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EMERGING ISSUES AND CHALLENGES OF LIFE INSURANCE CORPORATION (LIC) OF INDIA

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ABSTRACT

Life Insurance Corporation of India (abbreviated as LIC) is an Indian statutory insurance and investment corporation. It is under the ownership of Ministry of Finance, Government of India.

The Life insurance Corporation of India was established on 1 September 1956, when the Parliament of India passed the Life Insurance of India Act that nationalized the insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state-owned Life Insurance Corporation of India.

Life Insurance Corporation of India (LIC), owned by the Government of India, is a provider of life insurance plans. The company offers endowment plans, money back plans, term assurance plans, pension plans, special plans, unit plans, group schemes, child plans, and health insurance plans. It operates through zonal offices in Mumbai, Kolkata, Chennai, Hyderabad, Delhi, Kanpur, Bhopal and Patna. LIC offers insurance products in India through associates and agents. The company and its associates also have operations in Fiji, Mauritius, the UK, Bahrain, the UAE, Kuwait, Qatar, Oman, Nepal, Sri Lanka, Saudi Arabia and Kenya. LIC is headquartered in Mumbai, India.

Life insurance is very important for protecting human lives against accidents, causalities and other types of risks. Life insurance has been dominated by public sector (LIC) in India; however, with the liberalization of Indian economy, private sector entry in life insurance has got momentum. The public sector Insurance Company, i.e. LIC of India has emphasized on exploiting the potential of rural India as rural life insurance provides immense scope.But still its penetration is very low as compared to that in developed nations.

KEYWORDS: ***LIC, parliament, issues, challenges, government, India, scope, agents, products***

INTRODUCTION

The Indian insurance industry has undergone a sea change with liberalization and globalization since 1991. A number of private insurance companies have entered the Indian arena and are trying to capture a significant share of the market. A tremendous competition is seen in the insurance sector between the giant public life insurer LIC (Life Insurance Corporation of India) and other private life insurers. LIC has been operating since past fifty years and has gained the confidence of the people. Yet, it is facing numerous challenges .Inspite of smart business strategies adopted by private insurance players, they are unable to increase their profits .Hence, it remains to be seen whether they will be able to overcome these challenges and maintain their growth over the years.

A contract of insurance is a contract of utmost good faith technically known as uberrima fides. The doctrine of disclosing all material facts is embodied in this important principle, which applies to all forms of insurance.

At the time of taking a policy, policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void. Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is payable.

Prior to nationalisation (1956), many private insurance companies would offer insurance to female lives with some extra premium or on restrictive conditions. However, after nationalisation of life insurance, the terms under which life insurance is granted to female lives have been reviewed from time-to-time.

At present, women who work and earn an income are treated at par with men. In other cases, a restrictive clause is imposed, only if the age of the female is up to 30 years and if she does not have an income attracting Income Tax.

The year 2011 brought in the beginning of a new decade for Indian Life Insurance industry. The preceding years were significant for the life insurance industry in India after the opening of the sector by the government. During the period 2000-2008, combined with India's rapid rate of economic growth the Indian Life Insurance Industry gained its foothold in the country. Private sector insurers ventured into the country and the industry got a taste of market-driven competition, compared to the time when insurance business was dominated by only public sector insurers. The beginning of this new era in the development of insurance industry saw proliferation of new products and distribution channels which promoted rapid growth of the industry.

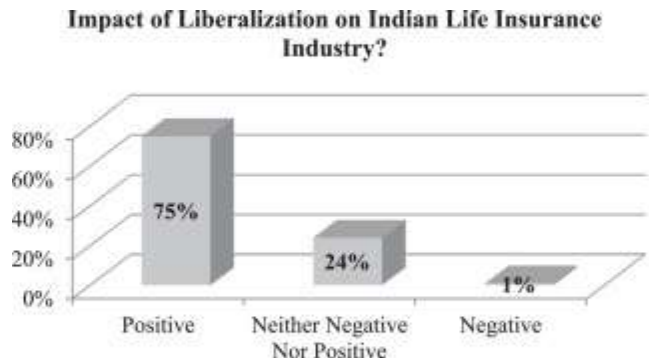
The phase also witnessed continued regulatory action which is shaping the insurance industry currently. The regulatory changes introduced in September 2010 signaled the intent to shift the orientation of the industry for unbridled growth towards longer-term savings and protection and deliver more efficient propositions to consumers. There is also no doubt that the regulatory shifts had material impact on all life insurers in India.

