ISSN: 2394-3114
Vol-40-Issue-60-March -2020

A Study on the Profitability Analysis of Select Private Life Insurance Companies in India

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Abstract

Insurance companies in India provide unique financial services to the growth and development of our economy as it plays a significant intermediary role in terms of risk transferring, enhancing private investment, creation of job opportunities and ensuring various development projects. For Insurance companies, profit earning is a pre-requisite as they have to sustain themselves in the globalizedcompetitive environment. In the absence of profit, the insurers can't attract outside capital so as to meet their objectives. In this background, an earnest attempt has been made to analyze the profitability of top ten private Life Insurance Companies in India. The study covers a period of eleven years starting from 2007 to 2017. Size,operating ratio, underwriting risk, volume of capital, net earnings ratio are taken as variables to study the profitability of top ten selected private life insurance companies in India. The simple statistical tools like mean, SD, Co-efficient of Variation, AGR and't' test are employed. The study shows that while analyzing the size of the companies that SBI life insurance has the highest significant growth than other life insurance companies. Also, the maximum significant growth is achieved by INGVysya in case of operating ratio and TATALIC hasthe high significant growth while focusing underwriting risk among the selected life insurance companies.

Keywords: Profitability, Private Life Insurance, Operating Ratio and Net Earnings Ratio.

Introduction

Generally, the financial institutions in India play a crucial role in stabilizing the economy. Especially, the insurance industry is highly supportive to the Indian economy through the effective and efficient financial management. The current financial system is streamlined through saving mobilization, risk transfer and intermediation.Therefore, financial institutions channel funds and transfer risks from one economic unit to another economic unit so as to facilitate trade and resources arrangement. A survey disclose that the efficiency of financial intermediation and transfer of risk can affect economic growth while at the same time institutional insolvencies can result in systematic crises which have unfavorable consequences for the economy as a whole. Hence, the important role of financial institutions such as private insurance companies remain in financing insuring economic activity and contribute to the stability of the financial system in particular and the stability of the economy of concerned country in general is part of immune and repair system of economy. Therefore, it requires an empirical exploration so as to sort out what are the important factors affecting profitability of the selected private life insurance companies and this might be helpful to the concerned bodies to focus on the relevant factors.

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Review of Literature

Sumit Bodla et al. (2017) revealed that the average net premium for the last five year was found the highest in case of ICICI prudential followed by HDFC Standard and SBI Life whereas the lowest premium was mobilized by IDBI Federal among the private sector life insurers. Also, they concluded that the CAGR of underwriting income had declined in case of almost every private sector company in recent five years.Sumninder Kaur Bawa andSamiyaChattha (2013) depicted that profitability of life insurers was positively influenced by liquidity and size and negatively related with capital. Moreover, the study had indicates that profitability did not show any relationship with solvency and insurance leverage.

Showket Ahmad Dar andIshfaq Ahmad Thaku (2015) observedthat every rupee of earned premium was being drained away in the form of claims and costs more specifically by private insurers which speaks of their improper risk selection and mismanaged expenditure policy. Further, the liquidity ratio indicated that both public and private insurers lack high degree of liquidity and none of the insurers under study seem to have followed the benchmark of 100 per cent liquidity ratio.TeklitAtsbehaBerhe andJasmindeep Kaur (2017) revealed that size of insurance, capital adequacy, liquidity ratio and growth rate of GDP were the major factors that significantly affect the profitability of insurance companies. Furthermore, leverage ratio, loss ratio, market share and inflation rate were found to have insignificant effect on insurance companies profitability.

IremHussanie and Bashir Ahmad Joo (2019) found that liquidity, loss ratio, investment performance, operating margin, premium growth and tangibility were significant in determining the profitability, as measured by ROA, of Indian life insurers. Also, they noted that leverage, commission ratio and size are insignificant in explaining the profitability as measured by ROA.Charumathi (2012) revealed that profitability of life insurers was positively and significantly influenced by the size and liquidity. Moreover, the study depicts that the leverage, premium growth and logarithm of equity capital had negatively and significantly influenced the profitability of Indian life insurers.

