A COMPARATIVE ANALYSIS OF PERFORMANCE RATIOS OF LIFE AND NON-LIFE INSURANCE COMPANIES.

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ABSTRACT

Performance of an Insurance company is very vital to its management and growth. Post –Liberalization, the insurance industry in India has recorded a significant growth. According to India Brand Equity Foundation (IBEF) which is a trust established by Department Of Commerce in the Ministry of Commerce and Industry, Government of India, insurance industry of India is expected to grow to US$ 280 billion by FY2020, seeing the solid economic growth and higher personal disposable incomes in the country. But Insurance penetration in India is still low with overall insurance penetration (premium as %of GDP) in India was 3.69% in 2017, creating a huge untapped market. This untapped market of Insurance can only be accessed through awareness regarding needs of insurance as well as with the help of better performance of Insurance Companies.

Financial performance focuses on analysis of performance on the basis of financial reports and public disclosures. In India, the Insurance Industry can be broadly divided into two: life insurance and general insurance. Life Insurance covers risks associated with life or disability or accidents of an individual or a group of individual. In India, it consists of 24 life insurance companies and 34 non-life insurance companies as of October 2018, recognized by IRDAI.The insurance industry in India is at cross roads of development. A well-planned, well-organized and efficient insurance industry is the need of this era for a better economic, human and financial condition of the country.

IRDA has laid out certain performance standards for insurance companies. These performance standards of Insurance Companies are considered as a big issue in Indian economy. In this paper, the industry performance ratios of 4 major public and private sector insurance companies have been analyzed.

KEYWORDS: IRDAI, Performance Analysis, Life Insurance, Non-Life Insurance

OBJECTIVES OF THE STUDY

- To study the ratios used to measure the performance of insurance companies.
- To analyze major performance ratios with respect to 4 Life and Non-life insurance companies namely LIC, GIC, and HDFC Standard Life Insurance Co.Ltd.and Bajaj Allianz.

THEORETICAL FRAMEWORK

THE INDIAN INSURANCE SECTOR: The Indian Insurance sector is broadly divided into two parts-Life Insurance and Non-life Insurance or general insurance. Both of these are governed and regulated by IRDAI.It is listed in the Constitution of India in Seventh Schedule as a Union List i.e. legislated by Central government

Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies provides coverage with our everyday living like health, travel, motor car and accidental insurance.

Also, the non-life insurance companies provide coverage for our industrial equipment's as well. Insurance of crops for our farmers, gadget insurance for mobiles, pet insurance etc. are some more insurance products being made available by the general insurance companies in India.

THE ENTRY OF PRIVATE PLAYERS IN INSURANCE SECTOR: In the year 2000-01, Indian Government lifted almost all restrictions on the entry of private players in the fields of insurance. Foreign Direct Investment in the life insurance market was allowed which is at present stood at 49%.At present, there are 24 life insurance companies which are privately owned and privately owned non-life insurance companies are 34 in number.

THE CONCEPT OF PERFORMANCE EVALUATION: Performance evaluation measures performance of any economic and non-economic unit as a whole and compared with the set standards at the end of the accounting period. Evaluation of performance possess following merits:

- Ensure efficient utilization of resources and productive use of resources as best.
- Helps in achieving economic stability in different sectors of the company.
- Performance evaluation of Insurance companies works to maintain coordination between different departments and units.
- It helps in achieving customer satisfaction and complaints redressal.

MAJOR RATIOS USED FOR ANALYSING PERFORMANCE OF INSURANCE COMPANIES.

