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CONTENTS

EVALUATION OF UNIT LINKED SCHEMES OF LIFE INSURANCE CORPORATION OF INDIA AND BAJAJ ALLIANZ LIFE INSURANCE COMPANY LIMITED

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I. INTRODUCTION

The title of this study defies three distinctive elements viz., Financial Appraisal, Life Insurance Corporation of India and Bajaj Allianz Life Insurance Company Private Limited, so obviously the study is going to revolve between these three elements taken into consideration. A brief description of each shall be done in order to make the need of the study accessible. Though the term, 'Financial Appraisal', 'LIC' and 'Bajaj Allianz Life Insurance Company Private Limited' are individually apt for a concerned detail study but here a combined study of these three distinctive elements is done defining relation with each other.

Financial Appraisal

A company's financial statements are intended to summarize the results of its operations and it's ending financial condition. The information in the statement is studied and related to other information by external users for several reasons. As generally, shareholders are concerned about their invested income, as well as the company's overall profitability and stability. Some potential investors are interested in "solid" companies that are companies whose financial statements indicate stable earnings and dividends with little growth in operations. Other prefers companies whose financial statement indicate end for rapid growth in Different lines of business. Short-term creditors are interested in a company's short solvency, its ability to pay current obligation as they become due. Long-term creditors are concerned about the safety of their interest; income and company's ability to continue earnings and cash flow to meet its financial commitments and these are only few of the users and uses of financial statements.

Analytical data are not ending in themselves, but they are meant to an end. Financial appraisal is an attempt to determine the significance and meaning of the financial statement data so that forecast may be made of the prospects for future earnings, ability to pay interest, debts maturities both current as well as long term profitability of a sound dividend policy. Financial appraisal involves the assessment of firm's past, present and anticipated future financial condition. It is a scientific evaluation of the profitability and financial strength of a business concern. In fact financial appraisal and analysis of financial statement have nearly the same meaning. Financial statement analysis is used for the purpose of financial appraisal. Financial appraisal is the process of making a scientific proper, critical and comparative evaluation of the profitability and financial health of given concern through the application of financial statement analysis. Financial statement analysis is a preliminary step towards the evaluation of result drawn by the analyst or management accountant. Appraisal or evaluation of such results is made thereafter. Financial appraisal begins where financial analysis ends and financial analysis starts, where the summarization of financial data in the form of profit and loss account and Balance Sheet ends. Financial statement analysis attempts to unveil the meaning and significance of the items composed in profit and loss account and balance sheet so as to assist the management in the formation of sound operating financial policies. The appraisal or analysis of financial statements spotlight the significant facts and relationships concerning managerial performance, corporate efficiency, financial strength or weakness and credit worthiness that would have otherwise been buried in the figured details.

Appraisal of financial statement alone can answer such queries. It’s true that statement analysis merely reveals what has taken place in the past, but past events give indications of what could be expected in future unless some drastic changes take place in business it will continue to move in the same direction in the past.

Need of Financial Appraisal

The need of financial appraisal varies accounting to type of users. For management it serves as a means of “self-evaluation” being a report of its managerial skill and competence, a banker can judge the liquidity position a creditor can plan buying and selling of shares of a concern on the basis of safety of principal and its capita appearances as warranted by the past record of earning. A debenture holder of a concern can ascertain whether income generates sufficient margin to pay the interest, answers to different question are provided by financial appraisal.

Meaning of Insurance

Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.

Definition

Insurance is a contracted between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance. The party bearing the risk is known as the ‘insurer’ or ‘assurer’ and the party whose risk is covered is known as the ‘insured’ or ‘assured’.

Types of Insurance

Any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are knows as perils. An insurance policy will set out in detail which perils are covered by the policy and which is not. Below are non-exhaustive lists of the many different types of insurance that exist. A single policy may cover risks in one or more of the categories set out below:

Life insurance: Life insurance provides a monetary benefit to a decedent’s family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. Fire Insurance: Fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured for the financial loss which the latter may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period. Marine Insurance: Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination. Miscellaneous Insurance: Miscellaneous Insurance refers to contracts of insurance other than those of Life, Fire and Marine Insurance. It covers a variety of risks, the chief of which are as follows: Auto insurance: Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own, such as in a traffic collision. Home insurance: Home insurance provides coverage for damage or destruction of the policyholder's home. In some geographical areas, the policy may exclude certain types of risks, such as flood or earthquake that require additional coverage. Health insurance: Health insurance policies cover the cost of medical treatments. Dental insurance, like medical insurance protects policyholders for dental costs.

