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# Disinvestment of Life Insurance Corporation of India

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**Abstract**
If the Life Insurance Corporation of India is said to be synonymous with insurance in India, then there is no exaggeration. As a Public Sector Undertaking, Life Insurance Corporation of India has been actively participating in the insurance business in the country for the last about 65 years. "It is often said that it is not the business of the government to be in business." Finance Minister Sitharaman had proposed to sell part of its stake in LIC through an IPO in her FY21 Budget speech. The purpose of this research paper is to analyze the effects of the disinvestment of LIC. Data and information related to this work have been collected through IRDAI's annual report, Annual report of LIC, newspapers, magazines and various websites. The study revealed that disinvestment in LIC will bring transparency to its work and improve efficiency. Moreover, it gives the opportunity for the retail investor to participate in the wealth creation of LIC.

**Keywords:** LIC, IPO, disinvestment, insurance, privatization

## Introduction
The insurance industry plays a very important role in the development of the country with a 4.2% contribution (Year 2022) to the GDP. Only the insurance sector has the ability to raise funds from the public for a long time period i.e. 25 to 30 years. In the year 2021, through the Insurance Amendment Bill 2021 the FDI limit in the insurance sector was increased from 49 per cent to 74 per cent with the object of increasing insurance penetration in India. After this amendment bill, private players will play more aggressively, and introduce innovative products at affordable prices. To face this challenge LIC will have to change its strategy and come up with new technology, new product, digital marketing and better services in the market. The decision taken by the Government to disinvest in LIC will not only bring transparency in the working of LIC but also increase its efficiency.

## Company background
LIC was established on September 1, 1956 with the nationalizing the insurance business in the country. From the time of its inception, till the year 2000, LIC had a monopoly in the insurance sector. In the year 2000, the insurance sector was reopened again to private companies. Presently 1 public and 23 private sector companies working in the Indian life insurance market. LIC's investments (Assets under management) for the year ending 31 March 2022 stood at Rs 40,84,600.65 crores. The total insurance premium earned by LIC during the year 2021-22 was Rs 4,27,419.21 crores. Presently LIC completely dominates Indian insurance as it has a 62% market share in terms of premium (gross written premium) and 75% market share in terms of new individual policies issued. As on 31.03.2022, LIC was operating with 8 Zonal Offices, 113 Divisional Offices, 2,048 Branch Offices, 1,564 Satellite Offices (SOs) and 1,170 Mini Offices. The total number of Agents and active agents working for the corporation was 13,26,432 and 11,32,535 respectively as of 31.03.2022.

## Disinvestment in LIC
Disinvestment means the sale or liquidation of assets of the government. Mainly public sector firms and other fixed assets of the Central and State Governments sold by the government under the disinvestment plan. Generally, the objective of disinvestment is to reduce the fiscal deficit. In the year 1991, the policy of economic liberalization was implemented in the country. Under this policy, the disinvestment of its stake in public companies was started by the government. Initially, the objective of disinvestment was not privatization of public institutions but to improve the performance of these institutions and reduce the budget deficit. The name of the Department of Disinvestment was changed to the

Department of Investment and Public Asset Management (DIPAM) on 14th April 2016 by the Government of India. At present this department works under the Ministry of Finance. The function of DIPAM is to implement the disinvestment programs as per the annual targets set by the Ministry of Finance. Every year, disinvestment targets are set by the government in its annual budget and on the basis of set targets the disinvestment plan is implemented.