- **Customer Retention Ratio:** It is an important ratio through which prospective buyer is able to understand how persistent or regular customers have been renewing their policies. It is calculated by dividing number of policy holders paying the premium with net active policyholders, multiplied by 100.Higher the ratio, larger the number of satisfied pool of customers and capability of the insurer to retain them and vice versa.
- **Solvency ratio**: The solvency ratio of an insurance company is the size of its capital relative to all the risk it has taken, which is all liabilities subtracted from total assets. In other words, solvency is a measurement of how much the company has in assets versus how much it owes. According to IRDAI guidelines, the companies are required to maintain a solvency ratio of 150% to minimize bankruptcy risk.
  Solvency ratio is calculated as the amount of Available Solvency Margin (ASM) in relation to amount of Required Solvency Margin (RSM).ASM is company's assets over liabilities and RSM is net premiums based.
- **Total Cash outflow to net premium ratio:** This ratio is mainly concerned with general insurance companies which indicates company's total outflow in terms of operating expenses, commissions paid and incurred claims and losses on its net earned premium. Lower the ratio is better which means that the losses and expenses of the company are lesser than its revenue wrt its premium for that period. When the ratio is more than 100% indicated that cash outflow of the insurance company is more than its premium revenue which is not a healthy condition.
- **Incurred Claims Ratio (ICR):** It indicates a general insurer's ability to pay claims .Formula for calculating ICR is Net claims incurred/Net earned premium. For Example: Incurred Claim Ratio is 90% then it indicates that for every Rs.100 earned as premium, Rs.90 spent on the claims settled by the insurer. An ideal ICR range can be taken between 75-90%.

- **Claim Settlement Ratio (CSR):** It indicates how many times a company has settled against the number of claims received. Higher the CSR, the greater is the chance of claim settlement. This ratio measures reputation of an insurer.LIC has highest CSR i.e. 98%. For instance, if a life insurance company receives 1000 death claims and settles 980, the claim settlement ratio of that company would be 98%.

REVIEW OF LITERATURE

Arup Mazumdar, (2011) analyzed the broking system, challenges & opportunities are discussed and new marketing concept as Relationship Model approach has been argued. Indian insurance industry is growing fast after privatization and moving ahead.

Subir Sen. (2012) in his paper titled "*Growth of Indian Insurance Industry and Determinants of Solvency"* concludes that Solvency of a life insurer is heavily dependent on the returns received from total investible funds and the interest rate. The non-life insurers' solvency is affected by the interest rate. One of the investment performance predictor, investment yield have the expected sign and strongly suggests that returns available from total investments or investment decisions contributes to overall non-life insurer solvency status.

M.Venkatesh (2013) in his paper titled *"Trend Analysis in Insurance Sector in India"* suggests that Indian insurance sector is having increasing growth rate. India is also improving it density percentages year to year and hoping that that India can also improve in insurance sector.

Bidyadhar Padhi, (2013) emphasized the role and performance of private insurance companies in Indian Insurance Sector after opening up of the sector in 1999 has been examined and studied. Before liberalization, LIC & GIC had monopoly over the Sector. But in the period of 2001 to 2012. 23 private insurance companies in life insurance sector and 28 private companies in General insurance sector started the business.

Dr.Suresh Chandra Jain and Priya Jain (2015) in their study on "*A Comparative study on private and public health insurer"* comes up with The main reason to open the health insurance market for private player was its lower penetration and slow development. Alone public insurers were not sufficient to deepen the penetration since they were in a monopoly situation. Now a layer of competition has been set among the player of the market with the entry of private players who are aggressive, prompt and up to date in using technology.
Insurance company heading diploma in insurance services and its title is ***"****Recent Trends in insurance sector'***.** In this literature it was found that with the development of human life style, the insurance facilities has created a new opportunities for insurance business and welfare.

RESEARCH METHODOLOGY

This study is based upon the secondary sources of data collected from the annual reports and journals of two public insurance companies and two private insurance companies. The public insurance companies taken for the study are Life Insurance Corporation of India (LIC) as life insurer and General Insurance Corporation of India (GIC) as non-life insurer. Privately owned insurance companies taken for the study are HDFC Standard Life Insurance Company Limited in case of life insurance and Bajaj Allianz General Insurance Company Limited in case of general insurance. The study mainly focuses on the data collected from the annual reports and public disclosures for the year 2017-18 and a comprehensive study of performance has been done with the help of insurance industry's performance ratios.

The data has been collected, classified and tabulated for analysis. Comparative study of data has been done and shown through diagrammatic presentation.

