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A Comparative Performance Evaluation of LIC and Private Players with Regard to Death Claims

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Abstract – Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first Life Insurance company on Indian Soil. The first two decades of the twentieth century saw lot of growth in Insurance business. On December 7, 1999, Parliament passed the Insurance Regulatory and Development Authority (IRDA) Act which paved the way for granting licences to private sector life-insurance companies. Life Insurance is the fastest growing sector in India since 2000 as Govt. allowed private players and FDI upto 26%. Therefore, monopoly of LIC came to an end and the corporation has to perform in a competitive environment. In the present paper, an attempt has been made to analyse the growth of insurance sector with regard to individual death claims and group death claims. A comparative study has been done regarding the death claims of LIC and various other private players.

Keywords – Insurance, IRDA, Death Claim-Individual and group, LIC, Private Players.

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INTRODUCTION

A well developed and evolved insurance sector is a boon for economic development of a country. It provides long-term funds for infrastructure development and concurrently strengthens the risk-taking ability of the country. LIC has for a long period of time has enjoyed dominant market of life insurance and the fact cannot be denied. Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26%. In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the Insurance Act of 1938. The same year that the newly appointed insurance regulator - Insurance Regulatory and Development Authority IRDA --started issuing licenses to private life insurers

The modern concept of Insurance in India started with the establishment of East India Company in 18th century. First insurance company which was established in Calcutta in 1818 was the Oriental Life Insurance Company. In 1823, Bombay Life Insurance Company started its business by insuring lives for 2-3 years. After that Madras Equitable Company came into existence in 1829. Many other companies also tried to establish business in India but failed very soon due to their unethical business practices. The British Parliament enacted an Insurance Act in 1870 and then Bombay Mutual life Assurance Society established the

first Indian Life Insurance company in India. The first statutory measure to regularize life business in India was taken in 1914, when the Government enacted the Indian Life Assurance Companies Act, 1912. In 1928, The Insurance Act was passed which empowered the Government to collect the statistical information about both life and non-life business transacted in India and foreign insurers including provident societies. In 1938, the earlier act was consolidated and amended by the Insurance Act, 1938. In 1956, the Government of India issued a notification of nationalization of insurance companies. As a consequences The Life Insurance Corporation came into existence in 2000, the IRDA was established which opened the market for private as well as for foreign players.

INDIAN INSURANCE IN THE GLOBAL SCENARIO

Globally, the share of life insurance business in total premium was 56.2 per cent. However, the share of life insurance business for India was very high at 79.6 per cent while the share of non-life insurance business was small at 20.4 per cent. In life insurance business, India is ranked 11th among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.00 per cent during 2013. However, during 2013, the life insurance premium in India declined by 0.5 per cent (inflation adjusted) when global life insurance premium increased by 0.7 per cent.

NEED FOR THE STUDY

It is important to understand the market structure of life insurance sector. LIC as a dominant player has gained an increase of 88% in new business premium income. Despite of uncertain environment, total premium of Life Insurance industry increase by 66% to Rs 62,361.3 covered up to December 2010. This is evident in itself to prove that knowing or unknowingly the insurance sector is dominated by LIC. Thus a comparative study is undertaken regarding individual death claims and group death claims so as to evaluate whether there exist much difference among LIC and private players..

OBJECTIVES OF THE STUDY

The objective of the present study is to compare the performance of public and private life insurance companies. The main objectives of the study are:

1. To evaluate the performance of public and private life insurers with regard to individual death claims
2. To evaluate the performance of public and private life insurers with regard to group death claims.

HYPOTHESES OF THE STUDY

For the purpose of this study, the following null hypotheses are formed:

- There is no significant difference in the individual death claims settled among public and private life insurance companies.
- There is no significant difference in the group death claims settled among public and private life insurance companies.

RESEARCH METHODOLOGY

The research article is based upon descriptive as well as exploratory research. Secondary sources of data collection have been adopted for the study. The relevant and required data are collected from the text books, national and international articles, as well as annual reports of LIC.

Scope of the Study

The study includes the death claims disbursed-individual and group by LIC, private sector and the industry. Besides, claims repudiated, claims written off and claims pending at the end of the year by LIC and other players has also been analysed in order to compare the performance.

Period Coverage

Insurance sector was privatised in the year 2000, however the present study relates to post privatisation period. The study has been conducted on the data for 7 years i.e. 2007-2008 to 2013-2014.