As per the disinvestment program of the government of India, Finance Minister Sitharaman had proposed to sell part of its stake in LIC through an IPO in her FY21 Budget speech. The country's chief economic advisor K.V. Subramanian has indicated that the government could mobilize Rs 90,000 crores by selling the 6 to 7% stake in LIC [23]. LIC's IPO will not only help the government to reduce its budget deficit but will provide an opportunity for small investors to participate in LIC's wealth creation. There are two types of disinvestment first, minority disinvestment and second, majority disinvestment. Under minority disinvestment, majority shares are kept by the government, that is, 51% or more shares are owned by the government; So that the control and management of the business remains with the government. Disinvestment in LIC was a kind of minority disinvestment. Whereas in majority disinvestment, 51 per cent or more stake is sold by the government and the government keeps ownership of less than 50 per cent of shares. If the disinvestment is more than 50% then it is called privatization as in such cases the management and control are also transferred. Disinvestment does not mean privatization but privatization means disinvestment, whether a disinvestment is privatization or not depends on what percentage of stake is sold under disinvestment. If the government sells its 100% stake, it will be called complete disinvestment or privatization. Disinvestment by the government can be done in many ways. One of the main methods of disinvestment is IPO. In the case of LIC, the government has adopted this (IPO) method of disinvestment.

## Literature review

Koner and Sarkhel (2014) [3] explain in the paper about meaning and definition of disinvestment and the difference between disinvestment and privatization. It also explains the changes in government policy towards the public sector. This Paper also considers some issues related to disinvestment such as why disinvestment, how much disinvestment, how to make disinvestment (methods of disinvestment) etc.

Rastogi and Shukla (2013) [1], studied disinvestment in three phases, the first phase 1991-92 to 1995-96, the second phase 1996-97 to 1997-98 and the third phase 1998-99 to 2007-2008. In the first phase, a target of 20% disinvestment was set in the budget for the year 1991-92. Public sector enterprises have been an important place in the development of India's economy, but for the last few years these enterprises have not been able to adjust to the changing global environment, as a result, these enterprises are becoming unprofitable units. Therefore, the government of India had decided to disinvestment to improve the management efficiency of public sector institutions and to provide funds for the exchequer.

Dhar (2018) [9] has given a detailed explanation of the development of insurance business in India in his research paper. The purpose of this research paper was to assess the progress of insurance business in India and to make a comparative study of public and private insurance companies. It is known from the study that the CAGR of LIC is more stable than that of the private sector. Apart from this correlation of the coefficient between the compound annual growth rate (CAGR) of LIC and the Private sector was positive and very high.

## Object of the study

The object of the study is to analyze the disinvest process (Initial Public Offer) of the LIC, and check the effect on the stakeholder.

## Objectives of disinvestment

1. The sale of its stake in LIC will help the government reduce its fiscal deficit.
2. Providing information for IPO will bring transparency to the opaque balance sheet of LIC. It can be said that the listing of LIC's shares in the stock exchange will bring more transparency to its work and will increase efficiency.
3. LIC is pressured by the government to invest in financially weak firms, but after disinvestment, this pressure on LIC will probably reduce.

## Initial public offer of LIC

Applications were invited by LIC for its shares in the first week of May 2021. The price range of the shares was Rs. 902 to Rs. 949 and the minimum order quantity was 15 shares. These shares were allotted to the shareholders on 13th May 2022 and for those who did not allot of the shares, their application money was refunded to 14th May 2022.

LIC has introduced a new category in its IPO by the name of policy holder. Under this category, 10% of the issue has been kept reserved for the policyholder of LIC. In addition, a discount of ₹60 per share was also provided for the policy holders. But to apply under this category the policy holders have to fulfil two conditions. First, LIC's policy had been purchased by the policyholder on or before February 13, 2022, and second, the PAN number of the policyholder had been linked to LIC's policy on or before 28 February 2022.

Through this IPO, the aim of the government was to raise an amount of about Rs 21,000 crores by selling of 16.2 crores shares (around 3.5% of total holding). One of the objectives of LIC's IPO was to list the equity shares on the stock exchanges and provide a public market.

