FINANCIAL PERFORMANCE ANALYSIS A STDUY OF LIFE INSURANCE COMPANIES

LAVUDI VIJAY
MBA (Banking Technology)
Department of Banking Technology
School of Management, Pondicherry University, Puducherry-605014

Abstract

Insurance is been an vital part of the Indian Financial system, after 17 years of Liberalization of Insurance Industry in India, it has taken a new trajectory as many life insurers have managed to list themselves in the Indian bourses. The Indian Insurance is growing faster since 2000, as it has been liberalized after more than 50 years of monopoly by LIC, where private life insurers have entered the insurance sector with innovative practices leading to more business as it clearly needs a lot of finance that can now be mobilized through the cleaner equity capital from a longer perspective. The life insurers' actions add to transparency, governance, accountability after liberalization of sector and also to improve the focus towards profitability of the Indian Insurance Industry. This study attempts to measure the profitability and productivity by using the output maximization model on select six life insurance companies.

Keywords: Insurance, profit tax, surplus, claims ratios

INTRODUCTION

Indian Insurance sector is getting ready for new era, where it is building world-class risk Management capability. The insurance sector in India has come a full circle, from being as open competitive market to complete nationalization and then back to a liberalized market. Insurance has a key role in stabilizing the economy, trade and commerce. The life insurance market in India was underdeveloped and was tapped only by the states owned LIC till the entry of private insurance. Indian customers, who have always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer. The Private players have taken some market share from LIC, and major growth has happened because of market expansions. The biggest challenge for the industry today is the low levels of penetration and lack of consumer satisfaction. Insurance sector in India has come a long way from being a nationalized to a liberalized market.

REVIEW OF LITERATURE

Kumari (2016)[1] analyzed the financial performance of both public and private life insurance industry. For this purpose various parameters such as number of life insurance companies, private sector offices, insurance penetration and density, growth in premium income, size of insurance market were discussed. Financial performance was observed by calculating various financial ratios. The study resulted that there had been a significant increase in the overall business performance of Indian Life insurance industry after privatization.

Michael K. Mc Shane et.al (2016)[2] found that the profitability measure, viz., operating return on equity is positively related to regulatory competition. Employing survey method, Paul J.M. Klumpes (2015)[3] found that the senior management of UK life insurance companies used embedded value for strategic management planning and control purposes.

Neelaveni (2015)[4] evaluated the performance of five life insurance companies at the time period of 2002-03 in terms of various plans and policies on the basis of annual growth rate. The study concluded that Life Insurance Corporation being the public sector was lagging behind due to competition faced by private insurers whereas private life insurance companies had performed well in terms of financial aspects.

Charumathi, (2014)[5] Life insurers are custodians and managers of substantial investments of individuals; and policyholders need to be confident that their insurer will be able to meet its promised liabilities in the event that claims are made under a policy. Regulatory authorities therefore seek to ensure that the financial soundness and performance of life insurance companies is in sound condition. In this current scenario of growing customer base, one of the principal concerns underlying the regulation of the insurance companies is the need to protect the interest of and secure fair treatment to policyholders

OBJECTIVES OF THE STUDY

1. To analyze the financial performance of life insurers.
2. To measure the productivity using the output maximization model.

RESEARCH METHODOLOGY

- ***Sampling method***

The study covers 6 Life insurance companies operating in India but due to non-feasibility and time constraint, the scope of the study has been restricted to six life insurance companies based on its date of establishment.

- ***Period of Study***

The study period from 2012-13 to 2017-18, the number of years of study is six years.

Table-1

Public & Private Life Insurance Companies

S.No	Insurance Companies
1	Life Insurance Corporation
2	Birla Sun-Life Life Insurance Co. Ltd
3	HDFC Standard Life Insurance Co. Ltd
4	ICICI Prudential Life Insurance Co. Ltd
5	Kotak Mahindra Old Mutual Life Insurance Co. Ltd
6	Max Life Insurance Co. Ltd

Table-1 It has taken all the 6 India life insurers (1 public and 5 private) as sample. The study period includes 6 financial years, viz. 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18. The data required were drawn from IRDA data base and the public disclosures and annual reports of the respective companies.

- ***Data Collection***

This study is based secondary data. The secondary data was collected from various books, journals published reports of IRDA, IRDA annual reports, annual reports of Life insurance companies and websites.

ANALYSIS AND INTERPRETATION OF THE STUDY

Table-2
Surplus of Six Life Insurers (In Lakhs)

Life Insurers/ Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HDFC	37,29,154	64,21,074	42,97,811	82,20,568	95,95,791	94,76,456
ICICI	1,37,55,213	1,47,35,221	1,30,37,017	1,21,24,505	1,41,24,185	1,15,26,517
Kotak	11,95,862	10,74,377	21,18,368	21,61,255	17,64,384	22,39,364
LIC	1,28,12,290	1,43,63,818	1,63,42,652	1,80,30,519	2,49,70,348	2,20,03,336
Max Life	68,42,223	1,11,08,419	61,49,723	61,35,923	46,32,497	65,53,154

Source: Annual Reports of Life Insurers 2012-13 to 2017-18

Table -2 shows the Surplus of select life insurers for the period 2012-13 to 2017-18. It is observed that Surplus is showing upward trend of LIC, whereas private life insurers shows the constant fluctuation in the Surplus, which depicts the impact of the capital infusion of LIC and Insurance penetration is fluctuating when taken for private life insurers.

