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ANALYSIS OF FINANCIAL PERFORMANCE OF GENERAL INSURANCE COMPANIES UNDER STUDY

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ABSTRACT

Insurance is a co-operative device to share the burden of risk, such as the death of head of family or on happening of marine perils or loss of fire. Over the last few years, Indian General Insurance has witnessed tremendous growth due to the opening of insurance market for the private companies, quick settlement insurance claims, launch of innovative general insurance products, increase in insurance premium, discounts in insurance products. The purpose of this paper is to analysis the financial performance of the private general insurance companies under study.

KEYWORDS: *Insurance, General Insurance Companies, Risk, IRDA.*

Introduction

Post liberalization, the insurance industry in India has recorded significant growth. The Indian insurance industry is expected to grow to US$ 280 billion by FY2020, owing to the solid economic growth and higher personal disposable income in the country. The insurance industry of India consists of 63 insurance companies of which 24 are in life insurance business and 39 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance. The industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. Government has approved the ordinance to increase Foreign Direct Investment (FDI) limit in Insurance sector from 26 per cent to 49 per cent which would further help attract investments in the sector.

The Insurance Regulatory and Development Authority (IRDA) recently allowed life insurance companies that have completed 10 years of operations to raise capital through Initial Public Offerings (IPOs). Insurance products are also covered under the Exempt –Exempt Exempt (EEE) method of taxation, which translates to an effective tax benefit of approximately 30 per cent on select investments. In 2015, Government introduced Pradhan Mantri Suraksha Bima Yojna (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJBY) to bring more people under the insurance cover.

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Objective of the Study

To study the comparative profitability analysis of private general insurance.

Study Period

The period covered is from the year 2010-11 to 2017-18.

Sample Size

Following 3 private general insurance companies according to market share In Indian insurance sector have been taken under study:

- ICICI Lombard General Insurance Co. Ltd
- Bajaj Allianz General Insurance Co. Ltd
- Tata AIG General Insurance Co. Ltd.

Collection of Data

The present study is based on secondary data which have been collected through published Annual Reports and accounts of general insurance companies selected for study. Various journals, periodicals, newspapers, books and various publications of general insurance companies are used.

Tools and Techniques

In this study, for analysis and interpretation of data, various techniques like Ratio Analysis as a technique of financial management.

Statistical Techniques

- Mean: Average
- S.D. : Standard Deviation
- C.V. : Co-efficient of Variation

Test of Hypothesis

- F-test

Hypothesis of Study

Hypothesis is the pre assumption of a research which is assumed at the very outset of the research. The present study is based on the following hypothesis:

- **Null Hypothesis (H_{o1}):** There is no significant difference in profitability between the general insurance companies under study.
- **Null Hypothesis (H_{o2}):** The year-wise difference in the profitability between the general insurance companies under study is not significant.

Inter-Firm Comparison of General Insurance Companies Under Study

Operating Profit Ratio

The operating profit refers to the pure operating profit of a firm i.e., the profit generated by the operation of the business concern and hence, it is calculated before considering any financial charge (such as inter payment), non-operating income/loss and tax liability etc. The operating profit is also termed as Earnings before Interest and Taxes (EBIT). The operating profit ratio may be calculated as follows:

$$\textbf{Operating profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}}$$

The operating profit ratio of the general insurance companies under study has been shown in the following tables.

ICICI Lombard General Insurance Co. Ltd: The operating profit ratio of ICICI Lombard General Insurance Co. Ltd has been shown in the following Table 1

Table 1: Operating Profit Ratio of ICICI Lombard General Ins. Co. Ltd (From 2010-11 to 2017-18)

Year	Operating Profit (Rs. in Crore)	Sales (Rs. in Crore)	Ratio (in %)
2010-11	(16.65)	551.27	(3.02)
2011-12	(71.04)	708.24	(10.03)
2012-13	331.51	675.17	49.10
2013-14	523.14	556.31	94.04
2014-15	674.37	742.44	90.83
2015-16	690.08	724.22	95.28
2016-17	919.81	1018.49	90.31
2017-18	1193.02	1337.75	89.18
Mean	530.53	789.24	61.96
S.D.	437.12	264.65	44.86
C.V. (%)	82.39	33.53	72.40

Source: Computed from Annual Reports and Accounts of the General Insurance Company under study from 2010-11 to 2017-18.

