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ANALYSIS OF FINANCIAL PERFORMANCE OF SELECTED PRIVATE LIFE INSURANCE COMPANIES

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ABSTRACT

Insurance sector has been playing a vital role within the financial system and also performs significant socio-economic function, making inroads in to the interior of the Indian economy. It also has been facilitating economic development with an objective to build an efficient, effective and a stable insurable business in India as well as a strong base to cater to the needs of both the real economy and socio-economic objectives of the country. Enactment of IRDA Act 1999 lead to entry of the private insurers and the monopoly enjoyed by Life Insurance Corporation of India has been troubled. By launching many innovations in terms of products, market channels and advertisement of products and through agent training and customer services, private insurers created stiff competition to LICI. On this background, this paper intends to analyse the financial soundness and performance of private life insurance companies in the light of CARAMEL parameters. From the study it is clear that Indian private life insurance companies are satisfactorily financially sound on the whole. However the researcher observed strange weaknesses and believes that it is due to the companies have given excessive attention on innovations in products and marketing to increase the premium without a proportionate designating the funds towards risk management.

KEY WORDS: *Insurance, Financial performance, CARAMEL*

INTRODUCTION

Insurance sector has been playing a vital role within the financial system and also performs significant socio-economic function, making inroads in to the interior of the Indian economy. It also has been facilitating economic development with an objective to build an efficient, effective and a stable insurable business in India as well as a strong base to cater to the needs of both the real economy and socio-economic objectives of the country.

Up to 19th century the insurance was in the commencement stage. Therefore no legislation was required and usually the Indian Company Act 1883 was applicable. Since 1956, with the nationalization of insurance sector, till the year 1999, Life Insurance Corporation of India (LICI) had a complete monopoly over the Indian life insurance business. The year 1999 was the landmark in insurance sector, as Indian Government allowed privatization by passing Insurance Regulatory Development Authority Act (IRDA Act). IRDA has been established to regulate and develop insurance industry and to safeguard the interest of policyholders. It issued licenses and has opened life insurance market to private life insurers. As a result, insurance sector has grown at a rapid rate and expanded tremendously from 2000 onwards in terms of premium income, new business policies, number of offices, agents, products etc.

The liberalization policy of Government of India opened the doors for private companies for entering into insurance business and allowed foreign direct investment up to 26% in the year 2000. As a result, four private life insurance companies were established in India in 2002 and the number of private insurance companies in insurance sector is increased year by year and now, the Indian life insurance market currently has 23 private insurers fighting a fierce battle for taking the largest possible slice of the growing life insurance market and at the same time maintaining their current hold.

After the entry of these private players, the market share of Public Sector Life Insurance has been considerably reduced. For the past some year's private insurers have launched many innovations in the industry in terms of products, market channels and advertisement of products, agent training and customer services.

In the post liberalization era, the life insurance sector of India witnessed a significant growth as there is healthy competition from many domestic as well as foreign private insurers. There is tremendous growth potential for life insurance sector in India as we have huge population and still the Indian life insurance market is untapped. Further, it indicates the growth prospects and a huge potential for life insurance business in the country.

REVIEW OF LITERATURE

Nikhil Bhushan Dey (2015) investigated that there is significant positive relationship of underwriting risk and size with financial performance (ROE) of life insurance companies in India under the study. There is significant negative relationship between volume of capital and leverage with financial performance. However, there is insignificant positive relationship of tangibility and liquidity with financial performance. As a result, the study observes that Indian life insurance companies should pay more attention towards size, underwriting risk, volume of capital and leverage for better financial performance.

Gupta, Rupa (2014), in the study titled "Life insurance products performance evaluation and customer satisfaction in the regime of IRDA comparative study of LIC of India ICICI prudential life insurance company limited" observed that Net premium of LIC of India indicated an annual compound growth rate of 15.77 percent over a period of nine years (2001-02 to 2009-10) whereas that of ICICI Prudential Insurance Company Limited indicated an annual compound growth rate of 73.39 percent over the corresponding period. The growth analysis of the study infers that Net assets of LIC of India indicated an annual compound growth rate of 19.8 percent whereas that of ICICI Prudential Life Insurance Company Limited Indicated on annual compound growth rate of 84.84 percent. All these indicate that net assets of ICICI Prudential Life Insurance Company Limited increased quicker than LIC of India Limited. The study further suggests that as the people are intended to carry Insurance policies not only for risk coverage but also for future savings, proper awareness campaign should be made among the villagers regarding the mobilization of savings and also to explore potentiality in rural areas.

