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FINANCIAL PERFORMANCE OF PRIVATE SECTOR LIFE INSURANCE COMPANIES IN INDIA: A COMPARATIVE STUDY

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ABSTRACT

The impact of financial sector reforms has been experienced by all the life insurance companies in the current millennium. Following the enactment of IRDA, more and more insurance companies have penetrated into the Indian life insurance market and as a result the degree of competition has become intensified and all the companies have been continuously striving not only to earn profit but to maintain a sound financial position as well. In a competitive environment, companies capable of maintaining a sound financial position will definitely be in an advantageous position over their competitors. The paper makes a modest attempt to assess and compare the financial performance of three life insurance companies operating in India during 2008-2009 to 2013-2014 on the basis of certain parameters relating to profitability, solvency and liquidity.

KEYWORDS:

Liquidity, Solvency, Profitability, Current Assets, Shareholder's Fund

INTRODUCTION

In the age of liberalization of Indian Economy, the financial sector has become the most important part in the growth and development of the country and life insurance is one of the essential constituents of the financial sector. The reforms in life insurance sector has practically opened the sector for private participation which have posed multidimensional challenges to the insurance companies in operation (Dey, et.al., 2015). The entry of a number of private sector life insurers with the enactment of Insurance Regulatory and Development Authority (IRDA) regulations in the year 2000 has revolutionized the life insurance market in India (Charumurthi, 2012). The degree of competition in the life insurance sector has been on the rise due to the entry of private players into the market and all the life insurance companies have been experiencing difficulties not only to maintain their market share but also to maintain a sound financial position. In this context, the paper makes an attempt to assess and compare the financial performance of three life insurance companies operating in India during 2008-2009 to 2013-2014.

REVIEW OF LITERATURE

Sharma and Chowhan (2013) revealed that solvency position is better in case of private sector than public sector life insurance companies. Kumar (2014) concluded that out of 24 life insurance companies in India only 7 showed profit and new policies were more in case of private sector but there was a declining trend in terms of premium. Saleena (2014) revealed that Life Insurance Corporation of India has performed better than private sector life insurance companies. Suresh (2015) revealed that private life insurer could fulfil the objectives of privatization of insurance industry in India and the LICI has faced a stiff competition from the private insurers. Curak (2011) revealed that company size, underwriting risk, return on equity influenced significantly the profitability of insurers. Ismail (2013) found that size and solvency margins were important factors affecting the financial performance of life insurance companies.

OBJECTIVES OF THE STUDY

1. To assess the financial performance of select life insurance companies in India.
2. To compare the financial performance of select life insurance companies in India.

DATA SOURCE AND METHODOLOGY

The study is based on secondary data. The present study covers a period of six years i.e., from 2008-2009 to 2013-2014. Out of 23 number of life insurance companies operating in India, three life insurance companies, namely, ICICI Prudential, Kotak Mahindra, IDBI Federal have been randomly selected in order to assess the financial performance of life insurance companies operating in India under private sector. In order to select three private sector life insurance companies out of twenty three (23) private sector life insurance companies, total net premium of all the companies have been calculated from IRDA report for the period of six years from 2008-2009 to 2013-2014 and their ranks have been determined based on average net premium during the period of study.

Thus, average net premium has been considered as the proxy of the size of companies and accordingly private life insurance companies have been classified into large size, medium size and small size companies. With the use of stratified random sampling, three companies have been selected taking one from each group developed on the basis of the size of the company. In this way three private sector life insurance companies, namely ICICI Prudential from large size, Kotak Mahindra from medium size and IDBI Federal from small size companies have been selected for the study.

The data for the present study has been collected from secondary sources i.e., annual reports of respective insurance companies and the Hand Book of Indian Insurance Statistics, IRDA, 2013-2014. However, for analyzing the data a number of financial ratios and statistical tools, such as, mean and standard deviation have been used.

Table 1: Details of Sample Insurance Companies

Insurers	Foreign Partners	Registration No.	Date of Registration	Year of Entry in Indian Market
ICICI Prudential	Prudential Corporation Holdings Limited, UK	105	24.11.2000	2000-2001
Kotak Mahindra	Old Mutual, South Africa	107	10.01.2001	2001-2002
IDBI Federal	Ageas, UK	135	19.12.2007	2007-2008

Source: Annual Reports of the respective insurance companies

The Government of India has opened the door for the private players into the life insurance industry since 2000. So many private insurance companies have entered into the business. ICICI Prudential entered the Indian market from 2000-2001 while Kotak Mahindra started its operation from 2001-2002. Similarly, IDBI Federal entered into the market from the year 2007-2008.

SCOPE OF THE STUDY

Even though there are good number of life insurance companies in India but present study has been confined to three (03) private sector life insurance companies out of twenty three (23) life insurance companies operating in India for a period of six years from 2008-2009 to 2013-2014. The scope of the study is based merely on the quantitative measure of financial performance of private sector life insurance companies. To fulfil the objectives of the study, financial ratios relating to profitability, solvency and liquidity have been used.