No matter how well-managed or financially sound a given insurer might be, none are immune to the effects of a contracting or slow growing economy. The double-digit inflation rate is an uncomfortable factor for the Indian economy. And the central bank of India, RBI, has the huge task of balancing the two – controlling inflation without dampening growth too much.

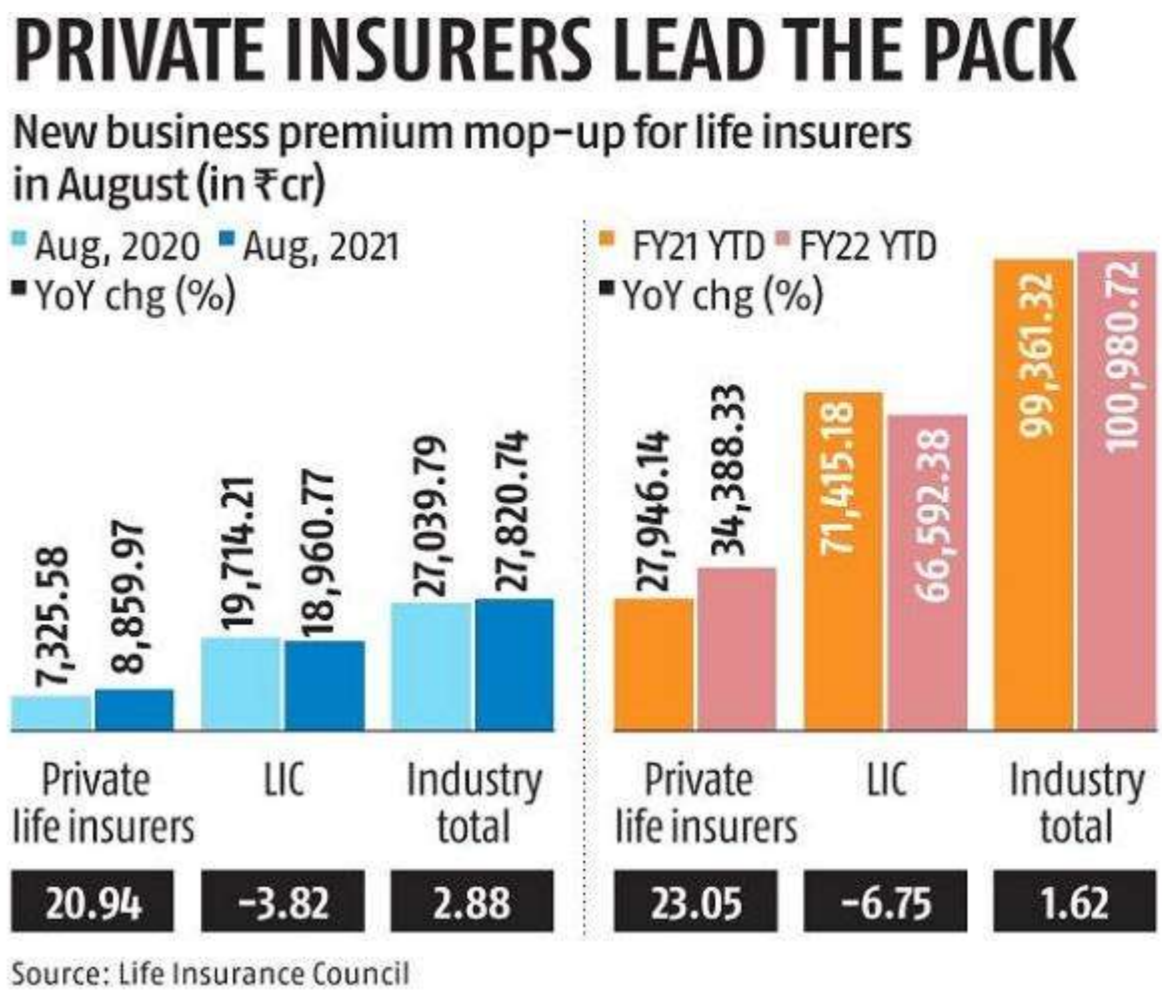
The interest rate and inflation trade off is the central bank's core business and the last one year has been a very difficult for the central bank. While the Reserve Bank of India (RBI) has been raising repo and reverse-repo rates consecutively every quarter in an attempt to manage inflation, it has not succeeded in moderating inflation. This probably implies that inflation is more of a real sector supply side issue than a monetary implication. Implications of this relatively high interest rate and high inflation regime are unlikely to be positive for the Insurance industry in general. On one hand it would be difficult for the life insurance industry to manage return expectations as they are likely to be high. In the high interest scenario, higher assured returns are required for increasing penetration while competing with fixed income products. While there may be some reduction in actual growth rates but India's long term fundamentals remain intact and Life Insurance being an industry with very long term horizon, it would be able to tide over the economic cycle. On the other hand inflation means lower disposal income in the hands of consumer leading to lower household savings which currently stands at a healthy 34.7%, though significantly lower than China's 50%.