Objective of the Study

1. To analyse the profitability performance of the selected private sector life insurance companies in India.

Research Design

The study is purely based on secondary data which have been collected through CMIE Prowess Data software. The study considers the top ten private life insurance companies in India in order to examine their profitability for a period of eleven years starting from 2007-08 to 2016-17.The collected data have been evaluated by using the statistical tools like Mean, SD, Coefficient of Variation, AGRand't' test.

Results and Discussion

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In this section, the profitability of the selected private life insurance companies are analyzed by considering the five major variables namely size of the company, operating ratio, underwriting risk, volume of capital and net earnings ratio. The results of the analysis are discussed in the following tables.

(i) Size of the Company

Size is considered as a key factor that can influence the financial structure of the firm. Firm size has been one of the most common variables used in explaining a company's level of debt. It is also argued that relatively large firms tend to be more diversified and thereby less prone to bankruptcy. While there are many different proxies for size, in this study, the natural total assets of the firm is used. The study examined the determinants of profitabilityof the selected ten life insurance companies over the time period from 2007-08 to 2016-17. The descriptive and analytical statistics of the explanatory variables for the life insurance companies are summarized in the Table 1.

Table 1:Size of the Company(in Times)

Name of the Company	Mean	SD	CV (%)	AGR (%)	't' Value	'p' Value
HDFC	1699.7	743.5	43.74	13.89	8.927	0.000*
MaxNew York	1160.8	464.4	40.01	14.75	9.876	0.000*
ICICI Prudential	1462.5	643.3	43.99	9.83	3.219	0.012**
Birla Sun Life	891.4	216.0	24.23	6.78	6.002	0.000*
Tata AIG	578.0	257.3	44.52	10.29	3.728	0.006*
SBI Life Insurance	3065.6	2199.6	71.75	40.57	8.284	0.000*
INGVysya	465.1	198.1	42.59	13.91	5.824	0.000*
Bajaj Allianz	1453.5	736.5	50.67	18.87	8.525	0.000*
Met Life India	492.5	217.6	44.19	12.93	6.989	0.000*
AVIVA	351.9	82.5	23.43	4.59	2.158	0.063[NS]

Source: CMIE Prowess Data;

Note:* - Significant at 1% level; ** - Significant at 5% level; NS – Not Significant.

It is confirmed from the above Table 1 that SBI Life Insurance Company Limited has the highest mean and AVIVA Life Insurance Company Limited has recorded more homogeneous in the size of the company during the study period. The companies HDFC Standard Life Insurance Company Limited, Max New York Life Insurance Company Limited, ICICI Prudential life Insurance Company Limited, Birla Sun Life Insurance Company Limited, Tata AlG Life Insurance Company Limited, SBI Life Insurance Company Limited, ING Vysya Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited and MetLife India Insurance Company Limited have significant positive growth during the study period.

(ii) Operating Ratio

The operating ratio is calculated by dividing the operating ratio before tax with net premium underwritten. Operating ratio of an insurer represent both the underwriting results i.e. profit / loss arising out of underwriting risks and income from investments.

$$\text{Operating ratio} = \text{Profit before Tax} / \text{Net Premium} \times 100$$

Table 2:Operating Ratio(in Percentages)

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Name of the Company	Mean	SD	CV (%)	AGR (%)	't' Value	'p' Value
HDFC	4.67	2.08	44.51	1.34	0.205	0.843[NS]
MaxNew York	2.80	6.26	223.49	5.36	0.480	0.644[NS]
ICICI Prudential	5.14	8.03	156.30	7.82	1.134	0.290[NS]
Birla Sun Life	0.81	9.04	1116.77	-15.22	-3.852	0.005*
Tata AIG	-0.77	12.48	-1622.09	-5.24	-0.244	0.813[NS]
SBI Life Insurance	3.98	2.48	62.26	30.95	3.772	0.005*
INGVysya	-2.77	7.69	-277.30	-14.14	-1.971	0.084[NS]
Bajaj Allianz	12.05	8.40	69.74	33.89	3.361	0.010*
Met Life India	1.64	0.57	34.77	9.23	2.501	0.037**
AVIVA	-4.11	9.58	-233.18	-23.49	-2.754	0.025**

Source: CMIE Prowess Data;
Note:* - Significant at 1% level; ** - Significant at 5% level; NS – Not Significant.