The study titled "An analysis of performance of private sector life insurance companies vis a vis public sector companies and a study on analysis towards private sector life insurance companies" (Catherine Nirmala J (2015)) made an analysis of the financial statements of LIC and the top 5 private life insurance companies. The analysis revealed that only LICI showed an increasing trend in Net profit when compared to the Net Profit of private companies. LIC has been consistently giving the mandatory 95% of the operating surplus as bonus to policy holders. It was further found that the percentage growth in LIC in the past 5 years is showing a decreasing trend when compared to its own growth rate in the initial 5 years of existence of private companies. On the other hand, the growth rate of HDFC Life Insurance Company is the highest followed by SBI life and if this trend continues private companies will soon overtakes the growth trend in LIC.

Kumar Naveen (2014) in his study explains that life insurance density has continuously increased during the study period except the year 2011. Despite an impressive growth in life insurance density in the post reform period in India, it is still very small to compare to other top economies of the world. Life insurance penetration in India has increased from 2.15% in 2001 to 3.8% in 2011. The study reveals that after opening up of the 4 insurance sectors for private participation, India has reported an increase in both insurance density and penetration up to 2010. After 2011, it is showing a decline in the trend.

Darzi, Tanveer Ahmad (2012) in his study assesses the financial performance of insurance industry in post liberalisation era in India. The analysis of overall performance was made with the help of loss ratio, expense ratio and combined ratio and the analysis reveals that every rupee of earned premium is draining in the shape of claims and costs plus some portion from non – operational income which the insurers seem to adjust initially out of cross subsidisation and investment income. However, the price war in the post detariffied regime has resulted in tapering of profit margins from profitable segments and prevailing bearish capital market. Therefore insurers need to be choosy in business selection, otherwise their funds may get drain away and to meet stipulated solvency norm, shareholders might not sustain continuous funding without return resulting in the solvency of the companies.

It was observed that overall financial performance of the selected private sector life insurance companies with special reference to capital structure and related ratio was the best during the study period (2003-04 to 2012-13) in ICICI Prudential and followed by TATA AIA, SBI, Met, Birla Sun Life, HDFC Standard, Reliance, ING Vysya, Max Newyork and Bajaj Allianz respectively (Varvadiya, Jignesh S 2015). The study further makes an inter firm comparison of net profit to net premium and it finds that the Max Newyork LIC had generated a sizeable net profit throughout the study period and ICICI Prudential Life Insurance Co. Ltd. was next one firm which also generated net profit throughout the study period followed by Bajaj Allianz, TATA AIA, Birla Sun Life, SBI and Met. While ING Vysya suffered weak profit then HDFC standard and Reliance had maintain profitability except one year loss during the study period 2003-04 to 2012-13. Further it is concluded that the earning position of seven firms under review were success in earning during the study period, while ING Vysya was under pressure in terms of earning during the study period

The LIC of India has been investing its funds as per IRDA regulations. The investment in India has increased over the years from Rs. 255 crores in the year 1957 to Rs. 1,75,014.85 in the year 2001. Also there was an investment of Rs. 476.33 crores out of India in the year 2001. It was therefore concluded that the investments of LIC has increased over the years which shows the development of working of LIC of India, over the years and its role in the economic development of country as well as the social development of country (Seth Neeth, 2005)

Bhatt Shilpa, (2012) analysed the profitability of LIC after liberalization policy in India taking the parameters as premium, number of policies, claims settlement, assets growth etc. This study found that the quantum of business of life insurance has increased more than ten times in the span of 20 years

Dar and Bhat (2015) evaluated the financial performance and soundness of selected public and private life insurance companies. In this paper a set of ratios have been presented and discussed to lend a hand in the analysis of a life insurer's financial and statistical returns. Three parameters taken from CARAMEL model have been used to analyse and evaluate the financial performance and soundness

Mr. Sumit Bodla Dr. Deepak TandonDr. B. S. Bodla (2017) endeavored to analyse the profitability of life insurance companies and identifies that the life insurance industry has made a remarkable growth of premium after the entry of private players. The CAGR of net premium has been worked out at 8.89 % for the last 10 year. The highest CAGR in net premium was found in case of Max Life followed, very closely, by HDFC Standard, PNB MetLife and SBI Life. The market share of the leader i.e. LICI has been above 70% in each of the last 10 years except 2010-11 where the same was 69.89%. Among the private sector life insurers ICICI Prudential has enjoyed the highest market share in each of the last 10 years. Its share has been in the range of 3.92% to 6.92% in this duration. It is notable that market share, in net premium, of HDFC Standard has been rising year after year during the study period and the same rose to 4.52% in 2015-16 from 1.81% in 2006-07.

