INTRODUCTION

1.1 Introduction

Insurance is a supportive form of distributing certain risks over a group of persons, who are exposed to it. It is a joint technique to spread the loss caused by a particular risk over a number of persons and who have agreed insure themselves against such risk. In other words, insurance is a method which provides security and fearlessness to a common person. Insurance is mean of shifting risk to insurer, in consideration of a nominal cost called ‘premium’. Insurance is an arrangement where the loss feared by a few persons is spread over a large number provides precautions for this purpose. Therefore, the function of insurance is to spread the loss over a large number of persons who have agreed to help with each other at the time of loss. But it must be clearly understood that insurance cannot stop an event to happen.

The correct facts are not available about the time and place of the foundation of insurance. The concept of insurance originated with the development of mankind. Human beings are used to take different types of risks in their daily life and they have an idea to get things insured against these risks. It is believed that insurance system has existed even during the earliest India. The tradition form of insurance is the marine insurance.

Insurance may be defined as a form of agreement between two parties where by one party (Insurer) agrees to compensate the other party (Insured) against a loss (which may or may not arise) against a payment of a consideration (Premium).

**Definition of Insurance:-**

There are two types of definition of insurance:-

1. Functional Definition

2. Contractual/Legal Definition
**Functional Definition:-**

Insurance is a co-operative device to spread loss caused by a particular risk over a large number of persons, who are exposed to a similar risk and who have agreed to insure themselves against the risk.

According to D.H. Magee “Insurance is a plan by which large number of people associate themselves and transfer to the shoulders of all, risk attached to individuals”.

According to Allan.H. Willett, “Insurance is a social device for accumulation to meet uncertain losses which are carried out through the transfer of the risks of many individuals to one person or to a group of persons.

On the basis of above definitions, it can be concluded that: -

i. Insurance is a co-operative device by which risks are distributed among a large number of persons.

ii. Insurance provides protection against uncertain events, losses and risks.

iii. Insurance is based upon the law of probability.

Insurance is plan in which losses of uncertain events are considered

**Life Insurance**

Life Insurance may be defined as a contract in which the insurer agrees to pay the insured or his nominee the assured sum of money on the happening of a specified event contingent on human life i.e, death or at the expiry of certain period in consideration of certain premium. In life insurance company pays the sum assured to the nominee of the insured in event of death. At present, life insurance enjoys maximum scope because the life is most important property of the society. The life insurance provides protection to the family head or gives adequate amount at the old age when earning capacities are reduced. The life insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the expiry of a specified period.
Meaning of Public and Private Life Insurance Companies in India

The Public Life Insurance Company of India is defined as-

“Life Insurance Corporation of India (LIC) is the largest insurance group and investment company in India. It’s a state-owned where Government of India has 100% stake”. – LIC Act 1912

The Private Life Insurance Companies of India is defined as

“The Private Life Insurance Companies in India are joint ventures between Indian groups and conglomerates and global insurance companies. The terms of the joint ventures include a majority stake holding of Indian partner in the Joint Venture” - IRDAI

History of Life Insurance in India:

Insurance Business in India was first introduced by Oriental Life Insurance Company under British rule in the year 1818. Bombay Mutual Life Assurance Society was the first Indian life Insurance Company established in the year 1870, followed by Bharat insurance company in the year 1896, Subsequently in the year 1905, United India insurance company was established in Madras followed by National Indian and National Insurance company, Hindustan co-operative Insurance company both in Calcutta in 1907.

In 1912, Life Insurance Corporation of India (LIC) Act was passed to establish LIC of India. Subsequently the LIC was nationalised in June 1956. LIC was the single life Insurer in India till 1999. LIC has 5 Zonal offices, 33 divisional offices and 212 branch offices as of now.

In 1991 the Government of India reformed the financial sector for the liberalization of Indian economy. In 1993 the Government of India setup an eight member committee, under the chairmanship of R.M.Malhotra to reform the Life Insurance business. As per the recommendations of the committee In 1999 Insurance Regulatory and Development Act was passed.
Life Insurance business was thrown open to the Private Sector From the year 2000 onwards, IRDA was milestone in Indian Life Insurance business. As of date we have 23 private life Insurance companies operating in our country.