Our study is confronted to Life Insurance Sector of India hence; it shall be discussed in detail. Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26 %. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. In 1993 the Government of Republic of India appointed R.N. Malhotra Committee to lay down a road map for privatization of the life insurance sector.

While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the Insurance Act of 1938 and legislating the Insurance Regulatory and Development Authority Act of 2000. The same year newly appointed insurance regulator – Insurance Regulatory and Development Authority (IRDA) – started issuing licenses to private life insurers.

Foreign Direct Investment (FDI) Policy in Insurance Sector

As per the current (March 06) FDI norms, foreign participation in an Indian insurance company is restriction to 26.0 % of its equity / ordinary share capital. The Insurance Regulator has stipulated that foreign investment in Indian Insurance companies be limited to 26 % of totally equity issued (FDI limit) with the balance being funded by Indian promoter entities. The limit to foreign investment includes both direct and indirect investment and has been a cause of significant lobbying by foreign insurance companies for a change in regulations to increase the FDI limit to 49 % of equity issued. The Indian government has supported an increase in the FDI limit, which requires a change in the Insurance Act. The Union Budget for fiscal 2005 had recommended that the ceiling on foreign holding be increased to 49.0 % but the proposal has been rejected and yet to be implied.

A change in the Insurance Act requires a passage of the bill in both houses of Parliament. The Indian government has tabled the bill in the Upper House of Parliament in August 2010.

Indian life insurance industry overview

All life insurance companies in India (LIC), remains by far the largest player in the market. The private companies have come out with products called ULIPs (Unit Linked Investment Plans) which offer both life cover as well as scope for savings or investment options as the customer desires. These types of plans are subject to minimum lock-in period of three years to prevent misuse of the significant tax benefits offered to such plans under the Income Tax Act. Comparison of such products with mutual funds would be erroneous.

Brief History of Insurance

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the after the industrial era – past few centuries – yet its beginning date back almost 6000 years.

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttyal Seal, the foreign life insurance companies started insuring Indian lives. But Indian live were being treated as sub-standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs. 22.44 crore, it rose to 176 companies with total business-in-force as Rs. 298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provide were operating in India at the time of nationalization. Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of companies was taken over by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

Life Insurance Corporation of India

LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Since life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services need was felt in the later years to expand the operations and place a branch office at each district headquarter. Re-organization of LIC took place and large numbers of new branch offices were opened. As a result of re-organisation servicing functions were transferred to the branches, and branches were made accounting units. It worked wonders with the performance of the corporation. It may be seen that from about 200 crores of New Business in 1957 the corporation crossed 1000 crores only in the year 1969-70, and it took another 10 years for LIC to cross 2000 crores mark of new business. But with re-organisation happening in the early eighties, by 1985-86 LIC had already crossed 7000 crore Sum Assured on new policies.

Today LIC functions with 2048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices and the corporate office. LIC’s Wide Area Network covers 109 divisional offices and connects all the branches through a Metro Area Network. LIC has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC’s ECS and ATM premium payment facility is an addition to customer convenience. Apart from on-line Kiosks and IVRS, Info Centres have been commissioned at Mumbai, Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. With a vision of providing easy access to its policyholders, LIC has launched its SATELLITE SAMPARK offices. The satellite offices are smaller, leaner and closer to the customer. The digitalized records of the satellite offices will facilitate anywhere servicing and many other conveniences in the future.

From then to now, LIC has crossed many milestones and has set unprecedented performance records in various aspects of life insurance business. The same motives which inspired our fore fathers to bring insurance into existence in this country inspire us at LIC to take this message of protection to light the lamps of security in as many homes as possible and to help the people in providing security to their families.