It is clear from the Table 1 that operating profit had a continuous increasing trend during the period under study from 2010-11 to 2017-18 except in the year 2011-12. Sales of the company are showing a fluctuating trend during this period. The operating profit ratio of ICICI Lombard General Insurance registered a fluctuating trend throughout the period under study. The operating profit ratio varied within the range from (10.03) percent in 2011-12 to 95.28 percent in 2015-16. The operating profit ratio during 2010-11 was (3.02) i.e., showing loss which increased to (10.03) percent in 2011-12. Then, the ratio became positive and increased to 49.10 percent in 2012-13 and reached to 94.04 percent in 2013-14, which decreased to 90.83 percent in 2014-15, but the operating profit ratio increased sharply to 95.28 percent in 2015-16 which decreased to 90.31 percent in 2016-17 and further came down to 89.18 percent in the final year 2017-18. The average of operating profit ratio was 61.96 percent which can be regarded satisfactory. Fluctuations remained significant which shows inconsistency of the business.

Bajaj Allianz General Insurance Co. Ltd: The operating profit ratio of Bajaj Allianz General Insurance has been shown in the following Table 2

Table 2: Operating Profit Ratio of Bajaj Allianz General Ins. Co. Ltd.

(From 2010-11 to 2017-18)

Year	Operating Profit (Rs. in Crore)	Sales (Rs. in Crore)	Ratio (in %)
2010-11	(2.49)	254.28	(0.98)
2011-12	12.28	299.57	4.10
2012-13	344.74	474.39	72.67
2013-14	578.19	593.58	97.41
2014-15	771.10	784.66	98.27
2015-16	759.74	787.40	96.49
2016-17	1062.21	1098.05	96.74
2017-18	1335.99	1380.42	96.78
Mean	607.72	709.04	70.18
S.D.	475.65	388.55	43.21
C.V. (%)	78.27	54.80	61.57

Source: Computed from Annual Reports and Accounts of General Insurance Company under study from 2010-11 to 2017-18.

From Table 2, it can be seen that operating profit of Bajaj Allianz had an increasing trend during the period under study from 2010-11 to 2017-18 except in the year 2015-16.Sales of the company showing a continuous increasing trend during the period under study. The operating profit ratio of Bajaj Allianz General Insurance registered an increasing trend throughout the period of study except 2015-16. The operating profit ratio varied within the range from (0.98) percent in 2010-11 to 98.27 percent in 2014-15. The operating profit ratio during 2010-11 was (0.98) percent which increased to 4.10 percent in 2011-12, increased sharply to 72.67 in 2012-13, 97.41 percent in 2013-14 and reached up to 98.27 percent (highest) in 2014-15, then it decreased to 96.49 percent in 2015-16 but inclined to 96.74 percent in 2016-17 and reached up to 96.78 percent in the final year 2017-18. The average of operating profit ratio was 70.18 percent which can be regarded quite satisfactory. Fluctuations remained significant which should be controlled.

Tata AIG General Insurance Co. Ltd: The operating profit ratio of Tata AIG General Insurance has been shown in the following Table 3

Table 3: Operating Profit Ratio of Tata AIG General Insurance Co. Ltd.
(From 2010-11 to 2017-18)

Year	Operating Profit (Rs. in Crore)	Sales (Rs. in Crore)	Ratio (in %)
2010-11	90.40	575.46	15.71
2011-12	250.03	786.27	31.80
2012-13	250.28	643.06	38.92
2013-14	536.24	1848.58	29.01
2014-15	604.50	2012.81	30.03
2015-16	32.15	2303.68	1.40
2016-17	912.69	2706.46	33.72
2017-18	1226.69	3720.30	32.97
Mean	487.87	1824.58	26.69
S.D.	417.64	1113.00	12.20
C.V. (%)	85.60	61.00	45.69

Source: Computed from Annual Reports and Accounts of General Insurance Company under study from 2010-11 to 2017-18.

It can be seen from the Table 3 that operating profit had an increasing trend during the period under study from 2010-11 to 2017-18 except in the year 2015-16. Sales of the company are showing a continuously increasing trend except in the year 2012-13. The operating profit ratio of Tata AIG General Insurance registered a fluctuating trend throughout the period of study. The ratio varied within the range from 38.92 percent in 2012-13 to 1.40 percent in 2015-16. The operating profit ratio during 2010-11 was 15.71 percent which increased to 31.80 percent in 2011-12 and reached up to 38.92 percent in 2012-13. Then it declined to 29.01 percent in 2013-14 which increased to 30.03 percent in 2014-15 but dropped down to 1.40 percent in 2015-16. Then, it increased and reached up to 33.72 percent in 2016-17 which finally came down to 32.97 percent in the year 2017-18. The average of operating profit ratio was 26.69 percent which is low and can be regarded as unsatisfactory. Fluctuations remained significant which shows some inconsistency of the business and hence, it is suggested that the company should increase this ratio in future with consistency.