**Registration of Insurers**

The IRDA opened up the market in August, 2000 with the invitation of applications for registration. The foreign companies were allowed ownership of upto 26 per cent. The Authority has the power to frame regulations under section 114 A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies to carry on insurance business for the protection of policyholders’ interests

Every insurer seeking to start insurance business in India has to get a certificate of registration from the IRDA. The pre-conditions for applying for registration should be within the framework of the Insurance Act of 1938, and the regulations stipulated by the IRDA from time to time. When the IRDA invited applications for registering private players, all the prudential aspects were notified within a short span of six months.

The Registration of Indian Insurance Companies Regulations, 2000 required disclosure of the way in which the prospective insurer would plan its rural business and meet its obligations towards rural, unorganized and backward sectors right at the time of requisition of application for registration.

The following are the registration requirements that an applicant is required to fulfill:

- The applicant should be a company registered under the provisions of the Indian Companies Act, 1956.
- The total equity participation of a foreign collaborator in the applicant company can’t exceed twenty-six per cent of the paid-up capital.
- The applicant can carry on any one of the business i.e. life insurance, general insurance or reinsurance. Separate companies are needed if the registration is for more than one type of insurance business.
• The name of the applicant includes the words either ‘Insurance Company’ or ‘Assurance Company’.
• The applicant must have a minimum paid-up equity capital of Rs.100 crores for doing life insurance business.
• An insurer who has been granted a certificate of registration should renew the registration before 31st December of every year.

A decade has been completed after the opening up of the insurance sector to private insurance players. The insurance playing area has been remarkably changed during this period by disturbing, to some extent, the monopolistic role of the public sector i.e. the LIC of India. Every private insurance company with a collaboration of foreign insurance major has entered into the Indian insurance market with an expectation of tapping the untapped potential of the Indian population. With the entry of private insurance players, the insurance sector has become more competitive and challenging. Further, the entry of international collaborators in the Indian market has brought a significant positive change in the way in which the insurance business is undertaken.

In a liberalized insurance market, it may be expected that the most efficient player will be the most dynamic and successful in his operations. As such, the opening up of the insurance sector for private participation has made market efficiency and successfulness of the players an important aspect of its policies. The two major challenges facing a privatized insurance player are the high incidence of taxation and the lack of trained personnel to carry out the task of doing innovative insurance business.

**Insurance Penetration and Density in India**

Two important indicators of the level of development of the insurance sector in any country are

i) Level of Insurance Penetration which is measured as the percentage of premium in Gross Domestic Product (GDP).

ii) Insurance Density Ratio where in Insurance Density is defined as the Per capita Expenditure on Insurance Premium and is directly correlated with Per Capita GDP.
Both Insurance Penetration and Density have increased significantly over the years, especially with the opening up of insurance to the private sector. The Penetration in the Life Insurance Sector increased from 2.15% in 2001 to 0.7% in 2015. This has been attributed to a slower rate of growth in Life insurance premium as compared to the rate of growth of the Indian economy. The density of insurance in India increased from 9.1% in 2001 to 55% in 2015. Insurance density is a proof for measuring the ratio of premium to total population. From the above fact of insurance density it is proved that in India still there is a scope for insurance business -Handbook on Indian Insurance Statistics 2014 -2015

Financial Performance:-

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

1.2 Review of Literature

- **Krishnamurthy et al (2005)** in the paper titled “Insurance Industry in India: Structure, Performance and Future Challenges”, has clearly explained the status and growth of Indian Insurance Industry after liberalisation and also presents future challenges and opportunities linked with the Insurance. Insurance is the backbone of country’s risk management system and influence growth of an economy in several ways. Penetration of Insurance largely depends on availability of Insurance products, insurance awareness and quality of services. The future growth of this sector will depend on how effectively the insurers are meeting the expectations of their customers and able to change the perceptions of
the Indian consumers and make them aware of the insurable risks. On the demand side, the rises in income will trigger the growth of Insurance. The process of reforms has enhanced competition provided a choice to the customers, improved the efficiency level of the Industry and obligated the insurers to provide social and rural sectors. LIC continues to remain strong in rural areas while in major urban and metros the private insurers have made their presence felt.