LITERATURE REVIEW

The Indian life insurance industry witnessed a monopoly period till the year 2001 when a state owned company, Life Insurance Corporation of India (LIC), was the only player in the Indian market. Scenario got changed all of a sudden in the year 2000 after the privatisation of the insurance sector when foreign players were allowed to enter through joint ventures with Indian companies.



This came as a major issue in competitive market in front of LIC to face the challenges given by the companies equipped with global expertise and modern technology as LIC had been a traditional Indian company enjoying a non-competitive, protected market since decades. Consequently, post liberalisation market share of LIC got significantly declined in the next couple of years.



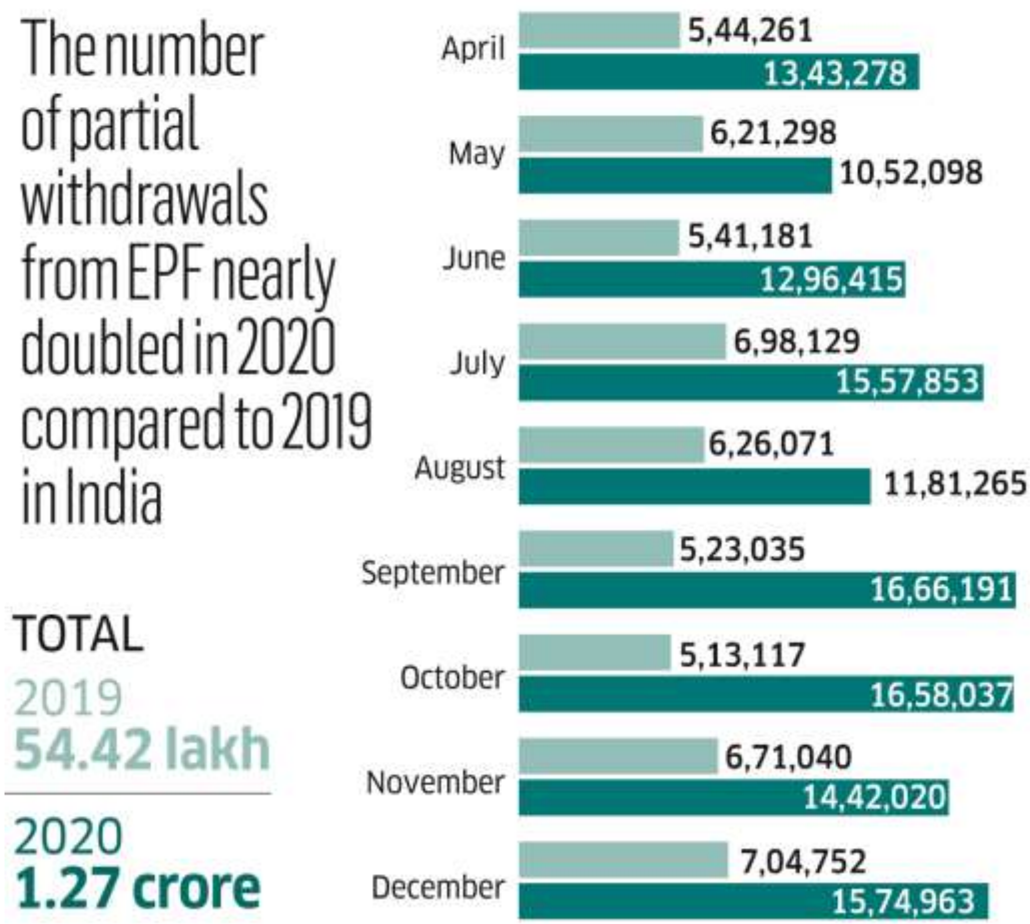
A complete overhauling of the system was required to meet the hard-hitting challenges. Rudimentary re-engineering of the entire system was the only remedy to crack the issue to increase insurance penetration and to remain as a market leader. If an enterprise with a ₹5-crore investment fetches a ₹2,500-crore annual dividend, generates ₹6-lakh crore earning, yields ₹10,000 crore tax and helps accumulate ₹31-lakh-crore assets, would it be prudent to sell its stake, even though the social benefits out of that enterprise — like efficiently serving 29 crore people and providing direct employment to 13,00,000 — are no consideration? 'No, not all', any diligent entrepreneur would assert.

