study the average assistance sanctioned to corporate sector in the region was ₹ 38.90 crores. When we compare to all india level on average the NER share is about 0.35% which is very negligiable amount. Within the NER on average basis Assam share the highest with 50.42% followed by Manipur share with 22.03%, Sikkim share with 18.36%, Arunachal Pradesh share with 8.08%, Meghalaya share with 0.73% and Tripura share with only 0.35%. To Mizoram and Nagaland the corporation have not sanctioned any loan to the corporate sector. As far as Assistance disbursed to corporate sector by LICI during the seven years the

NER received only ₹ 47.21 crores on average basis. When compared to all India level on average the NER share is about 0.52% which is very much negligiable amount. Within the NER on average basis Tripura share the highest with 30.10% followed by Manipur with 4.69%, Assam share with 4.69%, Meghalaya share with 3%, Sikkim share with 1.14%, Arunachal Pradesh share with 0.83% and Miroram share with 0.03%. The corporation have not disbursed any amount to Nagaland. Statewise break-up of assistance provided by financial institutions reveals considerable concentration among few developed and large states despite some reduction during eighties. North-Eastern states have been almost completely neglected by all financial institutions.

On the basis of above analysis, it is concluded that the performance of the corporation has been satisfactory but there is need to invest more controlled funds in infrastructure and social sector as it leads to the growth of economy and generation of employment opportunities. LICI should also increase its exposure in investment in the corporate sector as it is less than the prescribed norms so that it can get better returns. As far as NER is concerned the corporations have been almost completely neglected. The assistance provided by LICI reveals considerable concentration among few developed and large states despite some reduction.

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CHAPTER: VI

Growth and performance of LICI in NER

(A comparative study with all India level)

6.1 Introduction

6.2 Growth and Performance of Evaluation of LICI

A. Individual Insurance

B. Group Insurance

C. Analysis of Income

D. Productivity of LIC

E. Performance of LICI in North Eastern Region-(a Comparative study with all India level)

CHAPTER: VI

Growth is the process of improving some measure of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs.[28] The word "performance" refers to the process or manner of functioning or operating. It refers to the act of performing or doing something successfully using knowledge as distinguished from merely possessing it. Any recognized accomplishment is termed as a Performance.[29] Performance has to be evaluated in order to reach the final targets and goals. In order to evaluate the performance, definite goal and objectives have to set up first. Performance evaluation is a must in order to find out the loopholes in the functioning and working of any activity. It also widens the scope of improvement. Thus performance evaluation is a measure of assignment based on authentic tasks such as activities, exercises or problems. Performance evaluation refers to measuring performance against expectations. In the era of competition, performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth, expansion and diversification.

6.1 GROWTH AND PERFORMANCE EVALUATION OF LICI

The primary objective of undertaking the study was to evaluate the growth & performance of Life Insurance Corporation of India in North Eastern Region during a period of fifteen years from 1996-97 to 2010-11. For almost four and half decades LICI has been the sole player with a

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28http://www.businessdictionary.com/definition/businessgrowth.html
[29] www.wordreference.com

virtual monopoly in the life insurance sector in India. Since 2000, many private players entered into the insurance industry posing a tough competition to LICI. The corporation has been re-organizing itself in order to perform better than the new players. In order to keep its performance consistent, LIC has been formulating new strategies and plans from time to time. No doubt experience generally improves performance and LIC has experience of almost fifty five years.

In these fifty five years, LIC has positioned itself, center-stage in the financial landscape of the individual. The variety of instruments available to persons through LIC is very broad and it took the corporation some years to develop this range of products. LIC has built a local flavor everywhere in India. This is so notwithstanding its inability to provide specialized local products. It offers the same products from Kashmir to Kanyakumari and Kuch to Kohima.

As many new players have joined the insurance industry and have started their business, LIC must analyze its performance in order to face the competition. It will be performance and performance alone which will count. Results will judge the fate of the corporation and whether Vision and Mission statements are getting translated into action from top to bottom will be the deciding issue.

In the study, compound annual growth rate has been calculated by using an exponential trend function of time series analysis in the form of

$$\boldsymbol{y = e^{bt}}$$

Where, Y= dependent, e=base , a= intercept, b=growth rate t= time (independent),

The chi-square test is an important test amongst the several tests of significance developed by statisticians. Chi-square (X^2) is an important nonparametric test and as such no rigid assumptions are necessary in respect of the type of population. We require only the degree of freedom (d.f) for using this test. To test the significance of association between two attributes we proceed with the null hypothesis that the two attributes are independent .On this basis we first calculate the expected frequencies by using least square method of time series to form the equation of the straight line

$$\mathbf{Yc=a+bX}$$

Where Yc is designated the trend values to distinguish them from the actual Y values, *a* is the Y intercept when X=0; *b* represents the slope of the trend line or the amount of change in the Y variable in time series analysis represents time. In order to determine the values of the constants *a* and *b* the following two normal equations are to be solved:

$$\sum \mathbf{Y} = \mathbf{Na} + \mathbf{b}\sum \mathbf{X}$$

$$\sum \mathbf{XY} = \mathbf{a}\sum \mathbf{X} + \mathbf{b}\sum \mathbf{X}^2$$

Where N represents a number of years

And then work out the value of X^2. If the calculated value of X^2 is less than the table value at a 5% level of significance of giving degrees of freedom, we conclude that null hypothesis stands which means that the two attributes are independent or not associated .But if the calculated value of X^2 is greater than its table value, our inference then would be that the null hypothesis is does not hold good which means the two attributes are associated and the association is not because of some chance factor but it exists in reality. X^2 is then calculated as follows:

$$\mathbf{X^2} = \sum \frac{(fo|fe)^2}{fe}$$

Where fo = Actual growth, fe= expected growth

The present Chapter is an attempt to analyze the growth and performance of Life Insurance Corporation of India as well as in north eastern region. The analysis has been done on the basis of Quantum of Business as well as Income of the Corporation in the general and the northeastern region in particular. The analysis has been made by using the following performance measures.

A. Individual Insurance

I. New Business in India

- Annual Premium
- Number of Policies
- Sum Assured

II. New Rural Business

- Number of Policies
- Sum Assured
- Ratio of Rural Business for New Business in India in terms of Number of Policies and Sum Assured

III. Business in Force in India

- Premium Income
- Number of Policies
- Sum Assured

B. Group Insurance

- New Business Progress under Group Superannuation Schemes
- Business in Force under Group Insurance and Superannuation Schemes

C. Analysis of Income

- **Composition of Income**
- **Utilization of income**
- **Analysis of Life Insurance Fund**

D. Productivity of LIC

- New business (sum assured) per branch
- New business (sum assured) per active agent
- Number of policies per branch

- Number of policies per active agent
- Premium income per branch
- Premium income per active agent

E. Performance of LICI in North Eastern Region

(a Comparative study with all India level)

1. **New Business (Individual)**

- Annual Premium
- No. of policies

2. **Group Insurance-**

- Distribution Channel Group Total Business

3. **Individual Agents of LICI**

A. INDIVIDUAL INSURANCE

I. New Business in India

LICI offers a basket of schemes to meet the various needs of an individual and his family. New Business is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of life insurance as well as the existing policy holders. New Business of Individual in India includes the performance of the corporation in terms of Number of Policies, Sum Assured and the Total Annual Premium during a particular year. The percentage of growth of Annual Premium, Number of Policies and Sum Assured year after year is one of the significant criteria for evaluating the performance of the corporation. Thus, the performance of the New Business in India has been analyzed for the years 1996-97 to 2010-11.

Percentage growth over previous year= $\frac{Current\ Years\ Value}{Previous\ Years\ Value}$ x 100-100

Analysis of Annual Premium

Table 6.1 New Business in India – Annual Premium

Year	Annual Premium (₹ in Crores)	% growth over previous year
1996-97	3345.39	
1997-98	3841.12	14.82
1998-99	4863.41	26.61
1999-00	6008.28	23.54
2000-01	8851.89	47.33
2001-02	16009.44	80.86
2002-03	12505.38	-21.89
2003-04	12540.82	0.28
2004-05	11224.19	-10.50
2005-06	15157.76	35.05
2006-07	11672.72	-22.99
2007-08	9871.89	-15.43
2008-09	16858.57	70.77
2009-10	20948.53	24.26
2010-11	23586.25	12.59
CAGR	11.67 %	

Source: Annual Reports of LIC & IRDA Various Issues

Chart 6.1 New Business in India – Annual Premium

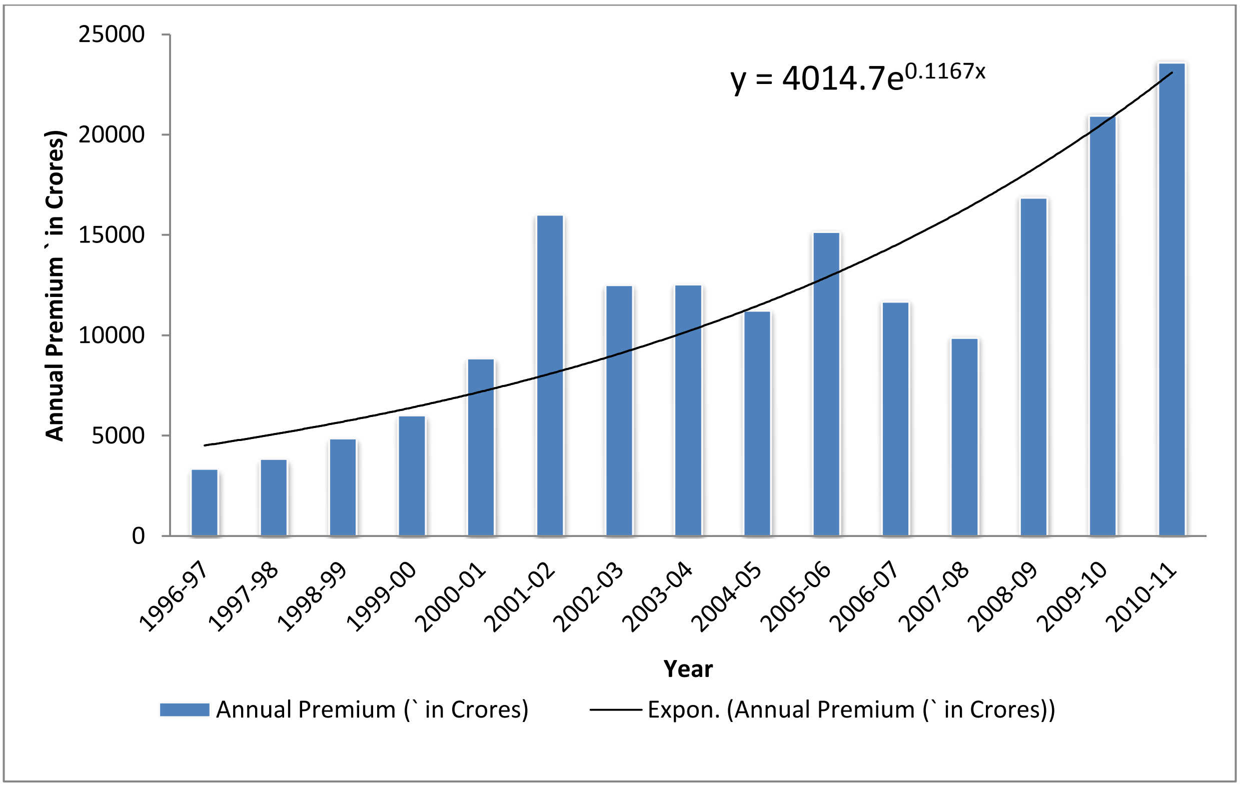


Table 6.1 and Chart 6.1 give the detailed picture of the Annual Premium Income. The premium income of the corporation has shown tremendous growth during the period of 1996-97 to 2001-02. In 1996-97 the annual premium was ₹ 3345.39crores which kept on increasing every year and reached to ₹ 16009.44crores in the year 2001-02. Then the growth rate falls during the period of 2002-03 to 2004-05 and the annual premium income came down to ₹ 11224.19crores in 2004-05, approximate 30% less income from the income of 2001-02 i.e. ₹ 16009.44crores. In 2005-06 again the premium income increased and it's gone up to ₹ 15157.76 crores which shows the almost 35% growth over the previous year's premium income. Again in 2006-07 the annual premium decreased to ₹ 11672.72 crores and further declines to ₹ 9871.89 crores in 2007-08. Thereafter the annual premium increased every till 2010-11 to ₹ 23586.25 crores. During the study period the highest premium income was ₹ 23586.25 in 2010-11 and the lowest premium income received in 1996-97 i.e. ₹ 3345.39crores. The annual compound growth rate during the study period was 11.67%. During the study period of fifteen years, it has been observed that for five years the growth rate of annual premium of new business in India (individual insurance) was below the annual compound growth rate and for eight years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x^2] = **832.21**

Table Value of Chi-Square [x^2] at 5% level {d. f= (n-1) =13} = 22.362

The equation of the straight line (Y) is YC= 2.280+ (-0.765) x

The calculated value of x^2 is much higher than the table value and hence the hypothesis does not hold good. We can conclude that there was a significant difference in the trends of growth of New Business in India (Individual Insurance) – Annual Premium during the period of study.

Analysis of Number of Policies

Table 6.2 New Business in India – Number of Policies

Year	No. Of Policies	% growth over previous year
1996-97	12268476	
1997-98	13311294	8.50
1998-99	14843687	11.51
1999-00	16976782	14.37
2000-01	19656663	15.79
2001-02	22491304	14.42
2002-03	24238416	7.77
2003-04	26456320	9.15
2004-05	21817967	-17.53
2005-06	29284800	34.22
2006-07	20910041	-28.60
2007-08	17961363	-14.10
2008-09	29322395	63.25
2009-10	30578367	4.28
2010-11	31445829	2.84
CAGR	5.65%	

Source: Annual Reports of LIC & IRDA Various Issues

Chart 6.2New Business in India – No. of Policies

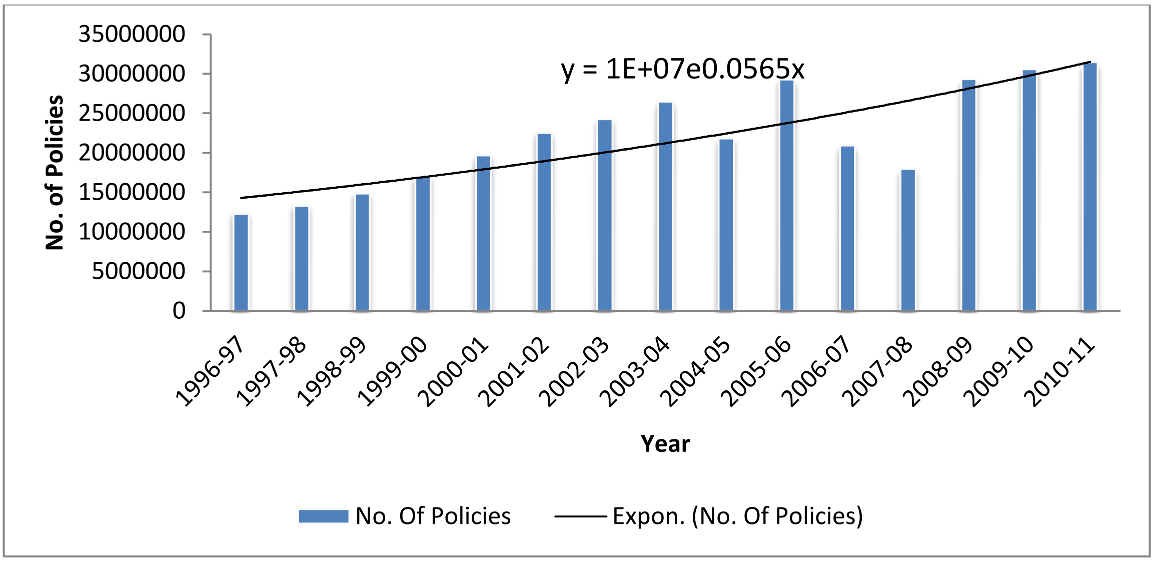


Table 6.2 and Chart 6.2 gives the detailed picture of the number of policies. There has been a steady increase in the number of policies from 1996-97 to 2003-04 i.e. from 1,22,68,476 policies to 2,65,56,320 policies. The growth rate of number of policies in 1997-98 was 8.50% and in 2000-01 the growth rate went up to 15.79%. The major hiccup occurred in 2002-03 when growth rate fell down to 7.77% from 14.42% in 2001-02. It

recovered in 2003- 04 with increase of growth rate of number of policies to 9.15%. Then again a setback came and in 2004-05 number of policies came down to 2,18,17,967 policies from 2,64,56,320 policies in 2003-04 which shows negative trend and fall in growth at the rate of -17.53%. After this again LICI recovered itself and the number of policies sold in 2005-06 was increased to 2, 92, 84,800 policies which showed a growth of 34.22%. Again the number of policies came down to 20910041 in 2006-07 further decline to 17961363 policies in 2007-08 with a negative growth rate of -28.60 % and -14.10 % . It recovers from 2008-09 which was a highest growth over the previous year's volume during the study period of 63.25%. Than shows an increased in the number of policies for the couple of years. During the study period the number of policies has gone up from 12268476 policies in 1996-97 to 31445829 policies in 2010-11 i.e. more than two and a half times during the period of 15 years. The annual compound growth rate during the study period 1996-97 to 2010-11 was 5.65%. During the study period of fifteen years, it has been observed that for five years the growth rate of number of policies of new business in India (individual insurance) was below the annual compound growth rate and for nine years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x^2] = **139.37**

Table Value of Chi-Square [x^2] at 5% level $\{$d. f= (n-1) =13$\}$ = 22.362

The equation of the straight line (Y) is YC= 8.99+ (-0.61) x

There was a significant difference in the trends of growth of New Business in India (Individual Insurance) – Number of Policies during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Analysis of Sum Assured

Table 6.3 Analysis of Sum Assured

Year	Sum Assured (₹ in Crores)	% growth over previous year
1996-97	56740.50	
1997-98	63617.69	12.12
1998-99	75316.28	18.39
1999-00	91214.25	21.11
2000-01	124771.62	36.79
2001-02	192572.27	54.34
2002-03	179512.27	-6.78
2003-04	198707.12	10.69
2004-05	179481.39	-9.68
2005-06	283763.74	58.10
2006-07	201621.74	-28.95
2007-08	173662.72	-13.87
2008-09	363135.70	109.10
2009-10	396701.12	9.24
2010-11	443531.71	11.81
CAGR	13.58 %	

Source: Annual Reports of LIC & IRDA various issues

Chart 6.3 New Business in India- Sum Assured

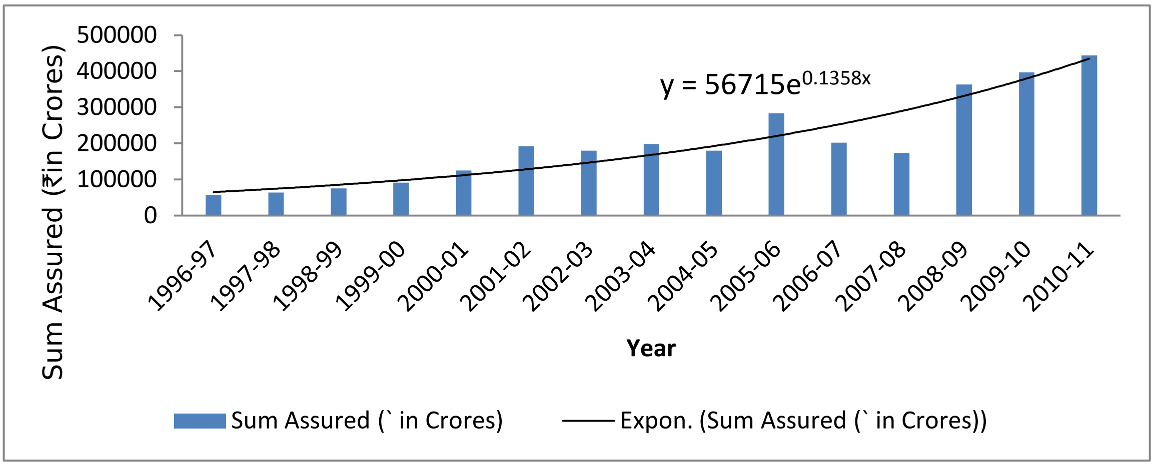


Table 6.3 and Chart 6.3 gives the detailed picture of the Sum Assured. In case of sum assured the performance of the corporation has been quite satisfactory for all the years of study except for four years i.e. 2002-03,2004-05,2006-07 and 2007-08 when there was a fall in the amount of sum assured. The sum assured has been rapidly growing from ₹ 56740.50 crores in 1996-97 to ₹ 192572.27crores in 2001-02. Then there was a negative growth in sum assured in the year 2002-03 i.e. -6.17%. Again there

was a growth of 10.69% in 2003-04 and sum assured gone up to ₹ 198707.12crores. Then there was a negative growth in sum assured in the year 2004-05 i.e. -9.58% and the sum assured fall down to ₹ 179481.39crores. The sum assured has quickly grown to ₹ 283763.74 crores with a growth rate of 58.10% in 2005-06 and then for the couple of years there was a negative growth rate of -28.95% and -13.87% in the year 2006-07 and 2007-08 with a sum assured ₹ 201621.74 crores and ₹ 173662.72 crores. In 2008-09 it is observed that the growth rate was highest during the study period of 109.10% with a sum assured of ₹ 363135.70 crores. During the last two years of the study i.e. 2009-10 and 2010-11 it shows the positive growth rate of 9.24% and 11.81% with a sum assured of ₹ 396701.12 and ₹ 443531.71. During the study period the sum assured has gone up from ₹ 56740.5crores in 1996-97 to ₹ 443531.71 crores in 2010-11 i.e. more that 7 times during the period of 15 years. The annual compound growth rate during the study period 1996-97 to 2010-11 was 13.58%. During the study period of fifteen years, it has been observed that for eight years the growth rate of sum assured of new business in India (individual insurance) was below the annual compound growth rate and for six years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = **874.09**

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 20.172+ (-0.4847) x

There was a significant difference in the trends of growth of New Business in India (Individual Insurance) – Sum Assured during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

II. NEW RURAL BUSINESS

One of the main objectives of the nationalization of LIC of India was that to spread the life insurance business in a rural area the purpose behind it is to provide the life coverage for more and more rural population. Rural New Business of LIC of India since 1996-97 to 2010-11 is shown below in the table 6.4 and Chart 6.4. In recent years, LIC has also acquired a significant presence in the rural sector. For instance, 1200 out of its 2048 branches are situated in rural areas[30]. The conditions as specified by IRDA regarding marketing in rural section are fulfilled by the LICI. As a result there has been steady growth of new business in the rural areas. The performance of new rural business has been analyzed in terms of number of policies and sum assured.

The new rural business is divided into two parts on the basis of the time period. Year 1996-97 to Year 1999-2000 forms the first part and Year 2000-01 to Year 2010-11 constitutes the second part of the rural business. Basically the reason for this division is the change in the definition of rural areas after the formation of IRDA. In 1999, because of privatization, IRDA came into force and changed the definition of rural area. This lead to a huge change in the figures related to a number of policies and sum assured of rural market after 1999-2000.

Analysis of Number of Policies

Table 6.4 and Graph 6.4 gives the detail of a number of policies and its growth rate for study period from 1996-97 to 2010-11.