It is found from the above Table 2 that Bajaj Allianz Life Insurance Company Limited has the highest mean and Tata AlG Life Insurance Company Limited has recorded more homogeneous in the operating ratio during the study period. The companies SBI Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited and MetLifeIndia Insurance Company Limited have significant positive growth whereas the negative growth recorded by Birla Sun Life Insurance Company Limited and AVIVA Life Insurance Company Limited during the study period.

(iii) Underwriting Risk

Underwriting risk reflects the adequacy of the insurer's underwriting performance. Underwriting guidelines are pivotal to an insurer's financial performance. The Underwriting risk depends on the risk appetite of the life insurers. In insurance, underwriting risk may arise from an inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors. As a result, the insurer's costs may significantly exceed earned premiums.

Underwriting risk = Benefits Paid / Net Premium Written

Table 3: Underwriting Risk (in Times)

Name of the Company	Mean	SD	CV (%)	AGR (%)	't' Value	'p' Value
HDFC	0.333	0.16	48.1	20.13	8.033	0.000*
MaxNew York	0.258	0.137	53.34	25.73	5.048	0.001*
ICICI Prudential	0.604	0.296	48.99	19.4	3.376	0.010*
Birla Sun Life	0.515	0.295	57.21	27.52	7.45	0.000*
Tata AIG	0.621	0.58	93.48	51.18	6.814	0.000*
SBI Life Insurance	0.397	0.287	72.17	33.91	4.475	0.002*
INGVysya	0.414	0.244	58.98	25.81	4.196	0.003*
Bajaj Allianz	0.773	0.536	69.35	37.09	4.439	0.002*
Met Life India	0.384	0.292	76.07	45.12	5.856	0.000*
AVIVA	0.706	0.447	63.33	35.19	6.83	0.000*

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Source: CMIE Prowess Data;

Note:* - Significant at 1% level; ** - Significant at 5% level; NS – Not Significant.

It is found from the above Table 3the Bajaj Allianz Life Insurance Company Limited has the highest mean and HDFC Standard Life Insurance Company Limited has recorded more consistent in the underwriting risk during the study period. The companies HDFC Standard Life Insurance Company Limited, Max New York Life Insurance Company Limited, ICICI Prudential life Insurance Company Limited, Birla Sun Life Insurance Company Limited, Tata AlG Life Insurance Company Limited, SBI Life Insurance Company Limited, ING Vysya Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited, MetLife India Insurance Company Limited and AVIVA Life Insurance Company Limited have significant growth positively during the study period.

(iv) Volume of Capital

Volume of capital is defined as the equity value of the company. Volume of capital is the amount of capital that a company is measured as the book value of equity. In the life insurance companies with more volume of capital at their disposal will get more return on assets.

Equity value = Total Paid up Capital + Reserves + Liabilities

Table 4: Equity Value(in Times)

Name of the Company	Mean	SD	CV (%)	AGR (%)	't' Value	'p' Value
HDFC	4078.2	1609.1	39.46	12.45	8.080	0.000*
MaxNew York	3466.1	414.4	11.96	63.11	3.018	0.017**
ICICI Prudential	6793.5	907.8	13.36	3.86	6.152	0.000*
Birla Sun Life	3097.6	280.9	9.07	0.33	0.314	0.762^{NS}
Tata AIG	2700.8	619.2	22.93	8.31	5.104	0.001*
SBI Life Insurance	4362.5	2303.0	52.79	20.24	20.571	0.000*
INGVysya	1802.6	431.9	23.96	8.59	8.279	0.000*
Bajaj Allianz	5738.5	3233.4	56.35	22.82	12.388	0.000*
Met Life India	2377.4	547.0	23.01	8.31	4.511	0.002*
AVIVA	2400.5	464.3	19.34	5.95	3.285	0.011**

Source: CMIE Prowess Data;

Note:* - Significant at 1% level; ** - Significant at 5% level; NS – Not Significant.