Bajaj Allianz Life Insurance Company Private Limited

Bajaj Allianz Life Insurance is a union between Allianz SE, one of the largest Insurance Company and Bajaj Finserv Limited. Where, Bajaj

Finserv endeavors to become a full-fledged financial services company and be the financial partner to the Indian consumer and help him across his financial needs throughout his lifecycle. Bajaj Finserv is a consumer focused company with emphasis on profitable growth and operational efficiency to deliver best results to all its stakeholders. Bajaj Finserv Group companies share common values of Reliability, Innovation and Efficiency and provide customers with high quality products and services. And Allianz-SE which is Allianz Societas Europea in its full form, offers a comprehensive range of insurance and asset management products and services to approximately 78 million customers in about 70 countries. It operates:

Insurance Operations

The product portfolio includes a wide range of Property-Casualty and Life/Health insurance products for both private and corporate customers. We are the leading property-casualty insurer globally and rank among the top five in the life/health insurance business. Selected business lines are run globally such as Global Corporate Customers, Credit Insurance, Assistance Services, Worldwide Care, Global Automotive and Reinsurance. Based on premiums the estimated split between private and corporate clients of the company would be about 50 % and 50 % for Property-Casualty segment, and about 80 % and 20 % for Life/Health segment, respectively.

Asset Management

As of December 31, 2011, the company is said to be one of the largest asset managers in the world which manage third-party assets with active investment strategies, with over € 1,600 billion assets under management. Through 2011, our Asset Management business was governed by Allianz Global Investors (AGI) operating with investment and distribution arms in all major markets, under brands such as PIMCO, AGI, RCM or AGI Capital. As of January 1, 2012, the company is running the Asset Management business out of two distinct investment management businesses, PIMCO and AGI. Both units will operate under Allianz Asset Management (AAM), focusing solely on financial and overarching governance matters.

The amalgamation of these two remarkable institutions led to the incorporation of Bajaj Allianz Life Insurance Company Private Limited on 12th March, 2001. After coming into existence still the company is running successfully and is counted as one of the top private life insurers in India.

II. OBJECTIVES

The objectives of the study are mentioned as under:

1. To study the Insurance sector of India before and after liberalization.
2. To evaluate unit linked schemes of Life Insurance Corporation of India and Bajaj Allianz Life Insurance Company Private Limited.
3. To assess the profitability position of both the life insurance companies with the comparison with each other.
4. To prove the hypothesis statements determined for the study.
5. To render suggestions to the problems derived in the study.

The Unit Linked Plans have been successful in changing the meaning of life insurance to an extent and has been very popular among the customers. Keeping this attraction in view the study has been emphasized on comparing business done by these two life insurance companies through their Unit linked Plans, taking the hypothesis under consideration as under:

Null Hypothesis: "The difference between the percentages of contribution of Linked Business of Life Insurance Corporation of India and Bajaj Allianz Life Insurance Company Private Limited is not significant".

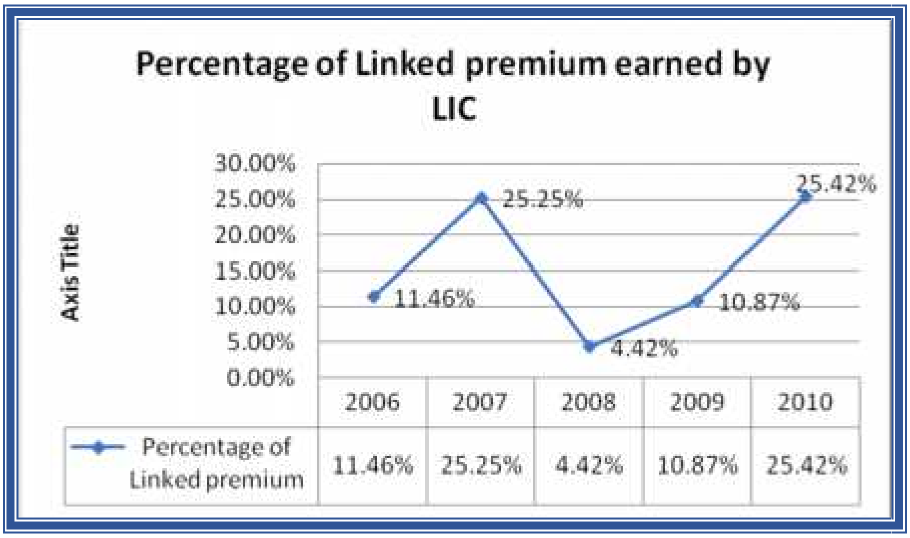
For proving our hypothesis the percentage of Linked Business's premium earned by Life Insurance Corporation of India and Bajaj Allianz Life Insurance Company Private Limited from their total premium earned respectively shall be taken into consideration; so as to ascertain the percentage of contribution done by Linked business towards their financial statements respectively:

Table 1.1 Table showing total premium earned and percentage of Linked business's premium earned of LIC

Year	2006	2007	2008	2009	2010
Total Premium earned	9065936	12768589	10703801	31911799	18590390
Linked Premium earned	1038582	3224485	473410	3469380	4725973
Percentage of Linked premium	11.46 %	25.25 %	4.42 %	10.87 %	25.42 %

Source: Data compiled as provided by various annual reports of LIC

Figure 1.1 Diagram showing percentage of Linked business's premium earned by LIC



Calculation notes:

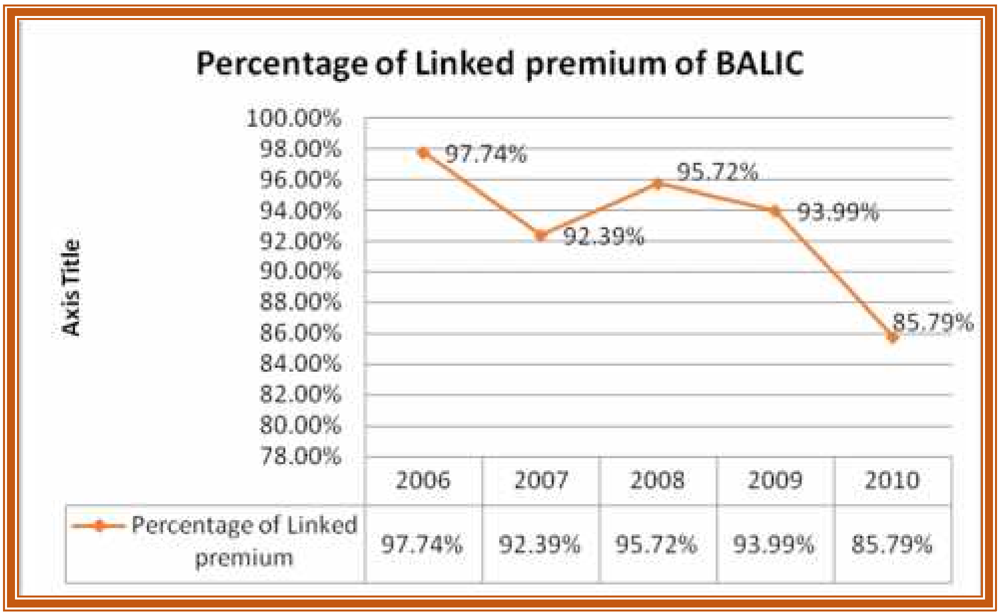
- In the year 2006 the Linked business constituted 11.46 % of the total premium earned by LIC.
- In the year 2007 the Linked business constituted 25.25 % of the total premium earned by LIC being rose by 13.79 %.
- In the year 2008 the Linked business constituted 4.42 % of the total premium earned by LIC which is much less being 20.83 % than the previous earned percentage.
- In the year 2009 the Linked business constituted 10.87 % of the total premium earned by LIC being up by 6.45 % as compared to the previous year's earned percentage.
- In the year 2010 the Linked business constituted 25.42 % of the total premium earned by LIC showing a rise of 14.55 % as compared to the last year's earned percentage.

Table 1.2 Table showing total premium earned and percentage of Linked business's premium earned of BALIC

Year	2006	2007	2008	2009	2010
Total Premium earned	28015778	53099971	97253110	106245213	86099487
Linked Premium earned	27385398	49063681	93095018	99864032	73866533
Percentage of Linked premium	97.74 %	92.39 %	95.72 %	93.99 %	85.79 %

Source: Data compiled as provided by various annual reports of BALIC

Figure 1.2 Diagram showing percentage of Linked business's premium earned by BALIC



Calculation notes:

- In the year 2006 the Linked business constituted 97.74 % of the total premium earned by BALIC.
- In the year 2007 the Linked business constituted 92.39 % of the total premium earned by BALIC which drifted from 5.35 % as compared to the previous year's percentage of linked premium earned.
- In the year 2008 the Linked business constituted 95.72 % of the total premium earned by BALIC which recorded a growth of 3.33 % as compared to the previous year's percentage of linked premium earned.
- In the year 2009 the Linked business constituted 93.99 % of the total premium earned by BALIC which was again a down slope recorded being a fall of 1.73 % as compared to the previous year's percentage of linked premium earned.
- In the year 2010 the Linked business constituted 85.79 % of the total premium earned by BALIC which was a remarkable drift down being a fall of 8.2 % as compared to the previous year's percentage of linked premium earned.