[30] Dr. Sajid Ali, Riyaz Mohammad, Masharique Ahmed (2007)"Insurance in India" Regal Publications, New Delhi, p.p.58.

Table 6.4 New Rural Business - Number of Policies

Year	No. Of Policies (in Lakhs)	% growth over previous year
1996-97	60.33	
1997-98	68.40	13.38
1998-99	81.23	18.76
1999-00	97.04	19.46
2000-01	35.34	-63.58
2001-02	37.01	4.73
2002-03	45.23	22.21
2003-04	62.19	37.50
2004-05	55.03	-11.51
2005-06	74.67	35.69
2006-07	88.50	18.52
2007-08	90.43	2.18
2008-09	87.15	-3.63
2009-10	102.50	17.61
2010-11	121.25	18.29
CAGR	4.19%	

Source: Annual Reports of LICI & IRDA various issues.

Chart 6.4 New Rural Business - Number of Policies

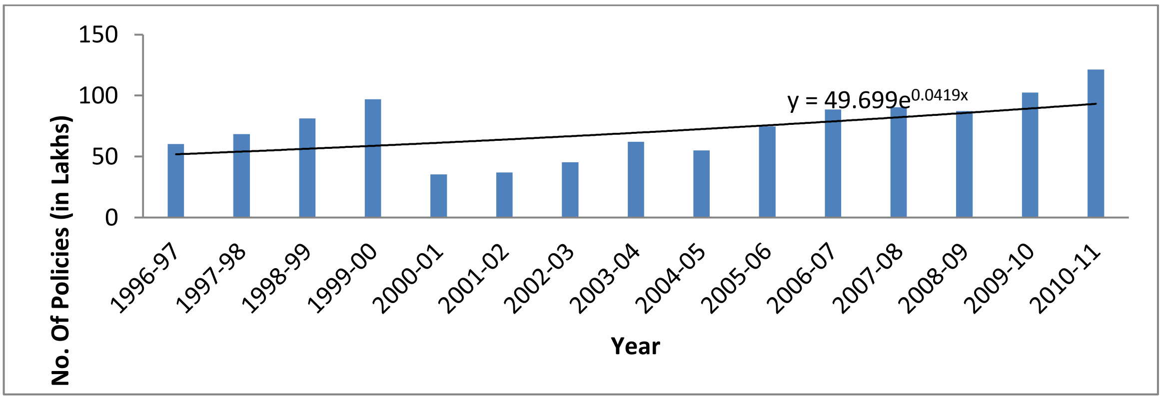


Table 6.4 and Chart 6.4 reveal that there has not been steady growth in the number of policies of rural market of the LICI. As the first part related to the period from 1996-97 to 1999-2000, the new business in terms of number of policies on the rural market for this period has quite well. It

has been increasing year after year with a healthy growth rate. In 1996-97 the numbers of policies were 60.33 lakhs and in 1999-2000 it increased to 97.04 lakhs by a 19.46% growth rate. In the second part, there was also increased in the number of policies except in the year 2004-05 and 2008-09. In 2000-01, numbers of policies were 35.34 lakhs and it increased to 121.25 lakhs in 2010-11 to 18.29% growth rate. In the second part of 2000-01 to 2010-11 there was a healthy growth in the number of policies i.e. more than double in 6 years. The annual compound growth rate during the study period of 1996-97 to 2005-06 was 2.15%. The annual compound growth rate of the study period was low due to the major setback of negative growth rate in 2000-01 with - 63.58%, due to changes in the definition of rural / social sectors. But the average growth rate of the first part of 4 years from 1996-97 to 1999-2000 was 17.20% and average growth rate of the second part of 11 years from 2000-01 to 2010-11 was 14.16 % growth rate. During the study period of fifteen years, it has been observed that for four years the growth rate of number of policies of new rural business was below the annual compound growth rate and for seven years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = 862.98

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 9.257+ (-0.068) x

There was a significant difference in the trends of growth of New Rural Business – Number of Policies during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Analysis of Sum Assured

Table 6.5 and Chart 6.5 gives the detail of the sum assured and its growth rate for study period from 1996-97 to 2010-11.

Table 6.5 New Rural Business - Sum Assured

Year	Sum Assured (₹ in Crores)	% growth over previous year
1996-97	25278.73	
1997-98	27550.69	8.99
1998-99	35372.94	28.39
1999-00	44168.19	24.86
2000-01	17955.88	-59.35
2001-02	25461.94	41.80
2002-03	23547.69	-7.52
2003-04	35651.99	51.40
2004-05	46037.01	29.13
2005-06	60971.85	32.44
2006-07	68497.21	12.34
2007-08	59694.44	-12.85
2008-09	73354.97	22.88
2009-10	78895.11	7.55
2010-11	108948.28	38.09
CAGR	9.94%	

Source: Annual Reports of LICI & IRDA various issues.

Chart 6.5 New Rural Business - Sum Assured

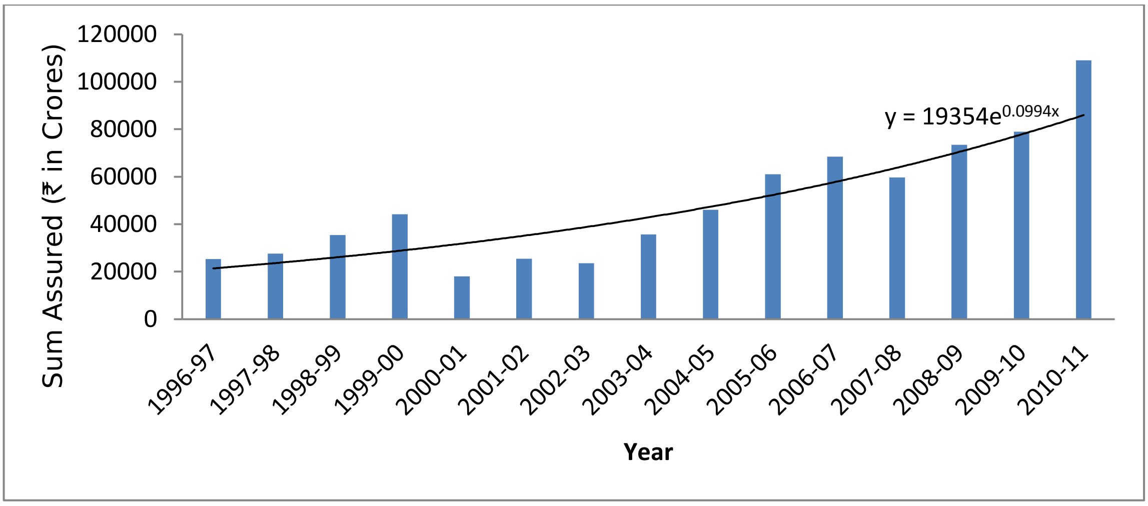


Table 6.5 and Chart 6.5 reveals that there has been steady growth in the sum assured of rural market of LIC in both the part i.e. first part and second part. In the first part of 1996-97 to 1999-2000; the new business in terms of sum assured of the rural market has done quite well. It has been increasing year after year with a healthy growth rate. In 1996-97 the sum assured were ₹ 25278.73 crores and in 1999-2000 it increased to ₹ 44168.19 crores with a 24.86% growth rate. Then there was a major setback came in 2000-01, due to the change in the definition of rural sector by IRDA. In this year, the sum assured showed a negative growth rate with -59.35%. In the second part again there was an increase in sum assured except in the year 2002-03. In 2000-01, sum assured was ₹ 17955.88 crores and it increased to ₹ 108948.28 crores in 2010-11 with growth rate 38.09%. In the year 2002-03, there was a negative growth rate of -7.52%. The annual compound growth rate during the study period of 1996-97 to 2010-11 was 9.94%. But the average growth rate of the first part of 4 years from 1996-97 to 1999-2000 was 20.75% and the average growth rate of the second part of 10 years from 2000-01 to 2010-11 was 21.53 % means the average growth rate of the second part was more than the first part. During the study period of fifteen years, it has been observed that for five years the growth rate of sum assured of new rural business was below the annual compound growth rate and for nine years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = **652.65**

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 15.582+ (-0.539) x

There was a significant difference in the trends of growth of New Rural Business – Sum Assured during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Ratio of New Rural Business to New Business in India (Individual Insurance)

Total new business includes the urban new business and rural new business during a particular year. The growth of new business in any year of an organization depends upon the growth of its individual markets. The performance of rural market of LICI can be judged with the analysis of its contribution to the total market i.e. New Business in India (Individual Insurance). How much contribution is made by the rural market to the overall performance of the corporation can be determined by calculating its ratio to the total number of policies as well as its ratio to the total sum assured. Thus, the percentage share of number of policies as well as the sum assured of the rural business has been calculated for the study period in order to evaluate the performance of the rural market.

Ratio of Rural Business to New Business in India (Individual Insurance) =

$$\frac{New\ Rural\ Business}{New\ Business\ in\ India\ (Individual\ Insurance)} \text{ x } 100$$

Table 6.6 and Chart 6.6 showing the ratio of number of policies and sum assured of new rural business to new business in India (individual insurance) for the study period from 1996-97 to 2010-11.

Table 6.6 Ratio of New Rural Business to New Business in India - Policies and Sum Assured

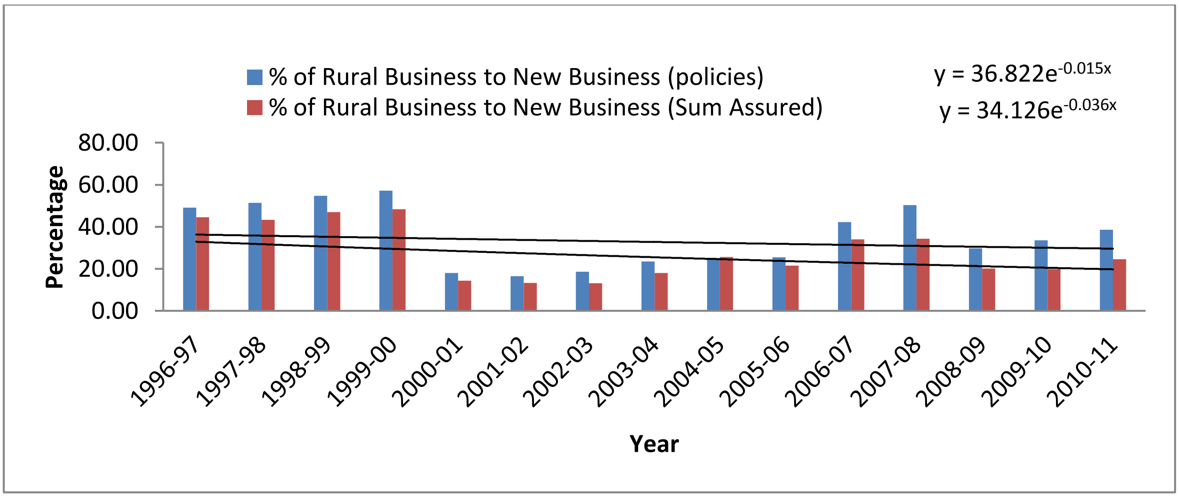
Year	% of Rural Business to New Business (policies)	% of Rural Business to New Business (Sum Assured)
1996-97	49.18	44.55
1997-98	51.39	43.31
1998-99	54.72	46.97
1999-00	57.16	48.42
CAGR	**5.14%**	**3.31%**

2000-01	17.98	14.39
2001-02	16.46	13.22
2002-03	18.64	13.12
2003-04	23.51	17.94
2004-05	25.22	25.65
2005-06	25.50	21.49
2006-07	42.32	33.97
2007-08	50.35	34.37
2008-09	29.72	20.20
2009-10	33.52	19.89
2010-11	38.56	24.56
CAGR	**9.18%**	**6.53%**

Source: Annual Reports of LIC & IRDA various issues

One of the main purposes of nationalization was to spread the life insurance business to rural areas where the population was less than one lakh. Table 6.6 and Chart 6.6 showing the ratio of new rural business to new business in India (individual insurance) in terms of number of policies and sum assured. For the analysis of the table again it has been divided into two parts i.e. from 1996-97 to 1999-2000, a period before the formation of IRDA and from 2000-01 to 2010-11, a period after the formation of IRDA. During the first part of the study period from 1996-97 to 1999-2000, the amount and the ratio (percentage) of rural business in absolute term is rising. In case of a number of policies, the ratio of policies was 49.18% in 1996-97 which increased to 57.16% in 1999-2000. This shows that LIC has been able to explore more than 50% business from rural areas as compared to urban areas. Similarly in case of sum assured, in 1996-97 the ratio was 44.55% which increased to 48.42% in 1999-2000. Thus, the contribution of the sum assured to the total sum assured has been quite noticeable and encouraging. So in the first part both the ratio i.e. number of policies and sum assured, showed remarkable progress in total business. In the second part of the study period from 2000-01 to 2010-11, the ratio of rural business to new business instead of going up was going down, which is very discouraging sign. But this decline is as per the new definition of rural/social sector as stated by the IRDA. In case of a number of policies, the ratio came down to 17.98% in 2000-01 from 57.16% in 1999-2000. Then it increased slowly but steadily and reached to 38.56 % in 2010-11. In case of sum assured, the ratio came down to 14.39% in 2000-01 from 48.42% in 1999-2000, then it increased slowly and reached to 24.56 % in 2010-11. As compared to the ratio of the sum assured, the ratio of the number of policies made better progress in both the part of the study. The compound annual growth rate was 5.14% in the first part and 9.18% in the second part in a number of policies. The compound annual growth rate was 3.31% first part and 6.53% in the second part in sum assured. During the study period, it has been observed that the ratio of new rural business to new business in India (individual insurance) in terms of number of policies & sum assured was twice than the first part of the study period which showed a remarkable progress in total business.

Chart 6.6 Ratio of New Rural Business to New Business in India - Policies and Sum Assured



Calculate Value of Chi-Square [x2] = **86.55**

Table Value of Chi-Square [x2] at 5% level (d. f=14) = 23.685

The equation of the straight line (Y) is YC= 32.336+ (-0.843) x

There was a significant difference in the ratio of New Rural Business to New Business in India (Individual Insurance) – Policies during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Calculate Value of Chi-Square [x2] = **72.06**

Table Value of Chi-Square [x2] at 5% level (d. f=14) = 23.685

The equation of the straight line (Y) is YC= 25.167+ (-1.36675) x

There was a significant difference in the ratio of New Rural Business to New Business in India (Individual Insurance) – Sum Assures during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

III. Business in Force in India

India has the highest number of life insurance policies in force in the world and a total investible fund with the LICI is almost eight percent of GDP[31]. The quantum of business in force indicates the total premium income, sum assured and the number of policies. It is the major indicator of the growth of the corporation. It reveals the amount of business that the corporation has been able to conduct in the country. In order to evaluate the performance of LICI, the total business under individual insurance in terms of premium income, number of policies and sum assured are considered for

[31] Jain's, Rajiv., Insurance law & practice, vidhi publishing (p) ltd,p.p vii.

the study period and also its compound annual growth rates are calculated for the same period.

Analysis of Premium Income

Table 6.7 reveals that the premium income of life insurance business in force in India (Individual Insurance) has been continuously increasing from ₹ 14,499.5 crores in 1996-97 to ₹ 34,117.92 crores in 2000-01 and further ₹ 1,19,611.46 crores in 2010-11. Thus the premium income of business in force in India (individual insurance) has been increased more than 8 times during the period of last 15 years. The table and chart depict that the premium income of business in force in India has increased every year except in 2007-08 but the rate of growth was not constant. During the study period, the highest growth rate was observed in 2000-01 to 39.03% whereas the lowest growth rate was observed in 2007-08 with negative growth rate of -2.75%. The annual compound growth rate during the study period of 1996-97 to 2010-11 on premium income of individual business in force in India was 15%. During the study period of fifteen years, it has been observed that for seven years the growth rate of premium income of business in force in India (individual insurance) was below the annual compound growth rate and for seven years it was above the annual compound growth rate.

Table 6.7 Business in Force in India – Premium Income

Year	Annual Premium (₹ in Crores)	% growth over previous year
1996-97	14499.50	
1997-98	17065.64	17.70
1998-99	20234.05	18.57
1999-00	24540.37	21.28
2000-01	34117.92	39.03
2001-02	42336.84	24.09
2002-03	48148.98	13.73
2003-04	62333.71	29.46

2004-05	68700.99	10.21
2005-06	77303.43	12.52
2006-07	81382.12	5.28
2007-08	79142.55	-2.75
2008-09	90747.74	14.66
2009-10	104631.17	15.30
2010-11	119611.46	14.32
CAGR	15%	

Source: Annual Reports of LIC & IRDA various issues

Calculate Value of Chi-Square [x2] = **62.86**

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 16.67+ (-1.96) x

There was a significant difference in the trends of growth of Business in force in India (Individual Insurance) – Premium Income during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

Analysis of Number of Policies

Table 6.8 Business in force in India-Number of Policies

Year	No. Of Policies (in Lakhs)	% growth over previous year
1996-97	776.66	
1997-98	849.15	9.33
1998-99	916.37	7.92
1999-00	1012.99	10.54
2000-01	1130.24	11.57
2001-02	1257.89	11.29
2002-03	1387.88	10.33
2003-04	1539.21	10.90
2004-05	1629.51	5.87
2005-06	1795.64	10.20
2006-07	1894.17	5.49
2007-08	1924.28	1.59
2008-09	2101.54	9.21
2009-10	2260.57	7.57
2010-11	2403.81	6.34
CAGR	8.19 %	

Source: Annual Reports of LIC & IRDA various issues

Table 6.8 reveals that the number of policies of life insurance business in force in India (individual insurance) has been continuously increasing from 776.66 lakhs policies in 1996-97, 1130.24 lakhs policies in 2001-02, 1894.17 lakhs in 2006-07 and further 2403.81 lakhs policies in 2010-11. Thus, the number of policies of business in force in India (individual insurance) has been increased by more than 3 times during the period of last 15 years. The table and chart depict that the number of policies of business in force in India has increased every year but the rate of growth was very low and even not constant also. The growth rate of number of policies in 1997-98 was 9.33% which increased to 11.57% in 2000-01. Then it kept falling and in 2001-02 & 2002-03, the growth rate came down to 11.29% & 10.33% respectively. In 2003-04 it increased slightly and went up to 10.90%. In 2004-05 & 2005-06 the growth rate again fall down to 5.87% & 10.20% respectively. Again, it falls in the growth rate for the couple of years to 5.49% and 1.59% in 2006-07 & 2007-08. The growth rate then further increased to 9.21% in 2008-09 and again slight fall to 7.57% & 6.34% in 2009-10 & 2010-11 respectively. During the study period, the highest growth rate was observed in 2000-01 to 11.57% whereas the lowest growth rate was observed in 2006-07 to 5.87%. The annual compound growth rate during the study period of 1996-97 to 2010-11 of the number of policies of individual business in force in India was 8.19%. During the study period of fifteen years, it has been observed that for six years the growth rate of number of policies of business in force in India (individual insurance) was below the annual compound growth rate and for eight years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = **23.16**

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 8.44+ (-0.876) x

There was no significant difference in the trends of growth of Business in force in India (Individual Insurance) – Number of Policies during the period of study because the calculated value of chi square [x2] was higher than table value so, alternative hypothesis has been accepted and null hypothesis have been rejected.

Analysis of Sum Assured

Table 6.9 Business in force in India-Sum Assured

Year	Sum Assured and Bonuses (₹ in Crores)	% growth over previous year
1996-97	343018	
1997-98	398959	16.31
1998-99	457435	14.66
1999-00	534589	16.87
2000-01	643241	20.32
2001-02	809170	25.80
2002-03	954501	17.96
2003-04	925033	-3.09
2004-05	1029839	11.33
2005-06	1280159	24.31
2006-07	1397468	9.16
2007-08	1485380	6.29
2008-09	1784880	20.16
2009-10	2061034	15.47
2010-11	2331413	13.12
CAGR	13.39 %	

Source: Annual Reports of LIC & IRDA various issues

Table 6.9 reveals that the sum assured of life insurance business in force in India (individual insurance) has been continuously increasing except in the year 2003-04. The sum assured was ₹ 3,43,018 crores in 1996-97, ₹ 6,43,241 crores in 2000-01, ₹ 14,85,380 crores in 2007-08 and further ₹ 23,31,413 crores in 2010-11. Thus the sum assured of business in force in India (individual insurance) has been increased by more than 6.5 times during the period of last 15 years. The table and figure depict that the sum assured of business in force in India has increased every year except in the year 2003-04 with negative growth rate - 3.09%, but the rate of growth was not constant. The growth rate of the sum assured in 1997-98 was 16.31% which increased to 25.80% in 2001-02. Then it kept falling and in 2002-03 & 2003-04 , the growth rate came down to 17.96% & -3.09% respectively. In the year 2004-05 & 2005-06 growth rates again boost up and it increased to 11.33% & 24.31% respectively. Again for the couple of years the growth rate further decline to 9.16% and 6.29% in 2006-07 & 2007-08 respectively. Further there was increased to 20.16% in 2008-09 and thereafter again further decline to 15.47% and 13.12% in 2009-10 & 2010-11 respectively. During the study period, the highest growth rate was observed in 2001-02 to 25.80% whereas the lowest growth rate was observed in 2003-04 with negative growth -3.09%. The annual compound growth rate during the study period of 1996-97 to 2010-11 of sum assured of individual business in force in India was 13.39%. During the study period of fifteen years, it has been observed that for five years the growth rate of sum assured of business in force in India (individual insurance) was below the annual compound growth rate and for nine years it was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = **47.37**

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC= 14.905+ (-0.33) x

There was a significant difference in the trends of growth of Business in force in India (Individual Insurance) – Sum Assured during the period of study because the calculated value of chi-square [x2] was higher than table value so, alternative hypothesis have been accepted and null hypothesis have been rejected.

B. Group Insurance

- **New Business Progress under Group Superannuation Schemes**

Group Insurance refers to the policy taken on the lives usually by the employees of a business concern. A policy is taken for insuring a group of people generally employees. Group life insurance is that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employees jointly and insuring only all of his employees or all of any class or classes thereof determined by conditions pertaining to the employment for amounts of insurance.

Eligible Groups

- Employer-Employee Groups
- Labour-Union Groups
- Creditor-Debtor Groups
- Associations
- Co-operative Societies
- Government Schemes

Types of Group Schemes

- Group Gratuity Scheme
- Group Superannuation Scheme
- Group leave encashment Scheme
- Group annuity scheme
- Group schemes for VRS
- Group savings linked insurance scheme

Thus, instead of using a term policy, under group insurance, term ‘scheme’ is used and for total number of people, term ‘lives or members’ is used. The sum assured is referred to as ‘Annuity’. New business for group insurance under the superannuation scheme has been analyzed for assessing the performance of LIC during the period of study.

Group Superannuation Scheme

This scheme is designed to provide pensions to employees on their retirement from service. The scheme is of two types:

(a) Money Purchase Scheme: The contributions are fixed generally as a percentage of the salary. The accumulated value of such contributions is utilized to purchase the pension.

(b) Benefit Purchase Scheme: The amount of pension is fixed by the employer in advance, generally in relation to the salary drawn by the employee at the time of exit. LIC determines the contribution payable for funding of pension benefits.