In recent 5 years the CAGR of underwriting income has declined in case of almost every private sector company. However LIC, the public sector corporation is exception to the above pattern because the underwriting income has registered an impressive CAGR (12.68%) in the recent 5 years. In the light of above findings, it can be concluded that many of the life insurers in India are required to improve their underwriting income for sustainable development. Further, they need to have control on expense ratio and other outflows so as to register profits.

Bawa and Chattha (2013), attempts to examine the financial performance of Indian life insurers on the basis of various parameters. For measuring it, various financial ratios have been calculated taking into consideration liquidity, solvency, profitability and leverage of the insurance players. Generally, performance can be estimated by measuring the profitability of firm and insurers. In order to accomplish the aim, the study determines the impact of liquidity, solvency, leverage, size and equity capital on the profitability of life insurers in India. The sample for this study includes 18 Indian life insurers (including 1 public and17 private) and it analyses the data of 5 years from 2007-08 to 2011-12. The study uses multiple linear regression models to measure the extent to which these determinants exert impact on life insurers' profitability. The results of the study reveal that profitability of life insurers is positively influenced by liquidity and size and negatively related with capital. Profitability does not show any relationship with solvency and insurance leverage.

Shahid Hussain (2010) has evaluated the growth of LIC during post privatization period from 2004-05 to 2008-09 where parameters used are premium, commission, operating expenses etc. and the analysis finds that the increase in commission expenses being lower than the increase in gross premium and other operating expenses compared to premium underwritten is on the higher side.

STATEMENT OF PROBLEM

Life Insurance Corporation of India (LICI) currently holds share of 71.81% of the total Indian Life Insurance market as against 28.19% held by all the 23 private players for the year 2016-2017. LIC's share has decreased from its previous holding of 72.61 % in 2015-16, the private insurers have made a gain of 0.8%. The premium underwritten in the year 2016-17 stands at Rs. 4, 18,476.62 crores, from the previous year's Rs. 3,66,943.23 crores, a clear growth of 14.04%. During the year 2016-17, all the life insurers of India issued 264.56 lakh new policies. Out of these, Life Insurance Corporation (LIC) alone has issued 201.32 lakh policies (76.1%) on the other hand; all the private life insurers combined together have issued just 63.24 lakh policies (23.9%). However, private players have registered a growth of 2.13% against the previous year, whereas, LIC has registered a decline of 2.02%. The one thing that every individual looks before buying a life insurance plan is the claim settlement reputation of the insurer. The claim settlement ratio for 2016 -17 stands at 98.31% for LIC and 93.72% for the private players combined. These facts clearly show that private insurers are gaining and slowly people are looking up to them to meet their insurance and investment needs. But there still remains doubt in the general population at large about private insurance companies. Therefore the study is basically intended to assess the financial performance of selected private insurance companies.

OBJECTIVES OF THE STUDY

Present study aimed to assess the financial performance of ICICI Prudential, SBI, HDFC Standard, Bajaj Allianz and Birla Sun life insurance companies using CARAMEL model during the period of 2007-08 to 2016-17.

STATEMENT OF HYPOTHESIS

There is no significant difference between the selected life insurance companies with respect to Capital Adequacy Ratio, Asset quality ratio, Re-insurance and Actuarial issues ratio and Earning and Profitability ratios and Liquidity ratios.

RESEARCH METHODOLOGY

Present study seeks to examine the financial performance of private life insurance companies in India over the post liberalization period. There are 23 private life insurance companies in India, out of that 5 private life insurance companies viz. HDFC Standard Life Insurance Company, SBI Life Insurance Company, Bajaj Allianz Life Insurance Company, Birla Sun Life Insurance Company and ICICI Prudential Life Insurance Company are chosen for study. The performance of insurance companies is measured by CARAMEL (Capital adequacy, Asset quality, Reinsurance, Adequacy of claims and actuarial, Management soundness, Earnings and profitability, Liquidity, and Sensitivity to market risk) parameters.