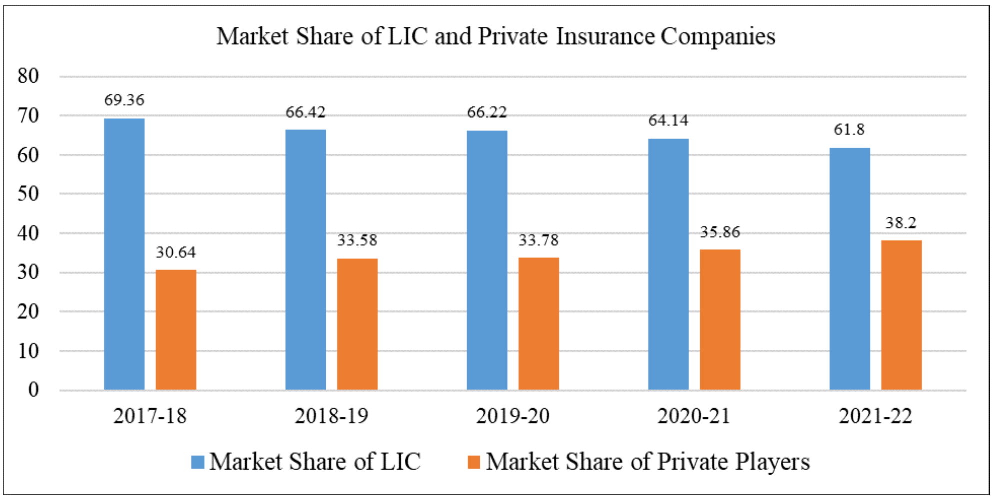
This was the first time happened in the history of India that people were very much eager to invest in the stock market and the reason behind was the IPO of LIC. The IPO issued by LIC was the biggest IPO to date in India. This IPO received an unprecedented response from the public and was oversubscribed 2.95 times (nearly 3 times). Sixty per cent of the issue was subscribed by policyholders of LIC alone, and the rest by the other investor.

**Financial Snapshot of LIC**

**Table 1:** Premium income and market share of LIC

| Year | Premium (₹ Crores) | Growth in premium income (%) | PAT (₹ Crores) | Market share (%) | Operating expenses ratio |
|---|---|---|---|---|---|
| 2017-18 | 3,18,223.20 | 5.90 | 2,446.41 | 69.36 | 9.47 |
| 2018-19 | 3,37,505.07 | 6.06 | 2,688.50 | 66.42 | 8.65 |
| 2019-20 | 3,79,389.60 | 12.41 | 2,712.71 | 66.22 | 9.11 |
| 2020-21 | 4,03,286.55 | 6.30 | 2,900.57 | 64.14 | 8.68 |
| 2021-22 | 4,27,419.21 | 5.98 | 4,043.12 | 61.80 | 9.09 |

(***Source:*** Annual report of LIC)




**Market Share of LIC and private Insurance Companies**

LIC's market share has decreased during the study period. In the year 2017-18, the market share of LIC was 69.36%, in the year 2021-22 it decreased to 61.80% i.e. the market share of LIC decreased by about 7.5% during the last five years. Premium income has been increasing continuously since the year 2017-18 but if we check the growth rate of premium income, then the fact comes to the fore that in the year 2021-22 the growth rate has decreased by about 6 percent. Average operating expenses ratio (ratio of premium income to Operating expenses) of the corporation during the period of study was 9 percent which is less than the other private players. So LIC is maintaining a good operating expenses ratio.

**Performing and Non-performing assets** (Rs. in crore)

**Table 2:** Performing and non-performing assets of the LIC

| Year (A) | Performing assets (B) | Non-performing assets (C) | Total (B + C)) | NPA provision (D) | Net NPA position (C – D) | Gross NPA ratio[1] | Net NPA ratio[2] | Provision ratio[3] |
|---|---|---|---|---|---|---|---|---|
| 2017-18 | 380063.80 | 25241.00 | 405304.80 | 18195.73 | 7045.27 | 6.23 | 1.82 | 72.09 |
| 2018-19 | 378197.76 | 24777.22 | 402974.98 | 23760.84 | 1016.38 | 6.15 | 0.27 | 95.90 |
| 2019-20 | 412670.67 | 36694.20 | 449364.87 | 33414.49 | 3279.71 | 8.17 | 0.79 | 91.06 |
| 2020-21 | 416173.41 | 35129.89 | 451303.30 | 34934.97 | 194.92 | 7.78 | 0.05 | 99.45 |
| 2021-22 | 422207.78. | 27087.11 | 449294.89 | 26911.30 | 175.81 | 6.03 | 0.04 | 99.35 |

(***Source:*** Annual report of LIC.)

