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PERFORMANCE ANALYSIS OF PUBLIC & PRIVATE SECTOR INSURANCE COMPANIES IN INDIA

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ABSTRACT

Insurance is the backbone in managing the risk of individuals and businesses. The service providers offer diversity of products ensuring financial security. It helps individuals and organizations to minimize the risk but also face major challenges in attracting customers and retaining. Other than service difficulties, achieving profitable growth is another big challenge faced by Indian insurance sectors. To sustain the profitable growth, private companies are struggling in sustaining the growth by developing brand strength. Liberalization in the sector also gave entry to many private insurers, resulting in drastic changes in competition. The performance of the company plays a leading role towards the growth of the industry which ultimately leads to the overall success of the economy. The present study attempts to examine the financial performance of Indian life insurers based on various parameters. For measuring it, various financial ratios have been calculated taking into consideration liquidity and profitability of the insurance players. Companies selected for the present study include Life Insurance Corporation of India (LIC), SBI Life Insurance and HDFC Standard Life Insurance. Paper compares the earnings and profitability ratios of select insurance companies for the time-period from 2016 to 2020. Finding of the present study assists academicians, marketers, and policy makers to analyse the status and performance of life insurance companies.

Keywords: *Performance Analysis, Public, Private, Insurance, India.*

Introduction

The insurance sector in India has seen tremendous development over the last decade. It is regulated by the Indian Insurance Regulatory and Growth Authority (IRDAI). India's insurance sector has 57 insurance providers, 24 are in the life insurance market, while 33 are non-life insurers. Life Insurance Organization (LIC) is the only public sector insurance firm. There are six non-life insurance insurers in the public sector. In India, the total business size of the insurance industry is forecast to be USD 280 billion in 2020. The insurance industry in India has seen substantial growth in the last decade, along with the launch of a large range of advanced items. This lead to a tough rivalry for a good and safe result. The insurance industry in India plays a diverse function in the well-being of its economy. It greatly enhances the potential for investment among people, supports their prospects and allows the insurance industry to create a large pool of funds.

The government's strategy of offering cover to the uninsured has steadily increased insurance coverage in the country and the spread of insurance schemes. The total premium received by life insurance firms in India increased from Rs 2.56 trillion (USD 39.7 billion) in FY12 to Rs 7.31 trillion (USD 94.7 billion) in FY20. Measures of insurance penetration and density represent the degree of growth of the insurance sector in a region. Although insurance penetration is calculated as the %age of insurance premiums to GDP, insurance density is also measured (per capita premium). During the first decade of the liberalization of the insurance industry, the sector recorded a gradual growth in insurance penetration from 2.71% in 2001 to 5.20% in 2009. Since then, the penetration frequency has been diminishing. Health insurance adds 20% of the non-life insurance market, rendering it the second largest portfolio.

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The Indian Life insurance sector expanded by 13.2% in 2017 to hit a size of $92.1 billion and is projected to account for 35% of India's overall assets by 2020. India accounts for 6.8% of Asia-Pacific life insurance business share. Whereas the Indian non-life insurance sector expanded by 21.6% in 2017 to hit a size of $24.5 billion. The Indian life insurance industry can be divided into two sub-sectors, namely Life insurance, which contributed 69.3% and Pension/Annuity, which contributed 30.7% of the overall market share by volume. LIC is the dominant player on the Indian life insurance market, producing 78% of the market share. Whereas Motor is the main segment of the non-life insurance industry in India, accounting for 63% of the overall market share. LIC contributed 71%, while private life insurers contributed 29% of the overall market share up to 31 October 2018. As per the Union budget for 2019-20, 100% of foreign direct investment (FDI) was approved for insurance intermediaries. In September 2018, Ayushman Bharat unveiled the National Health Insurance Scheme to offer coverage of up to Rs 500,000 (US$ 7,723) to more than 100 million needy households. The system is projected to raise the penetration of health insurance in India from 34% to 50%.

The outlook looks bright for the life insurance sector with a range of improvements to the legislative system that could contribute to more changes in the way the industry performs its market and interacts with its clients. The total insurance market is projected to hit USD 280 billion by 2020. The country's life insurance market is projected to grow by 14–15% annually during the next three to five years. 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.

Literature Review

Das, D., & Debnath (2012) recorded that, with the growth of the industry, insurance penetration and country density are improving, contributing to competitiveness within firms in terms of the policies offered, the collection of premium revenue, the resolution of claims and others. Paper highlights the success of the life insurance industry in terms of various metrics and shines light on the different advertisement platforms used. Subhanam, B. L., & Nagarajan (2019) researched public and private life insurance companies in India, contrasting consumer expectations in terms of standard of service and evaluating the success of public and private life insurance companies in India.