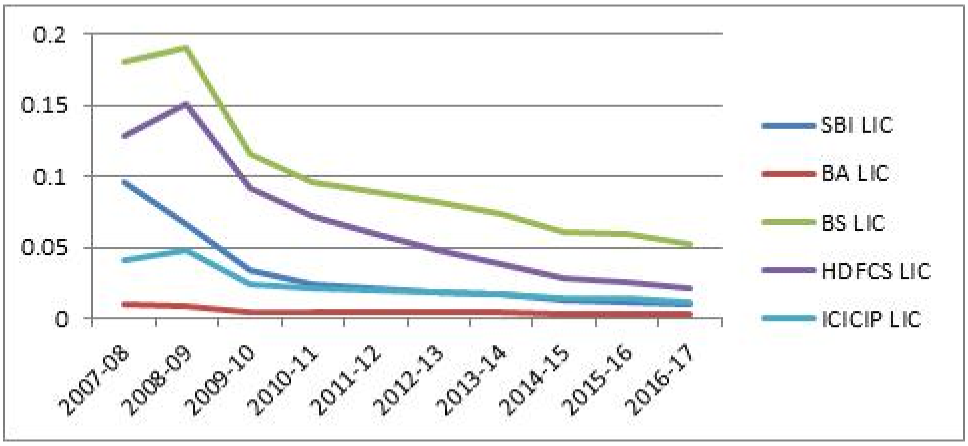
Category	Indicator
Capital Adequacy	Share Capital/ Total Assets
Asset Quality	Equities/ Total assets
Re-insurance and Actuarial issues	Risk Retention Ratio: Net Premium/ Gross Premium
Management Soundness	Operating Expenses/Gross Premium
Earnings and Profitability	Return on Equity: Net Income/ Equity Return on Investment: Investment Income/ Investment Assets
Liquidity	Liquid Assets/ Current Liabilities

Present study is based on secondary data and data and information were extracted from Annual Reports of the concerned private life insurance companies and IRDA, IRDA Journals, Daily papers and government reports relating to the issues under study. The period of study was 10 years from 2007-08 to 2016-17.

FINANCIAL PERFORMANCE OF PRIVATE LIFE INSURANCE COMPANIES

Capital Adequacy Ratio: Share Capital/ Total Assets

Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC	0.0954	0.0666	0.0338	0.0242	0.0207	0.0186	0.0165	0.0135	0.0120	0.0098
BA LIC	0.0106	0.0084	0.0044	0.0037	0.0037	0.0038	0.0037	0.0033	0.0033	0.0029
BS LIC	0.1800	0.1899	0.1164	0.0958	0.0893	0.0826	0.0740	0.0612	0.0596	0.0528
HDFCS LIC	0.1288	0.1510	0.0919	0.0715	0.0590	0.0475	0.0381	0.0288	0.0260	0.0210
ICICIP LIC	0.0416	0.0476	0.0246	0.0207	0.0200	0.0190	0.0174	0.0142	0.0137	0.0115

