

A Study On Financial Soundness And Performance Of Life Insurance Corporation Of India

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Insurance companies play an important role in the welfare of human well-being by providing protection to millions of people against life risks such as uncertain death or accident. This study aims to appraise the financial performance of the Life Insurance Corporation of India for the financial year from 2019-2020 to 2023-2024 using the CARAMEL framework, an analytical model encompassing capital adequacy, asset quality, reinsurance and actuarial issues, management soundness, earnings and profitability, and liquidity. The research follows a descriptive and analytical methodology based on secondary data extracted from the IRDAI annual reports and LIC annual reports. Through ratio analysis, the study reveals strong earnings, adequate liquidity, and effective management soundness, while also highlighting areas for improvement such as capital adequacy and receivables management. The findings offer insights for stakeholders, regulators, and policyholders regarding the company's financial strength, operational efficiency, etc. This study evaluates the financial soundness and performance of the Life Insurance Corporation of India (LIC), the largest public sector life insurer in India.

KEYWORDS: Finance, Asset, Performance, Claims, Investment Income, Premium, Equities.

INTRODUCTION

The Life Insurance Corporation of India was formed on September 1, 1956, with the adoption of the Life Insurance of India Act by the Indian Parliament. The act nationalised 245 insurance companies and provident societies to create the Life Insurance Corporation of India. Life insurance provides both safety and protection to individuals and also boosts savings among people. It is an arrangement through which a person can plan for the continuation of income.

Life insurance is a contract whereby the insured promises to pay a uniform rate of premium at fixed intervals of time, against which the insurer agrees to pay a fixed amount on the happening of the event, which may be the death of the assured or the expiry of a certain number of years. If the payment is to be made on the death of the insured, the insured may

nominate a person to receive the amount. If the amount is to be paid on the expiry of a certain number of years, then the insured may himself receive it if he is alive on the expiry date; Otherwise, his nominee will receive it. The former type of insurance is called whole life insurance, and the latter, endowment life insurance.

The principal objectives of establishing LIC were to mobilise the savings of the household and to give protection. Its resources are consolidated as a "life fund" and invested in various classes of investments. Moreover, it has liquid funds for immediate needs of the policyholders. LIC has framed an investment policy of its own, specifying various investment outlets. The entry of private parties and allowing the FDI in the insurance industry affects the performance of LIC of India. It becomes necessary at this point in time to appraise the financial performance and also investment portfolio of LIC of India.

SIGNIFICANCE OF FINANCIAL PERFORMANCE

The "financial performance of LIC" refers to the evaluation of how well the Life Insurance Corporation of India is performing financially, measured by its ability to generate profits, manage its resources, and maintain long-term stability. This is assessed using various metrics like profitability ratios (e.g., Return on Equity), liquidity ratios, and solvency ratios, which provide insights into the company's financial health, operational efficiency, and ability to meet its obligations to policyholders.

Financial performance analysis offers multiple benefits to stakeholders, including investors, creditors, and managers. It helps businesses make informed decisions by providing insights into their financial health, profitability, and efficiency. By analysing financial statements and ratios, businesses can identify areas of improvement, reduce costs, and make informed decisions about future investments. It is important to evaluate LIC's financial performance, as the company is expected to compete with its international counterparts, who possess extensive industry knowledge and can increase investments in the sector significantly in the near future.

OBJECTIVES OF THE STUDY

- ❖ To evaluate the financial soundness of Life Insurance Corporation of India
- ❖ To know the operational efficiency of Life Insurance Corporation of India

STATEMENT OF THE PROBLEM

The financial performance of the Life Insurance Corporation (LIC) of India is a critical determinant of financial stability for millions of policyholders and a key indicator for the Indian insurance sector. As the market leader, LIC holds an immense investment portfolio that influences the stability of the Indian capital market and the broader economy. LIC finances the private industry through subscriptions to

the shares and bonds of industrial financing institutions such as IDBI, SFCs, the IFCI, etc. It is essentially to invest the savings of policyholders in exchange for a promise to pay the policyholders or their beneficiaries a large sum either in later life or upon their death.

Therefore, this work has aimed at filling the research gap to know the financial soundness and performance of LIC. It will help the insurer, stakeholders, policyholders, regulators, insurance investment managers and other participants in taking better decisions.