Data Collection

The present study is based on secondary data. Data and information have been extracted from Annual Reports of IRDA and LIC of India. Besides, a few websites have also been consulted.

Statistical Tool Employed

The information so collected has been classified, tabulated and analysed as per the objectives of the study. For the analysis of data, statistical tools like percentages, ratios, and graphs have been used.

RESULTS

Table 1 and figure 1 depict the individual death claims paid by Life insurers along with industry. Comparatively LIC has paid more death claims. The claim settlement ratio of LIC is better than that of the private life insurers. Settlement ratio of LIC had increased to 98.14 per cent during the year. 2013-14 when compared to 97.73 per cent during the previous year. For private insurers, settlement ratio had gone down slightly to 88.31 per cent during the financial year 2013-14 when compared to 88.65 per cent during the previous year. The individual claims paid by LIC are almost in the same trend as of industry whereas Private insurers show a much smaller claim settlement. (as shown in figure 1)

Table 1: Individual Death Claims paid by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	78.93	82.26	84.88	86.04	89.34	88.65	88.31
LIC	96.71	95.48	96.54	97.03	97.42	97.73	98.14
Industry	95.86	94.46	95.24	95.58	96.26	96.41	96.75

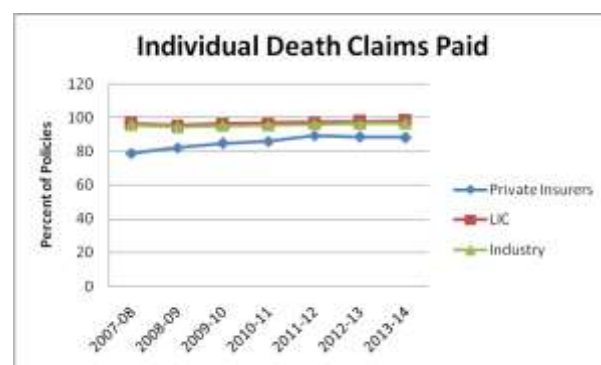


Figure 1: Individual Death Claims paid by Life insurers (in percent of policies)

Table 2 : Individual Death Claims repudiated by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	10.17	9.97	7.60	8.90	7.82	7.85	8.03
LIC	1.13	1.33	1.21	1.00	1.30	1.12	1.10
Industry	1.56	2.00	1.93	2.04	2.24	2.10	2.08

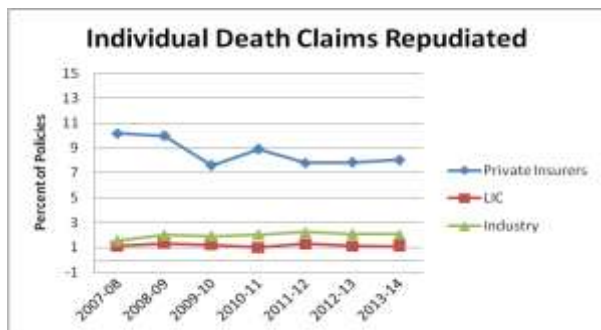


Figure 2: Individual Death Claims repudiated by Life insurers (in percent of policies)

Table 2 and figure 2 represent individual death claims repudiated by life insurers. The percentage of repudiations by LIC was 1.10 per cent in 2013-14 remaining almost at the same level (1.12 per cent) as of the previous year. Private insurers had repudiated more (10,036) number of claims when compared to (8,387) of LIC. The percentage of repudiations for private insurers was 8.03 per cent in 2013-14 which was 7.85 per cent for 2012-13. Private insurers claims cancelled vary from 10.17 to 7.60 percent which is almost ten times that of LIC. LIC is the insurer which is having lower individual death claims repudiated even if compared to industry figures. This highlights the fact that LIC is performing better than private players as well as industry in terms of individual death claims.