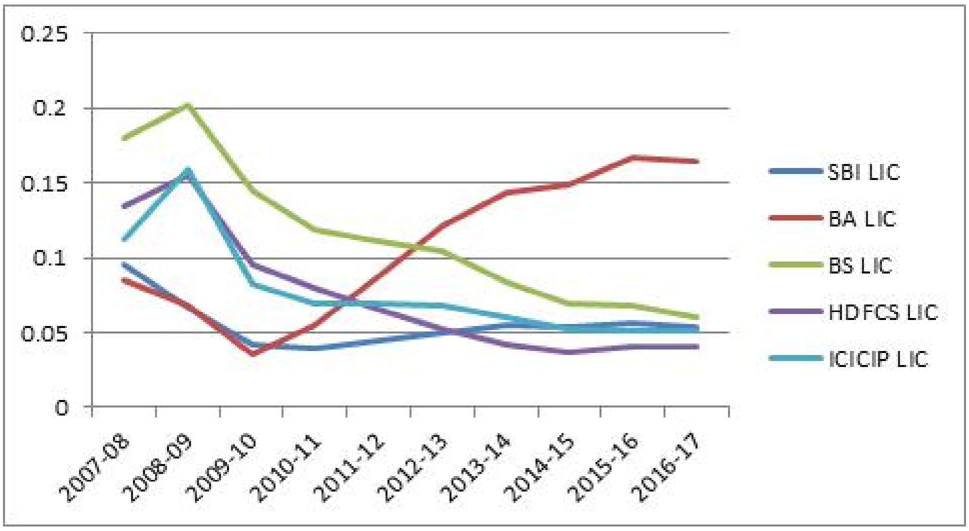


One of the key indicators of financial soundness of an insurance company is Capital Adequacy ratio. Capital is seen as a bolster to protect insured and to promote the stability and efficiency of financial system. It also indicates whether the insurance company has enough capital to absorb losses arising from claims. For the purpose of calculation of capital adequacy of companies under study, the ratio Share Capital to Total Assets is used. This ratio indicates the proportion of capital in the total assets of the companies, growth in assets of the business and how efficiently the capital has been invested to create assets. Lower ratio is preferred to higher one, as it indicates the greater assets base of the company; where as higher ratio indicates high reliance on capital & inefficient use of capital to create assets. The companies under study are revealing quite satisfactory ratio, except with some fluctuations. Bajaj Allianz is showing strong asset base as it has lowest average ratio followed by ICICI, SBI, HDFC and Birla Sun life showing comparatively great capital base i.e. average ratio is higher.

The analysis reveals that the asset base of all the companies has been increasing over the period and capital levels in relation to assets are relatively smaller. This indicates efficient employment of capital to create a strong asset base.

Asset Quality Ratio: Equities/ Total assets

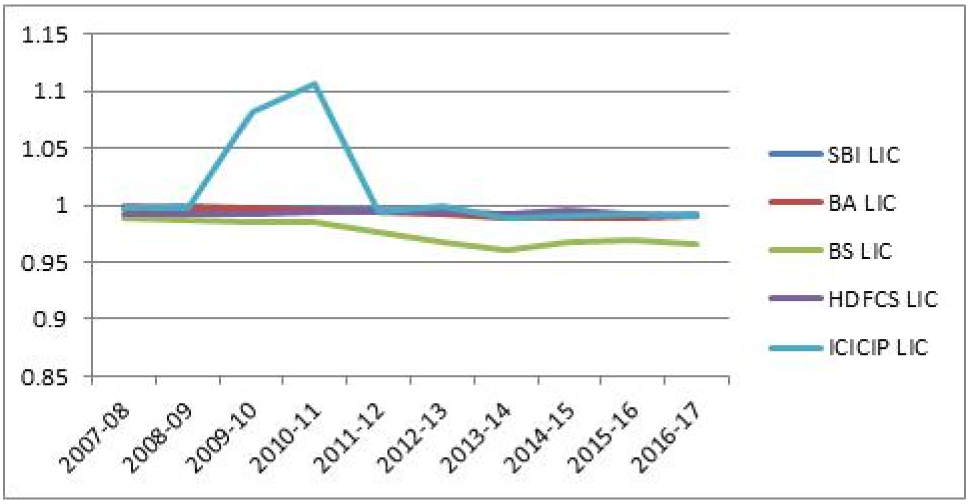
Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC	0.0961	0.0666	0.0428	0.0395	0.0447	0.0504	0.0551	0.0545	0.0567	0.0543
BA LIC	0.0853	0.0678	0.0355	0.0558	0.0876	0.1215	0.1440	0.1491	0.1667	0.1640
BS LIC	0.1800	0.2020	0.1448	0.1192	0.1111	0.1044	0.0844	0.0698	0.0680	0.0603
HDFCS LIC	0.1344	0.1550	0.0954	0.0794	0.0654	0.0525	0.0423	0.0374	0.0412	0.0404
ICICIP LIC	0.1121	0.1593	0.0824	0.0696	0.0692	0.0682	0.0608	0.0523	0.0508	0.0514



Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The primary factor effecting overall asset quality is the quality of the real estate investment and the credit administration program. Ratio of equities to total assets has been used to assess the asset quality ratio in the present study. Lower ratio may be preferred to higher one, considering that higher ratio indicates large amount of equity held for the large amount of NPAs in the total gross assets. The companies under study are revealing quite satisfactory ratio, except with some fluctuations. Bajaj Allianz is showing strong asset base as it has lowest average ratio followed by ICICI, SBI, HDFC and Birla Sun life showing comparatively great capital base i.e. average ratio is higher. Asset quality ratios of companies chosen for study are pretty sound because all the companies are recording downward Asset quality ratio. Asset class has been one of the key problems in insurance failure in some countries, but in India, the insurance companies revealing good assets as they are controlled by IRDA regulations.