But the government, which has been garnering all these and many more benefits from the Life Insurance Corporation of India (LIC), is in a hurry to sell a part of its stake. The Cabinet Committee on Economic Affairs gave its in-principle approval for an IPO (Initial Public Offer) and the actual sale is most likely to start during the last quarter of the current fiscal (January-March 2022).

The second wave of Covid-19 has taken a major toll on the earnings of the General Insurance Corporation of India. The national reinsurer has recorded Rs 999 crore of claims in its life reinsurance book during the first quarter of FY22 as death claims surged due to the second wave of the pandemic. The spike in deaths resulted in a sharp jump in the combined ratio to 340%. The combined ratio reflects the percentage of claims and expenses to premium. In addition, the corporation provided an additional Rs 500 crore for losses on account of cyclone Tauktae and cyclone Yaas. The corporation has reported a loss of Rs 771 crore as compared to a profit of Rs 1260 crore in the quarter ended March 2021.

DISCUSSION

The importance of life insurance cannot be underlined enough in tough times such as today when COVID-19 has engulfed the globe. After all, it is meant to cover the risks that you envisage in the future and offer sufficient protection to your loved ones in your absence. The nominee or dependants enlisted by the policyholder at the time of purchasing life insurance get a death benefit in the event of the death of the insured. This means that the death of the person in whose name the policy is bought is insured as an event even if it is caused by a health-related issue such as a COVID-19 outbreak.



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COVID-19 OUTBREAK

So, if you already have an existing life insurance policy including term insurance, your family can easily file a claim upon one's death and benefit from the sum assured given out to them. This could help them carry on their life without any financial worries and stay with the important milestones you had envisioned for them.

However, if you haven't bought a life insurance policy till date and want to protect your loved ones from the risk to your life due to this deadly disease by purchasing one now, you need to keep a few things in mind. Policy premiums are determined by carefully examining your current health condition as well as analysing your past medical history. If you are not infected with coronavirus at the time of policy purchase, your family stands a chance to receive the death benefit should you contract the disease later.

However, if you have underlying medical conditions or if you have already contracted the infection, the insurance company may issue you the policy after due medical check-ups. Given the global scale of COVID-19, policy premiums might be a bit on the expensive side. There might also be uncertainty on whether or not the policy is accepted instantly. It is advisable to read documents of your policy diligently to understand the various situations which are excluded from the life cover as each company might have different terms and conditions.The coronavirus outbreak is a wake-up call for those Indians who haven't yet bought life insurance and have been procrastinating this decision. One can clearly see that those who purchased either a pure protection plan such as a term plan or any other life insurance plan earlier have an edge over their non-insured counterparts. The family of the former will be financially protected even after their death as compared to the latter who might need to rely on some other means to tide through such uncertain times.