Table 3: Individual Claims written back by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	0.01	0.02	0.04	0.05	0.03	0.03	0.04
LIC	0.06	0.98	0.84	0.51	0.06	0.10	0.23
Industry	0.06	0.90	0.75	0.45	0.06	0.09	0.21

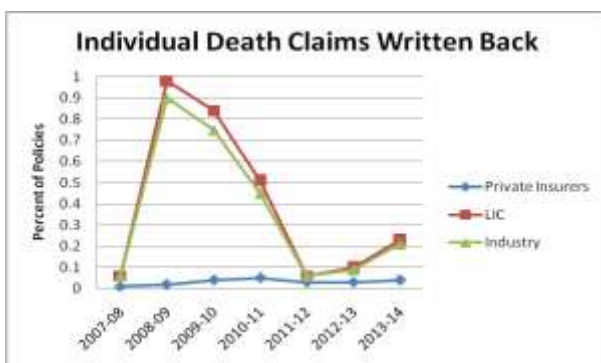


Figure 3: Individual Claims written back by Life insurers (in percent of policies)

Claims written back means the insurance company cleared the claim initially but afterwards withdrew such insurance claim that means such claim is being written off /back by the company. Claims written back by LIC increased from 0.10 in 2012-13 to 0.23 in 2013-14. As compared to industry also death claims written back by LIC are more for all the seven years.

Table 4: Individual Death Claims pending at the end of the year by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	10.88	7.75	7.48	5.01	2.82	3.47	3.63
LIC	2.10	2.21	1.41	1.46	1.21	1.04	0.52
Industry	2.52	2.64	2.08	1.93	1.44	1.40	0.96

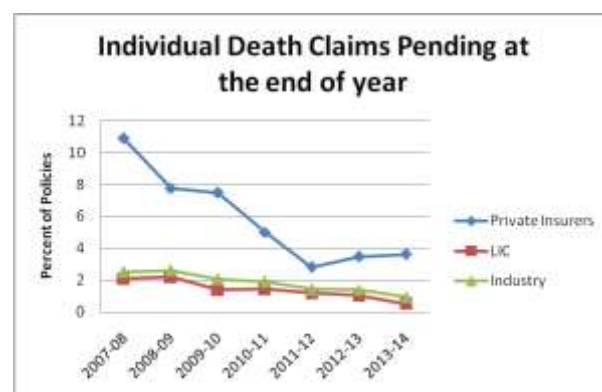


Figure 4: Individual Death Claims pending at the end of the year by Life insurers (in percent of policies)

Individual death claims pending at the end of the year were shown in table 4 and figure 4. Till the end of the year, private insurers have more claims pending than LIC. This highlights the fact that LIC is a better performer as it has less claims pending in the end of year. LIC's claim settlement is high and claims pending are low as compared to industry which shows that LIC as a life insurer is performing better than private insurers and industry as a whole.

Table 5: Group Death Claims paid by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	84.43	92.51	96.80	93.33	97.83	87.79	90.45
LIC	99.88	99.76	99.80	99.66	99.64	99.54	99.65
Industry	97.85	98.63	98.90	96.73	98.96	95.69	96.22

Similar to Individual claims, the group insurance claims paid by LIC are higher than the private insurers as shown in table 5 and figure 5. During 2013-14, the total intimated claims were 4,11,647 while 14,331 claims were pending at the beginning of the year. Out of these, life insurance industry had settled a total of 4,09,897 (96.22 per cent of the total claims) claims. While LIC settled 99.65 per cent of

the claims, the private life insurers paid 90.45 per cent of all claims.



Figure 5: Group Death Claims paid by Life insurers (in percent of policies)

Table 6: Group Death Claims repudiated by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	5.75	3.39	1.61	1.18	1.92	1.18	1.21
LIC	0.01	0.01	0.01	0.01	0.00	0.01	0.00
Industry	0.76	0.53	0.49	0.55	0.72	0.39	0.45

Table 6 and figure 6 represent group death claims repudiated by life insurers. The percentage of repudiations by LIC was 0.00 per cent in 2013-14 remaining almost at the same level (0.01 per cent) as of the previous year. The percentage of repudiations for private insurers was 1.21 per cent in 2013-14 which was 1.18 per cent for 2012-13. Private insurers claims cancelled vary from 5.75 to 1.18 percent. LIC is the only insurer which is having lower group death claims repudiated as compared to industry figures. This highlights the fact that LIC is performing better than private players as well as industry in terms of group death claims also.

