

INDIAN INSTITUTE OF MANAGEMENT INDORE



An Efficiency Based Investigation into the Comparative Firm Performances within Indian Life Insurance Industry, with Special Reference to State Ownership

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LIST OF ABBREVIATIONS:-

AUM : Asset Under Management

BCC : Banker-Charnes- Cooper

CCR : Charnes-Cooper-Rhodes

CRS : Constant Return To Scale

Opex – Operating Expenses

Comex : Commission Expenses

DEA : Data Envelopment Analysis

DMU: Decision Making Units

JV : Joint Venture

IJV : International Joint Ventures

ROA : Return On Assets

ROE : Return On Equity

ROC : Return On Capital Employed

SOE : State Owned Enterprises

PSU : Public Sector Undertaking

SFA : Stochastic Frontier Analysis

SE : Scale Efficiency

Super-SBM-Non Oriented : Super-efficiency model without orientation

TE : Technical Efficiency

VRS : Variable Return to Scale

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ABSTRACT

Research on the Indian State Owned Enterprises (SOE) have followed two broad trends. The first trend adopted the *failure analysis* approach, documenting the causes for the losses and ill health of SOEs. The second trend adopted the *success factor* approach, whereby well performing SOEs were selectively sampled and case studies were undertaken to narrow down on a set of probable success parameters. However both the above approaches have their limitation; the failure analysis approach did not result in formulation and implementation of successful and sustained turn around strategies. The identification of success factors were often followed by SOEs entering extended periods of losses.

In the present study, I adopted the cause of success approach as the point of departure. I intend to study the Indian SOE in the Life Insurance Sector namely LIC of India. The choice of LIC is guided by two conditions. First LIC despite operating under competitive environment, continues to control around 70% of the market share since sectoral deregulation in 2001. This is eminently interesting as theory posits suboptimal performance outcomes for SOEs, operating in non-discontinuous environment with low negative externalities. Therefore LIC must have done something that defies the received wisdom. Secondly, an in depth analysis of the firm, using efficiency measures, shall provide us insights into the source(s) of success and potential threats to those success.

To achieve the above research objectives, I adopted, optimization based data envelopment analysis (DEA) to identify the efficiency frontiers, with respect to identified parameters within the industry. I supplemented DEA, with slack based super-efficient analysis to determine the robustness of my findings. Amongst other factors, I found that, against the existing trends, LIC's superior efficiency and performance is partly attributable to their archaic brick and mortar extensive agency network as opposed to more online network preferred by private industry incumbents.

Keywords: *Indian SOE, Insurance Sector, Super Slack Based DEA, LIC of India*