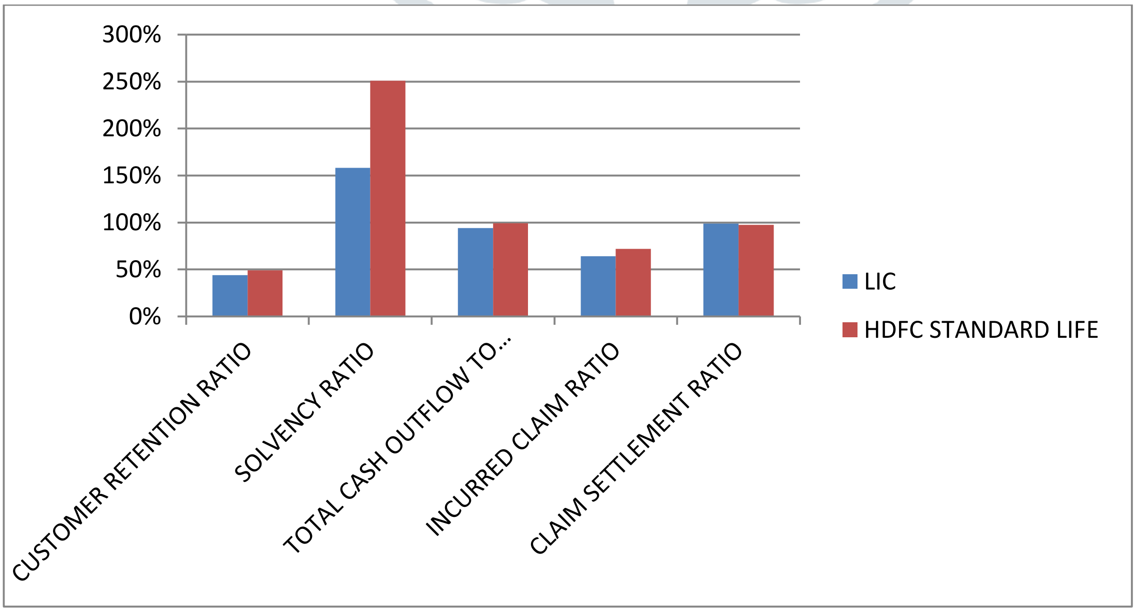
COMPARISON AND INTERPRETATION OF DATA

COMPARISON OF RATIOS AMONG PUBLIC AND PRIVATE LIFE INSURANCE COMPANY (See Graph 1)

RATIOS	PUBLIC LIFE INSURANCE COMPANY(LIFE INSURANCE CORPORATION OF INDIA)	PRIVATE LIFE INSURANCE COMPANY(HDFC STANDARD LIFE INSURANCE COMPANY)
CUSTOMER RETENTION RATIO	51%	49%
SOLVENCY RATIO	158%	251%
TOTAL CASH OUTFLOW TO NET PREMIUM RATIO	94%	99.30%
INCURRED CLAIM RATIO(ICR)	64%	72%
CLAIM SETTLEMENT RATIO(CSR)	97.73%	97.62%

***Data as on 31 March 2018 *Source: Public disclosures and annual reports by respective companies.**

(Graph 1)



