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A Study of Private sector Life Insurance Companies

PROF. (DR.) D. B. BHARATI
Director, Rajgad Institute of Management Research and Development, Pune

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Abstract:

Life insurance in India is a growing industry. Monopoly with Life Insurance Corporation of India was by liberalizing policy in the year 2000. There are total 24 insurance companies operating in India in the year 2013. After liberalization, private life insurers have launched many innovations in the insurance industry. At this juncture it has become imperative to study the profitability and performance of these companies. Five life insurance companies have been chosen from the Annual Report of IRDA for the purpose of study which are fully in operation at least for ten years. The study finds that uncontrolled volumes of underwriting losses are being incurred by the insurers in the life insurance sector in our country. Insurance practices in India became risky as the market has tendency to offset underwriting losses by Investment.

Life insurance companies need to pay more attention on efficient underwriting; otherwise sustainability of the life insurance is in questionable.

If the proper management adopted by the insurance companies then underwriting losses can be minimized.

Keywords: Net Premium, Underwriting Income, Investment Income, Operating Expenses, Operating Profit.

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INTRODUCTION

The life insurance business has taken its real shape in India after incorporation of the IRDA (Insurance Regulatory Development Authority) in the year 2000 and the monopoly business of LICI (Life Insurance Corporation of India) was abolished. For the improvisation in the insurance sector Malhotra Committee suggested for public company's and private company's co-existence.

Now a day Life Insurance Corporation of India is facing competition from Private Life Insurance Companies. This results into a rapid growth of private Life insurance companies. However, regulations in relating to solvency margin and investment rules protecting the interest of the policyholders and shareholders imposed by IRDA. It is now a crucial time of have a detailed study on Indian life insurance companies & the profitability of insurance companies.

REVIEW OF LITERATURE

Trivedi in the year 2010, Profit an absolute term but profitability is a relative concept. Profitability of a firm can be measured profitability ratios. Which ratios consist of (i) income ratios, (ii) expense ratios and (iii) profit margin ratios in relation to sales or investments?

Whereas profit margin is expressed against sales, it is known as operating profit ratio (Khan and Jain, 2001). Life insurance business Hussain, (2010) has evaluated the growth of LICI during post privatization period from 2004-05 to 2008-09 where parameters used are premium, commission, operating expenses etc. and the analysis finds that the increase in commission expenses being lower than the increase in gross premium and other operating expenses compared to premium underwritten is on the higher side. Modi (2011) has made a study on four non-life insurance companies in India relating to underwriting performance, management soundness, and investment

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performance by analyzing various ratios. At the end of the study it was found that the profitability of Indian life insurance companies has been improved steadily and it indicates a progressive trend. According to Bhatt(2012), the profitability of LICI has shown increasing trend of ten times than the previous. He also suggested that the volume of Life insurance business has tremendously increased in the last two decades. The study done by Tiwari, et.al (2012) on the trend of total premium; total no. of policies, total income, market share etc. and the findings reveal that the life insurance industry has made a remarkable growth of premium after the entry of private players and LICI is still better than private life insurers.

On the basis of literature review it was found that the profitability of Indian life insurance companies were studied for premium income trends so far, hence the study tries to breach the gap to analyze various profitability ratios with respect to profitability performance of Life insurance business

OBJECTIVE OF THE STUDY

The objective of the present study is ***to measure and test the profitability*** performance of selected life insurance companies in India.

HYPOTHESES OF THE STUDY

1) There is no significant difference in the ratio of underwriting income to net premium of select life insurance companies in India during the study period.

2) There is no significant difference in the ratio of operating income to net premium of select life insurance companies in India during the study period.

METHODOLOGY

It is an analytical and descriptive study .The study is based on secondary data. The required data is collected from the annual reports of IRDA. The data is analyzed by using various profitability ratios. ***The researcher decided to use statistical tools like average, standard deviation (SD), correlation, ANOVA and post hoc ANOVA for the purpose of the study***.

SELECTION OF COMPANIES FOR THE STUDY

All the Indian life insurance companies are considered as universe for the study. Thirteen (13) life insurance companies namely, AVIVA, BAJAJ ALLIANZ, BIRLA SUN LIFE, HDFC

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STANDARD, ICICI PRUDENTIAL, ING VYSYA, KOTAK MAHINDRA, MET LIFE, LIC, SBI LIFE, TATA AIG, MAX N Y LIFE and RELIANCE have been selected purposively for the study out of twenty four (24) life insurance companies from the database of IRDA Annual Report, 2012-13 and these companies are selected on giving due care to their age and longevity for a period more than ten (10) years of existence.Other life insurance companies are not included in our study since the data being available for other life insurance companies are of unequal size i.e., less than 10 years.

List of Indian Life Insurance Companies under the study:

S. No	Abbreviation	Name of the company
1.	AVIVA	Aviva Life Insurance Company
2.	BAJAJ ALLIANZ	Bajaj Allianz Life Insurance Company
3.	BIRLA SUNLIFE	Birla Sun Life Insurance Company
4	HDFC STANDARD	HDFC Life Insurance Company
5	ICICI PRUDENTIAL	ICICI Prudential Life Insurance Company

DATA ANALYSIS AND DISCUSSION

In the ratio of underwriting income to net premium, the numerator underwriting income is calculated by deducting investment and other income from net profit before tax. **Table no. 1 and 2 is analyzing the ratio indicating** core business performance of life insurance companies.