Different types of pensions are available under LIC’s scheme such as pension payable for Life guaranteed for 5,10,15 or 20 years and thereafter for life, Joint life last survivor pension, pension payable for life to return of Purchase Price on the death of the pensioner etc.

Table 6.10 and Chart 6.10 show the new business of group insurance in terms of no. of schemes, number of members and the total annuity per annum. In case of a number of schemes, new business has increased from 373 new schemes in 1996-97 to 1990 schemes in 2010-11. LICI has secured the maximum business in 2010-11 with the highest number of new schemes, i.e. 1990 under the new group superannuation scheme. The major six hiccups occurred in the year 1998-99, 1999-00, 2002-03, 2004-05, 2005-06, and 2009-10 when the growth rate was negative. The major increase in the number of schemes was registered in the year 2010-11 showing a 642.54% growth rate. In case of number of members, the new business of LICI has been quite inconsistent. Though the number of members insured increased 1.25 lakhs in 1996-97 to 11.73 lakhs in 2010-11 yet there are some downfalls in the growth rate of the number of members during 1997-98 (-73.54%), 2001-02 (-36.16%), 2004-05 (-75%) and 2010-11 (-77.08%). The major increase in the number of lives was recorded in 2009-10 showing 799.30% growth rate.

New business under superannuation schemes in terms of the total annuity per annum has increased from ₹ 92.87 crores in 1996-97 to ₹ 1332.03 crores in 2010-11. The major downfall occurred in the year 2004-05 when the growth rate was negative i.e. -61.61%. The major increase in the growth rate was observed in the year 2010-11 showing 155.97% similarly in the case of no. of members and no. of schemes.

Table 6.10 New Business Progress under Group Superannuation Schemes

Year	No. of Schemes	Percent Growth over Previous Year	No. of Members (in Lakhs)	Percent Growth over Previous Year	Total Annuity per annum (₹ in Crores)	Percent Growth over Previous Year
1996-97	373		1.25		92.87	
1997-98	393	5.36	0.33	-73.54	145.00	56.13
1998-99	369	-6.11	0.52	55.66	132.42	-8.68
1999-00	323	-12.47	0.64	24.06	138.92	4.91
2000-01	408	26.32	0.94	46.39	146.11	5.18
2001-02	427	4.66	0.60	-36.16	163.35	11.80
2002-03	305	-28.57	1.09	81.83	186.87	14.40
2003-04	344	12.79	1.72	58.15	214.90	15.00
2004-05	231	-32.85	0.43	-75.00	82.50	-61.61
2005-06	127	-45.02	0.71	65.12	91.10	10.42
2006-07	263	107.09	1.12	57.75	212.09	132.81
2007-08	445	69.20	4.21	275.89	279.04	31.57
2008-09	540	21.35	5.69	35.15	347.52	24.54
2009-10	268	-50.37	51.17	799.30	520.38	49.74
2010-11	1990	642.54	11.73	-77.08	1332.03	155.97
CAGR	3.07%		23.35%		11.81 %	

Source: Annual Reports of LIC & IRDA various issues

Chart 6.10(i) New Business (Group Insurance) No. of Schemes

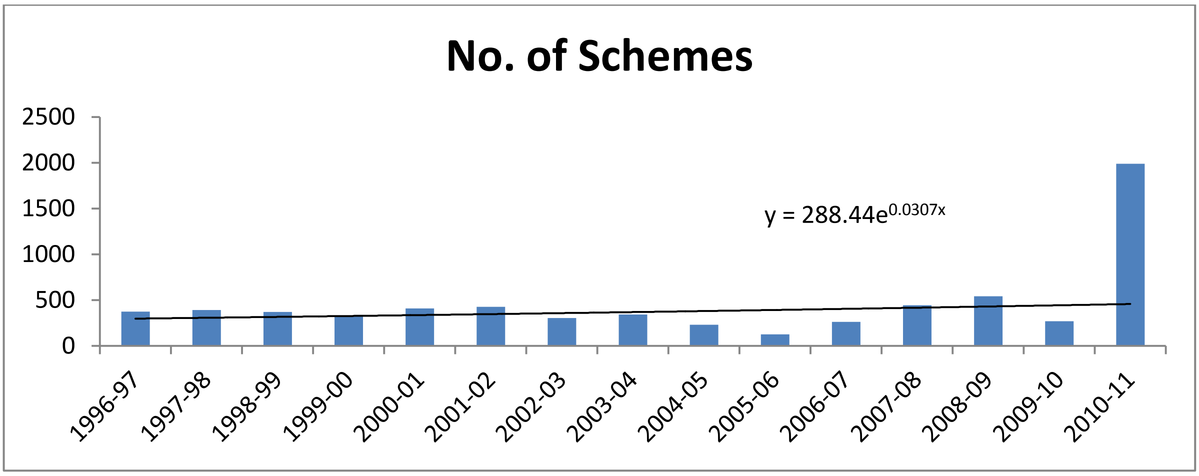


Chart 6.10(ii) New Business (Group Insurance) No. of Members

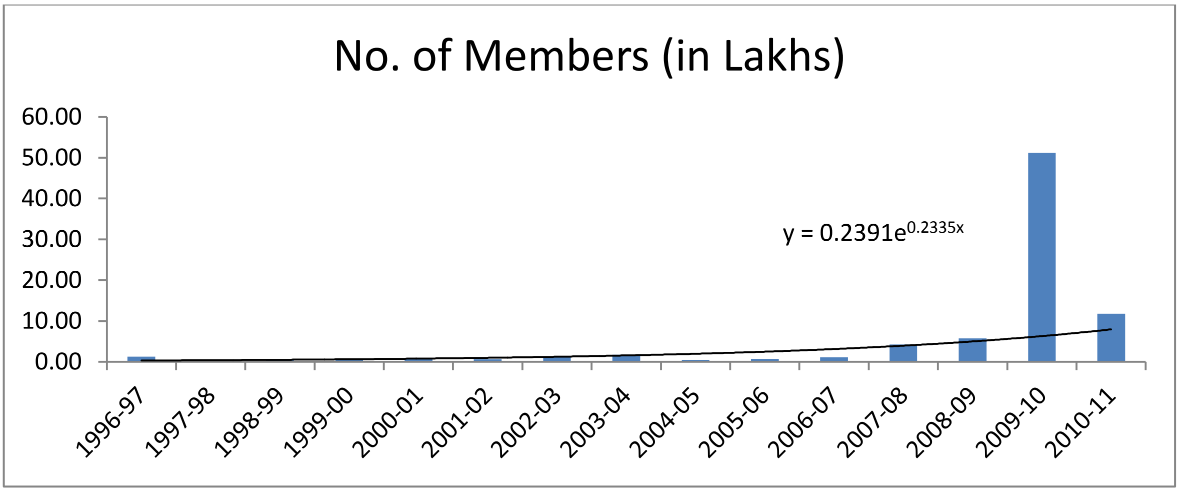
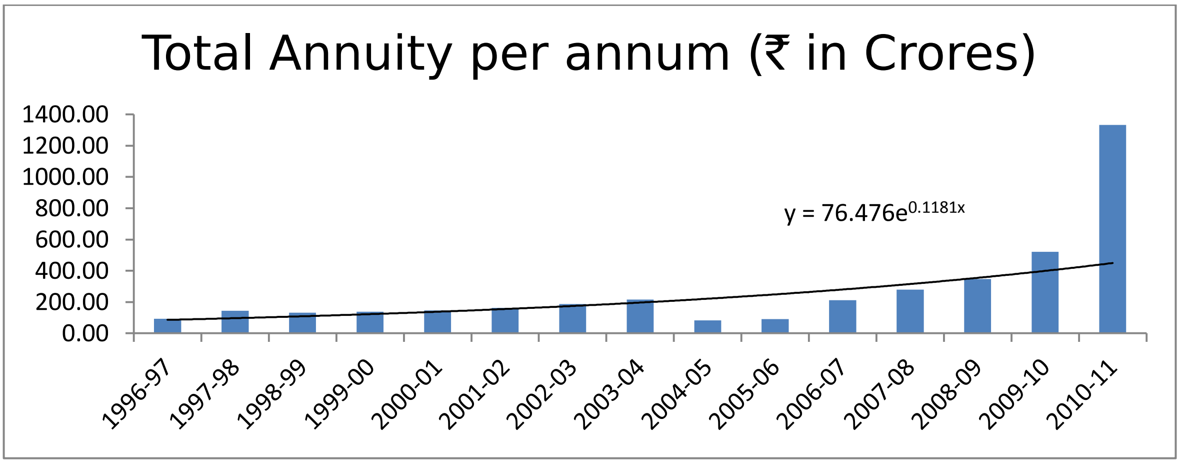


Chart 6.10(iii) New Business (Group Insurance) Total Annuity per annum



Business in Force under Group Insurance and Superannuation Schemes

The performance of LICI has been evaluated on the basis of business in force of group insurance under superannuation schemes. Under group insurance, business in force has been analyzed in terms of number of schemes, sum assured and the premium income of different years of the study period. Sum assured includes the amount of bonus in it. The growth rates are also calculated in order to assess the performance as well as to make comparison over different years in the business in force under group insurance. Table 6.11 depicts the performance of various years of study period regarding business in force under group insurance.

Table 6.11 Business in Force under (incl. Social Security) Superannuation Schemes

Year	No. of Schemes	Percent Growth over Previous Year	Sum Assured (₹ in Crores)	Percent Growth over Previous Year	Premium Income (₹ in Crores)	Percent Growth over Previous Year
1996-97	78372		64606.60		1631.45	
1997-98	78600	0.29	74798.75	15.78	2064.16	26.52
1998-99	80785	2.78	77918.65	4.17	2435.50	17.99
1999-00	83254	3.06	76384.53	-1.97	2693.51	10.59
2000-01	84203	1.14	89326.19	16.94	3115.00	15.65
2001-02	93836	11.44	100597.64	12.62	4225.99	35.67
2002-03	95325	1.59	124312.26	23.57	5111.55	20.96
2003-04	100051	4.96	143398.20	15.35	3617.38	-29.23
2004-05	106912	6.86	136286.92	-4.96	4019.50	11.12
2005-06	109995	2.88	199427.16	46.33	4669.76	16.18
2006-07	111729	1.58	322042.20	61.48	11462.91	145.47
2007-08	128840	15.31	306711.77	-4.76	12088.24	5.46
2008-09	121027	-6.06	417243.60	36.04	10006.92	-17.22
2009-10	124946	3.24	457628.70	9.68	19174.44	91.61
2010-11	127254	1.85	551432.89	20.50	20975.31	9.39
CAGR	4.01%		16.12 %		17.21 %	

Source: Annual Reports of LIC & IRDA various issues

Chart 6.11(i) Business in Force under (incl. Social Security) Superannuation Schemes -No. of Schemes

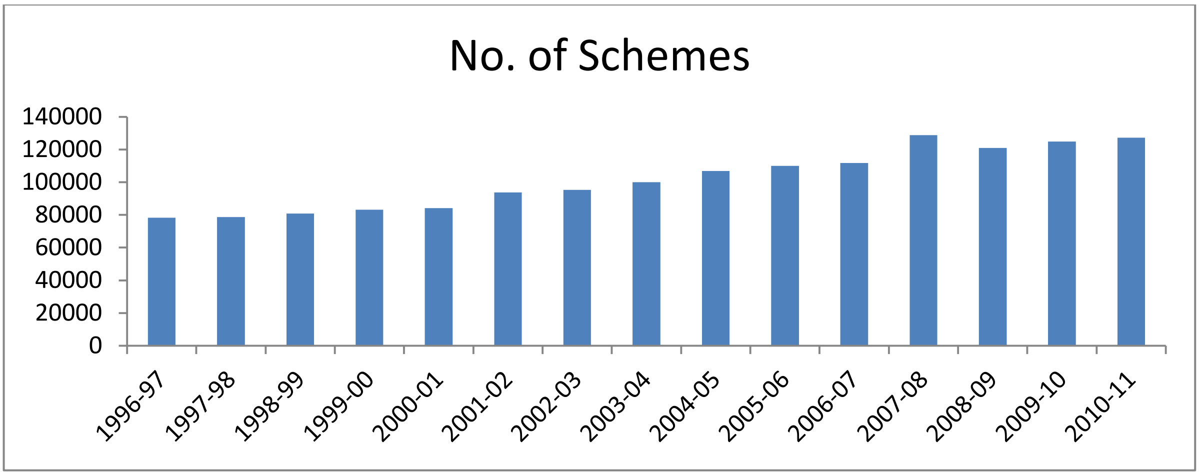


Chart 6.11(ii) Business in Force under (incl. Social Security) Superannuation Schemes –Sum Assured

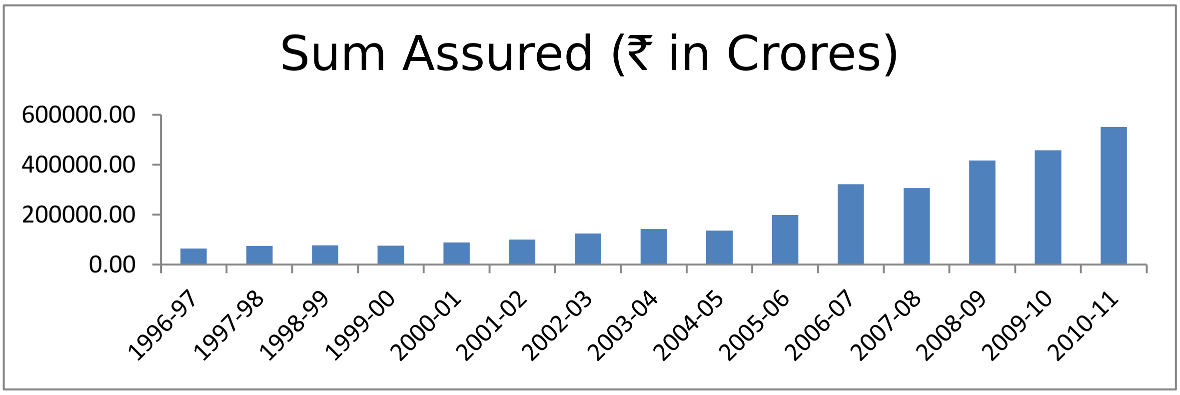


Chart 6.11(iii) Business in Force under (incl. Social Security) Superannuation Schemes-Premium Income

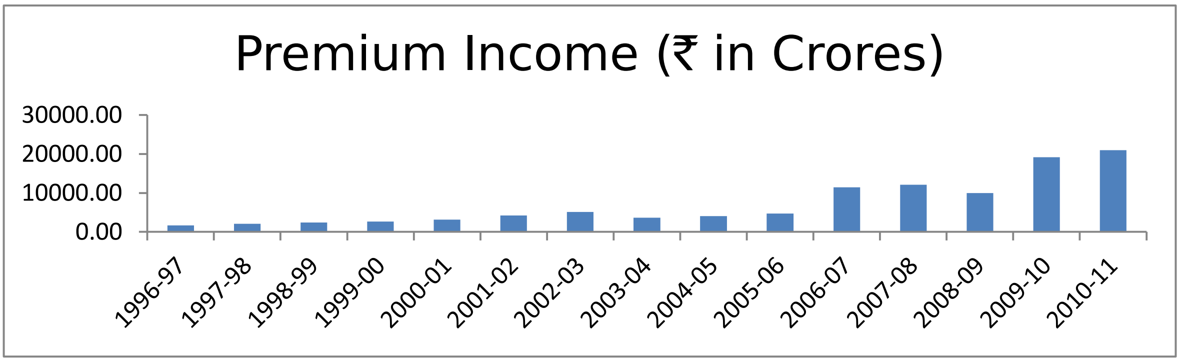


Table 6.11 and Chart 6.11 show the group business in force in terms of number of schemes, the sum assured (and bonus) and Premium income. In case of a number of schemes, the group insurance business has increased rapidly during the period of study. The numbers of schemes have increased from 78372 in 1996-97 to 127254 in 2010-11. But the growth of the number of schemes has been very low and shows poor performance of the corporation in roping corporate clients. The major increase was seen in the year 2007-08 and 2001-02 showing highest growth rate of 15.31% and 11.44% respectively.

In case of sum assured, there is increased from ₹ 64606.60 crores in 1996-97 to ₹ 551432.89 in 2010-11. The growth rate of sum assured has been quite inconsistent over the period. The major downfalls in sum assured occurred in the year 2004-05 (-4.76%), 2007-08 (-4.76%) and 1999-00 (-1.97%) showing negative growth rates. The reason of downfalls was discontinued of the policies or lapse of policies. But the growing business has really taken a boost during 2006-07, 2005-06, 2008-09 and 2010-11 showing 61.48%, 46.33%, 36.04% and 20.50% respectively.

Similarly, total premium income has increased from ₹ 1631.45 crores in 1996-97 to ₹ 20975.31 crores. Thus, the growth has been quite inconsistent over the period of study. The major increase in the premium income was observed in the year 2006-07 showing the highest growth rate of 145.47%.

Thus, the corporation strives not only to spread life insurance to individuals but also to groups of people working or living under one roof. The corporation is able to generate higher income by roping in the group of people as expenses tend to be spread over a larger group.

C. Analysis of Income

- **Composition of Income**

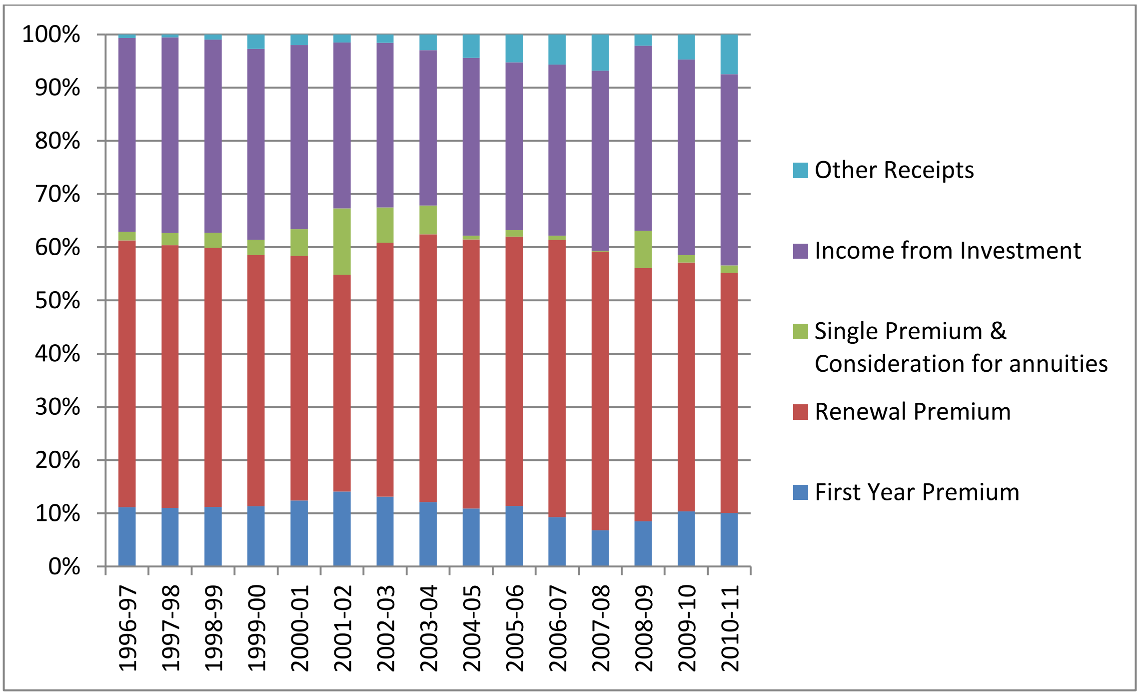
The income of an organization is one of the important parameter for evaluating its performance. Income generated by LICI every year is a composition of various variables. It comes from different areas and in various forms. The total income of LICI can be analyzed in different categories in order to assess the contribution of each variable or category to the total income in each year. Thus, for this purpose the percentage has been calculated of each variable to know the exact contribution of these variables in the total income. The main components of income of LICI are first year premium, renewal premium, single premium & consideration for annuities, income from investments and miscellaneous or other receipts. Table 6.12 and Chart 6.12 show the analysis of income in percentage for the study period from 1996-97 to 2010-11 (in percentage).

Table 6.12 Analysis of Composition of Income (in Percentage)

Year	First Year Premium	Renewal Premium	Single Premium & Consideration for annuities	Income from Investment	Other Receipts
1996-97	11.14	50.14	1.61	36.39	0.72
1997-98	11.00	49.35	2.29	36.76	0.60
1998-99	11.20	48.72	2.81	36.27	1.00
1999-00	11.32	47.17	2.90	35.90	2.71
2000-01	12.44	45.96	4.99	34.59	2.02
2001-02	14.11	40.74	12.43	31.19	1.53
2002-03	13.13	47.73	6.60	30.93	1.61
2003-04	12.11	50.30	5.41	29.23	2.95
2004-05	10.93	50.55	0.69	33.43	4.40
2005-06	11.39	50.61	1.20	31.55	5.25
2006-07	9.29	52.11	0.75	32.16	5.69
2007-08	6.84	52.32	0.19	33.82	6.82
2008-09	8.47	47.65	6.96	34.76	2.15
2009-10	10.37	46.75	1.37	36.80	4.70
2010-11	10.07	45.11	1.41	35.94	7.48
CAGR	-2.10%	0.04%	-8.20%	-0.20%	15.30%

Source: Compiled from Annual Reports of LIC & IRDA various issues

Chart 6.12 Analysis of Composition of Income (in Percentage)



- **Utilization of income**

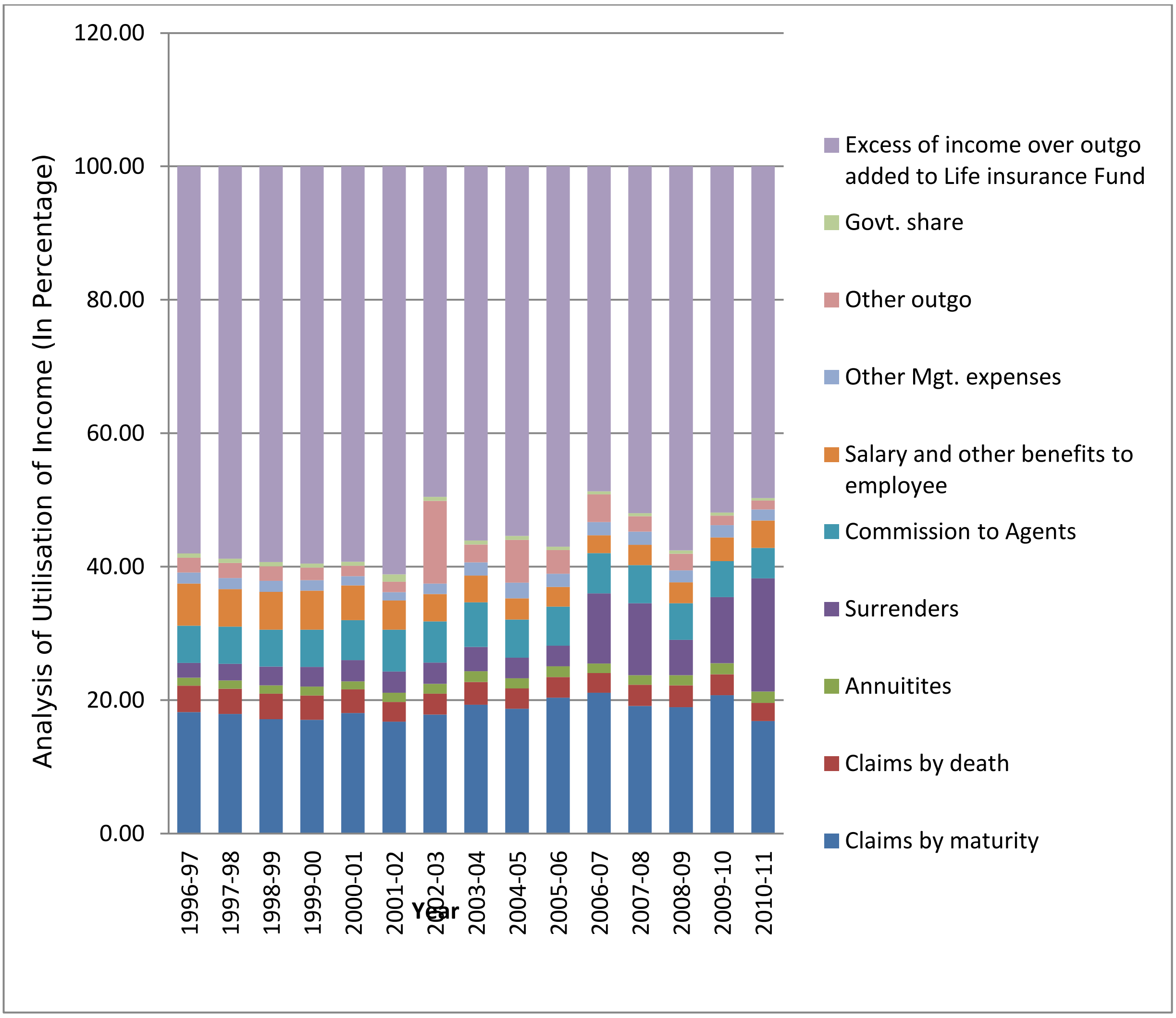
The income is generated by LICI from various different sources such as premium income- first year premium, renewal premium and single premium, income from investments etc. The income generated during a year is to be utilized in different areas. The analysis of utilization of income is to be done in order to evaluate the performance of the corporation. The percentages of utilization of income in different activities are calculated in order to analyses the share of each activity in the total income. The income is used for ten basic activities of the LIC and each has its own share of income. The different activities are in the form of making various payments such as payments of claims both maturity as well as death payments, commission to agents, salary to employees, management expenses, taxes, transfer to reserves etc. The excess of income over outgo added to the life insurance fund that is also considered as a utilization of income. Table 6.13 shows the percentage of various components in which the total income of LICI is utilized every year during the study period from 1996-97 to 2010-11.

