

INVESTMENT MANAGEMENT OF PRIVATE SECTOR LIFE INSURANCE ORGANISATIONS: A COMPARATIVE STUDY WITH LIFE INSURANCE CORPORATION OF INDIA

Dr. Vikas Bansal*

ABSTRACT

The history of private sector life organizations is not old in India. After liberalization, the first private sector life insurance Company was incorporated in 2000. Even after the progress of private insurance sector is satisfactory, the present article deals with the investment management of private insurers in India. It also deals with a comparative analysis of the investments of Life Insurance Corporation of India (only the public sector life insurance organization) and private sector life insurance organizations. It is presented into three phases (i) Investment of the private Insurers, (ii) Sources of Income (iii) Expenditure Heals. In addition to above a comparative study with LIC is also given in each heading for proper analysis and interpretation of the investments in insurance industry.

KEYWORDS: Investment Management, Liberalization, Insurance Industry, Sources of Income.

Introduction

Investment of Private Life Insurers

The private insurance sector came into existence from 2000 in India, hence there were heavy expenses incurred in their establishments in initial years. The surplus of these insurers is very nominal. Therefore, the investments of these private insurers are also very small which is clear from the table given below:

Table 1: Investment of Private Life Insurers in India

Years	Total Investment of Insurance Sector	Investment by Life Insurers			% of Life Insurers Investment to total investment of insurance sector	% of Private Life Insurers to total investment of Life Insurance
		Public (LIC)	Private	Total		
2011-12	16,80,527 (11.10)	12,69,070 (10.49)	3,12,188 (10.89)	15,81,259 (10.57)	94.09	19.74
2012-13	18,67,886 (11.15)	14,02,991 (10.55)	3,41,902 (9.52)	17,44,894 (10.35)	93.42	19.59
2013-14	20,97,275 (11.50)	15,74,296 (12.21)	3,83,169 (12.07)	19,57,466 (12.48)	93.33	20.00
2014-15	24,08,236 (14.83)	17,86,312 (13.37)	4,61,210 (20.37)	22,47,522 (14.82)	93.33	21.52
2015-16	26,90,194 (11.71)	20,09,119 (12.47)	4,92,949 (6.86)	25,02,068 (11.33)	93.01	20.76

Source: Annual Report of IRDA.

Note : (Figures in brackets represent growth in percentage over previous year.)

* Lecturer, Department of Business Administration, Faculty of Commerce, Vedant College, Jaipur, Rajasthan.

The above table shows the following facts:

- As on 31st March 2016 the accumulated total amount of investments held by the insurance industry was Rs. 26,90,194 crores out of which the accumulated total amount of life insurance sector was Rs. 25,05,068 crores. It shows life insurers continue to contribute a major share of total investment held by the industry with a share of 93.01 percent of total investment.
- The share of life insurers investment to the total investment by the industry was lowest in 2015-16 i.e. 93.01 percent as against the previous years. The highest percentage was 94.09 in 2011-12.
- The public sector company (LIC of India) continues to contribute a major share 79 to 82 percent of total investment of life insurers.
- The amount of investment by private insurers is growing at a fast pace in last five years. It was Rs. 4,92,949 crores in 2015-16 as against Rs. 31,12,188 crores in 2011-12.

Instrument Wise Investment of Life Insurers

An attempt was made to know the instrument wise total investment of life insurance. The investment of these insurers is made in various securities as under:

- **Government Securities:** Government securities also known as gilt-edged securities are **sovereign securities** which are issued by the Reserve Bank of India on behalf of the Government of India. The Govt. uses these funds to meet its expenditure. Usually, the investors in government securities are insurance organizations, banks, financial institutions primary dealers, partnership firms, institutions, mutual funds, foreign institutional investors, State government, provident funds trusts, research organizations and investors registered in India. Dated securities, zero coupon bonds, partly paid bonds, floating rate bonds, and capital indexed bonds promissory note are the main types of Government Securities. It is safest investment, securities and bonds issued by the State Governments and Central Territory Govt. also considered as Golden securities, under the Indian Public Debt Act, 1944.
- **Approved Securities/Investments:** Approved securities are well defined by IRDA. Approved securities are issued by local self Government, Boards and corporations. The Central Govt. or related State Government provides guarantee on the amount of principal and interest on these securities by notification in Official Notification. These securities are also a safe investment with regular income.
- **Industrial Securities:** The shares and debentures of business and industrial units are included in this category. The rate of return of these securities is comparatively higher than the return on government securities but the safety principle is not so much applicable as in latter case. They are also desirable investment for fulfilling socio-economic purposes. Maximum diversification of investments industry-wise, nature-wise and sector-wise etc. is very much possible. These securities are marketable because it is easy to purchase and sell on stock exchange.
- **Mortgages:** Loans are, generally, granted on the mortgage of buildings and land. Usually loans are given at a lower amount than the value of property to provide sufficient margin for safety. Adequate rate of return is observed on such loans and there are sufficient scopes of diversification. Moreover, these are relatively expensive to initiate and to service. The marketability of such loans is also doubtful. But a mortgage loan carrying a provision of amortization whereby the loan is entirely paid off in a particular period, are perfectly satisfactory. Mortgages are a specified form of investment and, as such need skill and experience in their managements.
- **Real Estate:** The purchase of land and building is included under investment in real estate. This is not a proper investment for insurer because there are huge fluctuations in the prices of real estate. Moreover, the real estate does not guarantee a constant and higher income apart from the lesser marketability. Therefore, the insurer has only as much real estate as is needed for his own requirements, i.e. loan to policy holders for purchase or construction of property. Investment in real estate requires specialized knowledge. Hence, the insurer has special department for its management. LIC has a separate subsidiary company for this purpose.
- **Policy Loans:** Policy loans are given to the policy-holders against the security of the surrender value of the policy. The amount of loan and interest thereon will not be more than the surrender value of the policy. The loan, if not paid, can be taken over from the amount of surrender value. Hence it is 100% secured. The liquidity factor is not bright because the unpaid loans cannot be treated as unpaid until the duration of the policy. The rate of expenses in handling such loans is

very high. However, this is a important investment as it improves business and customer relationship and provides facilities to the policy-holders. The following table shows the instrument wise, total investment of life insurers in India Insurance Industry.

Table 2: Total Investment of Life Insurers: Instrument Wise (Rs. in crores)

A.	Traditional Products	2011-12	2012-13	2013-14	2014-15	2015-16
(i)	Central Govt. Securities	4,68,082 (38.64)	5,12,180 (36.52)	6,04,651 (37.19)	7,22,955 (38.36)	8,31,049 (38.44)
(ii)	State Govt. & other approved securities	2,14,518 (17.77)	2,65,989 (18.97)	3,33,951 (20.54)	4,30,554 (22.84)	5,28,206 (24.44)
(iii)	Housing & Infrastructure	97,320 (8.03)	1,18,878 (8.48)	1,55,026 (9.54)	1,74,512 (9.26)	1,86,112 (8.61)
(iv)	Approved Investments	3,85,107 (31.79)	4,56,258 (32.53)	5,03,059 (30.94)	5,30,568 (28.15)	5,83,145 (26.98)
(v)	Other investments	46,262 (3.82)	49,084 (3.50)	29,118 (1.79)	26,193 (1.39)	33,145 (1.53)
Total (i) to (v)		12,11,289 (100.00)	14,02,387 (100.00)	16,25,804 (100.00)	18,84,478 (100.10)	21,61,656 (100.00)
B.	ULIP Funds					
(vi)	Approved Investments	3,46,340 (93.61)	3,25,283 (94.97)	3,22,456 (97.22)	3,52,371 (97.14)	3,26,974 (96.64)
(viii)	Other Investments	23,632 (6.39)	17,224 (5.03)	9,205 (2.78)	10,369 (2.86)	11,438 (3.36)
Total (vi) to (vii)		3,69,972 (100.00)	3,42,507 (100.00)	3,31,661 (100.00)	3,62,740 (100.00)	3,40,412 (100.00)
Grand total (A+B)		15,81,259	17,44,894	19,57,466	22,47,522	25,02,068

Source: Annual Report of IRDA.