- **Ramanadh (2006)** in his research paper entitled “Performance Management in Insurance Corporation”. The study is done by author to know the key performance indicators and success factors for the Insurance companies. According to authors the financial performance &Non financial performance indicators of life insurance companies are Financial Performance – Net Premium Earned, Profit from underwriting activities, Investment in company’s assets and investment made outside. Non Financial Performance – Internal speed in processing proposals, Dealing with drop outs, timely reminders, market research, Employees morale, Employee and agent training, External indicators are growth in number of policies, Market share, Customer satisfaction, Growth in number of branches, Average number of policies per agent.

- **Tripathi (2009)** in his dissertation report on “A comparative analysis of LIC and Private Insurance Companies”. The main objective of the study is to compare the Performance of LIC and Private life insurance companies. The study was analytical and based on secondary data sources. Comparison between LIC and private insurers has been done on the basis of size, growth, productivity and grievances handling mechanism. The private companies are giving direct competition to LIC, LIC is a dominating player even after privatization and abundance scope of insurance expansion in the Indian market.

- **Shahid (2010)** in his research paper “Growth of LIC on India during post privatisation period” has made the attempt to examine the performance of LIC of India in this competition edge. The study was done based on secondary data related to number of offices, number of policies, premium, market share, commission expenses. Data’s were analysed using percentile method. The reveals that LIC is not having more number of branches in rural areas and have to
introduce a new product which suit the rural population, this will help the LIC to increase their business.

- **Rajagopalan (2011)** “life insurance in India – Strategic shifts in a Dynamic Industry” the study was done to analyse the performance of life insurance after liberalisation. The secondary data related to market share, New business premium of insurers, Distribution efficiency, flexible product strategies were analysed. The study revealed that Indian insurance industry has wide opportunity to increase its business and LIC still holds a majority of market share.

- **Shilpa (2011)** in her working paper “Competition in life insurance sector of India” has analysed the competition between LIC and private life insurance company in India. Using secondary data related to market share, number of branches, no. of insurer and it was found out that LIC has nearly 70% of the market share since customer believe in sovereign guarantee with LIC.

- **Sonika (2011)** in their research paper “Life Insurance Industry in India – Current Scenario”. The research paper attempt to study recent life insurance scenario. The secondary data was analysed related to growth of number individual of offices of life insurers, growth in number of products, growth of number of individual agents working in life insurance industry, growth of life insurance business and premium income, lapse/forfeiture ratio and settlement of death claims in Indian life insurance industry. The study reveals that in all the above criteria LIC is performing better than private life insurer.

- **Alamelu (2012)** in her research paper titled “Evaluation of Financial Soundness of Life Insurance Companies in India” has analysed the financial performance of both public and private life insurance companies in India using capital adequacy, liquidity ratios and it was found that LIC is financial sound compare to Private Life Insurance Companies.

- **Ashok (2012)** in his research paper titled “A Comparative study of performance LIC of India and Private life Insurers”. In this study the performance of LIC and Private life Insurance is analysed using New policies used, Premium Underwritten, Market share, Number of Branches and number of Individual
agents parameters. The study revealed that the performance of private life insurance companies are increasing which is a alarm to the LIC.

- **Charumathi (2012)** in his research paper “On the Determinants of Profitability of Indian Life Insurers – An Empirical Study”. The present study tried a model the factors determining the profitability of life insurers operating in India taking return on assets as a dependent variable. For this purpose firm specific characteristic such as leverage, Size, premium growth, liquidity, underwriting risk and equity capital are regressed against Return on assets. The study revealed that profitability of life insurers is positively and significantly influenced by the size and liquidity. The leverage, premium growth and logarithm of equity capital negatively and significantly influenced the profitability of Indian life insurers.

- **Jaydeb (2012)** in his research paper titled “comparative study between public sector life Insurance companies and private sector life Insurance companies in India”. The objective of the study is that the performance of public private sector life insurance companies. The parameters like new policies issued, premium collection, market share of life insurers, commission expenses of life insurers, profit of life insurers, dividend paid by life insurers, number of life insurance offices, region-wise distribution of offices of life insurers, number of individual agents of life insurers, number of corporate agents of life insurers etc. The study reveals that the entry of private life insurance companies have effect the business and profitability of the business of the life insurance corporation of India.