Table 6.13 **Analysis of Utilization of Income (In Percentage)**

Year	Payment to policyholders				Expenses of Management			Other Outgo			
	Claims by maturity	**Claims by death**	**Annuities**	**Surrenders**	**Commission to Agents**	**Salary and other benefits of employee**	**Other Mgt. Expenses**	**Other outgo**	**Govt. Share**	**The excess of income over outgo added to the Life insurance fund**	**Total**
1996-97	18.21	3.95	1.19	2.21	5.62	6.31	1.65	2.19	0.66	58.01	100
1997-98	17.92	3.79	1.25	2.49	5.55	5.63	1.69	2.23	0.65	58.80	100
1998-99	17.16	3.79	1.29	2.81	5.51	5.68	1.65	2.17	0.64	59.30	100
1999-00	17.05	3.66	1.33	2.93	5.60	5.85	1.54	1.92	0.59	59.53	100
2000-01	18.08	3.54	1.20	3.16	6.03	5.18	1.39	1.57	0.59	59.26	100
2001-02	16.79	2.95	1.38	3.15	6.31	4.35	1.26	1.56	1.12	61.13	100
2002-03	17.84	3.14	1.48	3.17	6.18	4.09	1.56	12.39	0.60	49.55	100
2003-04	19.31	3.40	1.63	3.65	6.65	4.02	2.00	2.65	0.63	56.06	100
2004-05	18.73	3.04	1.52	3.06	5.75	3.18	2.33	6.39	0.64	55.36	100
2005-06	20.36	3.10	1.63	3.07	5.84	2.96	2.01	3.51	0.52	57.00	100
2006-07	21.13	2.93	1.44	10.51	6.04	2.68	1.98	4.11	0.50	48.68	100
2007-08	19.15	3.15	1.43	10.80	5.73	3.03	1.95	2.31	0.50	51.95	100
2008-09	18.95	3.25	1.53	5.31	5.47	3.15	1.80	2.49	0.51	57.54	100
2009-10	20.76	3.11	1.67	9.92	5.36	3.56	1.86	1.42	0.46	51.88	100
2010-11	16.88	2.73	1.70	16.97	4.53	4.11	1.68	1.30	0.39	49.71	100
CAGR	**0.79%**	**-2%**	**22.40%**	**12.31%**	**-0.70%**	**-5.10%**	**1.60%**	**-0.40%**	**-3.40%**	**-1.10%**	100

Source: Compiled from Annual Reports of LIC & IRDA various issues

Chart 6.13 **Analysis of Utilization of Income (In Percentage)**



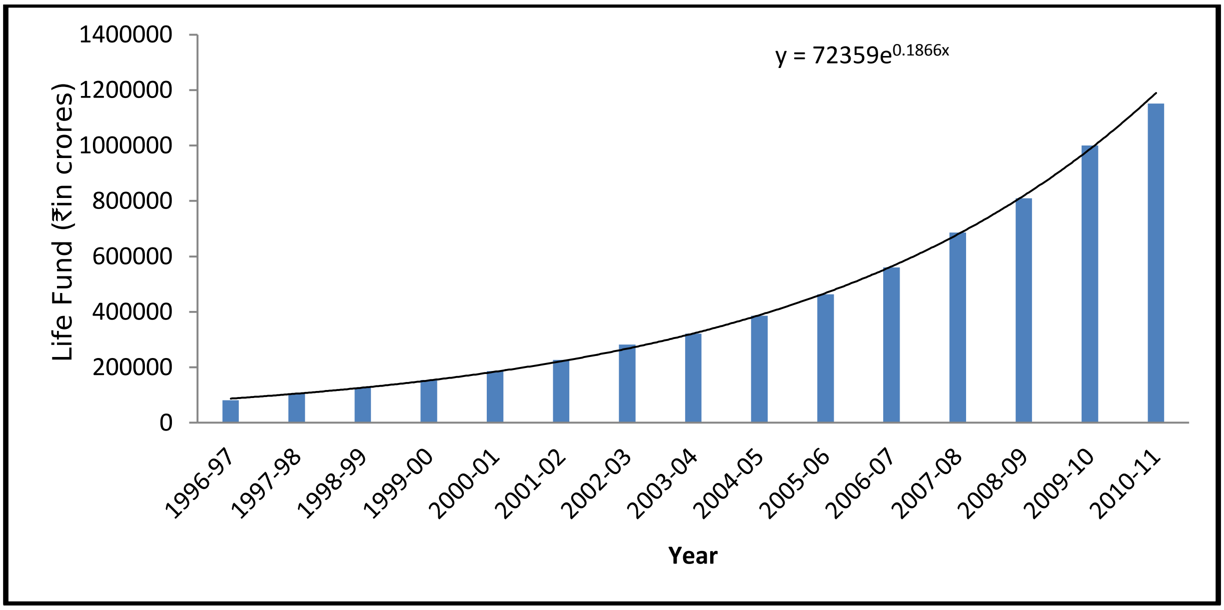
ANALYSIS OF LIFE INSURANCE FUND

The Life Insurance Fund is the excess of income over outgo. It is a fund created by the corporation out of the life insurance business. The amount of this fund is used by the LICI for making investments and for providing loans. This fund is maintained after making all kinds of payments, expenses, taxes, government's share of surplus etc. To analyze the financial performance of LICI the evaluation of Life Insurance Fund is also important. Table 6.14 and Chart 6.14 show the amount of Life Insurance Fund and also the percentage growth over the previous year for the study period from 1996-97 to 2010-11.

Table 6.14 Analysis of Life Insurance Fund

Year	Life Fund (₹ in Crores)	% growth over previous year	Index
1996-97	81759.96		100
1997-98	105832.89	29.44	129.44
1998-99	127389.06	20.37	155.81
1999-00	154043.73	20.92	188.41
2000-01	186024.75	20.76	227.53
2001-02	227008.98	22.03	277.65
2002-03	281664.33	24.08	344.50
2003-04	321759.55	14.24	393.54
2004-05	385791.21	19.90	471.86
2005-06	463147.62	20.05	566.47
2006-07	560806.33	21.09	685.92
2007-08	686616.45	22.43	839.80
2008-09	809524.91	17.90	990.12
2009-10	999517.59	23.47	1222.50
2010-11	1151200.58	15.18	1408.02
CAGR	18.66%		

Chart 6.14 Analysis of Life Insurance Fund



From the above Table 6.14 and Chart 6.14 reveals that the Life Insurance Fund is increasing year by year during the study period. It is seen from the table that Life Insurance Fund has increased from ₹ 81759.96

crores in 1996-97 to ₹ 1151200.58 crores in 2010-11 means it has been increased by more than fourteen times during the study period.During the study period the percentage growth over the previous year lies between 15% and 29%. The highest growth rate has been observed 29.44% in the year 1997-98. The lowest growth rate has been observed 15.18% in the year 2010-11. In 1996-97 the total life insurance fund of LIC was ₹ 81759.96 crores which increased to ₹ 105832.89 crores in 1997-98 with 29.44% growth, ₹ 127389.06 crores in 1998-99 with 20.37%, ₹ 154042.73 crores in1999- 2000 with 20.92%, ₹ 186024.75 crores in 2000-01 with 20.76%, ₹ 227008.98 crores in 2001-02 with 22.03%, ₹ 281664.33 crores in 2002-03 with 24.08%, ₹ 321759.55 crores in 2003-04 with 14.24%, ₹ 385791.21 crores in 2004-05 with 19.90% , ₹ 463147.62 in 2005-06 with 20.05 %, ₹ 560806.33 in 2006-07 with 21.09 %, ₹ 686616.45 in 2007-08 with 22.43 %, ₹ 809524.91 in 2008-09 with 17.90%, ₹ 999517.59 in 2009-10 with 23.47% and lastly in 2010-11 it increased to ₹ 1151200.58 crores with the growth rate of 15.18%. The annual compound growth rate of the life insurance fund was 18.66% which is a welcome trend. During the study period of fifteen years, it has been observed that for three years the growth rate was below the annual compound growth rate and for twelve years the growth rate was above the annual compound growth rate.

Calculate Value of Chi-Square [x2] = 5.76

Table Value of Chi-Square [x2] at 5% level (d. f=13) = 22.362

The equation of the straight line (Y) is YC=20. 85+ (-0.39) x

There was no significant difference in the growth of the Life Insurance Fund during the period of study because the calculated value of chi-square [x2] was lower than table value so, null hypothesis has been accepted and alternative hypothesis have been rejected.

D. Productivity of LIC

Productivity

Life Insurance of India is one of the main companies providing life insurance in India. It has more than 60 different products that address the need of each and every Indian from a newborn to 70 years old[32]. Productivity is the heart of a firm's performance in a competitive market. More specifically, productivity is the ratio between output and input. The productivity reflects the return of resources employed i.e. how well resources utilization has taken place in a given system. Measuring the output of the finance and insurance industries is more difficult than measuring the output of industries that produces goods such as automobiles or computers. The insurance industry produces outputs that are heterogeneous so the quality change problem in measuring output is fully difficult. Productivity growth has been very slow in the service sector such as banks, insurance, railways, hospitals and other public utility services. The insurance awareness in India is low, insurance covers are expensive, returns from insurance products are low and there is a dearth of innovative and buyer-friendly insurance products. All these problems are the hurdles for the LICI to achieve higher productivity. In particular, productivity of LICI has been measured in terms of the following indices-

1. New Business (Sum Assured) per Branch
2. New Business (Sum Assured) per Active Agent
3. Number of Policies per Branch
4. Number of Policies per Active Agent
5. Premium Income per Branch
6. Premium Income per Active Agent

[32] Bawa, suninder kaur, "life insurance corporation of India- impact of privatization & performance" Regal Publications, New Delhi, p.p 113

1. Analysis of New Business (Sum Assured) per Branch

New business under individual insurance refers to the sum assured underwritten during the current financial year. In order to measure the productivity of LIC, the sum assured underwritten is considered as one of the important variable. Productivity of the branch can be measured by calculating the sum assured per branch i.e. dividing the total sum assured in a year by the total number of branches in that year. The result will tell the efficiency and effectiveness of various branches.

$$\text{New Business per Branch}=\frac{\text{New Business (Sum Assured)}}{\text{Number of Branches}}$$

Table 6.15 **Productivity-**New Business (sum Assured) per Branch

Year	No. of Branches	Sum Assured (₹ in Crores)	Sum Assured Per Branch (₹ in Crores)
1996-97	2024	56740.50	28.03
1997-98	2046	63617.69	31.09
1998-99	2048	75316.28	36.78
1999-00	2048	91214.25	44.54
2000-01	2048	124771.62	60.92
2001-02	2048	192572.27	94.03
2002-03	2048	179512.27	87.65
2003-04	2048	198707.12	97.02
2004-05	2048	179481.39	87.64
2005-06	2048	283763.74	138.56
2006-07	2048	201621.74	98.45
2007-08	2048	173662.72	84.80
2008-09	2048	363135.70	177.31
2009-10	2048	396701.12	193.70
2010-11	2048	443531.71	216.57
Average			98.47
CAGR			13.55%

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.15 **Productivity-**The new business per branch for the years 1996-97 to 2010-11.

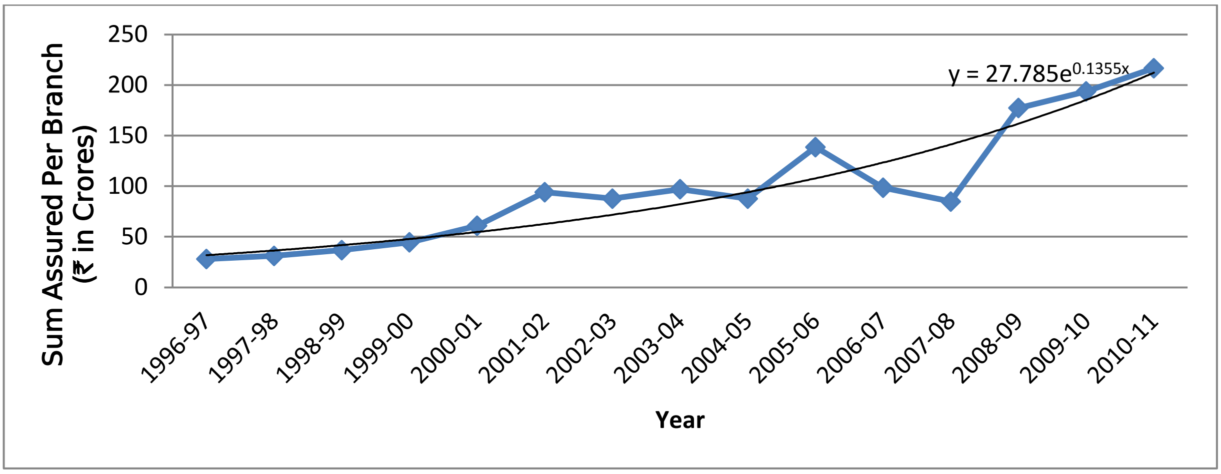


Table 6.15 and Chart 6.15 reveals that the average business done by branches during different year shows a steady growth except in the year 2002-03, 2004-05, 2006-07 and 2007-08. The downfall in the productivity was in the year 2002-03, when new business per branch decreased to ₹ 87.65 crores from ₹ 94.03 crores in 2001-02. This was the year when all the private insurance companies had started their business. But in 2003-04 again it increased to ₹ 97.03 crores. But it could sustain its productivity level as it again falls down to ₹ 87.64 crores in 2004-05. But thereafter LICI made a long jump and increased its business to 138.56crores in 2005-06 from ₹ 87.64 crores in 2004-05, which shows a positive trend in growth of new business. Again for a couple of years there is a fall in its productivity to ₹ 98.45 crores in 2006-07 and ₹ 84.80 crores in 2007-08 respectively. After that there is huge increased in its business to ₹ 177.31 crores , ₹ 193.70 crores and ₹ 216.57 crores in 2008-09, 2009-10 and 2010-11 respectively. The average new business per branch during the study period was ₹ 98.47 crores. During the study period of ten years, it has been observed that for ten years the new business (sum assured) per branch was below average new business per branch and for five years it was above the average new business per branch. By comparing the new business per branch in a year

with the actual new business of every branch in that year, LICI can take strategic decisions as to which branches need to be paid more attention.

2. New Business (Sum Assured) per Active Agent

Agents of the insurance companies play an important role in producing new business per year. In a competitive scenario, there are a lot of scope and potential in the insurance market for this type of distribution channel. Agents are recruited by the development officers to drive various insurance plans. As per the guidelines given by IRDA an individual has to attend the 100 hour training program and clears the examination taken by IRDA to become an agent. Productivity of the agents can be measured by dividing the total sum assured in a year by the total number of active agents in that year i.e. average Business per active agents. The result will tell the efficiency and effectiveness of agents.

$$\text{New Business per Active Agent} = \frac{\text{New Business (Sum Assured)}}{\text{Number of Active Agents}}$$

Table 6.16 **Productivity-**The new business per active agent

Year	No. of Active Agent	Sum Assured (₹ in Crores)	Sum Assured Per Active Agent (₹ in Crores)
1996-97	533133	56740.50	0.1064
1997-98	558517	63617.69	0.1139
1998-99	598217	75316.28	0.1259
1999-00	683190	91214.25	0.1335
2000-01	743064	124771.62	0.1679
2001-02	744003	192572.27	0.2588
2002-03	902199	179512.27	0.1990
2003-04	1003241	198707.12	0.1981
2004-05	980836	179481.39	0.1830
2005-06	987689	283763.74	0.2873
2006-07	1028256	201621.74	0.1961
2007-08	1117908	173662.72	0.1553
2008-09	1275611	363135.70	0.2847
2009-10	1340067	396701.12	0.2960
2010-11	1293816	443531.71	0.3428
Average			0.2033

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.16 **Productivity-**The new business per active agent

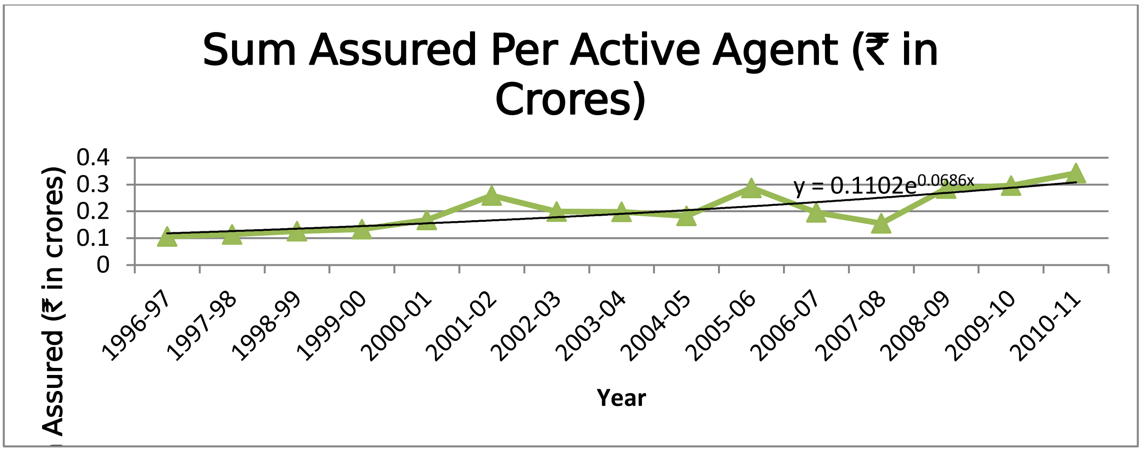


Table 6.16 and Chart 6.16 reveals that the number of active agents is increasing year by year; the average business per active agent is also increasing. From 1996-97 to 2001-02 there was a consistent growth of the productivity of agents. From 1996-97 to 2001-02, the average business done by each agent has increased from ₹ 10.64 lakhs to ₹ 25.88 lakhs. Then there was a slight fall came in the productivity of agents from 2002-03, 2003-04 and 2004-05 i.e. ₹ 19.90 lakhs, ₹ 19.81 lakhs and ₹ 18.30 lakhs. It was probably because of the impact of the entry of the private players in the life insurance industry. But after that, the productivity again increased to ₹ 28.73 lakhs in 2005-06 after that they're slight decline in the productivity of agents to ₹ 19.61 lakhs in 2006-07 to ₹ 15.53 lakhs in2007-08. Then there was increased to ₹ 28.47 lakhs , ₹29. 60 lakhs and ₹ 34.28 lakhs in 2008-09, 2009-10 and 2010-11. Last year of the study period was the highest productivity rate of the agents. The average new business per active agent during the study period 1996-97 to 2010-11 was ₹ 20.33 lakhs. During the study period of fifteen years, it has been observed that for ten years the new business (sum assured) per active agent was below average new business per active agent and for five years it was above the average new business per active agent. By comparing the new business per active agent in a year

with the actual new business of an agent in that year, LICI can take strategic decisions as to which agent needs to be paid more attention.