It is examined from the above Table 4 the ICICI Prudential life Insurance Company Limited has the highest mean and Birla Sun Life Insurance Company Limited has recorded more homogeneous in the volume of capital during the study period. The companies HDFC Standard Life Insurance Company Limited, Max New York Life Insurance Company Limited, ICICI Prudential life Insurance Company Limited, Tata AlG Life Insurance Company Limited, SBI Life Insurance Company Limited, ING Vysya Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited, MetLife India Insurance Company Limited and AVIVA Life Insurance Company Limited have significant growth positively during the study period.

(v) Net Earnings Ratio

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The net earnings ratio has been calculated by dividing net profit after tax to net premium underwritten. This ratio is an acceptable measure of profitability of the insurance business. This ratio discloses the net result of the underwriting and investment activities.When a company's net earnings are low or negative, a myriad of problems could be to blame, ranging from decreasing sales to poor customer experience to inadequate expense management.

Net earnings ratio = Net Profit after Tax / Net Written Premium

Table 4:Net Earnings Ratio(in Times)

Name of the company	Mean	SD	CV (%)	AGR (%)	't' Value	'p' Value
HDFC	0.047	0.021	44.9	1.270	0.192	0.853 NS
MaxNew York	0.024	0.060	252.6	3.010	0.277	0.789 NS
ICICI Prudential	0.052	0.076	147.9	8.760	1.239	0.250 NS
Birla Sun Life	0.008	0.090	1116.8	-15.220	-3.852	0.005*
Tata AIG	-0.011	0.121	-1075.1	-7.360	-0.351	0.735 NS
SBI Life Insurance	0.040	0.025	62.3	30.840	3.727	0.006*
INGVysya	-0.027	0.077	-281.1	-13.880	-1.912	0.092 NS
Bajaj Allianz	0.111	0.077	69.9	31.660	3.156	0.013**
Met Life India	0.016	0.006	34.8	9.230	2.501	0.037**
AVIVA	-0.041	0.096	-233.2	-23.490	-2.754	0.025**

Source: CMIE Prowess Data;
Note:* - Significant at 1% level; ** - Significant at 5% level; NS – Not Significant.

It is found from the above Table 5Bajaj Allianz Life Insurance Company Limited has the highest mean and Tata AIG Life Insurance Company Limited has recorded more consistent in the net earnings ratio during the study period. The positive significant growth recorded by SBI Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited and MetLife India Insurance Company Limited and the companies Birla Sun Life Insurance Company Limited and AVIVA Life Insurance Company Limited have significant growth negatively during the study period.

Conclusion

The study is mainly focused to identify the profitability of the top ten selected private life insurance companies in India. The result of the study reveals thatwhile analyzing the size of the companies, SBI Life Insurance Company has the highest significant growth than other private life insurance companies. In case of operating ratio, maximum significant growth is attained by INGVysya and Tata AIG Life Insurance Company got the high significant growth while focusing underwriting risk among the selected life insurance companies. Further, it is indicated while analyzing volume of capital of the companies that MaxNew York Life Insurance Company has the highest significant growth than other life insurance companies and Bajaj Allianz Life Insurance Company has attained the highest significant growth while examining net earnings ratio amongst the selected life insurance companies.During the study period, SBI Life Insurance Company has much higher growth because of its larger background and more number of clients. So, other private life insurance companies may give more importance to increase their total assets in the forthcoming years. While seeing operating ratio, the companies Birla Sun Life Insurance Company, Tata AIG Life Insurance Company, ING Vysya and AVIVA Life Insurance Companies are registering negative growth during the study period. So, the companies may concentrate to increase the net premium income that tends to their growth into positive. On the

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whole, among the selected five variables, the results indicate that SBI Life Insurance Company has a better performance in its life insurance sector than other selected companies. Hence, the other private life insurance companies may implement new marketing strategies among the life insurance policyholders that lead to increase their growth in the upcoming years.

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