- **Neelaveni (2012)** in her research paper “Financial Performance of Life Insurance Companies and Products” has analysed the Financial Performance of LIC, ICICI prudential Life Insurance Company Limited, Balaji Allianz Life Insurance Limited, Birla sunlife Insurance Company Limited, and INGVysya Life Insurance Company private Limited. She analysed compound annual growth rate by using variables such as share capital, Fixed Assets, Current Assets, Cash and Bank Balances, Current Liabilities, Net working capital. The study reveals that although LIC is big public sector company, in the past a decade period it is lagging behind in some of financial aspects. The reason is LIC has been facing the tough competition from private sector life insurance companies.
Selva et al (2012) in the research paper A comparative study of public and private life insurance companies in India published in Global Economic Research – Vol 1, Issue 11, has made the comparative analysis between LIC and private life Insurance companies using secondary data on business premium collection, number of new policies and total life Insurance for period of 2002-2010 using Mann whitney U-Test. The study shows that though the market share of LIC has decreased because of the entry of private life insurance companies. Still LIC continues to be the Market leader.

Eric et al (2013) in their paper titled “Determinants of profitability of insurance firms in Gnana” . In this study the authors have selected 16 life insurance companies of Gnana and analysed these companies profitability using leverage, tangibility, size, liquidity, risk & growth parameters. The study reveals that leverage and liquidity had a positive relationship and tangibility, size, growth negative relationship compared to profitability.

Hymavathi (2013) in research paper entitled “Performance Evaluation of Indian Life Insurance Industry in Post Liberalization”. In this paper the author has analysed the financial performance of both LIC and private life insurance companies of India. Using percentages, ratios, graphs etc. The study reveals that the financial performance of insurance industry is showing the increasing trend and entry of private life insurance companies has developed the Indian life Insurance to achieve the remarkable growth.

Joseph et al (2013) in their research paper entitled “The financial Performance of life insurance companies in Ghana”. In this research paper the authors analysed the financial performance of the life insurance industry in the emerging economy. They examine the financial performance of life insurance industry in the emerging economy. They examine the financial performance using three measures of insurers such as investment income, underwriting profit and overall total net profit. The study of ten life insurance companies revealed that the relationship between underwriting profit and investment income increases the profitability of the life insurance companies.
Rabindra (2013) in his research paper “Performance Evaluation of Nepal Life and LIC: A Comparative Analysis of Earnings & Profitability Indicators”. In this paper the author has compared the performance of LIC (Nepal) and LIC (India) and for the analysis purpose the author has considered the following parameters – revenue, assets, Net profits, Life fund and their contributions and also he has considered CARAMEL Earnings and profitability ratio. The study revealed that the performance of Nepal Life Insurance corporation is performing better in some aspects(revenue, Net profit) and LIC of India but in some aspect LIC of India is better compared to LIC of Nepal (assets, life fund).

Sumnider et al (2013) in their paper titled “Financial Performance of Life Insurance in Indian Insurance Industry”. For the purpose of this study authors have selected 18 life insurance companies, out of which one is public i.e. Life Insurance of corporation and rest 17 is private life insurance and the financial performance of these life insurance company are analysed using various ratios such as liquidity, Solvency, leverage, profitability, size and equity capital. The study reveals liquidity and size has positive effect, capital shows negative affect and solvency and Insurance does not have any effect.

Sonal (2013) in her research paper titled “performance Evaluation of life insurance corporation of India”. The study is undertaken to know the growth and performance of LIC. The researcher has analysed the major source of income and expenses of the sample unit. The study reveals that LIC should control the operating expenses, which is effecting its income.

Yuvaraj et al (2013) in their research paper titled “A study on the performance of insurance companies in Ethiopia”. The authors have analysed factors determining the financial performance of the Ethiopian insurance companies. The parameters for analysis are age, size of the company, Leverage, ratio, liquidity & Previous years profit. The study reveals that leverage, size, volume of capital, growth & liquidity are most important determinant of performance of life insurance where as liquidity has negative impact on the performance or profitability of the life insurance business.
Nikhil (2015) in his research paper titled “Factors determining financial performance of life insurance companies of India – An empirical study”. The researcher undertook study to determine firm specific factors will have impact on financial performance of life insurance companies in India. For the study purpose Return on Equity, Underwriting Risk, Current Risk, Tangibility, leverage, total assets. The statistical tool Regression was used for analysis. The study reveals that Indian life Insurance companies should pay more attention towards size, underwriting risk, volume of capital and leverage for better financial performance.