Table 1: Ratio of Underwriting Income to Net Premium (2003-04 to 2012-2013)

Name of the Company	Average	SD	Pearson's correlation coefficient between individual Company and Industry Average
AVIVA	-0.350	0.312	.942**
BAJAJ ALLIANZ	-0.155	0.286	.795**
BIRLA SUNLIFE	-0.233	0.230	.700*
HDFC STANDARD	-0.219	0.261	.786**
ICICI PRUDENTIAL	-0.269	0.342	.807**

Note: Based on data obtained from Annual Report of IRDA (Various issues)

Note:-**. *Correlation is of significant at the 0.01 level (2-tailed).*
*. *Correlation is of significant at the 0.05 level (2-tailed).*

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Table1 indicates that the industry average of underwriting income to net premium has been -0.294 and BAJAJ ALLIANZ, HDFC STANDARD, maintain average ratios above industry average. Table 1 shows high degree of positive correlation of the ratio of underwriting income to net premium between the industry average and the life insurance companies under the study. Correlation is significant at 1% and 5% level.

Table 2: One Way ANOVA of the ratio of Underwriting Income to Net Premium

Sources of Variation	Sum of Squares	d.f.	Mean Square	F	P value.
Between Groups	1.739	12	.145	1.133	.340
Within Groups	14.957	117	.128	-	-
Total	16.696	129	-	-	-

The above table indicates that the differences in underwriting income to net premium are not significant as the p-value is 0.340.

Investment performance is assessed by **the ratio of income from investment to total investment (shareholders' investment plus policyholders' investment)** and is very important from life insurance company's' point of view as life insurance companies' are considered as asset management.

The performances have been analyzed with the help of table no.3 and 4.

Table 3: Ratios of Total Income from Investment to Total Investment (2003-04 to 2012-2013)

Name of the Company	Average	SD	Pearson's correlation coefficient between individual Company and Industry Average
AVIVA	0.501	0.990	.983**
BAJAJ ALLIANZ	0.256	0.706	**.989****
BIRLA SUNLIFE	0.567	0.790	**.985****
HDFC STANDARD	0.207	0.386	**.994****
ICICI PRUDENTIAL	0.489	1.071	**.984****

Note: Based on data obtained from Annual Report of IRDA (Various issues)

Note: -**. Correlation is of significant at the 0.01 level (2-tailed).

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Table 3 shows that the investment income ratios of HDFC STANDARD, during the study period are below the industry average while these are above industry average in case of AVIVA,BAJAJ ALLIANZ,BIRLA SUN LIFE and ICICI PRUDENTIAL. Highest variation of investment income is observed in case of BAJAJ ALLIANZ, AVIVA, and BIRLA SUN LIFE.

Table 3 shows high degree of positive correlation of the ratio of underwriting income to net premium between the industry average and the life insurance companies. Correlation is significant at 1% level.

Table 4: One Way ANOVA of the ratio of Total Income from Investment to Total Investment

Sources of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.388	12	.282	.607	.833
Within Groups	54.418	117	.465	-	-
Total	57.806	129	-	-	-

The above table indicates that the differences in underwriting income to net premium are not significant as the p-value is 0.833.

The ratio of operating expenses (Commission, employees' remuneration and benefits and other management expenses) to net premium reflects managerial efficiencies in operating the life insurance business and has been assessed by the table no.5, 6 and 7.

Table 5: Ratio of Operating Expenses to Net Premium (2003-04 to 2012-2013)

Name of the Company	Average	SD	Pearson's correlation coefficient between individual Company and Industry Average
AVIVA	0.555	0.336	.997**
BAJAJ ALLIANZ	0.355	0.167	.914**
BIRLA SUNLIFE	0.329	0.042	.844**
HDFC STANDARD	0.310	0.099	.836**
ICICI PRUDENTIAL	0.243	0.064	.936**
Industry Average	0.409	0.185	-

Note: Based on data obtained from Annual Report of IRDA (Various issues)

Note:-**. Correlation is significant at the 0.01 level (2-tailed).

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The table 5 shows that only seven companies could maintain this ratio below industry average namely BAJAJ ALLIANZ, BIRLA SUNLIFE, HDFC STANDARD and ICICI PRU.SDs of different companies indicates that the ratio is less fluctuating for AVIVA.

Table 5 reveals that there is high degree of positive correlation of the ratio of operating expenses to net premium between the industry average and the life insurance companies under the study. Correlation is significant at 1% level.

Table 6: One Way ANOVA of the ratio of Operating Expenses to Net Premium

Sources of Variation	Sum of Squares	d. f	Mean Square	F	P value.
Between Groups	3.382	12	.282	4.222	.000
Within Groups	7.810	117	.067	-	-
Total	11.192	129	-	-	-

The above table indicates that the differences in underwriting income to net premium are not significant as the p-value is 0.000.

FINDINGS OF THE STUDY

1) The study does not find any significant difference in the ratio of underwriting income to net premium across the select life insurance companies under the study.

2) The variance analysis signify that there is no significant difference in the income ratio from investment to total investments life insurance companies in consideration of the study

3) ANOVA study reveals that there is significant difference in the ratio of operating income to net premium of select life insurance companies in India during the study period.

4) There is no significant difference in the ratio of benefits paid to net premium of select life insurance companies in India

5) Analysis of the ratio of change in policy liabilities to net premium indicates that there are no significant differences observed in the ratio of change in policy liabilities to net premium.

CONCLUSION: The study led to the conclusion that uncontrolled volumes of underwriting losses are being incurred by the insurers in the life insurance sector in our country. The tendency to grab

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more new business makes the companies ignoring the proper risk selection procedure leading to poor risk evaluation and finally incurring an unexpected volume of underwriting losses. The tendency to offset underwriting losses by investment income in the current fluctuating market is a very risky insurance management practices in India. As a result, life insurance companies are required to pay more attention on efficient underwriting; otherwise their sustainability in the market will be questionable. However, underwriting losses can be minimized if the insurance regulator makes proper risk management practices mandatory.

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