Re-insurance and Actuarial issues Ratio: Net Premium/ Gross Premium

Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC	0.9981	0.9987	0.9977	0.9972	0.9960	0.9935	0.9924	0.9932	0.9899	0.9923
BA LIC	0.9986	0.9978	0.9975	0.9964	0.9933	0.9916	0.9885	0.9885	0.9889	0.9901
BS LIC	0.9895	0.9877	0.9854	0.9855	0.9766	0.9685	0.9611	0.9685	0.9699	0.9667
HDFCS LIC	0.9916	0.9917	0.9929	0.9945	0.9949	0.9943	0.9928	0.9955	0.9918	0.9912
ICICIP LIC	0.9982	0.9975	1.0824	1.1064	0.9933	0.0991	0.9883	0.9905	0.9914	0.9911

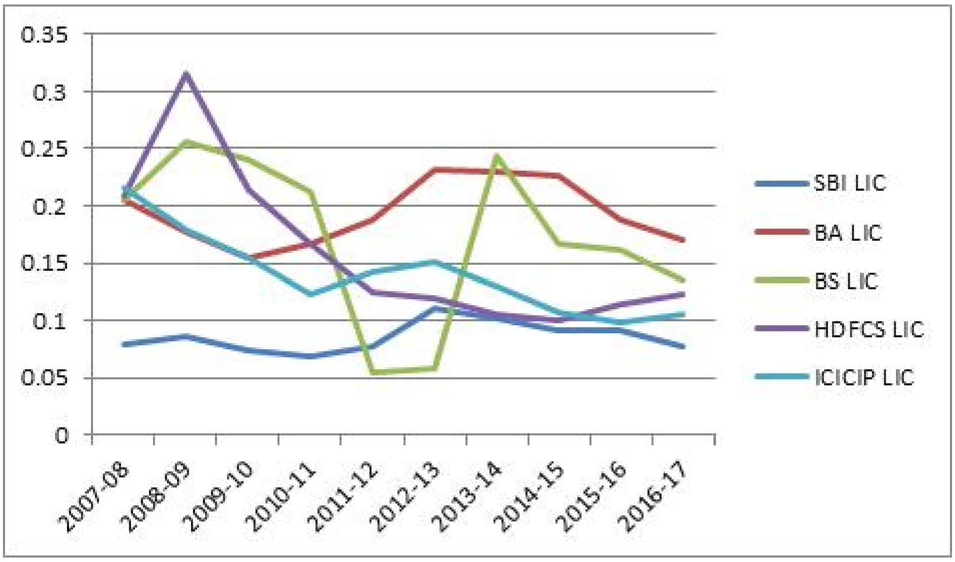


Reinsurance and Actuarial issue ratios reflect the overall underwriting strategy of the insurer and depict what proportion of risk is retained and what proportion of risk is passed on to the reinsurers and indicates the risk bearing capacity of the country's insurance sector. Risk retention ratio is used to assessing the same. If the insurer relies on reinsurance to a greater extent, it is critical that the financial condition of its reinsurers is examined. Higher ratio may be preferred to higher one, considering that the company retained the risk at its own hand and it does not rely on reinsurance. Companies under study are considerably retaining the risk and only an insignificant portion of risk is passed to reinsurers which is witnessed by the above table (i.e. average ratio ranging from 92.38% - 99.49%)

From the above discussion, it is clear that the life insurers prefer retaining the risk at their own destiny to transferring the risk onto the reinsurers so as to boost up their profits by reducing the transaction costs and sharing of premium income with reinsurers.