Inter-Firm Comparison

Following table shows a comparative operating profit ratio position of the general insurance companies under study.

Table 4: Operating Profit Ratio of the General Insurance Companies
(From 2010-11 to 2017-18)

(Ratio in Percentage)

Year	ICICI Lombard	Bajaj Allianz	Tata AIG
2010-11	(3.02)	(0.98)	15.71
2011-12	(10.03)	4.10	31.80
2012-13	49.10	72.67	38.92
2013-14	94.04	97.41	29.01
2014-15	90.83	98.27	30.03
2015-16	95.28	96.49	1.40
2016-17	90.31	96.74	33.72
2017-18	89.18	96.78	32.97
Average	61.96	70.18	26.69
S.D.	44.86	43.21	12.20
C.V. (%)	72.40	61.57	45.69

Source: Annual Reports & Accounts of the Companies under study for the period from 2010-11 to 2017-18.

Table 4 shows the inter-firm comparison of the operating profit ratio of the general insurance companies under study. It can be noted that the average operating profit ratio was highest for Bajaj Allianz at 70.18 percent followed by ICICI Lombard at 61.96 percent, Tata AIG at 26.69 percent which is lowest From these results, it can be suggested that Tata AIG should try to increase its operating profit ratio.On the other hand, remaining two general insurance companies under study performing well in their inter-company performances. The fluctuation was highest in Tata AIG which should be kept in control, whereas other companies having consistency in their operating profit ratio.

Test of Hypothesis: The F-test has been applied and following hypotheses have been tested-

- **Null Hypothesis (H_{o1}):** There is no significant difference in the operating profit ratio of the general insurance companies (GICs) under study.

- **Null Hypothesis (H_{o2}):** The year-wise difference in the operating profit ratio of the general insurance companies under study is not significant.

Table 5: ANOVA Table

Source	Sum	Degree of Freedom (d.f.)	Variance (Sum/d.f.)	F Ratio
Between GICs (SSC)	1275.99	(c-1)=(5-1)=4	319.00	38.81
Within Years (SSR)	89.39	(r-1)=(8-1)=7	12.77	1.55
Error	230.12	(c-1)(r-1)=28	8.22	

- **F-test Between the General Insurance Companies**

$$F = \frac{\textit{Higher Variance}}{\textit{Smaller Variance}} = \frac{319.00}{8.22} = 38.81$$

Here, V_1=4; V_2=28, table value of F at 5% level of significance = 2.71.

Decision: The null hypothesis is rejected and it may be concluded that the difference in the operating profit ratio of the general insurance companies under study is significant because the table value is less than the computed value of F.

- **F-test within the Years**

$$F = \frac{\textit{Higher Variance}}{\textit{Smaller Variance}} = \frac{12.77}{8.22} = 1.55$$

Table value of F at 5% level of significance for V_1=7 and V_2=28 is 2.36. Decision: The null hypothesis is accepted because the calculated value of F is less than the table value, hence it can be said that the year-wise difference in the operating profit ratio amongst the GICs under study is insignificant.

Suggestion

Tata AIG general insurance company has a higher fixed asset so it must be converted into current assets and maximize profits .The company should increase their operating leverage and financial leverage and it must increase the net retention ratio. Enhancing customer experience is the heart of revenue generation. Tata AIG put efforts to foster customer satisfaction. With a view to reinforce its belief of “Making good happen” for its customers and to provide the ‘Ease of doing business for them, the company should introduced a host of initiatives to improve its customer experience.

Conclusion

The future growth of the insurance sector will depend on how effectively the insurers are able to come up with product designs suitable to our context and how effectively they are able to change the perceptions of the Indian consumers and make them aware of the insurable risks. The future growth of insurance also depends on how service oriented insurers are going to be. From the analysis of operating profit ratio of the general insurance companies, it can be concluded that out of these 3 companies, only Tata AIG showed poor performance and need serious steps to improve its financial performance .Other two companies namely ICICI Lombard and Bajaj Allianz performed more or less similar way and shown strong financial performance during the period under study.

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