An Examination of the Financial Performance of A Subset of Indian Private Life Insurance Companies

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Abstract:

Since the liberalization of the Indian economy and the enactment of Insurance Regulatory and Development Authority (IRDA) regulations in 2000, the entry of private sector life insurers has led to significant changes in the Indian life insurance market. It is crucial to analyze the profitability, solvency, and liquidity of these companies. Three private sector life insurance firms were chosen from IRDA's annual report for seven-year research from 2010-11 to 2016-17. The analysis found that HDFC Standard performs better than the other two companies in terms of asset turnover and liquidity. TATA AIA has higher operational efficiency compared to HDFC Standard and Sahara Life. Finally, HDFC Standard's fixed assets account for the majority of its overall assets, limiting its liquidity.

Keywords: Public Sector Companies, Insurance Companies, Profitability, Solvency, Liquidity, Public Disclosure Analytical Ratio, Financial Performance

1. INTRODUCTION

By creating risk management skills comparable to the finest in the world, the Indian insurance sector is getting ready for a new era. India's insurance sector underwent a dramatic transformation, transitioning from a free and competitive market to one that was fully nationalized and then back to being a liberalized one. The existence of insurance greatly increases the stability of the economy, trade, and commerce. The only business that actively engaged in India's life insurance market prior to the emergence of private insurance was the state-owned LIC. Consumers in India, who have always seen life insurance as a way to lower their taxable income, are now turning their focus to the private sector and buying the newest and most advanced products on the market. The LIC has made a substantial contribution to the industry's overall growth, but the private companies have been able to take some market share away from it. The biggest challenges facing the sector right now are limited market penetration and widespread customer discontent. From a nationalized to a liberalized market, the insurance sector in India has seen significant change. India's insurance sector has developed in a noteworthy way throughout the years, and other countries, especially England, have had a big impact on it. The Life Insurance Corporation had controlled the insurance market until the latter part of the 1990s, when it was eventually opened to private competition in 2000. Only two national corporations—the "Life Insurance Corporation" and the "General Insurance Corporation"—operated inside the company prior to its privatization. In December 2000, GIC's four subsidiaries were split off and formed as separate businesses: "Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited, and United India Insurance Company Limited." Since then, India's general insurance market has grown more rapidly.

This is probably because private businesses and up to 26% foreign direct investment were allowed by the ruling government at the time. Because of recent developments, the Cabinet raised it from 26% to 49%. The number of individuals buying witness insurance increased throughout this time, which lasted for around 200 years. There are twenty-eight companies in the general insurance sector of India, including ECGC and Agriculture Insurance Corporation of India. Four of these companies are regarded as public enterprises. This sector is huge, contributes significantly to the GDP of the country, and is now growing at a pace of 15% to 20% annually. The IRDA report states that the insurance penetration and density in 2016 were as follows: Insurance Covers 59.70% of People (USD) 3.49% of the population is insured.

2. LITERATURE REVIEW

In order to learn the findings, Dey, Adhikari, and Bardhan (2015) conducted a study to identify firm-specific characteristics that might affect the Life Insurance Company of India's financial performance. Information was gathered from thirteen distinct life insurance companies in India during a ten-year period, from 2003–2004 to 2012–2013, in order to conduct the study. Research and analysis were done using ratios such the return on equity (ROE), liquidity ratio, and solvency ratio. We used a variety of statistical techniques, including multiple regression models.

The results of the study indicate that tangibility, liquidity, and financial success are positively correlated, although weakly.

Research has been done by Srivastava and Prakash (2016) to examine and assess the performance of India's state and private life insurance companies in comparison. Information was gathered from each of India's 24 life insurance companies during a ten-year period, from 2005–06 to 2014–15, in order to conduct the study. The research was conducted using statistical techniques including trend analysis, growth rates, and the Mann–Whitney U–test. The research's conclusions indicate that LIC continues to have a sizable market share, accounting for 73% of the company's total premium revenue for the 2014–2015 fiscal year.

Due to the existence of twenty-four private insurance companies that have established themselves in the market, there is intense competition. Private insurance companies are growing at a far faster rate than the public sector. Jena (2014) has carried out studies to look at the general performance and financial stability of a number of life insurance companies. Information from five different life insurance companies in India over a five-year period (2008–2012) was taken into account in order to conduct the study. The ratios that were used for the study were the debt-to-equity ratio, the current ratio, the liquidity ratio, and the absolute liquidity ratio. The research's conclusions indicate that the selected insurer must continue to have enough funding via a suitable ownership and external funding balance.