Showket (2015) in his research paper titled “A Comparative Analysis of Financial performance of public and private Non life Insurance insurers in India”. In this paper an effort is made to evaluate the financial soundness and performance of selected public and private life insurers in India using capital adequacy, Earnings and Profitability and liquidity of life insurance companies. The tools used for the study are mean, standard deviation and T-test. The study reveals in terms of earnings & profitability the public life insurers have outperformed the private life insurers during the period under review and the public life insurers possess higher degree of liquidity during the study period.

Sunita (2016) in her research Paper titled “Evaluation of Financial Soundness of Life Insurance companies in India” has analysed the performance of public and private life insurance companies for the period of 2005-2006 to 2014-2015. The analysis was done using secondary data related to growth in Fresh life Insurance premium, growth in New life Insurance policies, growth of total life Insurance premium. The tools used for analysis are Trend analysis and Mann-whitney ‘U’ test. The research reveals that there is clear evidence that private insurance companies have made their presence felt and over the years have achieved remarkable progress. But still LIC holds a significant majority of market share.

1.3 Research Gap

From the previous studies it was analysed that the researchers have considered various parameters and ratios for analysing the financial performance. The parameters and ratios used in literatures are Current Ratio, Proprietary Ratio, Solvency Ratio, Returns
on Investment, fixed asset to Net worth ratio, gross profit ratio, net profit margin ratio, sales to profit, investment income, underwriting profit, gross written premiums, claims, expenses on management, total debts, return on assets, growth in Fresh life insurance premium, leverage, Tangibility, Market share, corporate agents, number of new policies, Debt – Equity Ratio, number of policies etc. There is no study which specifies the uniform indicators for financial performance for life insurance companies. Thus the present study aimed to bridge this gap and focus on the key indicators to analyse the financial performance of life insurance companies by considering all the aspects (Liquidity, Solvency, Profitability and Turnover) of life insurance companies which clearly depicts the financial performance.

1.4 Research Questions

RQ1. Which are the key indicators will thoroughly analyse the financial performance of life insurance companies in India?

RQ2. Whether the Key Indicators will analyse the liquidity position of Public and Private life insurance companies?

RQ3. Whether the Key Indicators will analyse the Solvency position of Public and Private life insurance companies?

RQ4. Whether the Key Indicators will analyse the Profitability position of Public and Private life insurance companies?

RQ5. Whether the Key Indicators will analyse the turnover of Public and Private life insurance companies?

RQ6. Which Key Indicators level of performance is more in Measuring the financial performance of Public and Private life insurance companies?

1.5 Statement of the Problem

Financial Performance analysis includes analysis and Interpretation of financial statements in such a way that it undertakes full diagnosis of Liquidity, Solvency, Profitability and turnover of the business. While a large number of potentially useful indicators exist to know the financial performance of life insurance companies. The present study examines and determines the proper indicator which focuses on
thorough analysis of financial Performance of Life Insurance companies after considering all the Key Indicators of financial Performance.

The Indicators of financial analysis are:-

**Horizontal Analysis:**

Financial Statements contain many figures which cannot give any clear idea about the financial position of the enterprise. It is the relation of a particular figure to other or the change in figures from one period to another that is important. To understand this relation and the changes, tools of financial analysis are used. The most commonly used technique is Horizontal Analysis.

**Vertical Analysis:**

In Vertical Analysis, percentages are used in order to show the connection between different parts to the total in a single statement. The ‘Total Figure” in the statement is considered equal to 100% and then each factor of percentage is then Compared with the total. Such a statement of various percentages is called ‘Common – Sizes Statement’.

**Trend Analysis:**

Trend analysis is slightly different from Horizontal analysis, in which percentage changes are calculated for successive years instead only two years. In the long run, trend analysis is crucial because it shows the basic changes in the nature of business. The method of trend analysis is used to evaluate data on various key indicators for five or more years of a firm.

**Ratio Analysis:**

A Financial Ratio is a relationship between two financial variables. It helps to ascertain in financial condition of a firm. Ratio Analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either through a trend analysis of a firm’s ratios over a period of time or through a comparison of the firm’s ratios with its nearest competitors and with the industry
averages. The four most important financial dimensions which a firm would like to analyse are liquidity, Leverage, Activity and Profitability.