3. Analysis of Number of Policies per Branch

The corporation offers a wide product range to cater to the different needs of all segments of its customers. There are plans for the newborn child as well as for retired persons. The performance of the branches can be judged from the number of policies sold by them during a particular year by the branches. Thus, the productivity of the branches in a particular year is measured by dividing the total number of policies in a year by the total number of branches in that year. This indicates the average business done by each branch in terms of number of policies in different years.

$$\text{Number of Policies per Branch} = \frac{\text{Number of Policies}}{\text{Number of Branches}}$$

Table 6.17 **Productivity-Number of Policies per Branch**

Year	No. of Branches	No. of Policies	Policies per Branch
1996-97	2024	12268476	6062
1997-98	2046	13311294	6506
1998-99	2048	14843687	7248
1999-00	2048	16976782	8289
2000-01	2048	19656663	9598
2001-02	2048	22491304	10982
2002-03	2048	24238416	11835
2003-04	2048	26456320	12918
2004-05	2048	21817967	10653
2005-06	2048	29284800	14299
2006-07	2048	20910041	10210
2007-08	2048	17961363	8770
2008-09	2048	29322395	14318
2009-10	2048	30578367	14931
2010-11	2048	31445829	15354
Average			10798.25
CAGR			5.62%

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.17 **Productivity-Number of Policies per Branch**

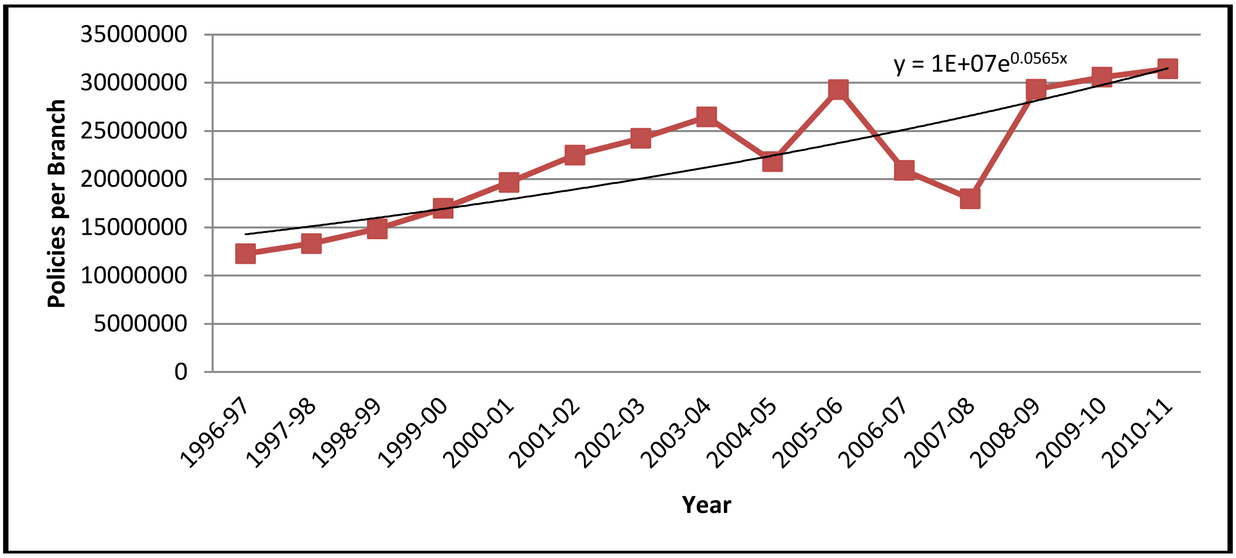


Table 6.17 and Chart 6.17 reveals that the performance of various branches during the study period was no doubt on a progressive path. Starting from 1996-97 to 2003-04, there has been a steady growth in the productivity of the branches. It indicates there has been an increase in the business done by all the branches of LICI. In 1996-97 the number of policies per branch was 6062 policies which increased to 12,918 policies in 2003-04. But in 2004-05 the number of policies has slightly decreased to 10,653 policies from 12,918 policies in 2003-04. But thereafter LICI recovers and in 2005-06 the number of policies per branch increased to 14,299 policies which showed more than 30% growth over the number of policies per branch in 2004-05. Again in the year 2006-07 & 2007-08 there was a decline in the number of policies to 10210 & 8770 respectively. Further in the last three years of the study the number of policies per branch have increased to 14318, 14931 and 15354. The average number of policies per branch during the study period 1996-97 to 2010-11 was 10,798 policies. During the study period of fifteen years, it has been observed that for eight years the number of policies per branch was below average number of policies per branch and for seven years it was above the average number

of policies per branch. By comparing the number of policies per branch in a year with the actual number of policies per branch in that year, LICI can take strategic decisions as to which branches need to be paid more attention.

4. Analysis of Number of Policies per Active Agent

The growth of the insurance business to a large extent is dependent on the skills and the ability of well trained agents to attract the public to its fold. The productivity of agents can be measured by calculating the average business done by each agent in terms of number of policies i.e. number of policies sold by each agent in a particular period. It is calculated by dividing the total number of policies of a particular year by the number of agents in that year.

$$\text{Number of Policies per Active Agent} = \frac{\text{Number of Policies}}{\text{Number of Active Agents}}$$

Table 6.18 **Productivity-Number of Policies per Active Agent**

Year	No. of Active Agent	No. of Policies	Policies per Active Agent
1996-97	533133	12268476	23
1997-98	558517	13311294	24
1998-99	598217	14843687	25
1999-00	683190	16976782	25
2000-01	743064	19656663	26
2001-02	744003	22491304	30
2002-03	902199	24238416	27
2003-04	1003241	26456320	26
2004-05	980836	21817967	22
2005-06	987689	29284800	30
2006-07	1028256	20910041	20
2007-08	1117908	17961363	16
2008-09	1275611	29322395	23
2009-10	1340067	30578367	23
2010-11	1293816	31445829	24
Average			24.32

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.18 **Productivity-Number of Policies per Active Agent**

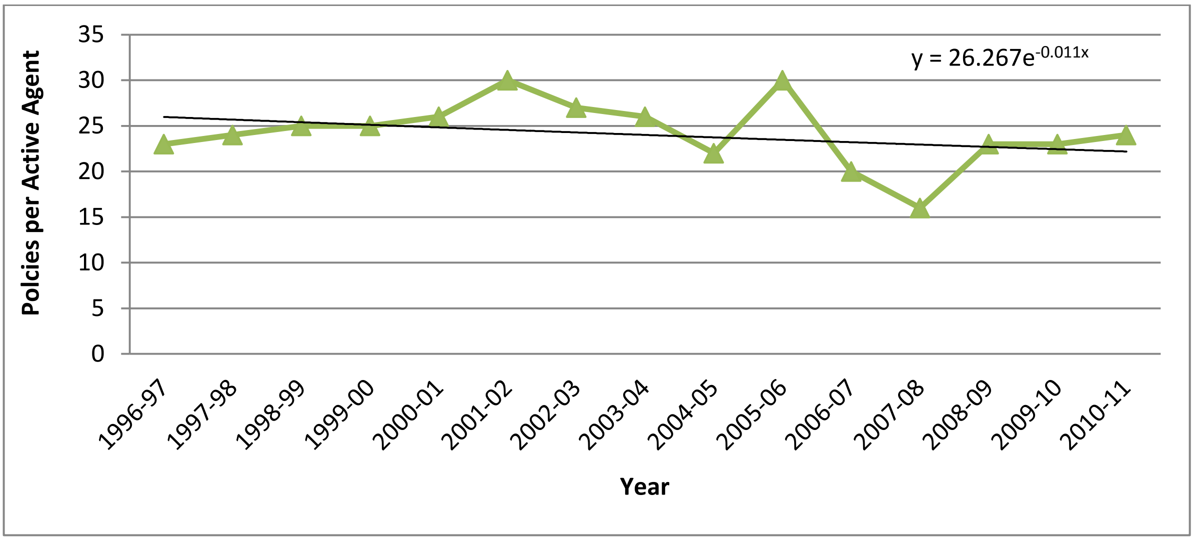


Table 6.18 and Chart 6.18 show that the number of active agents has not been increasing year by year during the entire period of study. But two types of trends have been seen from the table – one trend is an increasing from the year 1996-97 to 2001-02, in this period number of policies per active agent increased from 22 policies to 30 policies per agent. Second phase started from the year 2002-03 to 2004-05 where the number of policies per active agent decreased from 27 policies to 21 policies. It was really a bad period for LICI but then LICI moved towards the long jump and in the year 2005-06 number of policies per active agent reached to 30 policies. Again in the year 2006-07 the policies per Active Agent was a massive decline to 20 and further decline to 16 policies per agent in 2007-08. Thereafter the policies per agent increased to 23 for two successive year i.e. in 2008-09 and 2009-10. In the last year of the study period the policies per active agent was only 24. During the entire study period, the lowest number of policies per active agent was 16 policies in the year 2007-08. The average number of policies per active agent during the study period 1996-97 to 2010-11 registered 24 policies. During the study period of fifteen years, it has been observed that for six years the number of policies per active agent was below average number of policies per active agent and for nine years it

was above the average number of policies per active agent. By comparing the number of policies per active agent in a year with the actual number of policies per active agent in that year, LICI can take strategic decisions as to which agents need to be paid more attention.

5. Analysis of Premium Income per Branch

The premium is the consideration paid by the insured to the insurer for the risk undertaken by the insurer. So the productivity of branches can be measured in terms of Premium Income received from all the branches during a particular year. It is calculated by dividing the total Annual Premium Income in a particular year by the total number of branches in that year.

$$\text{Premium Income per Branch} = \frac{Annual\ Premium}{Number\ of\ Branches}$$

Table 6.19 **Productivity-**Premium Income per Branch

Year	No. of Branches	Annual Premium (₹ in Crores)	Annual Premium Per Branch (₹ in Crores)
1996-97	2024	3345.39	1.65
1997-98	2046	3841.12	1.88
1998-99	2048	4863.41	2.37
1999-00	2048	6008.28	2.93
2000-01	2048	8851.89	4.32
2001-02	2048	16009.44	7.82
2002-03	2048	12505.38	6.11
2003-04	2048	12540.82	6.12
2004-05	2048	11224.19	5.48
2005-06	2048	15157.76	7.40
2006-07	2048	11672.72	5.70
2007-08	2048	9871.89	4.82
2008-09	2048	16858.57	8.23
2009-10	2048	20948.53	10.23
2010-11	2048	23586.25	11.52
Average			5.77

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.19 **Productivity-**Premium Income per Branch

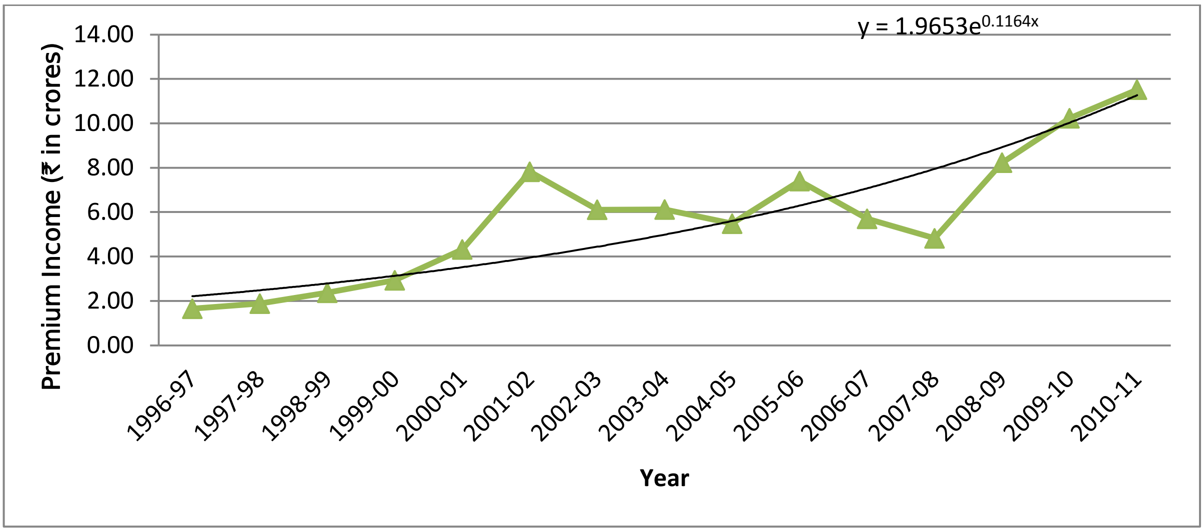


Table 6.19 and Chart 6.19 reveals the productivity of the branches in terms of premium income per branch during various years. In 1996-97 the premium income per branch was ₹ 1.65 crores which increased to ₹ 7.82 crores in 2001-02. The huge increase in the productivity of branches happened in the year 2001-02. It increased to ₹ 7.81 crores from ₹ 4.32 crores in 2000-01. Then from 2002-03 to 2004-05 there was a decline trend in premium income and it was falling into ₹ 5.48 crores in 2004-05 from ₹ 7.81 crores in 2001-02. Then again LICI recovers itself and the premium income per branch increased to ₹ 7.40 crores in the year 2005-06. There after it decline to ₹ 5.70 crores in 2006-07 and ₹ 4.82 crores in 2007-08. From 2008-09 there is a huge increased in the productivity of branches till the end of the study period from ₹ 8.23 crores to ₹ 11.52 crores.The average premium income per branch during the study period 1996-97 to 2005-06 was ₹ 5.77 crores. During the study period of fifteen years, it has been observed that for eight years the premium income per branch was below average premium income per branch and for seven years it was above the average premium income per branch. By comparing the premium income per branch in a year with actual premium income per branch in that year,

LICI can take strategic decisions as to which branch needs to be paid more attention.

6 Analysis of Premium Income per Active Agent

Agents are motivated and trained to pursue more and more people to purchase life insurance policies. Their performance is highly linked with the premium they collect as they are paid commission on the basis of the premium they have collected in a particular year. So the productivity of agents can be calculated by dividing Premium Income in a particular year by the number of active agents in that year.

Premium Income per Active Agent $= \dfrac{Annual\ Premium}{Number\ of\ Active\ Agent}$

Table 6.20 **Productivity-Premium Income per Active Agent**

Year	No. of Active Agent	Annual Premium (₹ in Crores)	Annual Premium Per Active Agent (₹ in Crores)
1996-97	533133	3345.39	0.0063
1997-98	558517	3841.12	0.0069
1998-99	598217	4863.41	0.0081
1999-00	683190	6008.28	0.0088
2000-01	743064	8851.89	0.0119
2001-02	744003	16009.44	0.0215
2002-03	902199	12505.38	0.0139
2003-04	1003241	12540.82	0.0125
2004-05	980836	11224.19	0.0114
2005-06	987689	15157.76	0.0153
2006-07	1028256	11672.72	0.0114
2007-08	1117908	9871.89	0.0088
2008-09	1275611	16858.57	0.0132
2009-10	1340067	20948.53	0.0156
2010-11	1293816	23586.25	0.0182
Average			0.0122

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.20 **Productivity-Premium Income per Active Agent**

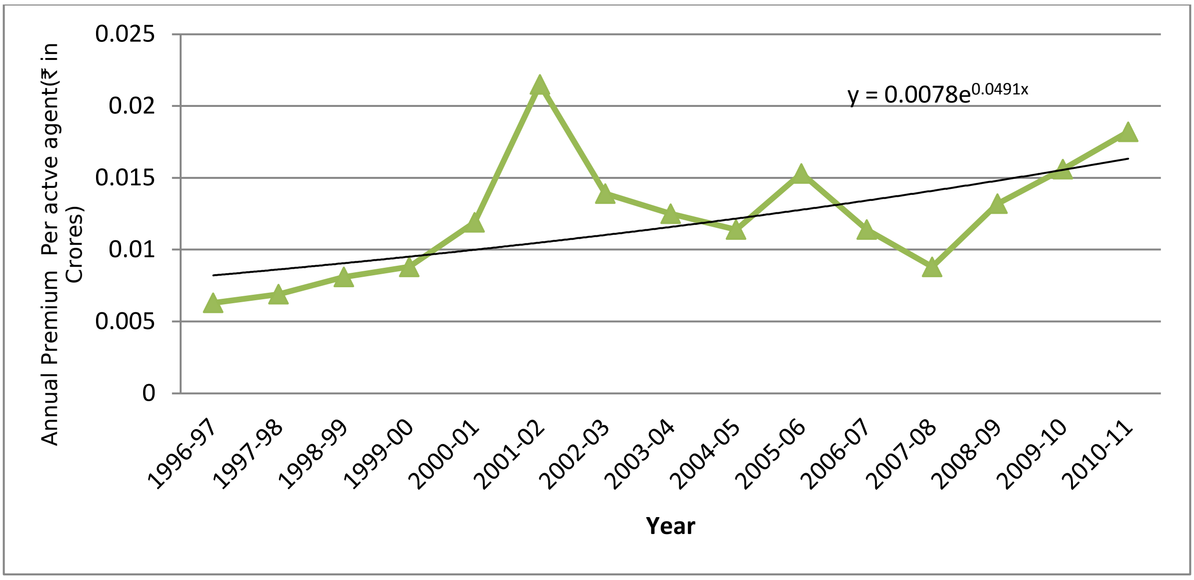


Table 6.20 and Chart 6.20 reveals the productivity of the agents in terms of premium income per active agent of the various years. It can be seen that the performance of the agents has been improving year by year especially from 1996-97 to 2001-02. The average productivity of an agent was ₹ 0.63 lakhs in 1996-97 which increased to its highest level ₹ 2.15 lakhs in the year 2001-02, this was the highest premium income per active agent during the study period. But then in 2002-03 it decreased to ₹ 1.39 lakhs and kept on decreasing in the sub-sequent year and reached to ₹ 1.14 lakhs in 2004-05. Then again in 2005-06 premium income per active agent increased to ₹ 1.44 lakhs and after then it decreased further for two more years to ₹ 1.14 lakhs in 2006-07 & ₹ 0.88 lakhs in 2007-08. During the last three years of the study period the performance of the agents has been improved to ₹ 1.32 lakhs in 2008-09, ₹ 1.56 lakhs in 2009-10 and ₹ 1.82 lakhs which is still far beyond from the highest premium income ₹ 2.15 lakhs in 2001-02. The average premium income per active agent during the study period 1996-97 to 2010-11 was ₹ 1.82 lakhs. During the study period of fifteen years, it has been observed that for eight years the premium

income per active agent was below average premium income per active agent and for seven years it was above the average premium income per active agent. By comparing the premium income per active agent in a year with actual premium income per active agent in that year, LICI can take strategic decisions as to which agent needs to be paid more attention.

E. PERFORMANCE OF LIC IN NORTH EASTERN REGION

(A Comparative study with all India level)

1. New Business (Individual) in North East India

New Business of Individual underwritten (including first premium and single premium) in North Eastern Region includes the performance of the corporation in terms of Number of Policies and the Total Annual Premium during a particular year. The percentage of growth of Annual Premium and Number of Policies year after year is one of the significant criteria for evaluating the performance of the corporation. Since the corporation is to maintain the business records according to zone wise, divisional wise and branch wise. The statewise information is available only from 2006-07 onwards as per IRDA guidelines. Thus, the performance of the New Business in NER has been analyzed for the years 2006-07 to 2010-11.

Percentage growth over previous year= $\frac{Current\ Years\ Value}{Previous\ Years\ Value}$ x 100-100

Comparative analysis of no. of policies

Table 6.21 and Chart 6.21 gives the detailed picture of the number of policies of north eastern region of India and at all India level. There has been a fluctuation in the number of policies from 2006-07 to 2010-11. The share of no. of the policies of NER with all India level is 2.67% , 2.44%, 2.61%, 2.44%, and 2.54% respectively in the year 2006-07, 2008-09, 2009-10 and 2010-11 respectively. The average share of no. of policies has been 2.5% for the last 5 years of the study period. Within NER the average share of Assam is highest that is about 79.4%, Tripura share is 10%, Manipur share is 3.8%, Nagaland share is 1.9%, Meghalaya share is 1.7%, Sikkim share is 1.5%, Arunachal Pradesh share is 1.1% and Mizoram share is only 0.6%. The performance of NER is not constant. The compound annual growth rate of no. of policies at all India level is -0.3% and that of NER is -1.3%. Within the NER only Meghalaya has the highest compound annual growth rate of 3.67% & Arunachal Pradesh have 0.27% and remaining six states showing a negative compound growth rate with Mizoram -16.70%, Nagaland with -6.20%, Sikkim with -5.20%, Manipur with -4.50%, Tripura with -4.10% and Assam with -0.60%. Further, it is observed that LICI has a negative trend in both NER and all India level. The performance of LICI in NER is not satisfactory as CAGR is negative. From the standpoint of Individual New Business Policies it is observed that the no. of policies in NER in 1996-97 was 383558 increased to 939381 policies in 2010-11 and that at all India level no. of policies was 12268476 in 1996-97 to 31445829 policies in 2010-11. The no. of policies showing an increasing trend from 1996-97 to 2003-04 both at all India level and in NER. From 2004-05 onwards till the study period the trend was not constant this mainly because of private insurance company giving tough competition. However, during 2008-09 and 2009-10 the life insurance industry suffers from global issues and this was also reflected in NER also. To conclude the performance of LICI is not satisfactory at all India level as well as in NER, their ample scope to increase its business, particularly in the NER.

Table 6.21 COMPARATIVE TRENDS OF INDIVIDUAL NEW BUSINESS POLICIES UNDERWRITTEN AT ALL INDIA LEVEL WITH NORTH EASTERN REGION

Name of States	2006-07	2007-08	2008-09	2009-10	2010-11	
	No. of Policies	No. of Policies	No. of Policies	No. of Policies	No. of Policies	CAGR
Arunachal Pradesh	10835	9911	9255	14292	9144	0.27
Assam	798775	719401	755581	744894	760118	-0.60
Manipur	33893	38162	39723	41477	25966	-4.50
Meghalaya	13840	15715	19191	14336	17409	3.67
Mizoram	6950	6370	6110	5182	3342	-16.70
Nagaland	20571	17255	19970	17798	14884	-6.20
Sikkim	17213	13300	13581	14958	12491	-5.20
Tripura	116811	95278	73984	93978	96027	-4.10
Total: N.E. Region	**1018888**	**915392**	**937395**	**946915**	**939381**	**-1.30**
Total: All India	**38208575**	**37589995**	**35891332**	**38838653**	**37012277**	**-0.30**
% (NER with all India)	2.67	2.44	2.61	2.44	2.54	
% (Ar. Pradesh with NER)	1.06	1.08	0.99	1.51	0.97	
% (Assam with NER)	78.4	78.59	80.6	78.67	80.92	
% (Manipur with NER)	3.33	4.17	4.24	4.38	2.76	
% (Meghalaya with NER)	1.36	1.72	2.05	1.51	1.85	
% (Mizoram with NER)	0.68	0.7	0.65	0.55	0.36	
% (Nagaland with NER)	2.02	1.88	2.13	1.88	1.58	
% (Sikkim with NER)	1.69	1.45	1.45	1.58	1.33	
% (Tripura with NER)	11.46	10.41	7.89	9.92	10.22	

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.21 **COMPARATIVE TRENDS OF INDIVIDUAL NEW BUSINESS POLICIES UNDERWRITTEN AT ALL INDIA LEVEL WITH NORTH EASTERN REGION**

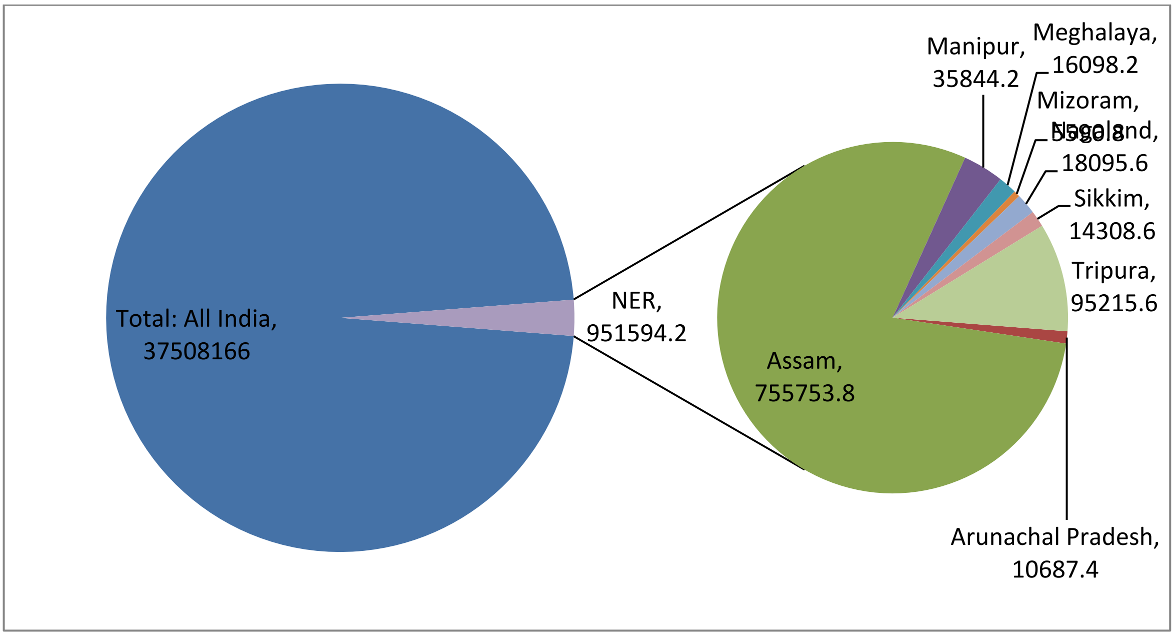


Table 6.21 and Chart 6.21 gives the detailed picture of new annual premium underwritten at all India level with North Eastern Region (including first premium and single premium). The premium income of the corporation has shown growth during the period of 2006-07 to 2010-11 except 2008-09. The share of new annual premium of NER with all India level is 2.32% , 2.29%, 2.24%, 2.38%, and 2.37% respectively in the year 2006-07, 2008-09, 2009-10 and 2010-11 respectively. The average share of annual premium has been 2.32% for the last 5 years of the study period. Within NER the average premium share of Assam is the highest that is 67.86%, Tripura share is 12.54%, Manipur share is 5.98%, Meghalaya share is 4.07%, Nagaland share is 3.47%, Mizoram share is 2.39%, Sikkim share is 2.17% and Arunachal Pradesh share is only 1.52%. The performance of NER is not constant. The compound annual growth rate of annual premium at all India level is 3.54% and that of NER is 4.35%. Within the NER only Meghalaya has the highest compound annual growth rate of 20.24%

followed by Tripura having 7.43% , Manipur with 7.30%, Assam with -6.20%, Arunachal Pradesh with -0.40%, Nagaland with -2.3%, Sikkim with -7.7% and Mizoram with -14.4%. Further, it is observed that LICI has a positive trend in both NER and all India level. The performance of LICI in NER is better than all India Basis as CAGR is more. The annual premium showing an increasing trend from 1996-97 to 2002-03 both at all India level and in NER. From 2004-05 onwards till the study period the trend was not constant this mainly because of private insurance company giving tough competition. However, during 2008-09 and 2009-10 the life insurance industry suffers from global issues and this was also reflected in NER also. To conclude the performance of LICI is not satisfactory at all India level as well as in NER, their ample scope to increase its business, particularly in the NER.