The expression "the insurance business has evolved over time" alludes to the realization that during the last several decades, the sector has been impacted by a number of variables, including technology, regulation, disintermediation, and globalization, according to Hook, n.d. in his study work. It faces several challenges today, and events that might disrupt its foundation are common. As the number of informed consumers in a market increases, more individuals sign up for insurance because they are encouraged to make educated judgments. The increasing number of insurance enrollments may help product makers manage risk more effectively and benefit from both economic growth and a more stable and competitive financial sector.

Additionally, Basir Ahmad Joo's study article After the insurance industry was privatized in 2000, the presence of multinational corporations (MNCs) assaulted the Indian insurance market, according to a review of the financial soundness of Indian non-life insurance businesses. For already-existing public corporations, this presents both possibilities and threats. The relationship between claim ratio and company size in relation to the organization's financial condition is the main subject of the study piece. The research methodology used for the data analysis procedure was multiple regression analysis.

In their study paper, "Impact of Foreign Direct Investment on the Life Insurance Sector in India," Rajesh K. Yadav and Sarvesh Mohania described how FDI in the Indian insurance industry enhances the sector's overall performance. Furthermore, it talks about the outflow of funds (in Indian currency), which the RBI and IRDA must keep a careful eye on.

In their study work, "Consumers' Attitude Towards General Insurance: A Factor Analysis Approach," Ms. Tnr. Kavitha, Dr. A. Latha, and Ms. S. Jamuna examined how consumers felt about the insurance offered by general insurance companies. A 5-point rating system was used to collect the views of 750 policyholders. The study advances our knowledge of what general insurance companies should anticipate from their shareholders.

3. Study Objectives

To evaluate the profitability of selected Indian life insurance businesses.

To assess the solvency of a few life insurance businesses in India.

To examine the liquidity of selected life insurance firms in India.

4. Research Methodology

For this investigation, only previously acquired information was utilized. The research will run seven years, beginning in 2010-2011 and finishing in 2015-2016. We randomly picked three life insurance firms, HDFC Standard, TATA AIA, and Sahara Life, to assess their financial performance in India.

There are now 23 active life insurance businesses functioning in India. The overall net premium for all firms was calculated using an IRDA report from 2010-2011 to 2015-2016. The rankings were based on the average net premium throughout the research period. This was done to pick three private sector life insurance firms from a pool of twenty-three. This included selecting three private sector life insurance companies. Companies may be divided into three categories based on their rankings:

A) Large size.

B) Medium and

C) Small Sizes.

5. Data Analysis

This study compares the Return on Assets of three life insurance organizations. HDFC Standard Life saw the highest return on assets in 2013-2014 and 2014-2015, and its lowest in 2010-2011. TATA AIA's Return on Assets peaked in 2013-2014 and declined in 2015-2016. Sahara Life's return on assets was highest in 2010-2011 and 2012-2013, and lowest in 2015-2016. This tendency remained consistent throughout three years. Sahara Life has the highest mean return on assets, followed by TATA AIA and HDFC Standard. Sahara Life gets the greatest number for mean Return on Assets. The standard deviation numbers indicate that HDFC Standard has the most consistent performance among the three businesses analyzed, while Sahara Life has the least consistent.

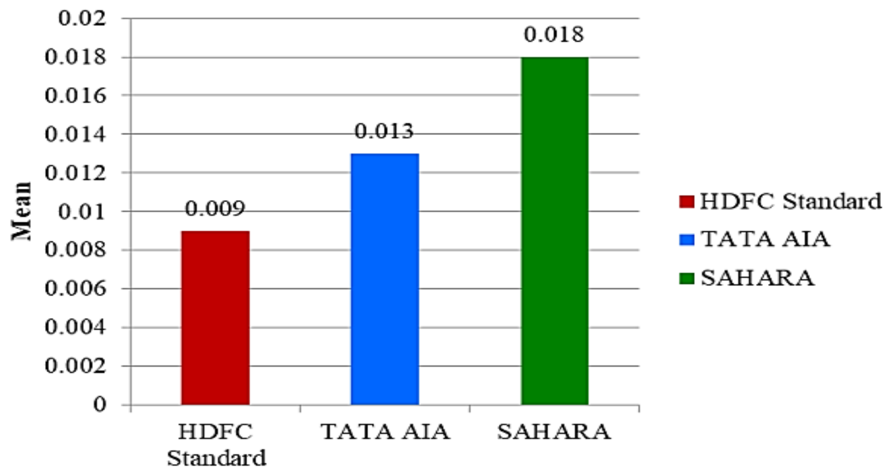

Figure 1: Return on Assets of Selected Life Insurance Companies

Figure 2 depicts the current ratios of the three life insurance businesses considered for the study. HDFC Standard Life saw its highest current ratio in 2013-14 and its lowest in 2015-16. Similarly, TATA AIA's current ratio reached its greatest point in 2015-16 and its lowest point in the same year. Sahara Life's current ratio peaked in 2015-2016 and fell in 2013-2014. Sahara Life has the highest mean current ratio, followed by HDFC Standard and Tata AIA. Sahara Life has the highest mean of current ratios. The standard deviation numbers indicate that HDFC Standard has the most consistent performance among the three businesses analyzed, while Sahara Life has the least consistent. The research was done in India.