RESEARCH METHODOLOGY

The study is based on secondary data collected from LIC's annual reports, quarterly financial statements, IRDAI publications, and market research reports. The research design for this study is descriptive in nature. The descriptive research design tries to describe the data and information which are already available without changing the nature and dimension of the data. The reason for selecting the descriptive research design is to evaluate the data, especially the data secondary in nature. So, the application of this research design looks inevitable and significant.

To evaluate the data, the following financial tool and ratios are used for the study:

- ❖ CARMEL parameters are used to study the financial soundness and performance of the Life Insurance Corporation of India, employing ratio analysis.

CARMEL MODEL

The model is used to evaluate the financial performance and operational efficiency of life insurance companies in India. The model makes use of ratio analysis.

1. Capital Adequacy: Capital adequacy can be viewed as the key indicator of an insurer's financial soundness. Capital is seen as a cushion to protect the insured and promote the stability and efficiency of the financial system. For the purpose of calculation of capital adequacy of companies under study, two ratios have been used, prescribed by the IMF and the World Bank (IMF, 2005).

2. Asset Quality: Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The primary factor affecting overall asset quality is the quality of the real estate investment and the credit administration programme. The ratio of equities to total assets and the ratio of real estate + unquoted equities + debtors to total assets have been used, as prescribed by the IMF and World Bank. For the purpose of the study, the first ratio is used.

3. Retention Ratio: IMF prescribes two ratios in this standard, viz., ratio of Net Premium to Gross Premium and the ratio of Net Technical Reserves to the average of Net Claims paid in the last three years.

4. Management efficiency: The ratio reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness. The indicator prescribed is Operating Expenses to Gross Premiums.

5. Earnings and Profitability: IMF prescribes five sub-dimensions to this standard to highlight the earnings and profitability of the insurance companies. The standard is two tiers, covering both operational and non-operational efficiency of the insurance companies.

• Claims Analysis: The standard is an important indicator of whether their pricing policy is correct or not. It reflects the quantum of claims in the premiums earned. The ratio prescribed for this analysis is net claims incurred to net premium.

- **Expense Analysis:** Expense analysis indicates the expenditure incurred by the management while carrying on insurance business; the greater the expenditure, the lesser will be the profit margin. The ratio prescribed for this purpose is management expenses to net premium earned.
- **Combined Ratio Analysis:** Combined ratio is a blend of claims and expense ratio. The ratio explains the probability of profitability in insurance operations. The ratio for this standard is the claim ratio plus the expense ratio to net premiums.
- **Investment Income Analysis:** Investment income ratio quantifies the income earned on investments. The ratio prescribed is Investment Income to Net Premiums.
- **ROE Analysis:** Return on Equity is the measure of return to shareholders, and the ratio is Profits to Equity.

6. **Liquidity (Liquidity Analysis):** Liquidity crises may turn out to be serious concerns where obligations are of a short-duration nature; similarly for non-life insurers, the ratio is an important standard and is current assets to current liabilities.

PERIOD OF THE STUDY:

To evaluate the research objectives, a satisfactory research time is a must. Hence, the present study period is an appraisal of the financial performance and investment portfolio of the Life Insurance Corporation of India for the period from 2019-20 to 2023-24.

SOURCES OF DATA

For the present study, data are to be collected from a secondary source. The relevant and proper data are collected from annual reports of the LIC of India, IRDAI annual reports, the RBI Bulletin and SEBI and research Websites, journals, magazines, Moneycontrol, the Livemint news portal, the Trendline.com websites, screener.in platforms and newsletters for the period 2019-20 to 2023-24.

DATA ANALYSIS AND INTERPRETATION

Capital Adequacy Ratio analysis

Table 1: Capital Adequacy Ratio analysis of Life Insurance Corporation of India (Rs. crores)

Year	Net Premium	Capital	Ratio	Capital	Total Assets	Ratio
2019-20	379,062.56	100.00	3790.62	100.00	3,196,214.81	0.00003128701
2020-21	402,844.34	100.00	4028.44	100.00	3,804,610.01	0.0000262839
2021-22	427,419.21	6325.00	67.5761	6325.00	4,230,616.95	0.00149505381
2022-23	474,004.61	6325.00	74.9414	6325.00	45,50,571.73	0.00138993524
2023-24	475,069.58	6325.00	75.1098	6325.00	52,855,03.16	0.00119666942

Source: Annual reports of LIC and IRDAI

For the capital adequacy of the insurers, two capital adequacy ratios have been used in the present study, i.e., net premium to capital and capital to total assets. The ratio helps determine if a company has sufficient capital to cover potential large or unexpected claims, ensuring safety against insolvency. Financial strength for the year 2023-2024: high capacity to absorb claims and withstand financial shocks when compared to the previous year. A ratio of 75.1098% (less than 1x) means that for every rupee of capital, LIC has written approximately 0.75 rupees of net premium. This is a very low leverage position, which suggests the company has substantial capital and surplus to absorb potential losses or meet unforeseen obligations.