Chart 6.22 COMPARATIVE TRENDS OF INDIVIDUAL NEW BUSINESS PREMIUM UNDERWRITTEN AT ALL INDIA LEVEL WITH NORTH EASTERN REGION (INCLUDING FIRST PREMIUM AND SINGLE PREMIUM)

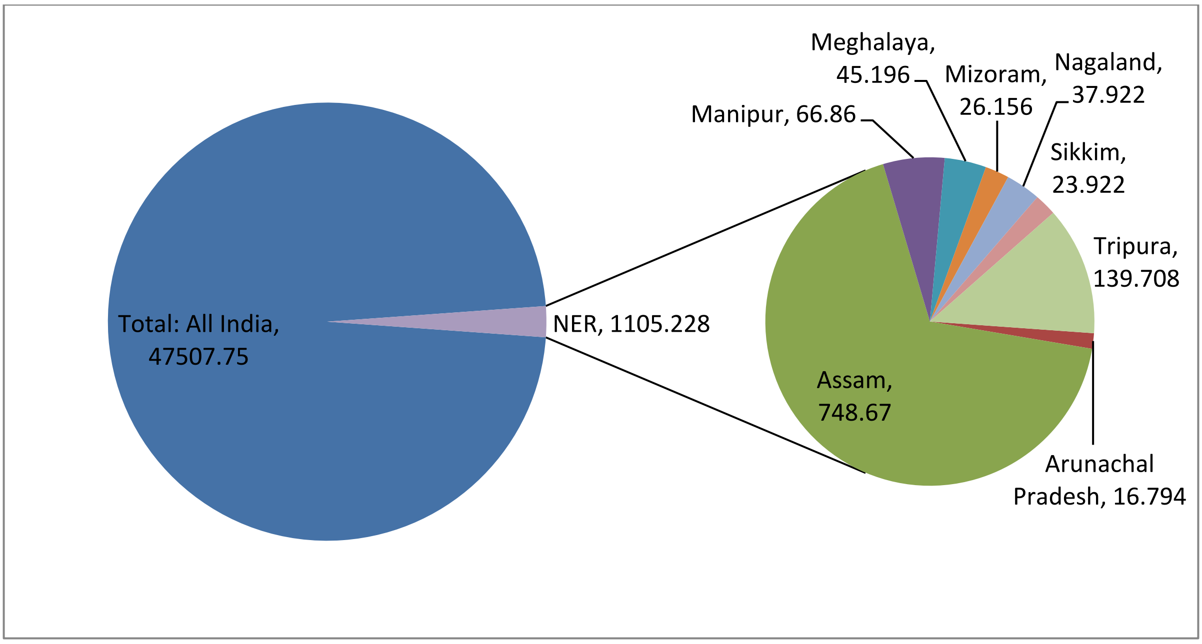


Table 6.22 COMPARATIVE TRENDS OF INDIVIDUAL NEW BUSINESS PREMIUM UNDERWRITTEN AT ALL INDIA LEVEL WITH NORTH EASTERN REGION (INCLUDING FIRST PREMIUM AND SINGLE PREMIUM)

Name of States	2006-07	2007-08	2008-09	2009-10	2010-11	CAGR
	Premium (in ₹ crore)	Premium (in ₹ crore)	Premium (in ₹ crore)	Premium (in ₹ crore)	Premium (in ₹ crore)	
Arunachal Pradesh	14.07	22.4	13.74	18.61	15.15	-0.40
Assam	724.13	730.52	633.25	797.76	857.69	4.27
Manipur	49.92	86.41	45.06	76.5	76.41	7.30
Meghalaya	21.4	48.87	43.95	57.48	54.28	20.24
Mizoram	36.34	29.42	17.65	29.8	17.57	-14.40
Nagaland	41.08	33.06	34.3	51.96	29.21	-2.30
Sikkim	29.34	30.97	15.27	17.47	26.56	-7.70
Tripura	121.86	148.88	101.17	151.44	175.19	7.43
Total: N.E. Region	**1038.14**	**1130.53**	**904.39**	**1201.02**	**1252.06**	**4.35**
Total: All India	**44673.25**	**49316.62**	**40403.11**	**50413.69**	**52732.09**	**3.54**
% (NER with all India)	2.32	2.29	2.24	2.38	2.37	
% (Ar. Pradesh with NER)	1.36	1.98	1.52	1.55	1.21	
% (Assam with NER)	69.75	64.62	70.02	66.42	68.5	
% (Manipur with NER)	4.81	7.64	4.98	6.37	6.1	
% (Meghalaya with NER)	2.06	4.32	4.86	4.79	4.34	
% (Mizoram with NER)	3.5	2.6	1.95	2.48	1.4	
% (Nagaland with NER)	3.96	2.92	3.79	4.33	2.33	
% (Sikkim with NER)	2.83	2.74	1.69	1.45	2.12	
% (Tripura with NER)	11.74	13.17	11.19	12.61	13.99	

Source: Compiled from annual reports of LIC & IRDA various issues

2. Group Insurance- Distribution Channel Group Total Business

Group insurance offers life insurance protection under group policies to various groups such as employers-employees, professionals, co-operatives, weaker sections of society, etc. It also provides insurance coverage for people in certain approved occupations at the lowest possible premium cost. Group insurance plans have lower premiums. Such plans are particularly beneficial to those for whom other regular policies are a costlier proposition. Group insurance plans extend cover to large segments of the population including those who cannot afford individual insurance. A number of group insurance schemes have been designed for various groups. These include employer-employee groups, associations of professionals (such as doctors, lawyers, chartered accountants etc.), members of cooperative banks, welfare funds, credit societies and weaker sections of society. Many employees see group insurance coverage as a major perk for faithful company service. The premium payments are usually deducted automatically from the pay itself. Some companies will absorb the entire cost of the policy as a benefit for employees. The main advantages of the group insurance schemes are low premium and simple insurability conditions. Premiums are based upon an age combination of members, occupation and working conditions of the group. A major feature of group insurance is that the premium cost on an individual basis may not be risk-based. Instead it is the same amount for all the insured persons in the group. Another distinctive feature is that under group insurance a person will normally remain covered as long as he or she continues to work for a certain employer and pays their insurance premiums. This is different from the individual insurance policy where the insurance company often has the right to reject the renewal of a person's policy, depending on his risk profile. Since the corporation is maintaining the records of the data according to zone-wise, divisional-wise and branch-wise and as per IRDA guidelines they maintain the record statewise only from 2006-07. Therefore, the analysis was done for the last 5years of the study..The geographical distribution channel of group total business of all eight states of the North eastern region and total group of Corporation as a whole is given below in the Table 6.23.

Table 6.23 (i) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-NO. OF SCHEMES

Name of States	2006-07	2007-08	2008-09	2009-10	2010-11	
	No. of Schemes	No. of Schemes	No. of Schemes	No. of Schemes	No. of Schemes	CAGR
Arunachal Pradesh	2	1	9	3	0	
Assam	527	759	970	303	1047	
Manipur	32	47	50	75	12	
Meghalaya	4	3	13	0	4	
Mizoram	8	6	22	12	1	
Nagaland	11	4	19	1	1	
Sikkim	0	4	121	2	1	
Tripura	20	4	41	27	66	
Total: N.E. Region	**604**	**828**	**1245**	**423**	**1132**	**5.85%**
Total: All India	**20717**	**22604**	**21335**	**8228**	**25509**	**-5.90%**
% (NER with all India)	3.31	0.48	3.29	6.38	5.83	**average**
% (Ar. Pradesh with NER)	0.33	0.12	0.72	0.71	0.00	0.38
% (Assam with NER)	87.25	91.67	77.91	71.63	92.49	84.19
% (Manipur with NER)	5.30	5.68	4.02	17.73	1.06	6.76
% (Meghalaya with NER)	0.66	0.36	1.04	0.00	0.35	0.48
% (Mizoram with NER)	1.32	0.72	1.77	2.84	0.09	1.35
% (Nagaland with NER)	1.82	0.48	1.53	0.24	0.09	0.83
% (Sikkim with NER)	0.00	0.48	9.72	0.47	0.09	2.15
% (Tripura with NER)	3.31	0.48	3.29	6.38	5.83	3.86

Source: Compiled from annual reports of LIC & IRDA various issues

Chart 6.23 (i) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-NO. OF SCHEMES

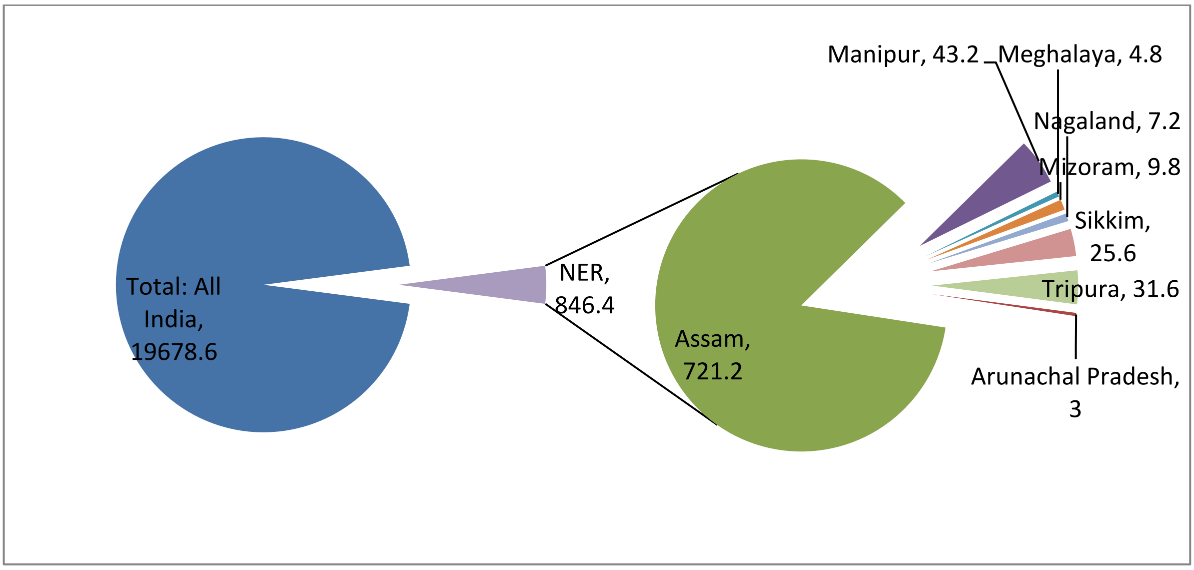


Table 6.23 (ii) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-NO. OF LIVES

Name of States	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	
	No. of lives	**No. of lives**	**No. of lives**	**No. of lives**	**No. of lives**	**CAGR**
Arunachal Pradesh	536	200	2103	230	0	
Assam	54202	214274	309606	101122	196813	
Manipur	4238	7852	48358	50388	1660	
Meghalaya	543	569	8212	0	340	
Mizoram	2019	3933	5158	10474	180	
Nagaland	1184	9667	16133	89	12	
Sikkim	0	450	15772	103	54	
Tripura	13554	990	18188	6083	32712	
Total: N.E. Region	**76276**	**237935**	**423530**	**168489**	**231771**	**18.78%**
Total: All India	**14164320**	**26738141**	**31770661**	**13454230**	**35660199**	**11.60%**
% (NER with all India)	17.77	0.42	4.29	3.61	14.11	**average**
% (Ar. Pradesh with NER)	0.70	0.08	0.50	0.14	0.00	0.28
% (Assam with NER)	71.06	90.06	73.10	60.02	84.92	75.83
% (Manipur with NER)	5.56	3.30	11.42	29.91	0.72	10.18

% (Meghalaya with NER)	0.71	0.24	1.94	0.00	0.15	0.61
% (Mizoram with NER)	2.65	1.65	1.22	6.22	0.08	2.36
% (Nagaland with NER)	1.55	4.06	3.81	0.05	0.01	1.90
% (Sikkim with NER)	0.00	0.19	3.72	0.06	0.02	0.80
% (Tripura with NER)	17.77	0.42	4.29	3.61	14.11	8.04

Chart 6.23(ii) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-NO. OF LIVES

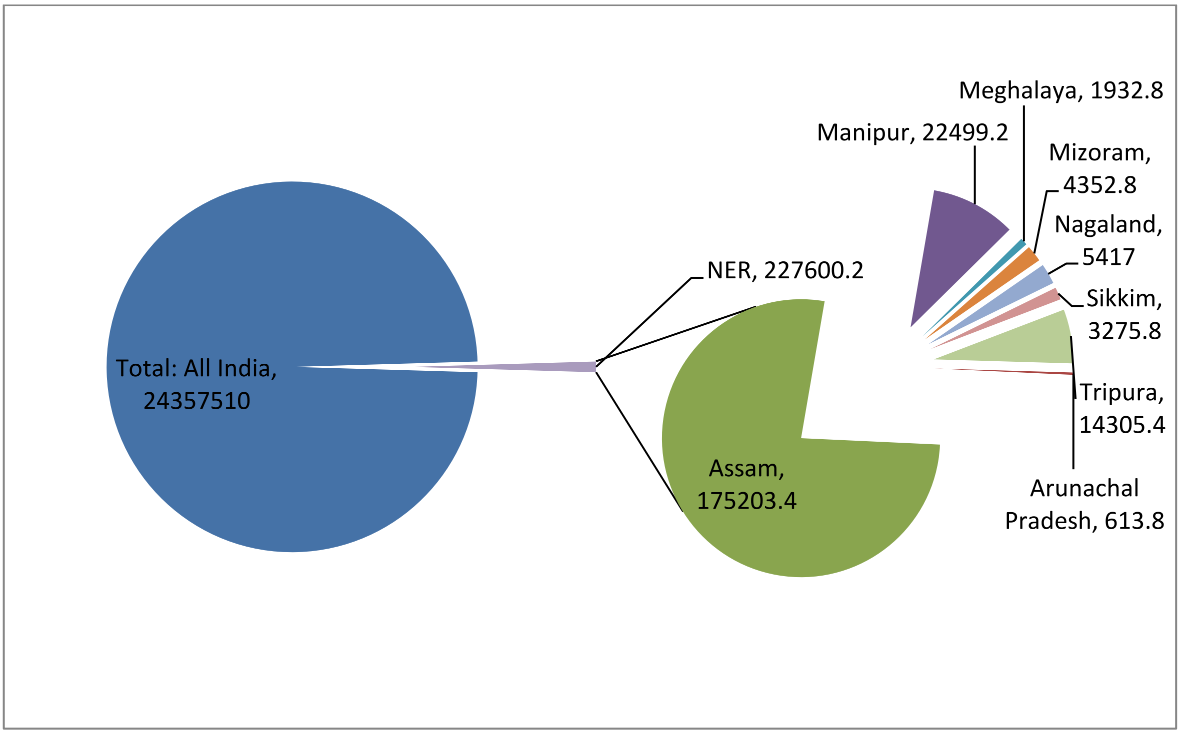


Table 6.29 (iii) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-PREMIUM INCOME

	2006-07	2007-08	2008-09	2009-10	2010-11	
	Premium (in ₹ crore)	**Premium (in ₹ crore)**	**Premium (in ₹ crore)**	**Premium (in ₹ crore)**	**Premium (in ₹ crore)**	**CAGR**
Arunachal Pradesh	0.00	0.00	0.01	0.00	0.00	
Assam	20.09	24.62	41.71	29.25	161.76	
Manipur	0.43	0.40	0.27	12.11	0.60	
Meghalaya	0.04	4.04	0.04	0.00	0.58	

Mizoram	0.68	1.41	0.00	0.11	0.21	
Nagaland	0.01	1.15	0.01	1.95	0.10	
Sikkim	0.00	0.00	0.00	0.69	0.55	
Tripura	2.02	0.51	0.08	3.90	12.33	
Total: N.E. Region	**23.27**	**32.13**	**42.13**	**48.01**	**176.13**	**44.50%**
Total: All India	**11531.09**	**10656.38**	**12736.52**	**6537.07**	**34232.58**	**16.88%**
% (NER with all India)	8.69	1.57	0.18	8.12	7.00	**average**
% (Ar. Pradesh with NER)	0.01	0.00	0.02	0.00	0.00	0.01
% (Assam with NER)	86.33	76.61	99.02	60.92	91.84	82.94
% (Manipur with NER)	1.83	1.26	0.64	25.22	0.34	5.86
% (Meghalaya with NER)	0.18	12.57	0.10	0.00	0.33	2.64
% (Mizoram with NER)	2.94	4.40	0.01	0.23	0.12	1.54
% (Nagaland with NER)	0.02	3.58	0.03	4.06	0.06	1.55
% (Sikkim with NER)	0.00	0.00	0.00	1.44	0.31	0.35
% (Tripura with NER)	8.69	1.57	0.18	8.12	7.00	5.11

Chart 6.23 (iii) GEOGRAPHICAL DISTRIBUTION CHANNEL OF GROUP TOTAL BUSINESS OF NER AND AT ALL INDIA LEVEL-PREMIUM INCOME

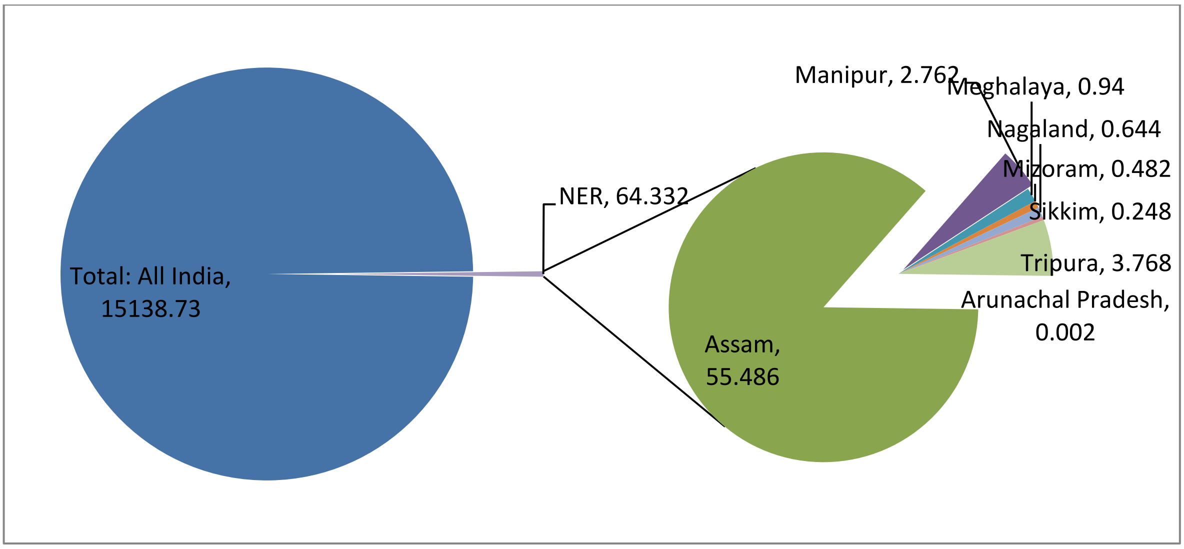


Table 6.23(i),(ii),(iii) and Chart 6.23(i), (ii),(iii) show the geographical distribution of NER and at all India level group insurance business in terms of no. of schemes, number of lives and the total premium per annum. In case of a number of schemes, group business has increased from 604 schemes in 2006-07 to 1132 schemes in 2010-11 in NER with a CAGR of 5.85% and at all India level no. of schemes was 20717 in 2006-07 to 25509 in 2010-11 with a CAGR of -5.90% . From the observation it is found that the performance of NER is satisfactory and that at all India level the performance is not satisfactory as the growth rate is negative at India level and positive at NER. Within NER on average basis the percentage share, Assam has the highest share of more than 84%, Manipur share is about 7% and remaining states are having less than 4%. In case of a number of lives, the group business of LICI has been increasing every year except 2009-10. Though the number of lives insured of group insurance of no. of lives was 141.64 lakhs in 2006-07 increased to 356.60 lakhs in 2010-11 with a CAGR of 11.60%. In NER the number of lives insured of group insurance was 0.76 lakh in 2006-07 to 0.32 lakh in 2010-11 with a CAGR of 18.78%. Within NER on average basis the share of Assam is highest about 76%, Manipur share is about 10% , Tripura share is 8% and the remaining states share is less than 2 ½ %. Group insurance business in terms of the total premium per annum of LICI has increased from ₹ 11531.09 crores in 2006-07 to ₹ 34232.58 crores in 2010-11 with a CAGR of 16.88%. The performance of LICI in terms of premium income is inconsistent. In NER the total premium income of group insurance has increased from ₹ 23.27 crores in 2006-07 to ₹ 176.13 crores in 2010-11 with a CAGR of 44.50%. From the analysis it is found that the performance of LICI at all India level and in NER is quite satisfactory. The overall performance of NER was far better than that of all India level. Within NER of Assam dominates the majority of the group business and its share is about 83% and remaining states are having less than 6%. Thus, the LICI performance at all India level as well in the NER is quite satisfactory and able to generate higher income by roping in the group of people as expenses tend to spread over a larger group. In NER only Assam dominates the business and it is a matter of concern that other states in the region are not performing well. There is an ample scope to increase the area of business in the region.

