

## A comparative study of cost efficiency of life insurance companies in India

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Received : 29.11.2011; Revised : 02.04.2012; Accepted : 29.08.2012

### ABSTRACT

The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. The objectives of the study were to compare international life insurance density and penetration and to evaluate the cost efficiency of life insurance companies operating in India for the period 2000-01 to 2009-10. Secondary data were used for this research. All private and public sector life insurance companies in India from 2000-01 to 2009-10 were selected for the study. The present study involves calculation of cost efficiency score of life insurance sector in India with the use of Data Envelopment Analysis (DEA). Life Insurance Corporation of India has consistently secured a cost efficiency score of 1 in all the years from 2000-01 to 2009-10 and scored the highest rank for all the years under study. Thus, Life Insurance Corporation of India has consistently been a cost efficient organization. While in the case of the private life insurance companies, the cost efficiency score has been inconsistent.

**KEY WORDS** : DEA, Cost efficiency, Density, Penetration

**How to cite this paper** : Shinde, Sanjay (2012). A comparative study of cost efficiency of life insurance companies in India. *Internat. J. Com. & Bus. Manage*, 5(2): 210-215.

Life insurance in the modern form was first set up in India through a British company called the Oriental Life Insurance Company in 1818 followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. All these companies operated in India but did not insure the lives of Indians. They insured the lives of Europeans living in India. Some of the companies that started later did provide insurance for Indians, as they were treated as “substandard”. Substandard in insurance parlance refers to lives with physical disability. Pioneering efforts of reformers and social workers like Raja Rammohan Ray, Dwarakanath Tagore, Ramatam Lahiri, Rustomji Cowasji and others led to entry of Indians in insurance business. The first Indian insurance company under the name, ‘Bombay Life Insurance Society’ started its operation in 1870, and started covering Indian lives at standard

rates. Later ‘Oriental Government Security Life Insurance Company’, was established in 1874, with Sir Phirozshah Mehta as one of its founder directors. Insurance in India can be traced back to the Vedas. For instance, Yogakshema, the name of Life Insurance Corporation of India’s corporate headquarters, is derived from the Rig Veda. The term suggests that a form of ‘community insurance’ was prevalent around 1000 BC and practiced by the Aryans.

Insurance business was conducted in India without any specific regulation for the insurance business. They were subject to Indian Companies Act 1866. After the start of the ‘Be Indian Buy Indian Movement’ (called Swadeshi Movement) in 1905, indigenous enterprises sprang up in many industries. It was during the Swadeshi movement in the early 20<sup>th</sup> century that insurance witnessed a big boom in India with several more companies being set up. Not surprisingly, the movement also touched the insurance industry leading to the formation of dozens of life insurance companies along with provident fund companies (provident fund companies are pension funds). In 1912, two sets of legislation were passed:

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