

A COMPARATIVE STUDY ON PROFITABILITY AND LONG-TERM SOUNDNESS OF SELECTED PRIVATE LIFE INSURANCE COMPANIES IN INDIA

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Abstract

The life insurance industry has gained a weighty size after the privatization of the sector in August 2000. Private life insurance companies have remarkably done their job well and established themselves in the sector. Present research work is an attempt to compare the profitability and long-term soundness of three major private life insurance companies which are having average 50% market share (on the basis of gross direct premium) of the total market share (on the basis of gross direct premium) of all private life insurance companies. The study concluded that as far as profitability is concerned HDFC LIFE is generating good returns in terms of total income, shareholders' funds and total assets. Proprietary ratio, total liabilities to total assets ratio and policyholders' liabilities to total assets ratio indicates that SBI LIFE has maintained adequate assets management strategy. It lifts the long-term soundness of SBI LIFE.

Keywords: Life insurance, Ratio analysis, Profitability, Long-term soundness.

1. INTRODUCTION

In April 2000 Insurance Regulatory and Development Authority of India was established to regulate and develop the insurance sector. In August 2000 IRDAI opened the life insurance sector for private players. This becomes a key milestone in the life insurance sector. At present twenty-three private life insurance companies functioning in India. These companies have captured almost 36% of the market share from the Life Insurance Corporation of India during the last twenty years. Evaluation of profitability and long-term soundness of these companies is the need of the moment. So, this research work is an attempt to contribute in this regard.

2. REVIEW OF LITERATURE

Pragati and Monica made evaluation of financial performance of selected private general insurance companies in India using earning and profitability parameters of CAMEL model. Claim incurred ratio, expense ratio, combined ratio, underwriting result ratio and investment income ratio have been calculated and one-way ANOVA used. The results of the study suggest that private general insurance companies should focus more on the reduction of expenses and increase investment income. (Monica, 2017)

Rakesh and Shilpa made a study on financial performance of the Life Insurance Corporation of India. Various parameters like total claims, commission expense, operating expense, shareholders' investments and policyholders' investments have been taken into consideration. A T-test has been used to validate the hypothesis. The results of the study concluded that there is no major change in the performance of the Life Insurance Corporation of India during the study period. Life Insurance Corporation is creating value for its policyholders. (Shilpa, 2015)

Ketan Popat made a comparative study on financial soundness and liquidity analysis of the selected public sector and selected private sector non-life insurance companies in India. Return on net worth and current ratio have been calculated and one-way ANOVA has been done. The results show that selected all non-life insurance companies have equal return on net worth ratio and current ratio. (Popat, 2014)

Sonal Nena made a performance evaluation of the Life Insurance Corporation of India. Major components of expenses of Life Insurance Corporation of India have been classified into claims, commission expense, operating expense, shareholders' investments and policyholders' investments. Further ANOVA test has been used to verify that there is no significant difference in components of expenses of Life Insurance Corporation of India. The results show a consistent increase in the business of LIC. The study further suggests that to sustain its income, LIC has to control its operating expenses. (Nena, 2013)

Ahmed and Bhavika made an analytical study on the profitability and liquidity positions of selected private life insurance companies in India. Gross profit margin ratio, net profit margin ratio, return on total assets ratio, current ratio and the quick ratio have been calculated and the T-test has been used for the research work. The results show that there is no significant difference in gross profit margin ratio, net profit margin ratio, return on total assets ratio, current ratio and a quick ratio of SBI Life Insurance Company and HDFC Life Insurance Company. (Bhavika, 2021)

The present research work is an attempt to fill the gap by comparing selected private life insurance companies in India in terms of profitability and long-term soundness.

3. RESEARCH METHODOLOGY

3.1 INTRODUCTION:

Research Methodology is a framework of a research effort. It specifies how research work has been done.

3.2 RESEARCH STATEMENT:

The research statement studied is termed "A Comparative Study on Profitability and Long-term soundness of Selected Private Life Insurance Companies in India."

3.3 RESEARCH DESIGN:

Research Design answers the questions regarding sample selection, data collection and data analysis. It demonstrates the most significant part of the research.

3.3.1 OBJECTIVE OF THE STUDY:

The objectives of the study are mentioned below.

1. To compare the profitability of selected private life insurance companies in India.
2. To compare the long-term soundness of selected private life insurance companies in India.

3.3.2 SAMPLE SELECTION:

At present twenty-three private life insurance companies functioning in India. For the present research work, a convenient sampling method has been adopted and three private life insurance companies have been selected. These three companies are having average 50% market share of the total market share (on the basis of gross direct premium) of all private life insurance companies. According to this criterion following companies have been selected for the study.

SELECTED PRIVATE LIFE INSURANCE COMPANIES IN INDIA

Sr. No.	Name of the Insurance Company
1	HDFC Life Insurance Company Limited
2	ICICI Prudential Life Insurance Company Limited
3	SBI Life Insurance Company Limited

3.3.3 DATA COLLECTION:

The current research is constructed on secondary data which has been gathered from yearly reports of selected private life insurance companies. Other data has been collected from journals, articles, various reports, books and different browsers and portals.

