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A STUDY ON FINANCIAL PERFORMANCE OF SELECTED INSURANCE COMPANIES OF INDIA

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ABSTRACT

The reforms of Indian Insurance Sector brought substantial changes in the level of competition, business environment, managing strategies, service quality and advance technology front. The wind of liberalization, globalization and privatization has opened new vistas in the insurance industry in the generation of intensely competitive environment. The insurance sector in India is passing through a period of structural changes under the combined impact of financial sector reforms in general and insurance sector in particular. The market for insurance services previously was monopolized while the market place was regulated and insurance companies were expected receive assured spread over their cost of funds and systematic demand for their products. In this study researcher has analysed financial performance two insurance companies of India. Financial data of HDFC Life Insurance Company Ltd and SBI Life Insurance Company Ltd has been analysed for the year 2015-16 to 2019-20.

KEYWORDS: Insurance, Financial Performance, HDFC Life Insurance, SBI Life Insurance.

INTRODUCTION:

The insurance sector in India is passing through a period of structural changes under the combined impact of financial sector reforms in general and insurance sector in particular. The market for insurance services previously was monopolized while the market place was regulated and insurance companies were expected receive assured spread over their cost of funds and systematic demand for their products. This phase in Indian insurance business was the result of sheltered markets and administered prices for various insurance products. It is said that a resilient and well regulated insurance industry can significantly contribute to economic growth and efficient resource allocation through risk transfer and savings mobilization. In addition, it can enhance wealth management avenues in the country. All these contributions of the sector can only be achieved when the sector is organized and competitive. The competitive insurance markets are in the national interest because they generally offer business houses and individuals' greater choice and better value than alternative approaches (Skipper Jr. & Klein, 2000). In recent times restrictive markets have been made competitive through a combination of liberalization and deregulation. Consequently Indian insurance industry was liberalized in January, 2000, with the passage of the IRDA Act. The liberalization was brought about with the objectives to increase coverage of population, better choice of products with informed decisions, promote competition, encourage the entrance and joint partnership of foreign players with the Indian insurers, so as to boost innovation, advance economy of operations, enhance customer centricity and service excellence, improve the efficiency of the public sector companies and above all to create economic activity for the purpose of benchmark growth rate. The historical perspective of the general insurance companies reveal that the rapid expansion of insurance companies since nationalization had given rise to a number of problems related to the image, operational efficiency, productivity, and the quality of portfolio of the system as a whole and there have been persistent complaints about deterioration in customer service (Rohit & Manjit, 2009). Close on the heels of the success of the privatization initiatives in the banking sector, insurance sector reforms were initiated following the report of Malhotra Committee (1993). The reforms were aimed at creating more efficient and competitive financial system suitable for the requirement of the economy. The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of the government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting entry restrictions for private players, and allowing foreign players to enter the market with some limits (26 percent) on direct foreign ownership. The insurance industry has been maintaining its constant growth rate of 15% to 16% over the last few years. As a result, the insurance penetration rose to 4.6 % in the year 2009-10 for life segment and remained stagnant at nearly 0.6% in the case of non-life insurance (Insurance Regulatory and Development Authority (IRDA) , 2009-10). One of the reasons for low penetration in general insurance has been lack of concerted efforts to effectively tap the retail segment (Parekh, 2007).

LITERATURE REVIEW:

Holzheu (2006), in his research paper, measured the underwriting profitability of insurance markets. The study used economic combined ratio as alternative key performance indicator instead of conventionally published combined ratio. It reflects underwriting profitability more accurately. The study focused on the underwriting profitability of six major non-life markets, the US, the UK, Germany, Japan, France and Canada from 1994 to 2004. The results indicated the picture for the business year results for Japan, Canada, France, Germany and the UK were broadly consistent with the US results. The results for the years 1994 to 1997 and 2002 to 2004 were profitable, though often only moderately. The period from 1998 to 2001 exhibited dismal underwriting results. Substantial improvements in underwriting results from 2001 to 2003 restored profitability to the level of the 1994 to 1997 period. The study further pointed out that the ten year average underwriting margins before taxes were positive in all countries implying a positive contribution to profits from the insurance activities. However, the contribution was only about 1-2per cent in the US and Japan, 2-3per cent in France, 5per cent in Canada and the UK, and 6per cent in Germany. The study found that these positive results were necessary but not a sufficient condition for creating shareholder value. Profits must also cover tax and the insurers' capital cost. During the period 1994 to 2004, it was difficult for the industry to earn its underwriting cost of capital.

Jha and Agarwal (2007), in their article, studied the impact and challenges of detarriffing in insurance industry. The paper revealed that detarrifing creates intense competition, sharp drop in premium, reduction of premium more evident in corporate portfolios, and non-reasonable basis for reduction in premium. In the case of retail/small portfolios, the premium cut was less due to ignorance about detariffing of insurance market, premium reduced irrespective of the quality of risk management, direct impact on the balance-sheet of insurers and review in reinsurance rates by several leading re- insurers etc. They found that the only way out available with the insurance companies will be to vigorously market the policies, create new customer base, spread the net of insurance, not to compromise with quality of risk insured, proper appraisal of risks and motivate the insured to practice risk management.