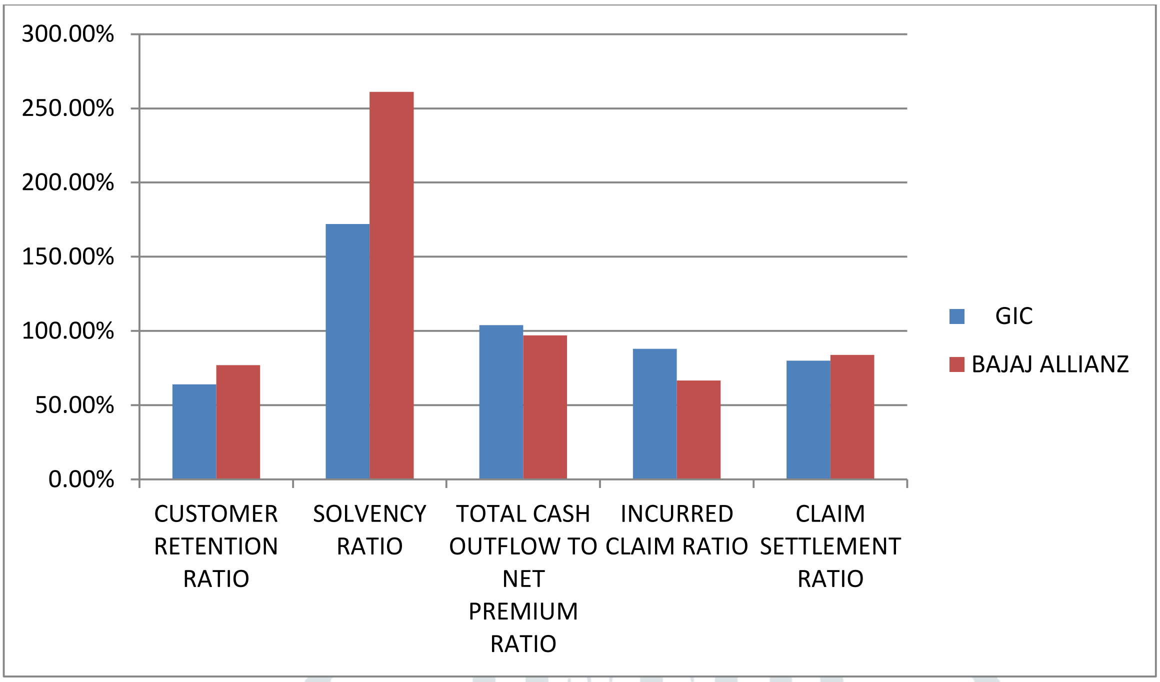
- Customer Retention Ratio of LIC is 44 %, on the other side this ratio of HDFC Life Insurance is also nearly 49% which is not a major contrast. But on the whole, it can be seen that customer retention ratio of both these life insurance companies are not very satisfactory. It depicts that past buyers are not in favor of retainment with these companies in case of life insurance. According to IRDA, life insurance companies must maintain at least 50% of customer retention ratio.
- In case of LIC, Solvency ratio is 158% which is a better indicator regarding capacity of the company to pay out the claims. It is also noticed that this ratio of HDFC Life insurance company is 251% which is spectacular and showing a great capacity of HDFC as a company to pay off its obligations.
- Total Cash Outflow to net premium ratio is 94% in case of LIC and 99.30% in case of HDFC Life Insurance Company .When the ratio is more than 100% indicated that cash outflow of the insurance company is more than its premium revenue which is not a healthy condition. It means that HDFC is more unfavorable in this case. It measures the profitability used by an insurance company to note how well it is performing in its daily operations.
- Incurred Claim Ratio between 75-90% is treated as an ideal as per the IRDA. In case of LIC, this ratio is 64% which is not very favorable and depicts that for every Rs.100 earned as premium, only Rs 64 is spent on the claims settled by the insurer. This ratio is more positive in case of HDFC Life Insurance Company Ltd.which 72% much closer to the ideal range of IRDA.
- Claim Settlement Ratio is computed basis individual claims settled over total individual claims for the financial year. This ratio is somehow similar in case of both companies i.e. in case of LIC 97.73% and in case of HDFC Life, it is 97.62%. Overall, the claim settlement ratio for the life insurance industry stands at 97%, but a lot of it is because of LIC's large base with very high CSR. A lot of private life insurance companies including HDFC and others are now matching up since the last 4-5 years.

COMPARISON OF RATIOS AMONG PUBLIC AND PRIVATE GENERAL INSURANCE COMPANY (See Graph 2)

RATIO	PUBLIC GENERAL INSURANCE COMPANY(GIC)	PRIVATE GENERAL INSURANCE COMPNAY(BAJAJ ALLIANZ)
CUSTOMER RETENTION RATIO	64.20%	77%
SOLVENCY RATIO	172%	261%
TOTAL CASH OUTFLOW TO NET PREMIUM RATIO	104%	97%
INCURRED CLAIM RATIO(ICR)	88%	66.72%
CLAIM SETTLEMENT RATIO(CSR)	80.20%	83.37%

***Data as on 31 March 2018 *Source: Public disclosures and annual reports by respective companies**

(Graph 2)