Management Soundness Ratio: Operating Expenses/Gross Premium

Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC	0.0795	0.0860	0.0745	0.0684	0.0780	0.1101	0.1028	0.0915	0.0921	0.0783
BA LIC	0.2061	0.1766	0.1551	0.1672	0.1879	0.2322	0.2304	0.2256	0.1880	0.1708
BS LIC	0.2059	0.2565	0.2410	0.2120	0.0553	0.0576	0.2433	0.1664	0.1621	0.1345
HDFCS LIC	0.2085	0.3163	0.2138	0.1661	0.1245	0.1187	0.1062	0.1004	0.1147	0.1227
ICICIP LIC	0.2153	0.1783	0.1554	0.1223	0.1429	0.1506	0.1301	0.1079	0.0985	0.1054



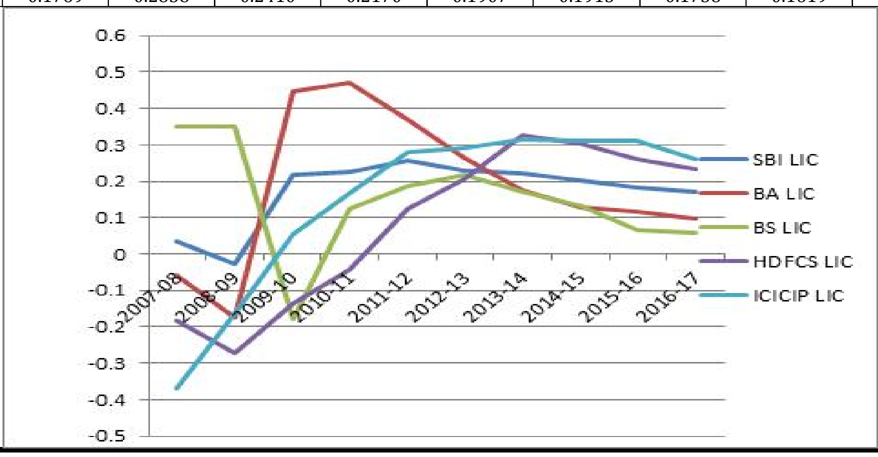
This ratio indicates the operational efficiency of life insurers and also reflects the cost efficiency of the business, which ultimately reflects the efficiency of decisions regarding proper utilisation of funds. Efficiency in management of operations is crucial for sound financial performance of insurance companies. It is difficult to find any quantitative measure of management efficiency. The indicator prescribed in present study is operating expenses to gross premium. The ratio reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness. Lower the ratio is considered as better one as it indicates highest gross premium income which reflects overall volume of business activity of insurance companies. The study reflects that all the companies under study are showing lower ratio ranged from 0.0861 to 0.3970 and it indicates that companies are well managed. SBI discloses least average ratio, which in turn indicates high managerial efficiency. Analysis of the study depicts that no company has achieved constant improvement in managerial effectiveness and companies recorded fluctuations in expenses to volume of their business activity.

EARNINGS AND PROFITABILITY RATIO

1. Return on Equity: Net Income/ Equity

2. Return on Investment: Investment Income/Investment Assets

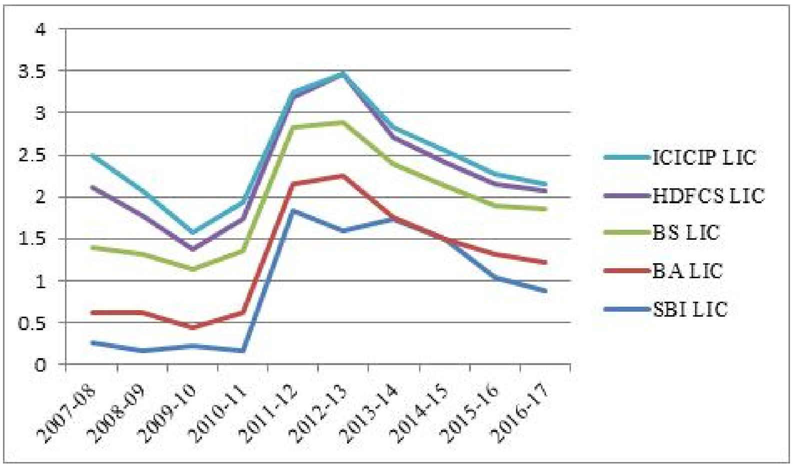
Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC - 1	0.0342	-0.0263	0.2185	0.2248	0.2578	0.2296	0.2214	0.2030	0.1819	0.1719
2	0.0583	0.0719	0.0676	0.0789	0.1038	0.1052	0.1107	0.1070	0.1061	0.1059
BA LIC - 1	-0.0584	-0.1767	0.4479	0.4699	0.3683	0.2654	0.1745	0.1298	0.1152	0.0987
2	0.1041	0.1609	0.1485	0.1728	0.1463	0.1313	0.1132	0.0975	0.0983	0.0914
BS LIC - 1	0.3494	0.3512	-0.1778	0.1245	0.1881	0.2175	0.1709	0.1316	0.0645	0.0566
2	1.2468	0.4309	0.3532	0.3513	0.3482	0.3361	0.3102	0.2592	0.2370	0.1993
HDFCS LIC - 1	-0.1836	-0.2729	-0.1348	-0.0447	0.1226	0.2048	0.3277	0.3031	0.2591	0.2324
2	0.1095	0.1384	0.1300	0.1591	0.1515	0.1580	0.1503	0.1361	0.1276	0.1121
ICICIP LIC - 1	-0.3695	-0.1631	0.0539	0.1684	0.2795	0.2916	0.3143	0.3103	0.3100	0.2625
2	0.1769	0.2858	0.2410	0.2170	0.1907	0.1913	0.1738	0.1619	0.1517	0.1356