3. INDIVIDUAL AGENTS OF LICI

Life Insurance Corporation of India (LICI), the capital intensive business, provides the most important financial instrument to customers aimed at protection as well as long term savings. The Corporation reaches out to the people through the main traditional route of the agency model for the selling process of the numerous complex need-based products. The gigantic superstructure that LICI has evolved into over the years is in fact built on the singular efforts of the salesperson, the primary contact point of the customers who motivates and persuades them to buy an insurance product. Such a salesperson, a sole player must display the highest degree of integrity and ethics to foster a trusting relationship with his clients who would be more than satisfied and willing to be a buyers. At present, LIC has around 2.70 million agents and they represent more than 60 percent of the life insurance business. Since the corporation is maintaining the records of data according to zone-wise, divisional-wise and branch-wise and as per IRDA guidelines they maintain the records statewise only from 2006-07. Therefore, the anlaysis was done for the last 5years of the study. The statewise distribution of individual agents of North Eastern region and at all India level is given below.

Table 6.24 STATE WISE DISTRIBUTION OF **INDIVIDUAL AGENTS** OF LICI IN NER AND AT ALL INDIA LEVEL

Name of States	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**CAGR**
Arunachal Pradesh	383	407	507	577	623	
Assam	38215	36280	38192	37858	34600	
Manipur	1446	1724	1954	1782	1603	
Meghalaya	603	600	643	584	588	
Mizoram	291	358	384	390	336	
Nagaland	663	799	833	859	810	
Sikkim	612	656	706	633	581	
Tripura	1446	3730	3943	3859	3736	
Total: N.E. Region	43659	44554	47162	46542	42877	0.08%
Total: All India	1103047	1193744	1344856	1402807	1337064	5.46%
% (NER with all India)	3.96	3.73	3.51	3.32	3.21	**average**
% (Ar. Pradesh with NER)	0.88	0.91	1.08	1.24	1.45	1.11
% (Assam with NER)	87.53	81.43	80.98	81.34	80.70	82.40
% (Manipur with NER)	3.31	3.87	4.14	3.83	3.74	3.78
% (Meghalaya with NER)	1.38	1.35	1.36	1.25	1.37	1.34
% (Mizoram with NER)	0.67	0.80	0.81	0.84	0.78	0.78
% (Nagaland with NER)	1.52	1.79	1.77	1.85	1.89	1.76
% (Sikkim with NER)	1.40	1.47	1.50	1.36	1.36	1.42
% (Tripura with NER)	3.31	8.37	8.36	8.29	8.71	7.41

Chart 6.24 STATE WISE DISTRIBUTION OF **INDIVIDUAL AGENTS** OF LICI IN NER AND AT ALL INDIA LEVEL

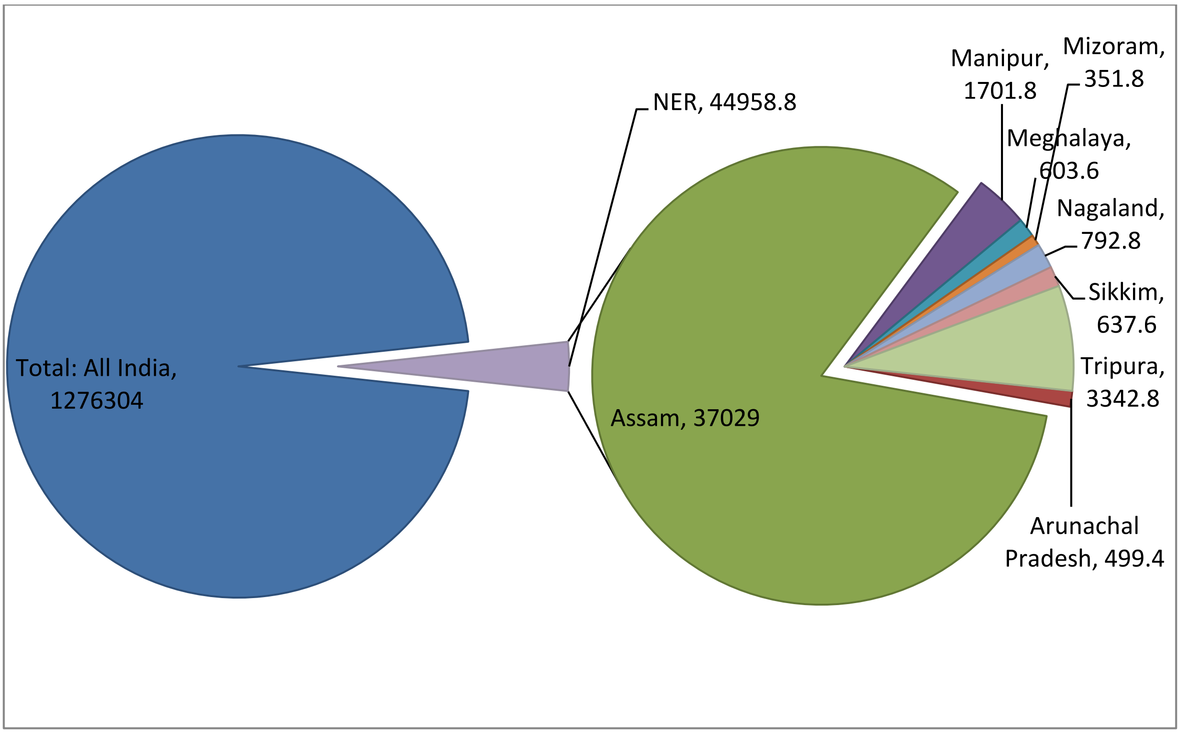


Table 6.24and Chart 6.24 reveals that the statewise distribution of individual agents of the corporation in North Eastern Region and at all India level. The number of individual agents is increasing year by year except in the last year of the study period. From 2006-07 to 2009-10 there was a consistent growth of the individual agents. The corporation have 11.03 lakhs individual agents in 2006-07 and increased to 13.37 lakhs in 2010-11 with a CAGR of 5.46%. As far as NER is concern the number of individual agents have 0.43 lakh in 2006-07 to 0.42 lakh in 2010-11 with a CAGR of 0.08%. Within the NER the average percentage share of the individual agent, Assam has 82.40% share, Tripura has 7.41% , Manipur has 3.78% share and the remaining states of NER is having less than 2% share. The individual agents percentage share of LICI of NER is only 3.54% when compared to all India level. By data analysis and observation it is found that the number of individual agents of NER only Assam dominate the majority of share i.e. more than 82% and remaining North Eastern states have only about 18%. LICI can take strategic decisions as to which agent needs to be paid more attention. However, the kingpin is the primary contact person - the agent. If agents are satisfied with the services or facilities provided by LIC or even with the environment prevailing in the organization, they can be able to provide efficient services to the customers and help in Corporation success.

Thus on the basis of foregoing analysis it may conclude that the performance of Life Insurance Corporation of India has been quite satisfactory in respect of almost all the parameters. The growth of various indicators of performance has been rather rapid especially up to 2001-02, i.e. until the private players entered the market. Analysis of utilization of income showed a negative Compound growth rate for salary and other benefits to employees, other outgo, etc. showing improved administrative efficiency. As far as the overall productivity of the corporation is concerned, it has increased since 1996-97 till 2001-02. It is only after the privatization that the productivity of the LICI started falling. This indicates the urgency on the part of LICI to open up new branches in suburban and rural areas and offer suitable products to the customers and provide better customer services. As far as the performance of LICI in north eastern region is not satisfactory as compared to all India basis. In northeastern region only Assam dominates the majority business of the corporation i.e. more than 80%. There is ample scope to increase its business, particularly in the NER.

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CHAPTER: VII

Chapter 7: Summary of Findings, Recommendations and Conclusions.

7.1	**ANALYSIS OF PRIMARY DATA AND TESTING OF HYPOTHESIS**
7.2	**FINDINGS FROM THE DATA**
7.3	**TESTING OF HYPOTHESIS** **7.3.1 TESTING OF HYPOTHESIS I** **7.3.2 TESTING OF HYPOTHESIS II** **7.3.3 TESTING OF HYPOTHESIS III**
7.4	**RECOMMENDATIONS AND SUGGESTIONS**
7.5	CONCLUSIONS

Chapter 7: Summary of Findings, Recommendations and Conclusions.

YOGAKSHEMA VAHAMYAHAM, the famous words form lord Krishna’s discourses at Kurukshshetra, is the motto LICI has convincingly used all these years in its monopoly avatar as the sole life insurer. Your welfare is our responsibility is what LICI proclaims through its motto. Ever since the life insurance industry was nationalized in 1956 and the life insurance corporation (LICI) born on September 1, 1956, the monopoly grew in size and stature with every passing decade. The monopoly status of LICI is being threatened. The insurance giant is now a player rather than the player in the life segment as was the case prior to nationalisation in 1956. LICI now has to worry about its own ‘yogakshema’. Since nationalization, LICI has built up a vast network of 2,048 branches, 111 divisions and 8 zonal offices spread over the country. In the context of North East India, the region comprising of eight states of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura is endowed with vast natural resources and has enormous potential of development. The economic structure of north-east India is similar to the general economic structure of India as a whole. On nationalization of life insurance business in the year 1956, Bhaskar insurance company limited, the One insurance company of the North Eastern Region was brought under the Life Insurance Corporation of India (LICI), Since then the administration of life insurance business in the North Eastern Region has been controlled by two offices of LICI in NER, one is Zonal at Kolkatta and the other Central office at Mumbai coordinates the life insurance business of the region. There are only four divisional offices in the region – (i) Guwahati (ii) Silchar (iii) Jorhat and (iv) Bongaigaon. The Zonal office coordinates the activities of the divisional office in the region.

The life insurance corporation of India has a well planned organizational set up based on a continued reforms procedure. Organizational structure of corporation envisaged by L.I.C of India Act consists of a 4 tier structure with central office at the top, primarily concerned with the formulation of policies. Zonal offices assist the central office in the matter of development, planning and review of business and supervision of divisional offices within their jurisdiction. It is observed that, the number of LICI office expanded in NER is not at all sufficient as compared to the all India level. It is, thus, evident that the LICI has not able to spread life insurance widely in the region and in particular to the rural areas as well as to the socially and economically backward classes of the North Eastern Region. In the context of NER, organizational set up of the Corporation is not satisfactory as it is highly centralize and its unitary structure has hampered its efficiency resulting in poor performance except Assam.

The structure of the insurance industry has undergone a drastic change since liberalization, privatization and globalisation of Indian economy, in general, and the insurance sector in particular. Life Insurance Corporation of India (LICI) which never faced competition earlier now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. As far as the performance of the LICI is concerned, there has been a constant fall in the market share. A number of districts, especially in the north eastern states do not have a single insurance company branch. The Northeast, as a matter of fact, was among the country’s top performing zones of private life insurer. There has been a tremendous growth in the insurance business after the entry of private players. But this growth is only of private players. As far as the performance of the LIC is concerned, there has been a constant fall in the market share. This indicates that the entry of private players has given a tough competition to LIC. The performance of LIC in terms of total premium and number of policies has been affected badly after privatization of the insurance sector. , it is observed that private insurer has a positive trend in both NER and India and negative trend is followed in case of LICI. However, the growth rate in Individual New Business Policies in respect to the industry is very high at all India level and very low in NER. Hence, there are the ample scopes for the industry to tap the potentials of the NER market.

Life insurance is an emotional business unlike in general insurance, there are sentiments involved since it is the question of a human being. Claims settlement is one of key factor to judge efficiency of LICI. Claim settlement is the last obligation of the insurer under the contract of life insurance which it has to perform. It is called the discharge of contract by performance. The Life Insurance Corporation of India (LICI) still remains the benchmark when it comes to settling death claims. However, major private players are also fast catching up. In case of a number of policies of LICI, it was 49.49 lakhs policies settled in 1996-97 which increased to 189.56 lakhs policies in 2010-11 with annual compound growth rate 9.93%. In case of amount settled, it was ₹ 5691.49 crore in1996- 97 which increased to ₹ 57490.29 crores in 2010-11 with annual compound growth rate 17.09%. In the context of NER, the number maturity claims have increased from 1,99,851 in 2002-03 to 3,77,818 in 2010-11 with an annual compound growth rate of 8.86% and in the case of death claims have increased from 11,818 in 2002-03 to 18,375 in 2010-11 with a growth rate of 7.20% and a compound annual growth rate of total death & maturity was 8.77%. Thus, after the entry of private players there has been an increase in the settlement of claims which resulted into the fall in the number of outstanding claims. This also shows improved performance of the Corporation.

Over the years LICI has helped to spread up the tempo of economic development of our country by making investment in public, private and cooperative sector. In fact the huge fund at the disposal of LICI has proved to be that drop of useful oil, which greases and smoothen to the wheels of economic development of our country. The performance of the corporation has been satisfactory but there is need to invest more controlled funds in infrastructure and social sector as it leads to the growth of economy and generation of employment opportunities. LICI should also increase its exposure in investment in the corporate sector as it is less than the prescribed norms so that it can get better returns. As far as NER is concerned the corporation have been almost completely neglected. The compound annual growth rate of the total amount of loans advanced for the entire period showing a negative growth rate of -1.60% whereas at all India basis the compound annual growth rate was 3.71%. The assistance provided by LICI reveals considerable concentration among few developed and large states despite some reduction.

The performance of Life Insurance Corporation of India has been quite satisfactory in respect of almost all the parameters. The growth of various indicators of performance has been rather rapid especially up to 2001-02, i.e. until the private players entered the market. Analysis of utilization of income showed a negative Compound growth rate for salary and other benefits to employees, other outgo, etc. showing improved administrative efficiency. As far as the overall productivity of the corporation is concerned, it has increased since 1996-97 till 2001-02. It is only after the privatization that the productivity of the LICI started falling. This indicates the urgency on the part of LICI to open up new branches in suburban and rural areas and offer suitable products to the customers and provide better customer services. As far as the performance of LICI in north eastern region is not satisfactory as compared to all India basis. In northeastern region only Assam dominates the majority business of the corporation i.e. more than 80%. There is ample scope to increase its business, particularly in the NER.

7.1 ANALYSIS OF PRIMARY DATA AND TESTING OF HYPOTHESIS

The study is mainly based on primary data collected from field source. The primary data is collected through comprehensive interviews, schedules and discussions with the customers of LIC and customers of private companies of North Eastern Region to see the performance of LICI and its impact in NER. The research is divided into two parts. The first part helps us to understand the level of awareness, service quality, problems faced and the investor's motive of investment, the second part deals with extracting important findings from this information and analyzing the measures required to correct problems if any. A sample of 300 respondents, 151 from LIC and 149 from the private sector were identified randomly for detailed study and analysis. The primary information's are collected with the help of a questionnaire. The population of North East region is divided into eight areas and samples are drawn from each stratum. Statistical tools like weighted averages, percentages, Chi-square test, mean and standard deviation etc. are used for the analysis of data. For the purpose of analyzing the awareness level a two point rating scale is used. A two point and a three point scale are used to test the various aspects covering the awareness level, service quality and problems faced by the consumers. In the following tables the result of the field work analyzed and discussed.

Tabulation of Data

7.1 Age Group Distribution

Age Group	Below 20	20-40	40-60	Above 60	Total
Number of Respondents	13	151	116	20	300
Percentages	**4.3**	**50.3**	**38.7**	**6.7**	**100**

7.2 Gender of respondents

Gender	Number of respondents	Percentage
Male	205	68.3
Female	95	31.7
Total	**300**	**100**

7.3 Occupation Distribution

Occupation	Number of Respondents	Percentages
Professional	49	16.3
Employee	140	46.7
Business	48	19.3
Agriculture	53	17.7
Total	**300**	**100**

7.4 Educational Qualification of Respondents

Educational Qualification	Number of respondents	Percentages
Upto High School	48	16
Intermediate	67	22.3
Degree & above	143	47.7
Technical	42	14
Total	**300**	**100**

7.5 Annual Income of Respondents

Annual Income	Number of Respondents	Percentages
Below 60,000	60	20
60,000-1,20,000	119	39.7
1,20,000-1,80,000	51	17
1,80,000-2,40,000	37	12.3
Above 2,40,000	33	11
Total	**300**	**100**

7.6 Type of the policy

Type of Policy	Number of Respondents	Percentages
Whole Life	13	4.3
Endowment	42	14
Money Back	55	18.3

Pension Fund	24	8
ULIP	155	51.7
Others	11	3.7
Total	**300**	**100**

7.7 Periodicity of the Policy

Periodicity of Policy	Number of Respondents	Percentages
5 years	22	7.3
5-15 years	125	41.7
15-25 years	116	38.7
Above 25 Years	37	12.3
Total	**300**	**100**

7.8 Awareness level of Respondents

	Yes	No	Number of Respondents
LIC	103	48	151
Private Co.	66	83	149
Total	**169**	**131**	**300**

7.9 Satisfaction Level about service qualities

	LIC	Private Co.	Total
Fully Satisfied	85	50	135
Partially Satisfied	43	57	100
Not Satisfied	23	42	65
Total	**151**	**149**	**300**

7.10 Accessibility of the employee/agents

	Yes	No	Total
LIC	102	49	151
Private Co.	117	32	149
Total	**219**	**81**	**300**

7.11 Complex formalities

	Yes	No	Total
LIC	92	59	151
Private Co.	79	70	149
Total	**171**	**129**	**300**

7.12 Grievance redressal mechanism

	LIC	Private Co.	Total
Fully Satisfied	63	39	102
Partially Satisfied	42	61	103
Not Satisfied	46	49	95

Total	151	149	300

7.13 Claim Settlement Process

	Yes	**No**	**Total**
LIC	125	26	151
Private Co.	105	44	149
Total	**230**	**70**	**300**

7.14 Information by the agent

	Yes	**No**	**Total**
LIC	104	47	151
Private Co.	124	25	149
Total	**228**	**72**	**300**

7.15 Rationale behind the investment

Factors	**LIC**	**Private Co.**
Individual Risk Coverage	1	1
Tax Benefits	3	4
Growth and return on investment	4	2
Risk Coverage of Family	2	3
Child Welfare	5	5

Data analysis and interpretation

The demographic profile of the respondents is analyzed on the basis of age, gender, occupation, educational qualification and annual income. The age distribution of sample respondents is shown in Table 7.1

Interpretation

1. A vast majority of respondents (85%) fall in the age band of 20-60 years. Out of 300 respondents around 50% are between 20-40 years and 38% are between 40-60 years of age.

2. Out of the 300 samples drawn 205 (68%) are male and it depicts the domination men in the life insurance sector. Only 95 (32%) of them are females.

3. Occupation wise, around 46% of respondents are employees and the rest are equally represented by professionals, businessmen and

agriculturists.

4. More than 60% of the respondents are graduates or technically qualified. Remaining 22% are intermediate and only 16% are high school passed.

5. Around 60% of the respondents have an annual income below ₹ 1,20,000 and only 17% have income in the range of ₹ 1,20,000-1,80,000. Also 11% have income above ₹ 2,40,000.

6. Out of the total population more than 50% of the respondents have unit linked insurance plans (ULIP) and only 18% have money back policies and endowment plans are with only14% of customers.

7. Around 80% of the respondents have policies with a maturity period of 5 to 25 years and only 12% have policies with a maturity period of more than 25 years.

8. As a contractual relationship exists between the insurer and the insured, it is the duty of the insurance company to disclose the policy details. The policy holders are not excused with any ignorance to the contract and it is the policyholders to get acquainted with the rules and regulations of the policy. So the study about the awareness level of customers assumes paramount significance.

From the Table 8 it is clear that 68.2% of respondents of LIC are aware of all details of their policy whereas only 44.3% of private company policyholders know about all their policy terms and conditions. Hence it is gratifying to note that LIC is more transparent and divulge concrete details about policy and empower its policyholders in a much better way.

Actual Growth (fo)	Expected Growth (fe)	fo-fe	$(fo-fe)^2$	$(fo-fe)^2/fe$
103.00	85.06	17.94	321.84	3.78
66.00	83.94	-17.94	321.84	3.83
48.00	65.94	-17.94	321.84	4.88
83.00	65.06	17.94	321.84	4.95
			x2=	**17.45**

Calculate Value of Chi-Square [x2] = 17.45

Degree of freedom =(r-1) (c-1)= (2-1) (2-1)=1

At 5% significant =3.84

Ho: there is no significant difference between the awareness level and type of company customers choose for taking up an insurance policy.

H1: there is a significant difference between the awareness level and type of company customers choose for taking up an insurance policy.

There is a significant difference between the awareness level and type of company customers choose for taking up an insurance policy because the calculated value of Chi square x2 is greater than the table value. So, alternative hypothesis have been accepted and null hypothesis have been rejected.

9. Like any other service sector, the insurance sector is also evaluated by its ability to provide quality services to its customers. In the modern market, the products are designed exclusively for the customers and the quality is the leading criterion for the selection of a particular product. Hence, the insurance providers should realize the changes in the market and adopt new weapons in the form of high quality services.

From the tables it shows that 57% customers are fully satisfied with LIC's service quality and comparatively only 34% are satisfied by private companies. Also 38% in private and 28% in LIC are only partially satisfied and remaining are not satisfied. It is evident that customers, in general, are satisfied with the quality of services provided by LIC and there is a significant difference in the service quality across both sectors.

Actual Growth (fo)	**Expected Growth (fe)**	**fo-fe**	**(fo-fe)²**	**(fo-fe)²/fe**
85.00	67.95	17.05	290.70	4.28
50.00	67.05	-17.05	290.70	4.34
43.00	50.33	-7.33	53.78	1.07
57.00	49.67	7.33	53.78	1.08
23.00	75.00	-52.00	2703.65	36.05
42.00	74.00	-32.00	1024.21	13.84
			x2=	**60.66**

Calculate Value of Chi-Square [x2] = 60.66

Degree of freedom =(r-1) (c-1)= (2-1) (2-1 (3-1))=2

At 5% significant =5.991

Ho: there is no significant difference between the level of satisfaction and type of company one choose for buying an insurance policy.

H1: there is a significant difference between the level of satisfaction and type of company one choose for buying an insurance policy

There is a significant difference between the level of satisfaction and type of company one choose for buying an insurance policy because the calculated value of Chi square x2 is greater than the table value. So, alternative hypothesis have been accepted and null hypothesis have been rejected.

10. The problems faced by policyholders are many and varied. It is the duty of any insurance company to make an amicable settlement of

these problems. Some important problems faced by policyholders analyzed are complex formalities for opening a policy, levy hidden charges, excessive penalties for non-payment of premium, undue delay in settlement of claims, lack of timely communication, lack of co- operation by officials/agents, inefficient grievance Redressal mechanism, misleading information by the agents and lack of technical knowledge or training. A few of them have been taken into account here.

Accessibility of the employee/agents LIC clearly lags behind from private companies as only 68% customers against 79% of private company customers say that employees of the company are always accessible.

LIC clearly lags behind from private companies as only 68% customers against 79% of private company customers say that employees of the company are always accessible.

11. **Complex formalities**

In LIC 61% customers feel that the formalities for opening a policy are too complex and the documentation is time taking but only 53% feel this in case of the private sector. Hence in all there is more or less the same response about the complex formalities in both the sectors.

12.Grievance Redressal mechanism

From the above figure it is clear that 42% and 26% customers are fully satisfied with the grievance redress mechanism of LIC and Private Company respectively. But also an alarmingly high % of customers of LIC and Private Company i.e. 30% and 33%

respectively are not satisfied with their process.