Table-3
Profit After Tax or PAT of Six life Insurers (In Lakhs)

Life Insurers/ Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HDFC	13133429	14375925	16566813	18237837	25178479	22317408
ICICI	2,710,154	4,514,791	7,252,819	7,855,053	8,184,033	8,921,336
Kotak	3,332,189	4,234,468	4,359,151	4,142,418	4,391,104	6,599,271
LIC	13,841,737	14,959,392	15,666,555	16,342,915	16501455	16816612
Max Life	2,032,482	1,897,383	2,391,334	2,288,932	2,507,469	3,032,729
Birla	4 ,607,290	5,415,031	3,707,536	2,854,029	1,399,994	1,228,193

Source: Annual Reports of Life Insurers 2012-13 to 2017-18

Table-3 shows the Profit after tax of some select life insurers for the period 2013-14 to 2017-18. It is observed that PAT is showing upward trend in case of LIC, HDFC Standard life Insurance Co. Ltd, ICICI prudential Life Insurance Co. Ltd. The Max life Insurance company limited, Kotak Mahindra old mutual life insurance company limited and Birla Sun-life Life Insurance Company limited are facing fluctuation due to variation in operating expenses relating to Insurance, Investment Income, Commission paid and Benefits paid.

Table-4
Claim Ratio

Life Insurers / Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HDFC	45.41	42.8	66.62	56.3	51.81	56.89
ICICI	29.1	37.77	38.94	55.29	50.54	51.06
Kotak	14.44	10.56	14.37	18.11	20.72	22.93
LIC	14.47	98.98	98.3	80.77	65.31	67.54
Max Life	49.6	65.42	69.95	59.99	46.61	20.61
Birla	47.06	72.42	78.91	74.41	78.48	84.08

Source: Annual Reports of Life Insurers 2012-13 to 2017-18

Table-4 show the Claims figures as sub-dimension to the parameter "earnings and profitability", higher claims surely reflects higher drainage of funds. However, keeping in mind the risks insured, an insurer surely lands in a position where it has to pay claims. Good evaluation aims at profitable pricing, even if the insurer incurs claims. The Life insurers have the highest average claim ratio ranging from 16.86 to 72.06 of six life insurers.

Table-5
Expense Ratio (Expenses of management to net written premium)

Life Insurers / Years	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HDFC	10.09	8.33	8.99	6.85	8.2	8.19
ICICI	12.44	11.87	11.73	10.04	11.47	12.27
Kotak	31.79	18.22	20.89	16.99	16.04	17.19
LIC	14.41	15.19	13.16	10.9	9.94	10.64
Max Life	19.17	21.05	21.98	22.48	20.29	34.51
Birla	21.14	22.96	22.35	17.18	16.71	13.91

Source: Annual Reports of Life Insurers 2012-13 to 2017-18

Table-5 shows that the companies differ significantly in the pattern of controlling the operational expenses and show efficient underwriting management. In comparison to public insurers, private insurers expenses in 2017-18 is recorded at 8.19, 12.27, 17.19, 10.64, 34.51, and 13.91 respectively for LIC, HDFC Standard Life Insurance Co. Ltd, ICICI Prudential Life Insurance Co. Ltd, Birla Sun-Life Life Insurance Co. Ltd, Max Life Insurance Co. Ltd and Kotak Mahindra Old Mutual Life Insurance Co. Ltd.

CONCLUSION

Private insurers are seen to be ahead grabbing more market share which is quite visible in the business volume fluctuation. Consequently evidences of fresh capital apart from minimum requirement of`100 crores is seen to meet solvency norm. The global melt down surely have its impact on the profitability of the deregulated corporate sector in India. The public life insurance has to focus on capital adequacy and reinsurance & actuarial issues improvements as it is lacking behind in all factors of its determinants due to which total ratio of public sector is also getting low.

Whereas the private life insurance has to focus on underwriting processes and its related expenses, earnings & profitability, liquidity positions improvements as it is lacking behind in all factors of its determinants. In total, the analysis highlights the superior status of the private insurers as the average claims turn to be lower than the public insurers and exponential growth also indicates by and large similar phenomenon.

REFERENCES

1. *Ph. D Thesis Tanveer Ahmad Darzi (2010), "Financial performance of Insurance Industry in post- liberalization Era in India." University of Kashmir, Srinagar. IRDA Annual reports from 2013-2018.*
2. *Neelaveni, V. (2012). Financial performance of Life Insurance Companies and Products. Zenith International Journal of Business Economics and Management Research, 2(3), 233-258.*
3. *Subba rao, M & Srinivasulu, R. (2013). Contribution of Insurance Sector to Growth and Development of the Indian Economy. IOSR Journal of Business and Management, 7(4), 45-52.*
4. *Vikas sharma, S & Sudhinder singh, C. (2013). A comparative study of Public and Private Life Insurance. Indian Journal of Applied Research, 3(1), 93-94.*
5. *Valeed ansari, A & Wubshet fola, F. (2014). Financial Soundness and Performance of Life Insurance Companies in India. Indian Journal of Research, 1(8), 224-253.*
6. *Ana maria, B & Ghiorghe, B. (2014). The Determinants of Financial Performance in the Romanian Insurance Market. International Journal of Academic Research in Accounting, Finance and Management Sciences, 4(1), 299-308.*
7. *Sukithar, R. (2016). Performance of Public and Private Life Insurance Companies in India: A Comparative study. Shanlax International Journal of Commerce, 4(1), 97-99.*
8. *Rajiben solanki. (2016). An Analytical Study of Profitability of life Insurance Companies in India: A study of Selected Private sector Insurance Companies. Abhinav National Monthly Refereed Journal of Research in Commerce and Management, 5(6), 8-12.*
9. *Annual Reports of Life Insurers companies from 2013-14 to 2017-18.*