The capital-to-total-assets ratio of 0.001196 (or 0.12%) for LIC as of March 2024 is low in absolute terms, which is typical for a major life insurance company whose business model involves holding a vast amount of policyholder funds as assets. This low ratio is not necessarily a negative indicator, as the primary measure of financial health for insurers is the solvency ratio.

Asset quality analysis

Table 2 Asset quality of Life Insurance Corporation (Rs. in crores)

Year	Equities	Total assets	Ratio
2019-20	739.53	3,196,214.81	0.00023137
2020-21	6,360.69	3,804,610.01	0.00167183
2021-22	10,409.14	4,230,616.95	0.00246043
2022-23	45,669.40	4,550,571.73	0.01003596
2023-24	81,938.16	5,285,503.16	0.01550243

Source: Annual reports of LIC and IRDAI

For the financial year ended March 31, 2024, Life Insurance Corporation of India's (LIC) equity-to-total-assets ratio was approximately 1.56%. The Equity to Total Assets ratio for LIC is an indicator of its financial stability, solvency, and leverage. A higher ratio suggests that a larger proportion of assets are funded by shareholder equity rather than debt (liabilities), which generally indicates better asset quality and a stronger, lower-risk financial position.

Risk Retention Ratio

Table 3: Risk Retention Ratio of Net Premium to Gross Premium (Rs. in crores)

Year	Net Premium	Gross Premium	Ratio
2019-20	379,062.56	379,389.60	0.9991
2020-21	402,844.34	628,731.01	0.6407
2021-22	427,419.21	692,614.12	0.6171
2022-23	474,004.61	782,503.96	0.6057
2023-24	475,069.58	829,369.58	0.5728

Source: Annual reports of LIC and IRDAI

A net premium to gross premium ratio of 0.57 means that LIC retains 57% of the total premiums collected from policyholders (gross premiums) after ceding the remaining 43% to reinsurance companies. A high ratio (closer to 1 or 100%) This indicates that LIC retains a large portion of the risk from the policies it underwrites, rather than passing it on to reinsurers.

Management Soundness Analysis

Table 4 Management Soundness Analysis- Ratio of Operating Expenses to Gross Premium (in Crore)			
Year	Operating Expenses	Gross Premium	Operating Exp./Gross premium
2019-20	34,568.04	379,389.60	0.0911
2020-21	34,989.52	628731.01	0.0556
2021-22	38,890.68	692614.12	0.0561
2022-23	48,145.60	782503.96	0.0615
2023-24	48,121.68	829369.58	0.058

Source: Annual reports of LIC and IRDAI

This ratio is a key indicator of management efficiency, reflecting how effectively the company controls its operational costs relative to the premium income it generates. An operating expenses to gross premium ratio of 0.58, or 58%, means that for every ₹1 of gross premium (revenue) collected, LIC spends ₹0.58 (or 58 paise) on operating expenses such as administration, commissions, and marketing. Total operating expenses decreased marginally from ₹ 48,145 crore in FY 2022-23 to 48,122 crore in FY 2023-24.

Earnings and Profitability Analysis

Table 5 Earnings and Profitability Analysis-Ratio showing Earnings and Profitability (Rs. in crores)					
Year	Claims Ratio	Exp. Ratio	Combined Ratio = Claims Ratio + Exp. Ratio	Investment Income Ratio	ROE
2019-20	0.6497	0.19	0.8397	0.6209	3.668
2020-21	0.7066	0.17	0.8766	0.6919	0.4560
2021-22	0.8269	0.14	0.9669	0.6852	0.3884
2022-23	0.7158	0.13	0.8458	0.6463	0.7969
2023-24	0.8124	0.16	0.9724	0.7660	0.4964

Source: Annual reports of LIC and IRDAI

Claims Ratio			
Year	Claims	Net Premium	Claims Ratio
2019-20	246305.81	379,062.56	0.6497
2020-21	284654.73	402,844.34	0.7066
2021-22	353437.58.	427,419.21	0.8269
2022-23	339,000.00	474,004.61	0.7158

2023-24	269,243.59	475,069.58	0.8124
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Source: Annual reports of LIC and IRDAI

The interpretation of the Claims to Net Premium ratio of 0.81 for the year 2023-2024 It reflects its financial health, underwriting performance, and ability to meet policyholder obligations. While an insurer can still be profitable due to investment income, a persistently high ratio over 100% on core operations may raise concerns about the long-term sustainability and adequacy of its premium pricing or risk management practices.