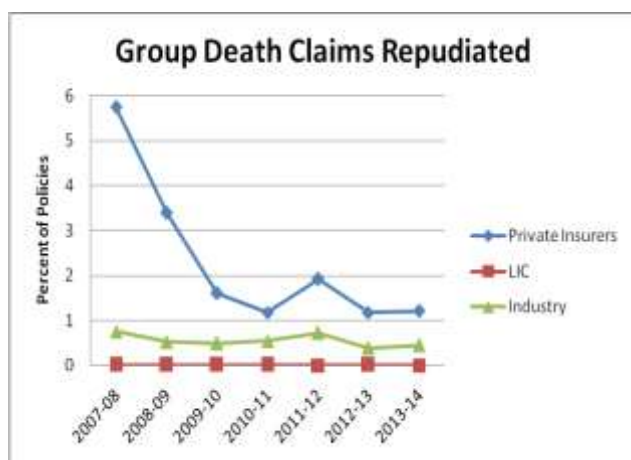


Figure 6: Group Death Claims repudiated by Life insurers (in percent of policies)

Table 7: Group Claims written back by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	0.16	0.17	0.02	0.13	0.02	0.00	0.00
LIC	-	0.00	0.00	0.00	0.00	0.00	0.00
Industry	0.02	0.03	0.01	0.06	0.01	0.00	0.00

Group claims written back by LIC has remained nil from 2008-09 to 2013-14 (for all the seven years). As compared to industry also claims written back by LIC are nil whereas in year 2007-08 to 2010-11, industry has written back 0.02 percent of claims (on an average).

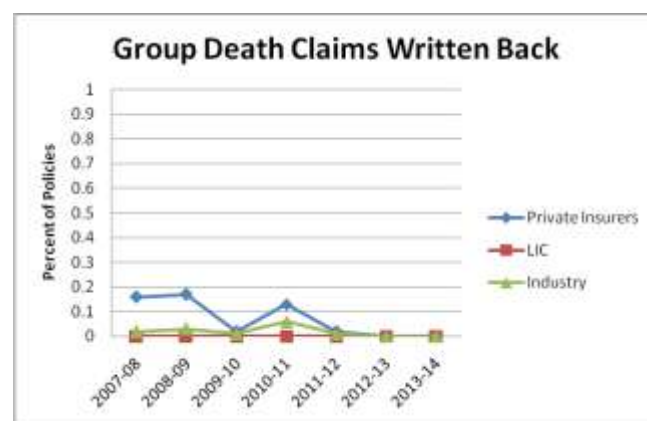


Figure 7: Group Claims written back by Life insurers (in percent of policies)

Table 8: Group Death Claims pending at the end of year by Life insurers (in percent of policies)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Private Insurers	9.66	3.93	1.58	5.36	0.24	11.03	8.32
LIC	0.11	0.24	0.19	0.33	0.36	0.45	0.35
Industry	1.37	0.81	0.61	2.66	0.31	3.92	3.32

Group death claims pending at the end of the year were shown in table 8 and figure 8. Till the end of the year, private insurers have more claims pending than LIC. This highlights the fact that LIC is a better performer as it has less claims pending in the end of year. LIC's claim settlement is high and claims pending are low as compared to industry which shows that LIC as a life insurer is performing better than private insurers and industry as a whole. The highest claim pending by private insurers was 11.03 percent in the year 2012-13 and the lowest was 0.24 in 2011-12. Whereas, the highest claim pending by LIC was 0.45 percent in the year 2012-13 and the lowest was 0.11 in 2007-08.

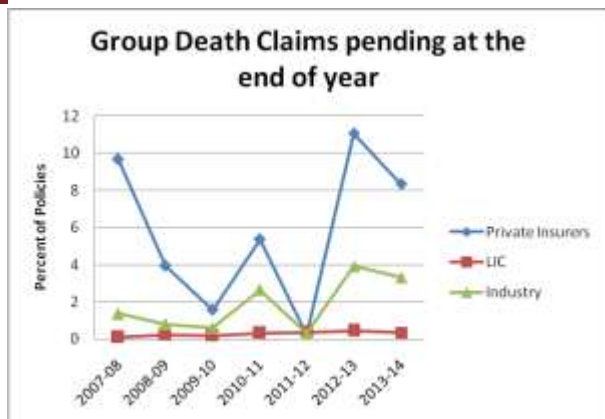


Figure 8: Group Death Claims pending at the end of year by Life insurers (in percent of policies)

CONCLUSION

Though privatization of the insurance sector is feared to affect the prospects of the LIC, the study shows that the LIC continues to dominate the sector. Private sector insurance companies have relatively poor performance with regard to individual and group death claims as compared to LIC. On a comparative basis, LIC is performing better than the overall industry also on all the parameters studied. Thus, it can be concluded that with higher claims paid and lesser claims pending, LIC is dominating the insurance sector in individual as well as group segment.

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