[1] Gross NPA Ratio = (Non-Performing Assets / Total) X 100

[2] Gross NPA Ratio = (Net NPA Position / Total) X 100

[3] Provision for NPA Ratio = (Provision for NPA to NPA) X 100

Non-Performing Assets of the corporation increased from Rs 25241.00 crore to Rs 27087.11 crore during the period of study (2017-18 to 2021-22); it shows an increase of Rs 1846.11 crore. Net Non-Performing Assets have decreased trend since the financial year 2017-18 to 2021-22. Its decline from Rs 7045.27 crore to Rs 175.81 crore. The main reason behind the decrease in the Net Non-Performing Assets was a provision against the NPA. The ratio of provision for NPA to NPA continued increasing in the last five years, it was 72.09 percent in 2017-18 and now it is 99.53 percent. Down slope in Gross NPA ratio and Net NPA ratio indicating the improvement in assets management of the corporation.

**Investment and income from investment (Rs. In crore)**

**Table 3:** Investment and income from investment of LIC

| Year | In India | Outside india | Total investment | Income from investment | Rate of return |
|---|---|---|---|---|---|
| 2017-18 | 27,33,161.11 | 3,601.25 | 27,36,762.36 | 2,06,069.53 | 7.53 |
| 2018-19 | 29,80,424.44 | 3,906.81 | 29,84,331.25 | 2,23,642.30 | 7.49 |
| 2019-20 | 30,65,867.92 | 4,073.75 | 30,69,941.67 | 2,36,849.71 | 7.72 |
| 2020-21 | 36,71,486.45 | 4,683.86 | 36,76,170.31 | 2,79,378.88 | 7.60 |
| 2021-22 | 40,79,049.88 | 5,776.96 | 40,84,826.84 | 2,92,894.45 | 7.17 |

(**Source:** Annual report of LIC)

LIC invested its fund in Central Government securities, State Government Securities, corporate securities and other approved securities as per the provision of the Insurance Act 1938 and IRDAI. As clear from the above table, the investment made by the corporation is more than 99 percent in India and less than 1 percent outside India. The average rate of return on investment made by the corporation was7.5 percent in the last five years (2017-18 to 2021-22). For the last two years, the rate of return on investment has been going down, the reason behind it may be post COVID effect on the economy. Details of some of the investments made by the LIC in different PSUs are as under.

**Table 5:** Investment of LIC in different PSUs

| Stock | Bought | Investment in crore | Current valuation in cr. | Loss in value in crore | Loss in value in % |
|---|---|---|---|---|---|
| New India Insurance | November 2017 | 5713 | 757 | 4956 | 86% |
| IDBI | Sep. - Dec. 2018 | 21,624 | 10,967 | 10,657 | 49% |
| GIC | October 2017 | 5,614 | 2,979 | 2,662 | 47% |
| Hindustan Aeronautics | March 2018 | 2,843 | 1,751 | 1,092 | 38% |
| NTPC ltd | August 2017 | 4,275 | 3,003 | 1,272 | 30% |
| Total | | 40069 | 19457 | 20639 | |

**Source:** https://theprint.in/economy/lic-has-lost-more-than-rs-20000-crore-in-just-5-psu-stocks-modi-govt-made-it-buy-in-2-yrs/295765/

During the two years (2017 to 2019) LIC invested in five PSUs around Rs 40069 crore and the current market value of these in September 2019 was Rs 19457 crores, therefore a loss of Rs 20639 crore. During the two years (2017 to 2019) LIC invested in five PSUs of around Rs 40069 crore and the market value of these in September 2019 was Rs 19457 crores, therefore a loss of Rs 20639 crore in this period. In the case of IDBI LIC got a maximum loss in terms of Rs 10,657 crores whereas the corporation got 86 percent loss in the value of the investment in New India Insurance.