The T-table

Degrees of Freedom	Probability, p			
	0.1	**0.05**	**0.01**	**0.001**
1	6.31	12.71	63.66	636.62
2	2.92	4.30	9.93	31.60
3	2.35	3.18	5.84	12.92
4	2.13	2.78	4.60	8.61
5	2.02	2.57	4.03	6.87
6	1.94	2.45	3.71	5.96
7	1.89	2.37	3.50	5.41
8	1.86	2.31	3.36	5.04
9	1.83	2.26	3.25	4.78
10	1.81	2.23	3.17	4.59

Table 1.3 Table showing the percentage of premium earned through Linked business of LIC and BALIC for t-test

Year	LIC	BALIC	Explanation
2006	11.46	97.74	
2007	25.25	92.39	
2008	4.42	95.72	
2009	10.87	93.99	
2010	25.42	85.79	
ΣX	77.42	465.63	Total of percentage of Linked premium earned
N	5	5	Number of Years
$\overline{X}$	15.484	93.126	Mean (Total / N)
ΣX^2	1552.7648	43445.3823	Sum of the squares of each year's percentage of Linked business
$(\Sigma X)^2$	5993.8564	216811.2969	Square of the total (ΣX). It is **not** the same as ΣX^2
$(\Sigma X)^2$ / N	1198.7713	43362.2594	
Σd^2	353.9935	83.1229	$\Sigma d^2 = \Sigma X^2 - (\Sigma X)^2 / N$
[illegible]^2	88.4984	20.7807	[illegible]$^2 = \Sigma d^2 / (N-1)$
[illegible]d^2 [illegible] N_2	= 17.6997 + 4.1561 = 21.8558	[illegible]d^2 is the variance of the difference between the means	
[illegible]d	4.6750	Square root of [illegible]d^2	
t = $\overline{X1}$ - $\overline{X2}$ / [illegible]d	-77.642 / 4.6750 = **-16.6079**		

Here are the key relationships between p-values and t-values:

- As t-values get bigger, p-values get smaller;
- T-values can be negative, but p-values are always positive. The p-value for a negative t-value is the same as that for the positive version of that t-value;

III. CONCLUSION AND FINDINGS

Keeping in view the relationship as mentioned above we can place our t-value on the t-table to judge our hypothesis; entering a *t*table at 4 degrees of freedom we find a tabulated t value of 2.13 ($p = 0.1$) going up to a tabulated value of 8.61 ($p = 0.001$). Our calculated *t* value being **-16.6079** exceeds these, so the difference between our means is very highly significant. And our null hypothesis being, "The difference between the percentage ofcontribution of Linked Business of Life Insurance Corporation of India and Bajaj Allianz Life Insurance Company Private Limited is not significant" is rejected. And also we can see that the Life Insurance Corporation of India should get mastery on this business field too. Generally, Investment plans are the key drivers in Insurance Sales. This propensity to save has led to a surge in investment-linked life insurance policies. Almost the entire insurance premium generated by private insurers in India is from investment plans, with pure term insurance least preferred by buyers. Customers prefer to channel insurance savings into unit-linked investment plans (ULIPs), which are regarded as more transparent and give policyholders some say in the investment strategy. The total business premium generated by insurers from ULIP sales for the fiscal year ending 2010 is Rs 115 billion, or about 45 % of total business, according to a recent report by the regulator. Private life companies generate more than 90 % of business from single and regular premium ULIPs which is also clearly visible in the graphs above that the contribution of Linked business of Bajaj Allianz Life Insurance Company Private Limited has been floating between 80% - 90 % proving the statement given by Insurance Regulatory and Development Agency. Hence it can be only said that Life Insurance Corporation of India should also emphasize in this field to enhance its overall performance.

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