- Customer Retention Ratio of GIC is 64.20% but in case of Bajaj Allianz it is 77%.Customer Retention Ratio of GIC is at satisfactory level and case of Bajaj Allianz is considered as good. Range given by IRDA is 55-65% which can be considered as a good indicator of satisfied customer and effective sales practice. Bajaj Allianz is far better than GIC in this case.
- Solvency ratio of GIC is 172%, on the other hand it is 261% in case of Bajaj Allianz. In India, insurers are required to maintain solvency ratio of 150% as prescribed by IRDA. This criterion is fulfilled by both companies but Bajaj Allianz is much better in terms of solvency.
- Total cash outflow to net premium ratio of GIC is 104.0% and of Bajaj Allianz is 97%.In this case, GIC is not very superior. As higher this ratio, more is the cash outflow against premium revenue. From the perspective of this ratio also, Bajaj Allianz is better in comparison with GIC.
- Incurred Claim Ratio of GIC is 88% but on the contrary it is only 66.72% in Bajaj Allianz which is not ideal as per IRDA prescribed range of 75-90%.It is overall value of every claim a company has paid divided by the total sum of premium collected during the same period.
- Claim Settlement Ratio of GIC and Bajaj Allianz is at 80.20% and 83.37%respectively which is somehow similar depicting that both these companies are average in dealing with claims. An ideal range of this ratio is above 90%.

CONCLUSION AND RECOMMENDATIONS

From the above analysis it can be concluded that:

- In terms of customer retention ratio, solvency ratio and incurred claim ratio HDFC Life is much better than LIC but margin of difference in these ratios are not very considerable except in case of solvency ratio. Claim Settlement Ratio of both the companies are depicting very minute difference.So.for the purpose of life insurance both LIC and HDFC Standard Life Insurance Company Ltd. can be considered as per the policy requirements, rates of premium and customer's requirements.
- In case of general insurance companies taken for the study, Bajaj Allianz is much better in case of Customer Retention Ratio, Solvency Ratio, Claim Settlement Ratio and Total Cash Outflow to net premium ratio except Incurred Claim Ratio.

- In case of Life Insurance, HDFC Life is performing in a better way in terms of solvency and other ratios than that of LIC.
- But LIC is still considered as the 'lenders of the last resort' as it is a public institution and general population mostly trust these public institution in terms of life insurance especially in Indian context.
- As per a report issued by Economic Times and annual report released by IRDA "State-owned Life Insurance Corporation's (LIC) market share fell below 70 per cent in the financial year ended March 2018 as private insurers get more aggressive. The market share of private insurers increased to 30.64 per cent in 2017-18, from 28.19 per cent in 2016-17. On the basis of total premium income, the market shares of LIC decreased from 71.81 per cent in 2016-17 to 69.36 per cent in 2017-18."
- In both cases (life and non-life insurance),private sectors are performing well as compared to public sectors in terms of market share, performance ratios and customers base.

  The public sector insurance co. is not merely capital-intensive, characterized by longer gestation periods and profitability aspects. Because of considerations such as these, it is often maintained that the performance of the public sector insurance companies should not be judged by what they earn in the form of profits but by the total additions they make to society. In that way, public insurance companies may not stand at par with the private insurance companies in terms of financial performance.

  In this regard, following recommendations can be considered:

  - In order to improve customer retention ratio, both LIC and GIC should provide for proper and efficient customer service, be quick in resolving complaints of customers. Like any private insurance company, loyalty of customers can be rewarded in case of LIC and GIC also.
  - Although all of the insurance companies taken for this study are depicting a good solvency position, but steps can be taken for further improving solvency status by proper liquidity level and credit worthiness.
  - According to IRDA, Claim Settlement Ratio below 95% is not a good indicator, this figure depicts that in GIC and Bajaj Allianz, Claim Settlement Ratio is not up to the mark and for improving this situation, both these companies should make their pending claim settlement process more simple and customer friendly in order to reduce number of rejected claims. This would reflect in their claim settlement and incurred claim ratio.
  - All claims whether lodged or settled should be treated at par in order to improve goodwill of the company as well as to develop a sense of faith among general public for insurance industry.

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