3.3.4 TOOLS AND METHODS OF DATA ANALYSIS:

The current research work is associated with the calculation of different ratios.

3.3.5 SIGNIFICANCE OF THE STUDY:

The current research work compares the profitability and long-term soundness of selected private life insurance companies in India. It gives an idea about the significant financial aspects of a life insurance company.

3.3.6 SCOPE OF THE STUDY:

The span of this research work is the comparison of selected three private life insurance companies in India. Similar studies in this area may be conducted for private life insurance companies of other countries.

3.3.7 LIMITATIONS OF THE STUDY:

Following limitations should be taken into consideration.

1. The research study has focussed on the comparison of only three private life insurance companies in India.
2. The research study has focussed on the comparison of only profitability and long-term soundness of selected private life insurance companies in India.

4. DATA ANALYSIS

To compare the profitability and long-term soundness of selected private life insurance companies, below mentioned ratios have been taken into consideration.

PARAMETERS	RATIO	FORMULA	INDICATES
Profitability	Return on total income	$= \frac{\text{Profit after Tax}}{\text{Total Income}}$	Profitability in terms of total income
	Return on shareholders' funds	$= \frac{\text{Profit after Tax}}{\text{Shareholders' Funds}}$	Profitability in terms of shareholders' funds
	Return on total assets	$= \frac{\text{Profit after Tax}}{\text{Total Assets}}$	Profitability in terms of total assets
Long-term soundness	Proprietary ratio	$= \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$	Long-term soundness in terms of total assets financed by shareholders' funds
	Total liabilities to total assets ratio	$= \frac{\text{Total Liabilities}}{\text{Total Assets}}$	Long-term soundness in terms of total assets financed by total liabilities
	Policyholders' liabilities to total assets ratio	$= \frac{\text{Policyholders' Liabilities}}{\text{Total Assets}}$	Long-term soundness in terms of the ability of an insurance company to pay off its current and future policy liabilities.

(A) Profitability Ratios:

RATIO	RETURN ON TOTAL INCOME			RETURN ON SHAREHOLDERS' FUNDS			RETURN ON TOTAL ASSETS		
	HDFC LIFE	ICICI LIFE	SBI LIFE	HDFC LIFE	ICICI LIFE	SBI LIFE	HDFC LIFE	ICICI LIFE	SBI LIFE
2010-11	-0.89	3.34	2.29	-20.60	38.74	22.48	-0.35	1.17	0.89
2011-12	2.59	9.87	4.03	31.69	46.06	25.78	0.80	1.93	1.15
2012-13	3.25	7.46	4.17	33.17	37.73	22.96	1.08	1.99	1.16
2013-14	4.22	7.14	4.29	36.65	35.65	22.14	1.39	1.92	1.22
2014-15	2.88	4.75	3.52	30.31	31.03	20.30	1.13	1.61	1.11
2015-16	4.49	7.92	4.45	25.91	31.00	18.19	1.07	1.58	1.03
2016-17	2.90	4.44	3.12	23.24	26.25	17.19	0.94	1.35	0.93
2017-18	3.43	4.17	3.37	23.35	23.53	17.62	1.00	1.14	0.95
2018-19	3.31	2.75	2.97	22.58	16.19	17.51	0.98	0.70	0.90
2019-20	4.37	5.06	3.24	19.05	14.79	16.27	0.98	0.68	0.86

The above table discloses that the return on total income ratio of selected all private life insurance companies increased during the study period. In 2019-20 return on total income ratio of ICICI PRUDENTIAL LIFE is higher at 5.06 % than HDFC LIFE and SBI LIFE. The return on shareholders' funds ratio of selected all private life insurance companies decreased during the study period. (Return on shareholders' funds ratio of HDFC LIFE for 2010-11 has been considered as an exception) In 2019-20 return on shareholders' funds ratio of HDFC LIFE is higher at 19.05 % than ICICI PRUDENTIAL LIFE and SBI LIFE. The return on total assets ratio of HDFC LIFE has increased during the study period. In the case of ICICI PRUDENTIAL LIFE and SBI LIFE, it decreased during the study period. In 2019-20 return on total assets ratio of HDFC LIFE is higher at 0.98 % than ICICI PRUDENTIAL LIFE and SBI LIFE.