Bawa, S. K., &Chattha (2013) studies 18 Indian life insurers (including 1 public and 17 private) and analyzes the 5-year data from 2007-08 to 2011-12. The research uses a multiple linear regression model to assess the degree to which these determinants influence the profitability of life insurers. The findings of the study indicate that the profitability of life insurers is positively affected by liquidity and scale and negatively linked to resources. Bodla, B., Tandon, D., &Bodla (2017) aimed at evaluating and contrasting the profitability of life insurance firms in India (Public LIC and Private). The result confirmed that the total net premium over the last 5 years was the largest among private sector life insurers in the case of ICICI prudential led by HDFC.

Kumar, M. S., &Priyan (2012) recorded that while the privatization of the insurance industry is feared to impact the prospects of the LIC, the study indicates that the LIC continues to control the sector. Private insurance firms have also sought to boost their market share. Sumathy, M., & Kalyani proposed that LIC boost its liquidity status. Private life insurance firms should boost their performance to maximize their policy sales and take effective steps to reduce their risks. Srivastava, S., & Prakash (2016) examined the success of public and private life insurance firms in India. Data have shown that private insurance providers have a better development rate relative to the public sector. Insurance penetration is higher today. Insurance providers differ in terms of the plans sold, the accumulation of premium revenue, and so on.

Bansal, A., & Kaur (2016) used statistical indicators, such as the Internal Return Rate (XIRR) for erratic cash flows, beta, R-square, to assess the efficiency of ULIPs from various angles. Oh, Panchal, N. (2018) concluded that, with the arrival of private life insurers, the share of the public sector has reduced and that there is a major gap in the success of public and private life insurance providers. Rathi, S., &Jatav, S (2020) examined secondary ratio data from 2009-10 to 2018-19. Results concluded on two parameters: first, there are no major variations between the average ratios of selected firms and second, the New India insurance firm has done better in seven selected analytical ratios. In the present analysis, viability and liquidity ratios are used to assess the willingness of the business to satisfy its short-term debt commitments and the financial condition of the selected companies. Financial success relates to the act of carrying out financial operations. This paper gathers financial metrics for selected public and private insurance firms in India.

Methodology

The firms chosen for this analysis are Life Insurance Corporation of India (LIC), SBI Life Insurance and HDFC Basic Life Insurance. Paper compares the profits and performance rates of selected insurance firms for the duration from 2012 to 2019. Finding the present study allows researchers, advertisers, and decision makers to evaluate the role and success of life insurance providers. Life Insurance Company (LIC) presently owns 71.81% of the overall Indian Life Insurance sector opposed to 28.19% owned by all 23 private players for 2016-2017. HDFC Standard Life Insurance Business was founded in 2000 as a joint venture between Housing Development Finance Corporation Limited (HDFC Ltd) and Standard Life Aberdeen. Company is a major private sector life insurer in India, responsible for 49% of the digital new market in FY20. Sold 896.3 thousand policies for the FY20. SBI Life Insurance was founded in 2000 as a JV between SBI and BNP Paribas Cardiff and has been one of the country's leading life insurers. New Company Premium amounted to Rs. 165.9 billion (USD 2.35 billion) in FY20.

Data Analysis

The data is gathered from the 3 sample companies, one is bank owned SBI, Private-HDFC life and Government owned LIC. The data gathered for the four major ratios of Profitability is presented in table 1 as under:

Table 1: Ratio of selected Life Insurance Companies

Year/ Company	Net Profit Margin (%)			Return on Net Worth / Equity (%)			Return on Capital Employed (%)			Return on Assets (%)		
	SBI	HDFC Life	LIC	SBI	HDFC life	LIC	SBI	HDFC Life	LIC	SBI	HDFC Life	LIC
Mar-20	73.33	79.5	12.19	16.26	19.06	13.2	0.86	1.03	10.95	0.85	0.98	1.1
Mar-19	88.2	79.04	14	17.51	22.57	14.95	0.96	1.03	10.11	0.9	0.98	1.21
Mar-18	89.77	86.47	13.49	17.62	23.35	14.06	1	1.06	9.71	0.94	1	1.17
Mar-17	90.39	88.05	13.8	17.46	23.24	17.43	0.98	1	11.18	0.93	0.93	1.27
Mar-16	87.06	92.25	13.39	17.83	26.32	18.15	1.05	1.12	1.62	1.01	1.06	1.27
Mean	85.75	85.062	13.374	17.336	22.908	15.558	0.97	1.048	8.714	0.926	0.99	1.204
SD	7.07	5.70	0.71	0.62	2.59	2.14	0.07	0.05	4.01	0.06	0.05	0.07
CV	8.24	6.70	5.27	3.57	11.31	13.78	7.22	4.34	46.03	6.32	4.74	5.98

The results revealed that the SBI has net profit margin at the highest with the average of 85.75% but the HDFC Life is also very close in NPR. The CV of the SBI is more showing the more chances of variability than the HDFC Life. The Return on net worth ratio for the company HDFC life is highest with 22.908% with average variability. The return on capital employed is significantly higher for LIC with high variability rate. The Return on Assets is significantly higher for LIC with average variability rate. This revealed that the company HDFC Life is better but the other two are also vary close and their profitability is also similar. Hence, to measure the significant differences in the profitability the statistical measure ANOVA is used for measuring the differences between the company's profitability with the following hypothesis:

H_1: there is a significant difference in the profitability of the Life insurance Companies.

