



A STUDY ON FINANCIAL ANALYSIS OF LIFE INSURANCE CORPORATION OF INDIA LTD.

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ABSTRACT :

The analysis of insurance companies' financial health plays a crucial role in ensuring their sustainability and competitiveness in the industry. This study examines the financial health of Life Insurance Corporation of India (LIC) from 2019 to 2024 using key financial ratios, including liquidity, profitability, solvency, and efficiency metrics. Secondary data from LIC's annual reports have been analyzed to assess its ability to meet short-term and long-term obligations, profitability trends, and financial stability. The findings indicate that LIC maintains a strong financial position, with a stable current ratio, fluctuating profitability trends, and a gradual improvement in solvency.

However, increased competition from private insurers and regulatory changes poses challenges to its market dominance. The study concludes with recommendations for LIC to enhance financial efficiency, optimize investment strategies, and strengthen its competitive advantage in the evolving insurance sector.

INTRODUCTION

Business performance evaluation depends heavily on finance because it determines an organization's stability metrics. The research investigates financial aspects in Life Insurance Corporation of India Ltd (LIC) which stands as the primary life insurance firm in India. LIC began operations in 1956 as it established itself as a crucial element of India's financial structure by providing its customers with diverse insurance options for their life coverage needs. The study relies on financial principles to establish an orderly evaluation process for understanding LIC's financial stability. The financial analysis of this project requires a thorough evaluation of profitability indicators together with measurements of liquidity and solvency and investment outcomes to establish the financial strength of the organization. The review of Balance Sheet and Profit & Loss Account together with Cash Flow Statement helps evaluate LIC's revenue generation capacity and expense control measures and long-term financial stability.

Financial data from LIC will receive scrutiny in order to explore the company's efficiency performance alongside its risk management approaches and business expansion possibilities. The study will provide insights about LIC's capabilities to adjust its operations based on shifting economic situations along with regulatory requirements and industry competition factors within the insurance market. The financial analysis proves itself as a critical instrument for evaluating LIC's place in India's economic sector and its growth properties.

STATEMENT OF THE PROBLEM

The Life Insurance Corporation of India (LIC) faced major financial difficulties throughout the recent months. The life insurance premium decreased by 4.5% during November 2024 as LIC experienced a 27% revenue reduction even though private insurers achieved a 31% revenue growth. When LIC recorded a major decrease in policy sales numbers during October 2024 the sector showed clear signs of performance decline. During the second fiscal quarter that ended on September 30, 2024 LIC dropped its profit after tax by 3.8% to ₹76.21 billion because the company expanded its benefit payout to its policyholders.

Extensive financial analysis is necessary to determine the fundamental reasons which led to LIC's declining business performance. Deep financial investigations of the company are necessary to shape future strategies that will enhance LIC's performance without jeopardizing its essential Indian insurance market position.

OBJECTIVES OF THE STUDY

- To analyze the development of profitability over a period of 5 financial years from 2020 to 2024.

REVIEW OF LITERATURE

1. Bansal, A., & Kaur, R. (2019)

"Evaluating Financial Efficiency of Life Insurance Corporation of India" The financial effectiveness of LIC during a five years period is assessed in this study through the use of EDPA. The research focuses on the efficiency of LICs compared to other insurance companies. In order to maintain its competitive edge in a liberalised market, the authors conclude that LIC is facing operational efficiency challenges, despite its extensive outreach and assets under management.

2. Attimani (2022)

In her research paper, she tried to quantify the effect of IPOs of life insurance companies on policy holders. The researcher has gathered primary data from the policyholders and the researcher also gathered secondary data for the purpose of analysing the financial position of the life insurance corporation of India. From the study, he realized that the employees are much against disinvestment of policy even though it is inconsequential to the policy holders.

PROFILE OF THE STUDY

INTRODUCTION

Life Insurance Corporation of India Ltd is the largest and oldest life insurance company in India, it came into existence in the year 1956 after nationalization of 243 scrap companies. LIC being an organisation of public sector has been beneficial in providing people of India insurance facility which was quite essential factor to the enhancement of the economic status of India. LIC has a wide range of insurance, which aims to meet the requirements of the different members of society by providing insurance product in the fields of life, health, as well as pension.

In current business scenario, LIC enjoys major share of market based solely on its credibility, coverage, and solidity. This research project entails a proposal to look at the services provided by LIC, the efficiency of these services and its presence in the insurance market of India. Moreover, we will discover how LIC mitigates existing and emerging risks in its operating environment due to change in regulations, market forces and customer expectation, following the development of online insurance selling channels. By so doing, this paper aims at identifying the contribution of LIC in planning and managing for financial shocks for individuals, families and the economy in general.

