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IMPACT OF SUPERVISORY INTERFERENCE ON THE PROFITABILITY OF LIFE INSURANCE COMPANIES: (AN ANALYTICAL STUDY)

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ABSTRACT

India is the second most populous country in the world, whose rapidly developing economy, is widening the gap between rich and poor. Insurance & Microfinance allows the poor to get the loans; they need to save, invest, and create a sustainable profitability and life style of financial independence and growth. Life insurance in India is a growth-oriented industry. In the year 2000, life insurance industry has been liberalized after more than fifty years of monopoly with Life Insurance Corporation of India. There are twenty four life insurance companies operating in India at present (IRDAI, Annual Report-2013-14). During the period of fourteen years after liberalization, private life insurers have launched many innovations in the industry and it is at this juncture it has become imperative to study the profitability performance of these companies. Thirteen life insurance companies have been selected from the Annual Report of IRDAI, 2013-14 for the purpose of study which are fully in operation for ten years from 2004-05 to 2013-14. The study finds that uncontrolled volumes of underwriting losses are being incurred by the insurers in the life insurance sector in our country. The study also finds that there has been a tendency to offset underwriting losses by investment income by the select life insurance companies in the current fluctuating market which is a very risky insurance management practices in India. As a result, life insurance companies are required to pay more attention on efficient underwriting; otherwise their sustainability in the market will be questionable. However, underwriting losses can be minimized if the insurance regulator makes proper risk management practices mandatory.

KEYWORDS: *Investment Income, Operating Expenses, Net Premium, Underwriting Income, Operating Profit.*

Introduction

The life insurance business has taken its real shape in India when the IRDAI (Insurance Regulatory Development Authority of India) has been set up in the year 2000 and the monopoly business right of LIC in life insurance is abolished. The Malhotra Committee on reform in the insurance sector has suggested for co-existence of both the public company and the private companies side by side and the Life Insurance Corporation of India is now facing competition from Private Life Insurance Companies. As a result of entry of private life insurance companies in India, the industry has made a rapid growth. However, because of stringent regulations with respect to solvency margin and investment rules protecting the interest of the policyholders and shareholders imposed by IRDAI, it has become imperative to have a detailed study of the impact of supervisory interference on the profitability of life insurance companies in India.

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