Actual Growth (fo)	Expected Growth (fe)	fo-fe	(fo-fe)²	(fo-fe)²/fe
63.00	51.34	11.66	135.96	2.65
39.00	50.66	-11.66	135.96	2.68
42.00	51.84	-9.84	96.89	1.87
61.00	51.16	9.84	96.89	1.89
46.00	47.82	-1.82	3.30	0.07
49.00	47.18	1.82	3.30	0.07
			x2=	**9.23**

Calculate Value of Chi-Square [x2] = 9.23

Degree of freedom =(r-1) (c-1)= (2-1) (2-1 (3-1))=2

At 5% significant =5.991

Ho: there is no significant difference between the relation between the grievance redress mechanism and type of company.

H1: there is a significant difference between the relation between the grievance redress mechanism and type of company.

There is a significant difference between the relation between the grievance redress mechanism and type of company because the calculated value of Chi square x2 is greater than the table value. So, alternative hypothesis have been accepted and null hypothesis have been rejected.

13. Claim Settlement Process

It is a matter of concern for LIC that around 83% say that it makes undue delay in claim settlement where as for private companies this is 70%.

Actual Growth (fo)	Expected Growth (fe)	fo-fe	(fo-fe)²	(fo-fe)²/fe
125.00	115.77	9.23	85.25	0.74

105.00	114.23	-9.23	85.25	0.75
26.00	35.23	-9.23	85.25	2.42
44.00	34.77	9.23	85.25	2.45
			x2=	**6.35**

Calculate Value of Chi-Square [x2] = 6.35

Degree of freedom =(r-1) (c-1)= (2-1) (2-1)=1

At 5% significant =3.84

Ho: there is no significant difference between claim settlement process and the type of the company.

H1: there is a significant difference between claim settlement process and the type of the company.

There is a significant difference between the awareness level and type of company customers choose for taking up an insurance policy because the calculated value of Chi square x2 is greater than the table value. So, alternative hypothesis have been accepted and null hypothesis have been rejected.

14. Information from the agent

According to the figure we can infer that where 83% Customers of private company the agent provides them with correct information only 69% say this in case of LIC.

15. Rationale behind the investment

The most important drive for taking an insurance policy by a customer is the individual risk coverage irrespective of the sectors. The rationale behind taking an insurance policy is almost same in both the sectors. The most proximate reasons are risk coverage, tax benefits, children's welfare and growth and return of investment.

Advertising of the company, classes or seminars conducted by various organizations and the influence of the peer group do not play a major role in the investment decision of the customer.

7.2 FINDINGS FROM THE DATA:

1. Referring table 7.1 it is clear that the majority i.e. more than half of investor's investing in insurance are the young people in the age group of 20-40.

2. Referring to table 7.2 it can be said that males dominate in having life insurance policies.

3. Referring to table 7.3 it can be said that the majority of people having life insurance are employed.

4. The most preferred plan among the investor's is unit linked plans because of its high returns. (refer table 7.6)

5. Almost 80% of the policies sold have the periodicity of 5-25 years. (refer table 7.7)

6. It is very much clear that the awareness level of the customers of LIC is much higher than that of the private sector. (refer table 7.8)

7. A greater number of customers of LIC are either fully or partially satisfied but there is not much significant difference across sectors in terms of service quality satisfaction level. (refer table 7.9)

8. Employees or agents of LIC are not easily accessible when compared to the private sector and customers have to try several times in order to meet LIC employees etc. (refer table 7.10)

9. Most of the respondents of LIC feel that the formalities for opening a policy are too complex and take longer time. (refer table 7.11).

10. There is a significant difference between the relation between the grievance redress mechanism and type of company (Table 7.12 and Chi Square Table)

11. There is a significant difference between the awareness level and type of company customers choose for taking up an insurance policy (table 7.13 and Chi square Table).

12. Most of the respondents of LIC feel that they are not provided with correct information as compared to respondents from Pvt. Co.

13. The rationale behind the investment of respondents are individual are almost similar irrespective of the sectors.

7.3 TESTING OF HYPOTHESIS

The entire research work is followed by following three pre-determined hypothesis:

1. The performance of LICI in NER is not satisfactory.

2. There is no significant effect on the performance of LIC in spite of being opened up for private players.

3. The LICI have failed to mobilize the investment in potential area of NER.

7.3.1 TESTING OF HYPOTHESIS I

Performance refers to the successes and failures of the undertaking in achieving the targets and objectives. A number of districts, especially in the North Eastern States do not have a single insurance company branch, out of the 86 districts in the Northeast, 31 do not have any branch. In the Guwahati division a high growth market covering a part of lower and central Assam, as well as Meghalaya. LICI has three other divisions in the region – Bongaigaon, Jorhat and Silchar. While Bongaigaon has 12 branch offices and two satellite offices, Jorhat 18 branch offices and seven satellite offices while the Silchar division has 14 branch offices and 13 satellite offices. Jorhat division covers a part of Arunachal Pradesh and Nagaland as well. However, in terms of reaching out to the remotest districts where there is a huge potential, LICI still have a long way to go. When we compare with the all India level the office per district in all India is 5.27 but in the NER it's only 1.29 per district as explained in the **Chapter 2**, So the LICI has not able to spread life insurance widely and in particular to the rural areas and to the socially and economically backward classes of the North Eastern Region with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost. From the primary data it can be concluded that LICI clearly lags behind from private companies in respect that employees/agents of the company are always accessible. In LICI 61% customers feel that the formalities for opening a policy are too complex and the documentation is time taking. 83% Customers of private company, the agent provides them with correct information but only 69% say this in case of LICI. In **Chapter 6** growths and performance of LICI along with the north eastern region was explained. Thus, the overall performance of LICI was quite satisfactory before the privatization of the insurance industry. However, various indicators show a downfall in its performance especially after 2000-01.As far the productivity of the LICI is concerned, it has been increasing since 1997 till 2001 but started falling after the privatization, i.e. after 2001.So, it is clear that the performance of LICI in north eastern region is not satisfactory by taking various indices. **Therefore, the proposed hypothesis is stands accepted that the performance of LICI in NER is not satisfactory.**

7.3.2 TESTING OF HYPOTHESIS II

The Structure of the insurance industry has undergone a drastic change since liberalization, Privatization and Globalization of the Indian economy, in general, and insurance sector in particular. For almost four decades LIC has been the sole player with a virtual monopoly in the life insurance sector. Thus, the LICI, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. Further, the insurance business is not at par within each region and hence to study the status and growth of life insurance in the North Eastern Region of the country was explained in the **Chapter 3.** The study was made to know the impact of the entry of private players in the performance of LICI. On the basis of the analysis, there has been a tremendous growth in the insurance business after the entry of private players. But this growth is only of private players. As far as the performance of the LICI is concerned, there has been a constant fall in the market share **(Chapter 3, Table: 3.4).** This indicates that the entry of private players has given a tough competition to LICI. The performance of LICI in terms of total premium and the number of policies has been affected badly after privatization of the insurance sector (Table3.3 & 3.5). Table 3.9 depicts the trends of life insurance business in NER in terms of individual new business policies. It is observed that the overall trend in respect of individual new business policies in NER is better than that of India. Further, it is observed that private insurer has a positive trend in both NER and India and negative trend is followed in case of LICI. However, the growth rate in Individual New Business Policies with respect to the industry is very high at all India level and very low in NER. Hence, there are the ample scopes for the industry to tap the potentials of the NER market. It is observed that the early years of LPG are very favourable in the case of private insurers particularly for the NER. Further, it is observed that private insurer has a positive trend in both NER and India, but the rate of growth in NER is much higher than that of India. Further, it is observed a positive trend is followed in case of LICI in both NER and India but the rate of growth is very tardy (Table 3.12). It is observed that the fruits of globalization are reflected in the NER life insurance market in the form of private entry and losing share of LICI. However, the life insurance industry as a whole shows rapid progress (Table 3.13). Being the largest insurance company in India; it is obvious that LIC has the largest strength of insurance agents and insurance business. It is further seen that LIC is well ahead of private insurers in terms of premium collection. It is worth noticing that all private companies suffered huge losses, but again, only LIC earned profits. It can be said that, LIC is the only life insurer in India that is fairly settled but the market share of LICI is decreasing day by day. Private players play a rivalry role in the insurance market. Further, it is observed that there should be a large gap between the new business premium amount and renewal premium, but in case of Indian insurance business, this gap is too narrow. Moreover, the operating expenses of both private and public players are too high which needs to be minimized. Over the past three years, around 40 companies have expressed interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. The threat of new players taking over the market has been overplayed. As is witnessed in other countries where liberalization took place in recent years, we can safely conclude that nationalized players will continue to hold strong market share positions, but there will be enough business for entry to be profitable. **Therefore, the proposed hypothesis there is no significant effect on the performance of LIC in spite of being opened up for private players stands rejected.**

7.3.3 TESTING OF HYPOTHESIS III

The basic idea behind setting up LICI the post-independence period was to provide the much-needed thrust for the development of industrial and other important sector of the national economy. Another objective was to utilize these institutions as instruments for removing /reducing regional disparities in economic growth. Over the years operations of the corporation in the country have been expanding on a fairly large scale providing every year much needed finance to industry, trade, commerce etc. The annual compound growth rate of total investment was 18.94% during the study period which is a welcome trend According to Sector wise, the share of investments in public sector has been greater throughout the study period. The investment in the public sector was ₹ 65917.41crores in 1996-97 which increased to ₹ 775992.5 crores in 2010-11 with a CAGR of 17.90%. The investment in the private sector was ₹ 10078.8 crores in 1996-97 which increased to ₹ 265880.3 crores in 2010-11 with a CAGR of 24.33%. The investment in the co-operative sector was ₹ 1941.8 crores in 1996-97 which increased to ₹ 3666.6 crores in 2010-11 with a CAGR of 4.54%. (Chapter 5, Table 5.4). The results reveal the total amount of loan advanced to various development activities showed increased from ₹ 2814.71 crores to ₹ 15235.94 crores with CAGR of 16.69% which is a well come trend (Chapter 5, Table 5.6). The analysis has been done in order to see the investment pattern of LIC as per IRDA regulations. Thus, controlled funds are divided into three prescribed categories of investment, i.e. 1) Central Govt. Securities 2) State Govt. & Other Govt. Guaranteed Marketable Securities and 3) Infrastructure and Social Sector Investment. Table 5.7 reveals the investment pattern of controlled the funds of LIC. As per the regulations approved by IRDA, there must be minimum 50% investment in government securities or other approved securities. It is clear from Table 5.7 that from 1996-97 to 2010-11, there has been more than 50% of investment of the Corporation in this category. The CAGR of the amount of investments in government securities and other approved investments over the period of study was 0.92 % and in infrastructure and social sector investment was -2.47%. Thus, there is a need to invest more controlled funds in infrastructure and social sector as it leads to the growth of the economy and generation opportunities. From the business point of view LICI can invest in backward regions only when it finds that such investments are profitable. Between regions offering equal investment opportunities and satisfying all its canons of investment it may be expected to invest in backward regions. Because of its legal restraints and even otherwise, it is not in a position to pioneer new ventures and new industries and hence its contribution to remove existing regional imbalances is extremely limited. That will be hardly consistent with its primary duty to the policyholders in making sound investments of the life fund. Moreover, it is too much to expect from the corporation to assume the responsibility of the Central and State Governments which alone are competent to take effective steps to correct regional imbalances in the North eastern region. LICI can facilitate and stimulate development but they cannot initiate it. By analyzing the data it is found that since the inception of the corporation the investment in NER has been very less as compared to other states of the country. The compound annual growth rate of the total amount of loans advanced for the entire period showing a negative growth rate of -1.60% whereas at all India basis the compound annual growth rate was 3.71%. On average basis the percentage share of the total amount of loan sanction by LICI to the region is only 6%. Within NER share of Mizoram & Tripura share is about 2% each , the percentage share of Nagaland & Sikkim is about 1% each and the remaining states of the region share is nil. We should note that development of NER is intricately linked with the development of Assam. **Therefore, the proposed Hypothesis III that the LICI have failed to mobilize the investment in potential area of NER is stands accepted.**

7.4 RECOMMENDATIONS AND SUGGESTIONS

- LICI should open at least one branch in each district with a view to reaching all insurable persons in the northeastern region and providing them adequate financial cover against at a reasonable cost.
- To increase the productivity of branches, LIC should have to increase infrastructural facility of northeastern region so that common people can reach to LIC easily.
- To fulfill the responsibility towards the society LICI has to invest in infrastructure and social security as per IRDA guidelines and not as per the central govt. instruction which is politically motivated.
- LIC was the only company in life insurance business prior to privatization and after privatization also LIC has a strong presence in the life insurance market and to retain its market leader status the LIC needs to acquire more competitive in terms of product innovation, customer awareness, customer services and technology.
- The liberalization of the Indian insurance sector has both pros and cons. The ill-effects of liberalization on insurance industry can be lessen by promoting healthy competition among the life insurers and

keeping the interest of common people above profit motive of the insurers.

- To achieve greater insurance penetration, the healthy competition has to be intensified by both the sectors and they should come up with new innovative products to offer greater variety of choice to the customers and also make improvement in the quality of services and sell products through the appropriate distribution channel to win-win situation for both the parties.

- Life insurance is completing a customer oriented business and customer is the king in the market. Awareness of private insurance company is quite high but still many hesitate to invest. Therefore it is important to create trust and confidence among the investors that private insurance is a safer option for investing. To create trust among policyholders, insurance companies should train their sales force to be ethical, understand customer needs and sell appropriate products and provide complete information to the customers so that they can make informed choices.

- In present stiff market competition, a focus on niche segment can be an effective way of marketing for insurers to differentiate from the competitors. Focus on to design attractive product schemes with attractive premium structure to suit varied requirements of the investors by considering their financial position.

- Information should be correctly communicated with their respective people for increasing brand loyalty.

- A stringent accounting practice to prevent failures amongst the insurers. Every insurer will have the hard-earned money of the masses. Any failure of the insurer on account of unwarranted profligacy will cost the nation in general and the insured in particular. To prevent any underhand workings of the insurer and to prevent them from going bust, a stringent accounting practice is imperative.

- A change in the attitude of the population Indians has always been wary of employing their hard-earned money in a venture that will pay them on their death. Insurance has always been used as a Tax saving tool. No more, no less. It is up to the insurers to educate the people to secure/insure their future against any unknown calamity and make a shield around their families and businesses.

- Imparting knowledge is indispensable but without training it is not sufficient. The employees and officers of LICI shall have to acquire practical training or on the job study. Presently the employees of LICI have the knowledge about the subject but they are lacking in rigorous training which is compared to that of “knows swimming but never swam”. Now it is the time for integrating knowledge and training for maintaining or improving upon the existing level of performance.

- Given the brand equity, visibility, credibility and wide reach the LICI enjoys, tapping unexplored markets by northeastern region will not be difficult. The vast and under explored market of northeast is a case in point. Only LICI can tap the north east market effectively by using its huge sales force. This is one area in which LICI can take a big lead over its competitors.

- The customer of today is having more to choose in terms of policy instruments as new players have come up with an innovative product line. Naturally, the policies issued by LICI need to be seen in these light and suitable steps taken to customize the products. Hitherto, when challengers were not there LICI could get away with whatever products it had to offer. The customer had no inkling as to what insurance could offer by way of products. Obviously, he was satisfied with whatever he could get. Entry of new players has changed all this. As the new players are coming up with their innovative products the customers' expectations are rising. Even though LICI is the market leader, it still needs to change its product mix to suit customer needs.

- In an insurance contract the clauses must be simple and easy to understand. In India, policyholders usually do not read the policy documents for the simple reason that the way the clauses are framed therein they do not make sense to the average reader. New players are introducing the free look in period. Whatever be the free part of it, the policyholder is being made to go through the clauses or the policy conditions and to this extent alone, it is a great achievement. In this regard LICI should think and prove its leader's position in the market.

- While some new products have been introduced in the market, information related to them is being communicated completely there by putting the customer in a quandary. When a new policy is being introduced in the market it sounds as if it is a competitive product rather than a genuine useful product of the customer. The LICI must make sure that its products and their implication are properly understood by the customers.

- In a business like insurance where credibility and trust are essential ingredients for success. One possible solution to this problem could be having in place a better motivational system that takes care of both material and non material needs of the agents who would propel them to look at the long term perspective rather than the short term interests like an immediate high rate of commission.

7.5 **CONCLUSIONS:**

On nationalization of life insurance business in the year 1956, the Bhaskar insurance company limited, the One insurance company of the North Eastern Region was brought under the Life Insurance Corporation of India (LICI), Since then the administration of life insurance business in the North Eastern Region has been controlled by the Zonal office in Calcutta (Kolkatta). The Zonal office coordinates the activities of the divisional office in the region. The insurance industry in India has witnessed a sea change ever since it was opened up to private players in 1999. The liberalization transformed the industry's outlook towards the huge Indian market. The sudden rise in the number of players has brought about innovation in product development and distribution channels. The Indian customer thus has a whole new range of insurance products to choose from, there is a choice for every societal segment. A number of districts, especially in the northeastern states do not have a single insurance company branch. The Northeast, as a matter of fact, was among the country's top performing zones of private life insurer like Aviva Life, ICICI etc. The intention is to significantly reduce transaction costs and improve customer service and overall efficiency by using an aggregating distribution channel that is supported by technology. Intermediary agencies are trained to create awareness, enroll policyholders, collect premiums, facilitate claims settlement and provide customer service.

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It is also observed that LIC is losing its market share in favour of new entrants or private companies. Being the largest insurance company in India, it is obvious that LIC has the largest strength of insurance agents and insurance business. It is further seen that LIC is well ahead of private insurers in terms of premium collection. It is worth noticing that all private companies suffered huge losses, but again, only LIC earned profits. It can be said that, LIC is the only life insurer in India that is fairly settled but the market share of LICI is decreasing day by day. Private players play a rivalry role in the insurance market. Further, it is observed that there should be a large gap between the new business premium amount and renewal premium, but in case of Indian insurance business, this gap is too narrow.

Moreover, the operating expenses of both private and public players are too high which needs to be minimized. Over the past three years, around 40 companies have expressed interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. The threat of new players taking over the market has been overplayed. We can safely conclude that even LICI is better placed in terms of the confidence of the buyers but more emphasis has to be laid on marketing so that private players are not able to make a dent in its market and lure away the prospective buyers.

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2. Joshi, L.D.(1970): Study of the Life Insurance Funds Investments in India During the first decade of the existence of the Life insurance corporation of india. Ph.D Thesis, Lucknow University.
3. Talha, Mohammad.(1989): An Appraisal of Investment Policies of Life Insurance corporation of India. Ph.D Thesis, Aligarh Muslim University.
4. Chinta, Kameswari.(1992): Performance Evaluation of Andhra Pradesh State Financial Corporation.Ph.D Thesis, Andhra University.
5. Chandarana, Harish M.,(2008): Performance Evaluation of Life Insurance Corporation of India. Ph.D Thesis, Saurashtra University.

QUESTIONNAIRE

I.General information :

	Particulars
Gender	Male
	Female
Age	Below 20 years
	20 – 40 years
	40 – 60 years
	Above 60 years
Occupation	Professional
	Employee
	Business
	Agriculture
Education	Upto High School
	Intermediate
	Degree & above
	Technical
Income per annum	Below 60,000
	60,000-1,20,000
	1,20,000-1,80,000
	1,80,000-2,40,000
	Above 2,40,000

2. Joshi, L.D.(1970): Study of the Life Insurance Funds Investments in India During the first decade of the existence of the Life insurance corporation of india. Ph.D Thesis, Lucknow University.
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II. Specific Information:

1**.** Have you ever taken a Life Insurance Policy from any Company?
   a) Yes
   b) No

2. You have purchased your policy from LIC or from any private sector Insurance co.?
   a) LIC
   b) Private sector insurance company

3. You have taken your policy from which private company?
   a) ICICI prudential
   b) Bajaj Allianz
   c) TATA AIG
   d) Birla Sun Life
   e) Any other (plz. Specify)…………………..

4. Why you have taken your policy from LIC, (Please rank)?
   a) Brand name
   b) Oldest
   c) Flexible Premium rate
   d) Tax saving/ high return
   e) Any other (p;z. specify)………………..

5. Why you have taken your policy from private sector Insurance Company (Please rank)?
   a) Quick & high returns
   b) Better services
   c) Tax saving
   d) Any other (plz. Specify)……………

6. Which type of insurance plan have you taken?
   a) Whole Life Policy
   b) Endowment Policy
   c) Money Back Policy
   d) Pension Fund
   e) ULIP (Unit Linked Insurance Plan)
   f) Others (specified)___________________

7. What is the maturity period of policy that you have taken?
   a) 5 years

b) 5 to 15 years
c) 15 to 25 years
d) Above 25 years

8. Are you aware about the terms and conditions of policy?
a) Yes
b) No.

9. Do you look for IRDA instructions before taking insurance policy?
a) Yes
b) No
c) I don't know about IRDA

10. Are you satisfied with the quality of services provided by Life Insurance Company?
a) Full Satisfied
b) Partially Satisfied
c) Not Satisfied

11. Are you satisfied with on-line services of insurance company?
a) Yes
b) No

12. Whether employee /agents are accessible?
a) Yes
b) No

13. Are you satisfied with your insurance agent regarding their services?
a) Highly satisfied
b) Satisfied
c) Dissatisfied

14. Do you feel the formalities for opening a policy are too complex?
a) Yes
b) No

15. Are you satisfied with the grievance redress mechanism?
a) Fully satisfied
b) Partially Satisfied
c) Not Satisfied

16. Whether the insurance company agent provides correct information?

a) Yes
b) No

17. Do your insurance company make undue delay in claim settlement?
a) Yes
b) No

18. To which sector you will give preference while investing at present?
a) Insurance Investment Plan
b) Stock market
c) Govt. Deposits
d) Bank Deposits
e) Mutual Fund
f) Any other (plz. Specified)……………..

19. Which of the following factors influence your decision while purchasing that Insurance plan? (Give rank 1 to 5)
a) Name and reputation of the company
b) Low premiums
c) Rate of return
d) Risk covered
e) Tax Savings

20. What is your source of information for taking a insurance plan?
a) Portfolio planner
b) Friends
c) Family
d) Own research

21. Who makes the investment decisions in your family?
a) You
b) Your family
c) Father/Mother
d) Son/Daughter
e) Relative/Friends
f) Others, if any

22. Do you think about other investment options other than insurance? If yes, which of the following?
a) Real Estate
b) Mutual Funds
c) Share Market
d) Govt. Deposits
e) Bank Deposits

23. What do you think are the benefits of insurance cover? (Rank Them)
   a) Cover future uncertainty
   b) Tax Deductions
   c) Future investment
   d) Any other (plz. Specify) …………

24. What is your perception about insurance? (Rank Them)
   a) A Saving Tool
   b) A tax saving device
   c) A tool to protect future

25. Would you go for insurance if a service provider away from your city/town offers better service & products?
   b) Yes
   c) No
   d) Uncertain

26. Rationale behind the investment, (Rank them 1,2,3,4 & 5)
   a) Individual Risk Coverage
   b) Tax Benefits
   c) Growth and return on investment
   d) Risk Coverage of Family
   e) Child Welfare

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