Earnings are the key and perhaps the only long term source of capital. Therefore, the main objective of every business is to earn profits. A business must be able to earn adequate profits in relation to the risk and capital invested in it. The efficiency and the success of a business can be measured with the help of profitability ratios. Low profitability may be the gesture of fundamental problems of the insurers and may be considered as a leading indicator for solvency problems. For assessing the earnings and profitability, two prescribed ratios namely, ROE and ROI are referred in the study. Return on Equity is the measure of return to shareholders and Investment income ratio quantifies the income earned on investments. Higher ROE ratio reflects more profitability and higher ROI indicates effectiveness of investment policies of insurance companies. Table shows that ratio of returns to equity varies from year to year. Companies neither show constant improvement nor decreasing trend in the return to shareholders. Return on investment ratio shows variations in investment income from year to year, however it shows a satisfactory performance of companies. Birla Sun life reveals high performance in investment income as its ROI ratio stood at 0.4072. It is concluded by the study that no company achieved a constant growth in ROE and ROI.

Liquidity Ratio: Liquid Assets/ Current Liabilities

Company	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
SBI LIC	0.2640	0.1678	0.2250	0.1557	1.8374	1.5901	1.7263	1.4932	1.0456	0.8791
BA LIC	0.3642	0.4412	0.2079	0.4615	0.3149	0.6708	0.0186	0.0104	0.2729	0.3411
BS LIC	0.7661	0.7014	0.7023	0.7349	0.6698	0.6348	0.6520	0.6325	0.5821	0.6423
HDFCS LIC	0.7188	0.4550	0.2427	0.3823	0.3650	0.5721	0.3103	0.2813	0.2574	0.2111
ICICIP LIC	0.3834	0.3148	0.1943	0.2078	0.0643	0.0042	0.1204	0.1437	0.1099	0.0759



This ratio indicates whether the firm is in a position to pay its short term obligations within a month or immediately. As such, the ratio is calculated by dividing liquid assets by current liabilities. Liquid assets thus include those assets which will yield cash very shortly. The insurers need to plan their liquidity carefully since the frequency, severity and timing of insurance claims or benefits are unsure. Above table depicts that SBI enjoys the status of highly liquid company with an average liquidity ratio of 93.48% and the ICICI is having a deflated ratio of 16.19%. It has been concluded that there is no consistency in liquidity position of the companies under study.

CONCLUSION

Private insurance companies created stiff competition to LICI by launching many innovations in terms of products, market channels and advertisement of products and through agent training and customer services. On this background, this paper intends to analyse the financial soundness and performance of private life insurance companies in the light of CARAMEL parameters. From the study it is clear that Indian private life insurance companies are satisfactorily financially sound on the whole. However the researcher observed strange weaknesses and believes that it is due to the companies have given excessive attention on innovations in products and marketing to increase the premium without a proportionate designating the funds towards risk management. Most of the private life insurance companies are incurring high rising costs due to huge commission expenses, have relatively inadequate capital position and no consistency in liquidity position Therefore it is necessary for them to cut their operating costs, improve their actuarial efficiency, liquidity position and long term solvency position.

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