Expense Ratio			
Year	Total Expenses	Net Premium	Expense ratio
2019-20	72,783.54	379,062.56	0.19
2020-21	70,236.51	402,844.34	0.17
2021-22	60,653.54	427,419.21	0.14
2022-23	64,231.71	474,004.61	0.13
2023-24	77,120.90	475,069.58	0.16

Source: Annual reports of LIC and IRDAI

An expense ratio for LIC indicates operational efficiency, with a lower ratio signifying better performance. It is calculated by dividing the insurer's expenses (such as management and commission costs) by its net premiums. A more efficient company has a lower expense ratio, which can lead to higher profitability and stronger financial standing, though the interpretation also depends on the ratio's trend over time and its comparison to competitors.

Investment Income Ratio			
Year	Income from Investment	Net Premium	Investment Income Ratio
2019-20	235,351.40	379,062.56	0.6209
2020-21	278,761.14	402,844.34	0.6919
2021-22	292,894.45	427,419.21	0.6852
2022-23	306,390.13	474,004.61	0.6463
2023-24	363,943.92	475,069.58	0.7660

Source: Annual reports of LIC and IRDAI

More than 80% of LIC's investments are in fixed-income securities, such as government bonds and corporate debt. This conservative asset allocation strategy contributes to the stability and predictability of the yield on investments, reducing exposure to high market volatility while still generating substantial returns.

ROE			
Year	Profit after tax	Shareholder Equity	ROE
2019-20	2,712.71	739.53	3.668
2020-21	2,900.57	6,360.69	0.4560
2021-22	4,043.12	10,409.14	0.3884
2022-23	36,397.39	45,669.40	0.7969

2023-24	40,675.79	81,938.16	0.4964
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Source: Annual reports of LIC and IRDAI

For the fiscal year ended March 31, 2024, Life Insurance Corporation of India (LIC) reported a Return on Equity (ROE) of 65.8% (or 49.64% depending on reported/adjusted metrics), based on a net income of ₹424.3 billion.

Liquidity

Table 6: Liquidity- Ratio of Current Assets to Current Liquidity Ratio (Rs. in Crores)

Year	Current Assets	Current Liabilities	Current Ratio
2019-20	173,185.50	79,767.53	2.17
2020-21	179,201.03	82,853.23	2.16
2021-22	191,117.84	71,244.60	2.68
2022-23	197,672.90	59,624.50	3.14
2023-24	197,099.31	63,794.98	2.92

Source: Annual reports of LIC and IRDAI

As of March 2024, Life Insurance Corporation (LIC) of India maintained a current ratio of 2.92. These ratios indicate a very strong liquidity position, meaning the company is highly capable of meeting its short-term financial obligations. The company has 2.92 times more current assets than current liabilities. This is a robust position, generally considered very healthy and indicative of strong liquidity.

Conclusion

India is one of the fastest-growing insurance markets globally. By 2032, it is forecasted to become the sixth-largest insurance market in the world, up from the tenth-largest in 2022, with a premium volume of USD 131 billion (with a 1.9% share in global insurance premium). LIC consistently maintains a solvency ratio above the IRDAI-mandated threshold, reflecting its ability to meet long-term obligations. The researcher has evaluated the various above components of claims, total expenses, income from investment, total assets, equities and net premium, and liquidation position with the usage of camel model (employs ratios). The study concluded that financial soundness and performance and operational efficiency are good. But as per analyzed data, we can say that LIC needs to control the operating expenses by not affecting its income through digital initiatives and cost rationalisation. Specifically, life insurance premiums are projected to grow by 9% annually (in real terms) by 2032, positioning India as the fifth-largest life insurance market globally. The growth outlook for India is based on the above performance strong economic growth, rising disposable income, good operational efficiency, and better expense management.

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