**CARAMEL Model:**

CARAMEL model is basically ratio based model of evaluating financial performance of insurance undertakings prescribed in the *Handbook of Financial Sector Assessment* by World Bank and IMF.

**IRDA Ratio:**

IRDA Ratio has also prescribed certain ratios for Life insurers. Ratios are of great help in planning a budget for an organisation. This is because a budget is an estimate of the present activity, based on the past activity experience with an aim of improving. It can be used for measuring the actual performance as against the budget activity or targets.

This study intends to find out the Financial Performance of Public and Private Life Insurances Companies using above Key Indicators to analyse the various aspects i.e. Liquidity, Solvency, Profitability and turnover using Key Indicators and Compare the level of performance of each indicator.

**1.6 Need for the Study**

LIC was the only life insurer in India till 1999 and had 100% Market share. The entry of private life insurance companies from 2000 onwards has slowly but steadily reduced the market share of LIC. The private life insurance companies have shown an increase in market share of their business until 2017. The insurance industry has witnessed volatile changes. The insurance liberalization has regulated the insurers when entering into the market. The customers are facing a larger number of products. A significant awareness has also been created among people.

The first round of insurance company registrations was granted in the year 2000. Some companies which started early in their registrations and operations would be completing fifteen years of operations during 2015-16. These companies initially faced the strain of new business in the initial years but were able to turnaround. Some
companies have to wait for some more years to completely wipe off the losses accumulated cumulatively.

The life insurance market in India has a long and tedious journey to complete. The insurance players, at present, are in the initial stages of the journey and they have to look farther to eliminate the deficiencies of the market in such a manner so that it has a pleasant and a more comfortable journey. The universal dictum since times immemorial i.e. “survival is of the fittest” prevails at this juncture.

The Private Sector Life Insurance Companies which are not in a position to face the stiff competition posed by the Public Sector and the Private Sector companies may face elimination. From this angle, it is necessary to study and ascertain their financial performance. Therefore, identifying the financial strengths and weaknesses of the insurance companies will help the stakeholders – owners, policy holders, Management representative, employees, researchers, regulators, reinsurers to take the appropriate decisions. Therefore the need raised in the study to find out proper indicator of the Financial Performance of Public and Private Life Insurances Companies.

1.7 Objectives of The Study

1. To analyse the Key Indicators for Financial Performance of Life Insurance Companies in India.
2. To examine the liquidity position of public and private life insurance companies using key Indicators
3. To evaluate the solvency position of public and private life insurance companies using key Indicators
4. To assess the Profitability position of public and private life insurance companies using key Indicators
5. To Understand the turnover of public and private life insurance companies using key Indicators
6. To Compare the differences between the Key indicators in assessing the financial performance of public and private life insurance companies.
1.8 Hypotheses of the Study

Based on Objective No :- 02

- H0 - “There is no Significant difference between Liquidity Position of Public and Private Life Insurance Companies”.
- H1 – “There is Significant difference between Liquidity Position of Public and Private Life Insurance Companies”.

Based on Objective No:- 03

- H0 – “There is no Significant difference between Solvency Position of Public and Private Life Insurance Companies”.
- H2 – “There is Significant difference between Solvency Position of Public and Private Life Insurance Companies”.

Based on Objective No:- 04

- H0 - “There is no Significant difference between Profitability Position of Public and Private Life Insurance Companies”.
- H3 – “There is Significant difference between Profitability Position of Public and Private Life Insurance Companies”.

Based on Objective No:- 05

- H0 – “There is no Significant difference between Turnover of Public and Private Life Insurance Companies”.
- H4 – “There is Significant difference between Turnover of Public and Private Life Insurance Companies”.

Based on Objective No:- 05

- H0 - “There is no significant difference between the key Indicators in assessing the Financial Performance of Life Insurance Companies”.
- H5 – “There is significant difference between the key Indicators in assessing the Financial Performance of Life Insurance Companies”.

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1.9 Scope of the Study

For the purpose of the study, Life Insurance Corporation of India, the Public Sector Insurance Company and the following 11 private life insurance companies are chosen on the basis of date of operation before or from 2002.