Note : (Figures in brackets shows the percentage of investment to the total investments.)

The above table explains the following facts:

- The various sources of funds available for investment by life insurers can be classified as funds from traditional products and funds from ULIP funds.
- The pattern of investment made by life insurers remains unchanged during the period of study Central Government securities and approved investments are two major avenues of investment of life insurers.
- The amount of investment by life insurers is going to increase every year. It was Rs. 25,02,068 crores in 2015-16 as against Rs. 15,81,259 crores (near about double) in 2011-12.
- The percentage of investment in approved investment, State & other approved securities and housing & infrastructure are increasing every year on the other hand the percentage of Central. Govt. securities and other investment are decreasing every year.

The above table indicates that the main sources of funds available for investment by life insurers are traditional products and ULIP Funds. Therefore, a further classification is also made to know the fund wise, investment of life insurers which is clear from table 3.

Table 3: Total Investment of Life Insurers: Instrument Wise (Rs. in crores)

Funds	2011-12	2012-13	2013-14	2014-15	2015-16
Life Fund					
LIC	9,14,614	10,37,656	11,81,000	13,59,829	15,27,016
Private	60,006	82,343	1,07,225	1,35,480	1,70,437
Total	9,74,620	11,20,000	12,88,225	14,95,309	16,97,453
Percentage (%)	(61.64)	(64.19)	(65.81)	(66.53)	(67.84)
Pension & General Annuity & Group Fund:					
LIC	2,12,754	2,51,011	2,98,818	3,43,812	4,12,664
Private	23,913	31,375	38,761	45,660	51,539
Total	2,36,667	2,82,387	3,37,679	3,89,472	4,64,203
Percentage (%)	(14.97)	(16.18)	(17.25)	(17.33)	(18.55)
Unit Linked Fund :					
LIC	1,41,703	1,14,324	94,479	82,671	69,439
Private	2,28,269	2,28,184	2,37,183	2,80,069	2,70,973
Total	3,69,972	2,42,507	3,31,661	3,62,740	3,40,412
Percentage (%)	(23.40)	(19.63)	(16.94)	(16.14)	(16.31)
Total of all funds :					
LIC	12,69,070	14,02,991	15,74,296	17,86,312	20,09,119
Private	3,12,188	3,41,902	38,169	4,61,210	4,92,949
Total	15,81,259	17,44,894	19,57,486	22,47,522	25,02,068
Percentage (%)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)

Source: Annual Report of IRDA.

Note: (Figures in brackets is percentage of respective funds to total funds)

The table 3 shows that:

- Life fund is the main source of investment of life insurers. 61 to 69 percentage investments were made by this fund by these insurers.
- Private Life insurers have more focus on unit linked funds in comparison to LIC.

The table 4 shows the growth of fund wise investment of life insurer as under:

Table 4: Growth of Investment Fund Wise of Life Insurers (Rs. in crores)

Funds / YEARS	2011-12	2012-13	2013-14	2014-15	2015-16
Life	9,74,620 (15.88)	6,29,650 (16.25)	12,88,225 (15.02)	14,95,309 (16.08)	16,97,453 (13.52)
Pension and General Annuity & Group Fund	2,36,667 (24.61)	1,13,952 (24.88)	3,37,579 (19.55)	3,89,743 (15.37)	4,64,203 (19.19)
Unit Linked Fund	3,69,972 (-7.30)	1,72,763 (29.82)	3,31,661 (-3.37)	3,62,740 (9.37)	3,40,412 (-6.16)
Total	15,81,259 (10.57)	9,16,365 (19.63)	19,57,468 (12.18)	22,47,522 (14.82)	25,02,068 (11.33)

Source: Annual Report of IRDA.