## Persistency ratio

**Table 6:** Persistency ratio of LIC

| Year | For 13th month | | For 25th month | | For 37th month | | For 49th month | | For 61th month | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| 2017-18 | 66 | 76 | 58 | 68 | 53 | 63 | 53 | 66 | 43 | 59 |
| 2018-19 | 66 | 77 | 60 | 71 | 54 | 65 | 50 | 60 | 51 | 63 |
| 2019-20 | 61 | 72 | 56 | 67 | 52 | 63 | 48 | 58 | 44 | 54 |
| 2020-21 | 67 | 79 | 58 | 70 | 55 | 67 | 52 | 63 | 48 | 59 |
| 2021-22 | 63 | 76 | 61 | 73 | 54 | 67 | 52 | 64 | 50 | 61 |

(**Source:** Annual report of LIC)
A = by no. of policies, B = by annualized premium

"Persistency ratio is the proportion of policyholders who continue to pay their renewal premium. It is a barometer for the quality of sales made by the insurer. Renewing the policy ensures that customers and their families continue to have a safety net [24]." Twenty-fifth-month persistency shows that the customer is happy with an insurance policy in which he invested and sixty-one-month persistency shows customer satisfaction towards products and services. As clear from the above table the LIC has been maintaining a good persistency ratio therefore, it can be said that Corporation has maintained a good brand image among the customers.

## Life fund and valuation surplus (Rs. in crore)

Table no 7 depicts that size of the life fund increased nearly 45 percent during the space of five years- from Rs. 2584484.02 crores in 2017-18, life fund increased to Rs. 3735759.72 crores in 2021-22. This, indeed, is rapid progress, and it is a natural result of the rapid rate at which the Corporation expanded its activities. If we calculate an arithmetical average of the life fund for the last five years (2017-18 to 2021-22), the amount (which is a measure of its size) comes to Rs. 3139949.23 crores. Valuation surplus had been increasing from 2017-18 to 2020-21 but in 2021-22 it decreased from Rs 57780.20 crores to Rs 54053.31 crore.

**Table 7:** Life fund and valuation surplus of LIC

| Year | Life fund | Growth in life fund (%) | Valuation surplus | 5% share paid to central govt. life business |
|---|---|---|---|---|
| 2017-18 | 2584484.02 | 11.22 | 48436.45 | 2421.82 |
| 2018-19 | 2828320.12 | 9.43 | 53211.91 | 2660.60 |
| 2019-20 | 3114496.05 | 10.12 | 53954.86 | 2697.74 |
| 2020-21 | 3436686.27 | 10.34 | 57780.20 | 2889.01 |
| 2021-22 | 3735759.72 | 08.70 | 54053.31 | - |

(**Source:** Annual report of LIC.)

## Effect of disinvestment on policyholders

Under the LIC Act 1956, Section 28, LIC used to allocate 95% of its surplus to the policyholder and the balance 5% was transferred to the Government. While private insurance companies pay 10% of their surplus to the shareholder and the balance is given to the policyholder. As per the revised provisions of Section 28 of the LIC Act, 95% for the financial year 2021-22, 92.5% for the financial year 2022-23, 92.5% for the financial year 2023-24 and 90% of the surplus for the financial year 2024-25 will be allotted to the policyholder [25]. Change in the surplus distribution policy of the Corporation will reduce the attractiveness of the present insurance products.

## Conclusion

In conclusion, it can be said that disinvestment in LIC will not only help to reduce the fiscal deficit of the government but will also provide an opportunity for a common investor to participate in the wealth creation of LIC. On the other hand, LIC's IPO coming into the market will bring more transparency to its operations and will also increase its efficiency. So, it can be said that the disinvestment of LIC is a positive step taken by the government for the development of both LIC and the nation.

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