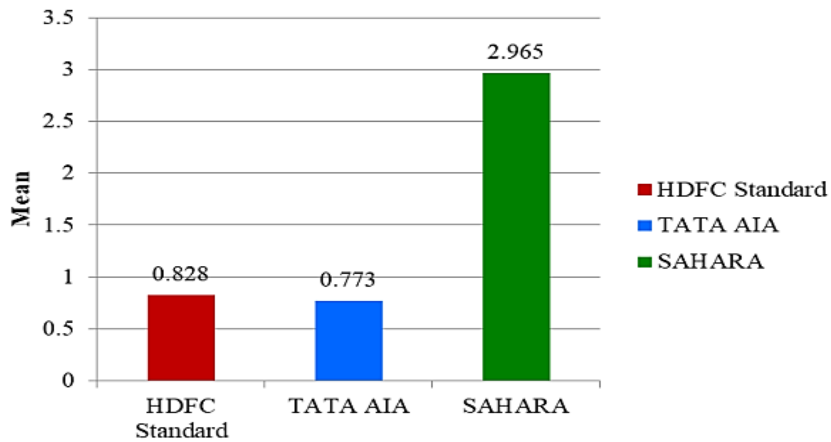

Figure 2: Current Ratio of Selected Life Insurance Companies

Figure 3 displays the current asset ratios of the three life insurance businesses considered for the study. HDFC Standard Life's current assets to total assets ratio was highest in 2010-2011 and 2011-2012, and lowest in 2015-2016. The ratio has changed greatly over time. TATA AIA's current assets to total assets ratio peaked in 2015-16 and fell to its lowest in 2013-14. Sahara's current assets to total assets ratio was highest in 2016-2017 and lowest in 2010-2011. Sahara Life has the highest ratio of current assets to total assets, followed by TATA AIA and HDFC Standard. Sahara Life has the greatest ratio of average current assets to total assets. The standard deviation numbers indicate that HDFC Standard has the most consistent performance among the three businesses analyzed, while Sahara Life has the least consistent. The research was done in India.

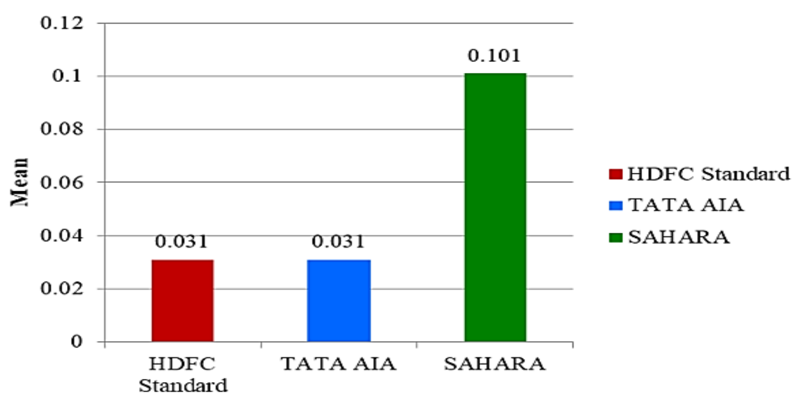

Figure.3: Current Assets to Total Assets of Selected Life Insurance Companies

6. Conclusion.

This study aimed to assess the financial health of private Indian life insurance companies. Measuring insurance companies' performance is crucial as they not only save money and transfer risk, but also channel funds from surplus to deficit economic units to support investment activities. Insurance firms provide a tool to save money, shift risk, and channel cash effectively. Empirical research is crucial for assessing financial performance of individual firms, since their success may effect the economy as a whole. Financial measures such as profitability, solvency, and liquidity are used to analyze a company's financial performance. The study results show that HDFC Standard outperforms the other two in terms of asset turnover and liquidity. TATA AIA outperforms HDFC Standard and Sahara Life in terms of operational efficiency. Finally, we found that HDFC Standard's fixed assets account for the majority of its overall assets, limiting its liquidity.

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