Note : (Figures in brackets shows the total growth in percentage)

It shows that there is a continuous growth of fund wise investment of life insurers. It was only Rs. 19,57,468 crores in 2013-14 and has been gone up to Rs. 22,47,522 in 2015-16 which is an increase of 14.81 percent in a period of five years. It is satisfactory progress on the investment of funds by life insurers.

Sources of Income

The main sources of income for private insurers are:

- Income from premium.
- Income from investments.
- Income from other sources.
- **Income from Premium:** Income from premium is the main source of income for every life insurance organization. As far private insurers in India are concerned, there is a competition with LIC. Life Insurance Corporation of India has more market share in insurance business due to its corporate image and goodwill from last six decades. Therefore the income from premium of private life insurers in India is very small in comparison to LIC, which is clear from table given below:

Table 5: Income from Premium of Private Life Insurers and A Comparison from LIC (Rs. in crores)

Years	2011-12	2012-13	2013-14	2014-15	2015-16
LIC	2,02,889 (70.68)	2,08,804 (72.70)	2,36,942 (75.39)	2,39,668 (73.04)	2,66,444 (72.61)
Private Insurers	81,183 (29.32)	78,399 (27.30)	77,341 (24.61)	88,433 (26.96)	1,00,499 (27.39)
Total Premium Income of Life Insurance	2,87,072 (100.00)	2,87,203 (100.00)	3,14,283 (100.00)	3,28,101 (100.00)	3,66,943 (100.00)

Source: Annual Report of IRDA.

Note: (Figures in brackets shows the market share of each insurer.)

The above table shows the following facts:

- The market share of LIC is greater than private life insurers. It was 70.68 percent to 75.39 percent in last five years.
- There was an increase trend in the market share premium income of private insurers in last three years. It indicates that private insurers are working well.
- **Income from Investment:** Private insurers came into existence in 2000 in India after the Govt. Policy of Privatization and liberalization. In the initial years these insurers spend their income in preliminary expenses of establishment. But as the operations of the private life insurers stabilized their investment base gets strengthened resulting in investment income forming a larger proportion of their total income. The income from investments included transfer or gain on revaluation or change in fair value. The total income from investment of life insurers is clear from table given below:

Table 6: Income from Investments Including Capital Gains (Rs. in crores)

Years	2011-12	2012-13	2013-14	2014-15	2015-16
LIC	84,545	1,17,806	1,43,244.37	1,68,063.58	1,57,961.30
Private Insurers	7,083	29,534	41,819.68	78,701.54	13,078.73

Source: Annual Report of IRDA.

The above table shows that there is an increasing trend in the income from investment of private insurers in first four years of the study.

Expenditure Heads

The total expenditure of a private life insurance may be classified into four categories:

- Payment of claims.
- Expenses of management.
- Return to shareholders (Dividend).
- **Payment of Claims:** Life insurance is different from other insurance. It is an agreement between insurance and insured. It's an agreement of further obligation. In this agreement the insurer will pay the fixed amount of insurance with bonus at the time of death of insured or at the expiry of certain period against the consideration (as a premium) paid by insured. Therefore, payments of claims are obligations of life insurance. The payment of claims is not the efficiency of the life insurance. Quick disposal of claims is an important efficiency bar of life insurance. Hence it was tried to know the payment of claims and outstanding claims of private insurance which is clear from table given below:

Table 7: Payment of Individual and Group Death Claims Paid by Life Insurers
(Figure in percentage of policies)

Years	LIC		Private Insurers	
	Individual Death Claims Paid	Group Death Claims Paid	Individual Death Claims Paid	Group Death Claims Paid
2011-12	97.42	99.64	89.34	97.83
2012-13	97.73	99.54	88.65	87.79
2013-14	98.14	99.65	88.31	90.45
2014-15	98.19	99.64	89.40	91.20
2015-16	98.33	99.69	91.48	94.65

Source: Annual Report of IRDA.