HISTORY OF LIC

The concept of insurance dates back nearly 6000 years, as people have always sought protection against loss and disaster. The modern form of life insurance was introduced in India in 1818 with the establishment of Oriental Life Insurance Company in Calcutta by European settlers. However, these early insurers only catered to Europeans, considering Indian lives inferior and charging higher premiums.

The first Indian-owned insurance company, Bombay Mutual Life Assurance Society, was founded in 1870, offering policies to Indians at normal rates. Nationalism played a key role in the rise of Indian insurance companies, especially during the Swadeshi Movement (1905-1907). Companies like Bharat Insurance (1896), United India (1906), and Hindustan Co-operative Insurance (1907) emerged during this period. The Life Insurance Companies Act (1912) was the first regulation for the industry, but it still favored foreign companies.

ANALYSIS AND INTERPRETATION

PROFITABILITY RATIO

NET PROFIT RATIO

The net profit ratio is the percentage of net profit on revenue from operations. It is calculated as under:

$$\text{NET PROFIT RATIO} = \frac{\text{NET PROFIT AFTER TAX}}{\text{REVENUE FROM OPERATION}} \times 100$$

TABLE

NET PROFIT RATIO ANALYSIS

YEAR	NET PROFIT (A)	TOTAL REVENUE (B)	NET PROFIT RATIO [(A/B) *100]
2020	2,712.71	6,15,912.27	0.44
2021	2,903.69	6,82,227.98	0.43
2022	5,874.21	7,21,303.80	0.81
2023	38,209.94	7,89,203.40	4.84
2024	35,362.37	8,57,369.47	4.12

(Source: Secondary Data)

INTERPRETATION

The performance trends of Life Insurance Corporation of India (LIC) profit margin for the last five years are displayed in the above table. Strong profitability and efficient cost management emerge when net profit ratio is high however lower ratios signal expenses that are high or poor revenue performance. The data establishes that Life Insurance Corporation of India produced net profits lower than 1% throughout the period spanning 2020 to 2022. The net profit ratio of Life Insurance Corporation of India reached its highest point in 2023 at 4.84% yet showed a minimal decrease to 4.12% in 2024.

RETURN ON ASSET RATIO

The Return on Assets (ROA) ratio measures how efficiently a company utilizes its assets to generate profit. It indicates how well a company converts investments in assets into earnings.

$$\text{RETURN ON ASSET RATIO} = \frac{\text{NET PROFIT}}{\text{AVERAGE TOTAL ASSET}} \times 100$$

AVERAGE TOTAL ASSET

$$= \frac{\text{TOTAL ASSET OF PREVIOUS YEAR} + \text{TOTAL ASSET OF CURRENT YEAR}}{2}$$

TABLE
RETURN ON ASSET RATIO ANALYSIS

YEAR	NET PROFIT (A)	AVERAGE TOTAL ASSET (B)	RETURN ON ASSET RATIO [(A/B)*100]
2020	2,712.71	31,57,655.315	0.09
2021	2,903.69	35,07,627.85	0.082
2022	5,874.21	40,21,172.725	0.15
2023	38,209.94	43,90,550.99	0.88
2024	35,362.37	49,18,022.47	0.72

(Source: Secondary Data)

INTERPRETATION

The business efficiency of Life Insurance Corporation of India (LIC) in asset utilization for profit generation is shown by its Return on Asset (ROA) Ratio during the previous five years. An organization classifies Asset Utilization Efficiency through the Return on Asset ratio which differs between industries yet exhibits profitable performance when exceeding 5%. Asset utilization at LIC improved substantially from 0.88 in 2023 compared to the earlier years when it was low between 2020 and 2022. The ROA ratio decreased to 0.72 during 2024 when compared to 2023 but this performance level was better than other years.

FINDINGS

PROFITABILITY RATIO

- The net profit ratio significantly improved from below 1% (2020-2022) to 4.84% in 2023 but slightly declined to 4.12% in 2024.
- The return on assets (ROA) increased to 0.88% in 2023 but declined to 0.72% in 2024, indicating fluctuating efficiency in asset utilization.

SUGGESTION

- The LIC should improve its cost control structures for achieving additional net profit growth beyond 2023 results.
- The LIC must optimize how it uses its assets which will stabilize Return on Assets (ROA)

CONCLUSION

The financial analysis of Life Insurance Corporation of India (LIC) from 2020 to 2024 reveals a strong overall financial position with notable improvements in profitability and capital structure. Through increased reserves and strengthened equity base and a decreasing debt-to-equity ratio the company has achieved financial risk reduction. The company faces ongoing difficulties to achieve optimal liquidity because its cash ratio remains subpar and the solvency ratio requires extra financial strengthening.

LIC has proven its ability to demonstrate financial resource adaptability while handling ratio changes. The business grew more profitable according to net profit ratio metrics and return on equity results at the same time that decreased debt levels increased overall financial stability. LIC will reach its highest potential by fortifying its financial foundation through present initiatives which support enduring business expansion.

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