Kaur and Kapoor (2007), in their paper, evaluated the profitability and the relative efficiency of public sector banks (PSBs) in India during post-liberalization period. All the twenty-eight PSBs have been included in the study and the period selected for analysis is 2001-05. To evaluate the overall profits and profitability performance of these banks the credit deposit ratio, return on assets, operating profit to total assets, spread of total assets, interest income to total income and interest expenditure to total expenditure were computed. The mean, standard deviation, co-efficient of variation and exponential growth rate and concentration index were used. The research indicated that the overall profitability of these banks has increased during the period of study. The relative efficiency of nationalized banks is higher than the relative efficiency of State Bank of India and other associates of SBI Group. Among the nationalized banks, Group Corporation Bank, Oriental Bank of Commerce, and Union Bank of India, while in the case of associates of SBI Group State Bank of Patiala and State Bank of Hyderabad performed very well.

Mahmoud (2008), identified the financial performance of insurance companies in Egypt. The data consisted of six insurance companies, three of which were from the public sector, while others represented private sector companies for the period 1992-93 to 2005-06. The author has used 25 ratios to measure the efficiency and financial performance. These ratios were reduced to six factors through factor analysis. The study found that the mean of efficiency of financial performance, ratios of the public and private sectors do not vary significantly for the following ratio returns on investments, net profit to total assets, net profit to surplus, total liabilities to total assets, and underwriting expenses paid to premiums written. Public sector cases represent 66.7per cent of the low-efficiency clusters of financial performance, while private sector cases comprise 47.6 percent of high-efficiency clusters for financial performance. Thus, there is a relationship between the fuzzy classification of the insurance company's financial performance efficiency and its ownership type.

Seal and Debnath (2009), observed that detariffing in the insurance segment has been to the advantage of the consumers. The rates of premium in fire and engineering have decreased. Even though the premiums, for a segment of motor insurance increased, despite charging such increased rates of premium, insurance companies will be at loss in the area of motor insurance. Competition will bring more and more new and better products at some discount. Finally, consumers will be the beneficiaries of detariffing.

OBJECTIVES:
1. To study the insurance industry of India.
2. To analyse the financial performance of selected Insurance companies of India.

Sample Size:
In this study researcher has covered 2 insurance companies India.

1. HDFC Life Insurance Company Ltd
2. SBI Life Insurance Company Ltd

Financial data for the year 2015-16 to 2019-20 has been analysed in this study.

DATA ANALYSIS:
1. Net Profit Margin Ratio

Name	2019-20	2018-19	2017-18	2016-17	2015-16
HDFC Life Insurance Company Ltd	79.50	79.04	86.47	88.05	92.25
SBI Life Insurance Company Ltd	73.33	88.20	89.77	90.39	87.06

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
HDFC Life Insurance Company Ltd	5	425.31	85.062	32.44457
SBI Life Insurance Company Ltd	5	428.75	85.75	49.91625

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.18336	1	1.18336	0.028736	0.869598	5.317655
Within Groups	329.4433	8	41.18041			
Total	330.6266	9				

Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that the difference is seen in Net Profit Margin Ratio between selected 2 Insurance companies

2. Current Ratio

Name	2019-20	2018-19	2017-18	2016-17	2015-16
HDFC Life Insurance Company Ltd	0.87	0.79	3.00	15.93	20.23
SBI Life Insurance Company Ltd	1.93	1.78	1.83	17.76	15.17

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
HDFC Life Insurance Company Ltd	5	40.82	8.164	85.03608
SBI Life Insurance Company Ltd	5	38.47	7.694	64.95013

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.55225	1	0.55225	0.007364	0.933723	5.317655
Within Groups	599.9448	8	74.99311			
Total	600.4971	9				

Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that the difference is seen in Net Current Ratio between selected 2 Insurance companies

3. Return On Assets Ratio

Name	2019-20	2018-19	2017-18	2016-17	2015-16
HDFC Life Insurance Company Ltd	0.98	0.98	1.00	0.93	1.06
SBI Life Insurance Company Ltd	0.85	0.90	0.94	0.93	1.01

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
HDFC Life Insurance Company Ltd	5	4.95	0.99	0.0022
SBI Life Insurance Company Ltd	5	4.63	0.926	0.00343

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.01024	1	0.01024	3.637655	0.092922	5.317655
Within Groups	0.02252	8	0.002815			
Total	0.03276	9				

Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that the difference is seen in Net Return on Assets Ratio between selected 2 Insurance companies

CONCLUSION:
The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. The overall insurance industry is expected to reach US$ 280 billion by the end of 2020. Life insurance industry in the country is expected to increase by 14-15% annually for the next three to five years. The scope of IoT in Indian insurance market continues to go beyond telematics and customer risk assessment. Currently, there are 110+ InsurTech start-ups operating in India. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

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