The above table indicates that the claims settlement ratio of LIC appeared to be better than of private insurers.

- **Expenses of Private Life Insurers:** Expenses of life insurers is the second main expenditure item of the balance sheet of an insurer. A per section 40B of the Insurance Act, 1938 no life insurer can spend as expenses of management in any year an amount in excess of the limits prescribed under Rule 17D of the Insurance Rules, 1939. Rule 17D takes into consideration the size and age of the insurer, while laying down the limits of such expenses. The IRDA, on the recommendations of the Life Insurance Council constituted under Section 64F may enhance the limits in any year. Expenses of management refer to all charges incurred whether directly or indirectly and include commission payments of all kinds, operating expenses and expenditure capitalized. Hence we can classify these expenses into two parts:
 - Commission expenses.
 - Operating expenses.
 - **Commission Expenses:** Commission to agents for procurement of business has a good share in the total expenditure of the life insurers. The commission paid to agents by life insurers is clear from table given below:

Table 8: Commission Expenses of Life Insurers (Rs. in crores)

Years	LIC		Private Insurers	
	Amount	Commission Exp. Ratio	Amount	Commission Exp. Ratio
2011-12	14,063.06	6.93	4,470.61	5.31
2012-13	14,790.26	7.08	4,471.20	5.70
2013-14	16,762.88	7.07	4,083.49	5.28
2014-15	15,118.14	6.31	4,342.54	4.91
2015-16	15,500.33	5.82	4,766.36	4.74

Source: Annual Report of IRDA.

Note: (Commission expenses Ratio is the ratio between commission expenses and the premium income of life insurers.)

The above table shows:

- * A decreasing trend in the ratio of commission expenses to premium income. It was 6.93 percent in 2011-12 has decreased to 5.82 percent in 2015-16 which indicated efficiency of the Corporation.
- * The commission expenses ratio of private life insurer is also decreasing. It was 5.31 percent in 2011-12 has decreased to 4.74 percent in 2015-16 which shows that private insurers are also working well.
- **Operating Expenses:** Operating expenses also form a significant share of total expenses of an insurer which is clear from table given below -

Table 9: Operating Expenses of Life Insurers (Amount in Rs. crores)

Years	LIC		Private Insurers	
	Amount	Ratio	Amount	Ratio
2011-12	14,194.40	7.35	14,741.50	17.51
2012-13	16,707.66	8.00	14,854.04	18.95
2013-14	20,277.88	8.56	14,773.88	19.10
2014-15	22,395.45	9.34	14,466.14	16.36
2015-16	22,691.83	8.52	16,091.26	16.01

Source: Annual Report of IRDA.

Note: (The operating expenses ratio is the ratio of operating expenses to the premium under written (income) by life insurers.)

The above table shows that operating expenses ratio of private insurers is higher than LIC.

- **Return to Shareholders (Dividend)**

Return to shareholders in the form of dividend is the last expenditure item of insurers. The amount dividend paid by private life insurer is clear from table given below:

Table 10: Dividend by Life Insurers (Rs. in crores)

Years	LIC	Private Insurers
2011-12	1,281	611
2012-13	1,436	1,156
2013-14	1,634	1,740
2014-15	1,803	1,434
2015-16	2,497	1,867

Source: Annual Report of IRDA.

The above table shows that private life insurance are paying dividends sufficient dividend to the shareholders but only 3, 5, 6, 7 and 4 private insurers are paying dividend in last five years of the study respectively. It shows that the investment management of private life insurers is satisfactory. They are investing/managing their funds with equilibrium to returns and security in the interest of the policy holders. They are also fulfilling their social obligations in the interest of the nation.

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