To analyse the above hypothesis one-way ANOVA is used with the SPSS software.

- **For the Net Profit Ratio**

Table 2: NPR Ratio of selected Life Insurance Companies

Descriptives

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
SBI Life	5	85.7500	7.06514	3.15963	76.9775	94.5225	73.33	90.39
HDFC Life	5	85.0620	5.69601	2.54733	77.9895	92.1345	79.04	92.25
LIC	5	13.3740	.70515	.31535	12.4984	14.2496	12.19	14.00
Total	15	61.3953	35.48438	9.16203	41.7447	81.0459	12.19	92.25

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	17296.547	2	8648.273	313.124	.000
Within Groups	331.432	12	27.619		
Total	17627.979	14			

The above analysis revealed the significant differences between the NPR of the selected company as F=313.124 which is Significant (p<0.05). further the mean value suggest that the highest ratio is of SBI Life having the significantly good performance.

- **For Return on Networth / Equity (%)**

Table 3: RONW Ratio of selected Life Insurance Companies

Descriptive								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
SBI Life	5	17.3360	.61809	.27642	16.5685	18.1035	16.26	17.83
HDFC Life	5	22.9080	2.59175	1.15907	19.6899	26.1261	19.06	26.32
LIC	5	15.5580	2.14457	.95908	12.8952	18.2208	13.20	18.15
Total	15	18.6007	3.72103	.96077	16.5400	20.6613	13.20	26.32

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	147.052	2	73.526	18.855	.000
Within Groups	46.793	12	3.899		
Total	193.845	14			

The above analysis revealed the significant differences between the RONW of the selected company as F=18.855 which is Significant (p<0.05). further the mean value suggest that the highest ratio is of HDFC Life having the significantly good performance.

- **For Return on Capital Employed (%)**

Table 4: ROCE Ratio of selected Life Insurance Companies

Descriptive								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
SBI Life	5	.9700	.07000	.03130	.8831	1.0569	.86	1.05
HDFC Life	5	1.0480	.04550	.02035	.9915	1.1045	1.00	1.12
LIC	5	8.7140	4.01081	1.79369	3.7339	13.6941	1.62	11.18
Total	15	3.5773	4.32831	1.11756	1.1804	5.9743	.86	11.18

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	197.905	2	98.953	18.446	.000
Within Groups	64.374	12	5.365		
Total	262.280	14			

The above analysis revealed the significant differences between the ROCE of the selected company as F=18.446 which is Significant (p<0.05). further the mean value suggest that the highest ratio is of LIC having the significantly good performance.

- **For Return on Assets (%)**

Table 5: ROA Ratio of selected Life Insurance Companies

Descriptive								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
SBI Life	5	.9260	.05857	.02619	.8533	.9987	.85	1.01
HDFC Life	5	.9900	.04690	.02098	.9318	1.0482	.93	1.06
LIC	5	1.2040	.07197	.03219	1.1146	1.2934	1.10	1.27
Total	15	1.0400	.13501	.03486	.9652	1.1148	.85	1.27

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.212	2	.106	29.412	.000
Within Groups	.043	12	.004		
Total	.255	14			

The above analysis revealed the significant differences between the ROA of the selected company as F=29.412 which is Significant ($p<0.05$). Further the mean value suggest that the highest ratio is of LIC having the significantly good performance.

Conclusion

Performance assessment is a topic that has gained tremendous coverage during the last decades. There are several explanations for including performance metrics in a business, but perhaps the most significant is that they can help increase efficiency when used correctly. Productivity is of essential significance to the willingness of an organization to compete and make money over time. However, the development of completely functional and effective performance assessment frameworks (i.e. collection of measures) has proved to be a very difficult activity. This study centered on the final step of the evolution of the performance assessment method. The most significant contribution of this study is the creation of a functional structure and methods for measuring the success of businesses. In insurance sector, the most significant contribution of this research is the creation of a realistic structure and methodology for evaluating the success of firms. With the above analysis we can conclude that out of 4 selected ratios LIC is better in two while the other two companies are better in one ratio. But the overall profitability wase the company SBI life has slightly better performance than the HDFC.

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