LIMITATIONS OF THE STUDY

1. The data has been taken for a period of six years only i.e., from 2008-2009 to 2013-2014 for analysis and interpretation.
2. The present study has been taken for three life insurance companies. Other private life insurance companies have been excluded from the present study, so it is very difficult to generalize the findings of the study.

RESULT AND DISCUSSION

Table 2 depicts the mean and standard deviation (SD) of Return on Assets (ROA) of the three life insurance companies. Among them, Kotak Mahindra has the highest mean while the mean return of IDBI Federal has been found to be negative and hence has the lowest mean. This was due to the reason that this company shows negative return in the first four consecutive years, though it showed growth in the next two years of the study period and hence the return has been found to be positive. ICICI Prudential showed negative return in the first year only and then it showed positive return in the next remaining years. Kotak Mahindra is the only company among the three which shows positive values and so the mean return is higher than the other two.

Table 2: Return on Assets of select Life Insurance Companies

Year	ICICI Prudential	Kotak Mahindra	IDBI Federal
2008-2009	-0.0268	0.0360	-0.1790
2009-2010	0.0049	0.0104	-0.0937
2010-2011	0.0123	0.0120	-0.0611
2011-2012	0.0202	0.0211	-0.0276
2012-2013	0.0214	0.0177	0.0031
2013-2014	0.0192	0.0207	0.0227
Mean	0.009	0.020	-0.056
SD	0.018	0.009	0.074

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

In terms of standard deviation (SD) for Return on Assets (ROA), the value is lowest in case of Kotak Mahindra which implies that there is lowest dispersion of the values of ROA during the study period from the mean return. So the consistency of the data has been found in case of Kotak Mahindra. IDBI Federal has the highest SD which means that the value of this company is more scattered in comparison to other companies during the six years of the study. Thus the values of standard deviation of ROA of the three select life insurance companies suggests that the volatility is maximum in case of IDBI Federal while consistency has been most pronounced in case of Kotak Mahindra.

Table 3 reveals the mean and standard deviation of Current Assets to Current Liabilities of the three life insurance companies selected for the study for a period of six years. Since the ratio depicts the liquidity position of a company, IDBI Federal has been found to be more liquid as compared to the others as the mean value has been the highest for IDBI Federal. Kotak Mahindra is the next best company after IDBI Federal. The liquid position of IDBI Federal has been found to be growing over the study period.

Table 3: Ratio of Current Assets to Current Liabilities of select Life Insurance Companies

Year	ICICI Prudential	Kotak Mahindra	IDBI Federal
2008-2009	0.574	0.903	1.025
2009-2010	0.376	0.695	1.002
2010-2011	0.417	0.723	1.026
2011-2012	0.535	0.668	1.408
2012-2013	0.649	0.747	1.479
2013-2014	0.587	0.823	1.829
Mean	0.523	0.760	1.295
SD	0.105	0.088	0.336

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

In case of standard deviation, the value has been found to be the highest in case of IDBI Federal which shows that the values have been scattered unevenly over the years of study. So more volatility can be found in case of IDBI Federal. However, the values are more concentrated in case of Kotak Mahindra as compared to the other two companies.

Table 4 shows the mean and standard deviation for Shareholders Fund to Total Assets of the select companies. During the study period, mean has been found highest in case of IDBI Federal while the same has been found lowest for ICICI Prudential.

Table 4: Ratio of Shareholders Fund to Total Assets of select Life Insurance Companies

Year	ICICI Prudential	Kotak Mahindra	IDBI Federal
2008-2009	0.1456	0.1413	0.7285
2009-2010	0.0843	0.0841	0.4010
2010-2011	0.0711	0.0657	0.3500
2011-2012	0.0709	0.0637	0.3153
2012-2013	0.0661	0.0738	0.2687
2013-2014	0.0626	0.0864	0.2264
Mean	0.083	0.086	0.382
SD	0.031	0.029	0.181

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

Kotak Mahindra has been found to be in a fruitful position in terms of mean value after IDBI Federal. This shows that IDBI Federal is able to repay the shareholders fund with the total assets of the company more than the other two companies under study.

In terms of Standard Deviation, the value is more in case of IDBI Federal which shows that the values of different years are dispersed from its mean value and so the volatility is more. Kotak Mahindra shows consistency since the value of standard deviation for this ratio is the lowest out of three companies considered in this study.

SUMMARY AND CONCLUSION

1. In terms of profitability, the performance of Kotak Mahindra is the best which is followed by ICICI Prudential and IDBI Federal as is revealed by Return on Assets (ROA) of the three life insurance companies during the period of study.
2. The ratio of Current Assets to Current Liabilities is the highest in case of IDBI Federal which is followed by Kotak Mahindra and ICICI Prudential. But the volatility in the performance of IDBI Federal during the period of study in terms of current ratio cannot be ignored.
3. The ratio of Shareholders Fund to Total Assets is the highest in case of IDBI Federal which is followed by Kotak Mahindra and ICICI Prudential. But the inconsistency in the performance of IDBI Federal during the period of study in terms of ratio of Shareholders Fund to Total Assets cannot be overlooked.

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