To conclude, life insurance should be an integral part of your financial planning. The earlier you purchase, the longer you are covered and the lesser premiums you end up paying. Take for instance the iSelect Star Term Plan from Canara HSBC Oriental Bank of Commerce Life Insurance which offers cover for your whole life or till the time you need it along with the option to choose death benefits, premium payment and coverage as per your needs. Inbuilt coverage for accidental death and permanent disability among other benefits is also available.

RESULTS

With a new Covid-19 variant emerging in many countries, India is preparing for a possible third wave even though the Health Ministry today said that the severity of the disease from the Omicron variant could be low. However, health and life insurance plan premiums are likely to get costlier with several service providers across the industry looking at raising prices this month.

According to a report by Motilal Oswal, health insurance premiums will witness a growth momentum as Indians look to protecting themselves and their families so that they can be financially secured for any kind of medical treatment during the third wave.

Health Insurance in India is highly underpenetrated. Less than 4 per cent of the population has a retail health cover. However, the pandemic has helped increase awareness about the need for a medical cover, which has translated into a 28 percent and 18 percent growth year in year in FY 21 and the first half of FY 22, respectively. General insurance companies reported a 29.81 per cent rise in premium income from the health segment to Rs 42,571 crore during the seven-month period ended October 2021, compared to Rs 32,796 crore witnessed in the same period last year. In fact, health premium income shot up by a record 34 per cent to Rs 5,463 crore in October alone, according to insurance regulator IRDAI.

Non-life insurers have shelled out nearly Rs 23,000 crore in Covid-related health claims since the onset of the pandemic. Insurers have now hiked the premium on health policies and started demanding vaccination certificates and stringent medical check-ups before issuing new policies.

In April 20 (after the Covid-induced nationwide lockdown), growth in health insurance was muted at 5.7%. While demand was strong during this phase, the challenge in distribution, owing to the lockdown and limited preparedness of insurers to conduct business online at such a large scale, restricted growth.

During the second COVID wave, the frequency of COVID-related claims during the April-August 2021 witnessed a 44 per cent increase even though the severity of claims declined by 24 per cent during the same phase to Rs 112,366.

"The key reason for the fall in severity was the preparedness of hospitals, established cost of treatment, discovery of the line of treatment, and rollout of vaccination," said Prayesh Jain, research Analyst at Motilal Oswal.

In case of a third COVID wave, a sizeable chunk of India's population would be vaccinated with both doses (currently 32% of the population has received both doses) and preparedness of hospitals and the government administration will be much better, thus reducing its severity.

Claim ratio is the ratio of insurance claims paid and expenses against total premium earned. For instance, if a health insurance company has approved a total of Rs 80 crore of claims against Rs 100 Crore of premium received, the Incurred Claim Ratio would be 80%. A low Incurred Claim Ratio indicates that the health insurance company's claim settlement process is highly rigorous. A company with an incurred Claim Ratio between 75% to 90% is said to be perfect as it indicates that the company is making profits, offering qualitative product, and meeting the expectations of the customers at the same time.

For example, New India Assurance paid health insurance claims worth Rs 2,350 crore on account of Covid during the first six months of the current financial year, which resulted in the incurred claims ratio rising to 126% in the first half of FY22 from 74% in the same period of previous year.

CONCLUSION

In the wake of a recent surge in covid-19 cases, the Insurance Regulatory and Development Authority of India (IRDAI) said that all health insurance policies will have to cover expenses for treating infections/diseases due to the Omicron variant. According to the press release, the regulator clarified that all health insurance policies issued by all general and health insurance companies that cover treatment costs of Covid-19 also cover the costs of treatment towards the Omicron variant of Covid-19 as per terms and conditions of a policy contract.

The insurance companies shall put in place an effective coordination mechanism with all their network providers (hospitals) to make available seamless cashless facility to all policyholders in case of hospitalisation, if any and render speedy services to all policyholders, said IRDAI press release . The hospitals are also requested to honour the service level agreements (SLA) entered with insurance companies to provide cashless treatment to health insurance policyholders.

With the rise in Omicron cases, a new upsurge of fear and restrictions is developing across the country. Several states, which saw an upsetting second wave of the Covid-19 pandemic, have announced a slew of rules to prevent the transmission of the new variant of corona virus.

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