(B) Long-term soundness Ratios:

RATIO	PROPRIETARY RATIO			TOTAL LIABILITIES TO TOTAL ASSETS RATIO			POLICYHOLDERS' LIABILITIES TO TOTAL ASSETS RATIO		
	HDFC LIFE	ICICI LIFE	SBI LIFE	HDFC LIFE	ICICI LIFE	SBI LIFE	HDFC LIFE	ICICI LIFE	SBI LIFE
2010-	1.72	3.02	3.95	98.28	96.98	96.05	93.55	94.67	91.88

11									
2011-12	2.53	4.19	4.47	97.47	95.81	95.53	92.99	93.34	92.79
2012-13	3.24	5.27	5.04	96.76	94.73	94.96	93.01	92.05	92.30
2013-14	3.78	5.39	5.51	96.22	94.61	94.49	93.43	92.19	91.81
2014-15	3.74	5.20	5.45	96.26	94.80	94.55	93.28	92.67	92.01
2015-16	4.12	5.08	5.67	95.88	94.92	94.33	92.54	92.82	91.09
2016-17	4.04	5.14	5.43	95.96	94.86	94.57	91.95	92.59	91.62
2017-18	4.30	4.85	5.36	95.70	95.15	94.64	91.50	92.71	91.71
2018-19	4.35	4.32	5.16	95.65	95.68	94.84	91.71	93.43	92.29
2019-20	5.15	4.62	5.28	94.85	95.38	94.72	91.09	93.24	92.89

The above table discloses that the proprietary ratio of selected all private life insurance companies increased during the study period. In 2019-20 proprietary ratio of SBI LIFE is higher at 5.28 % than HDFC LIFE and ICICI PRUDENTIAL LIFE. The total liabilities to total assets ratio of selected all private life insurance companies decreased during the study period. In 2019-20 total liabilities to total assets ratio of SBI LIFE is lower at 94.72 % than HDFC LIFE and ICICI PRUDENTIAL LIFE. Policyholders' liabilities to total assets ratio of HDFC LIFE and ICICI PRUDENTIAL LIFE decreased during the study period. In the case of SBI LIFE, it increased during the study period. In 2019-20 policyholders' liabilities to total assets ratio of HDFC LIFE is lower at 91.09 % than ICICI PRUDENTIAL LIFE and SBI LIFE.

5. FINDINGS, RECOMMENDATIONS AND SUGGESTIONS

(A) Profitability Ratios:

The return on total income ratio of SBI LIFE is 3.24% in 2019-20, which is lower than HDFC LIFE and ICICI PRUDENTIAL LIFE. To improve this ratio, profit after tax should be increased. SBI LIFE should take steps to curtail major expenses like commission expenses and operating expenses.

The return on shareholders' funds ratio of ICICI PRUDENTIAL LIFE is 14.79% in 2019-20, which is lower than HDFC LIFE and SBI LIFE. The return on total income ratio of ICICI PRUDENTIAL LIFE is 5.06% in 2019-20, which notifies that ICICI PRUDENTIAL LIFE has been earning sufficient profit after tax in terms of total income. So, to improve this ratio ICICI PRUDENTIAL LIFE should take necessary steps to decrease shareholders' funds. By doing that ICICI PRUDENTIAL LIFE can provide good returns to the shareholders.

The return on total assets ratio of ICICI PRUDENTIAL LIFE is 0.68% in 2019-20, which is lower than HDFC LIFE and SBI LIFE. The return on total income ratio of ICICI PRUDENTIAL LIFE is 5.06% in 2019-20, which notifies that ICICI PRUDENTIAL LIFE has been earning sufficient profit after tax in terms of total income. So, to improve this ratio ICICI PRUDENTIAL LIFE should take necessary steps to decrease total assets. To decrease total assets fixed assets and loans against policy should be reduced.

(B) Long-term soundness Ratios:

The proprietary ratio of ICICI PRUDENTIAL LIFE is 4.62% in 2019-20, which is lower than HDFC LIFE and SBI LIFE. The return on shareholders' funds ratio of ICICI PRUDENTIAL LIFE is 14.79% in 2019-20, which notifies that ICICI PRUDENTIAL LIFE has more shareholders' funds in terms of profit after tax. The return on total assets ratio of ICICI PRUDENTIAL LIFE is 0.68% in 2019-20, which notifies that ICICI PRUDENTIAL LIFE has more total assets in terms of profit after tax. It is clear from the above ratios that ICICI PRUDENTIAL LIFE has to decrease total assets to improve the proprietary ratio.

The total liabilities to total assets ratio of ICICI PRUDENTIAL LIFE is 95.38% in 2019-20, which is higher than HDFC LIFE and SBI LIFE. Policyholders' liabilities to total assets ratio of ICICI PRUDENTIAL LIFE is 93.24% in 2019-20, which is also higher than HDFC LIFE and SBI LIFE. To improve these ratios, ICICI PRUDENTIAL LIFE should decrease total liabilities. For that, policy liabilities and current liabilities should be decreased.

It could be concluded that as far as profitability is concerned HDFC LIFE is generating good returns in terms of total income, shareholders' funds and total assets compared to ICICI PRUDENTIAL LIFE and SBI LIFE.

The proprietary ratio, total liabilities to total assets ratio and policyholders' liabilities to total assets ratio indicates that SBI LIFE has maintained a better assets management strategy than HDFC LIFE and ICICI PRUDENTIAL LIFE. It lifts the long-term soundness of SBI LIFE compared to HDFC LIFE and ICICI PRUDENTIAL LIFE.

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