PERFORMANCE EVALUATION OF LIFE INSURANCE COMPANIES: A STUDY OF PRE & POST-REFORMS PERIOD

Abstract

The reforms in the Indian insurance sector have led to liberalization, privatization and globalization of insurance industry in India. The reforms have opened new opportunities in the insurance industry and has generated intensely competitive environment. Since the onset of the reforms, public sector life insurance company LIC has been compelled to review its philosophy and method of working, in order to be ready for competition with private sector companies. The present study has attempted to compare the profitability, efficiency and productivity of life insurance companies in India in the post-reform period and the profitability and efficiency of public sector LIC in the pre-reform and the post-reform period. The secondary data have been used for the study for the period from 1993-94 to 1999-00 relating to pre-reform and from 2001-02 to 2010-11 relating to the post-reform period. The data have been analyzed using mean, median, standard deviation, ratio analysis, DEA analysis, malmquist index, Mann-Whitney test, correlation and regression analysis. The study found that the public sector life insurance company depicted higher underwriting and managerial efficiency throughout the study period. All the private sector life insurance companies exhibited negative operating ratio up to the year 2008-09 except Max New York and Reliance. The study exhibits that net incurred claims has the most powerful impact on the profitability of the private sector life insurers in the post-reform period of study. The public sector life insurance company LIC appeared as the most efficient and productive company during the whole period under study by achieving 100 per cent efficiency and of the private sector life insurance companies improved during the post-liberalization period. However, the profitability and efficiency of LIC has been higher in the post-reform period than the pre-reform period. Although private sector life insurance companies are catching up fast with the public company LIC but still much more efforts are required to be done to become at par with LIC. The analysis concludes that the insurance industry has grown rapidly after the liberalization. The performance of life insurance companies have improved with the implementation of insurance sector reforms. The study suggested that the private life insurers must try to increase their premium, investment income size of their business and reduce the operating and commission expenses to bring their performance level at par with LIC.