1. Bajaj Allianz Life Insurance
2. Birla Sunlife Insurance
3. Exide life Insurance
4. HDFC Standard Life Insurance
5. ICICI prudential Life Insurance
6. Kotak Mahindra Life Insurance
7. Max Newyork Life Insurance
8. PNB Met Life Insurance
9. Reliance Life Insurance
10. SBI Life Insurance
11. TATA AIA Insurance

The study is related to analysing the Financial Performance of the Public Life Insurance Company and the above Private Life Insurance Companies in India using six different key indicators – Horizontal Analysis, Vertical Analysis, Trend Analysis, Ratio Analysis, CARAMEL Model and IRDA Ratio. Further the Study is carried out for the period from 2002 to 2016.

1.10 Research Methodology

For the purpose of this study Secondary data is collected through Handbook of Indian Insurance Statistics, Annual reports of the companies, relevant journals and IRDA publications. Life Insurance Companies for the study includes the Public life insurance company LIC and from 23 private life companies based on date of registration i.e. the company registered before 2002, 11 Private life insurance companies were selected, including LIC there are totally 12 companies.
<table>
<thead>
<tr>
<th>Insurers</th>
<th>Foreign Partners</th>
<th>Registration Number</th>
<th>Date of Registration</th>
<th>Year of Operation</th>
</tr>
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<tr>
<td><strong>PRIVATE SECTOR</strong></td>
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<td></td>
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<tr>
<td>Bajaj Allianz Life Insurance Company Ltd.</td>
<td>Allianz, SE Germany</td>
<td>116</td>
<td>03.08.2001</td>
<td>2001-02</td>
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<td>Birla Sunlife Insurance Company Ltd.</td>
<td>Sun Life Financial (India) Insurance Investment Inc, Canada</td>
<td>109</td>
<td>31.01.2001</td>
<td>2000-01</td>
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<tr>
<td>Exide Life Insurance Company Ltd</td>
<td>-----</td>
<td>114</td>
<td>02.08.2001</td>
<td>2001-02</td>
</tr>
<tr>
<td>ICICI Prudential Life Insurance Company Ltd</td>
<td>Prudential Corporation Holdings Ltd. UK</td>
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<td>Kotak Mahindra OM Life Insurance Company Ltd</td>
<td>Old Mutual Plc, UK</td>
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<td>10.01.2001</td>
<td>2001-02</td>
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<tr>
<td>PNB Metlife India Insurance Company Ltd</td>
<td>Metlife International Holdings Inc, USA</td>
<td>117</td>
<td>06.08.2001</td>
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<td>Reliance Nippon Life Insurance Company Ltd</td>
<td>Nippon Life Insurance Company Ltd. Japan</td>
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<td>SBI Life Insurance Company Ltd.</td>
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<td>29.03.2001</td>
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<td>TATA AIA Life Insurance Company Ltd</td>
<td>American International Assurance Company (Bermuda) Ltd.</td>
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<td>Life Insurance Corporation of India</td>
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<td>1956-57</td>
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</table>


**Tools used for the Study:**

For the purpose of the study, the following Six Key Indicators are used for analysing the Financial Performance of Public and Private Life Insurance Companies in India

**Horizontal Analysis**

Generally Accepted Accounting Principle (GAAP) needs presentation of Comparative financial statements that shows the current year’s and past years’ financial information. The most common way of studying such kind of statements is the
**Horizontal Analysis**, which begins with calculation with calculation of the absolute amount changes and percentage changes from the previous to the current year.

The percentage change is computed as below

\[
\text{Percentage Change} = 100 \times \frac{\text{Amount of Change}}{\text{Previous Year amount}}
\]

**Vertical Analysis**

Vertical Analysis is more useful for comparing certain important elements in the operation of business. It is also useful for identifying significant changes in the elements from one year to the next year in comparative common size statements.

**Trend Analysis**

Trend analysis uses the index number to show changes in related items over a period of time. Two things are needed for calculating the index numbers i.e. base year for the purpose of Conversation and the index year with which to compare.

The percentage Change is computed as Below

\[
\text{Index} = \frac{\text{Index Year Amount}}{\text{Base Year Amount}} \times 100
\]

**Ratio Analysis**

The absolute accounting figures reported in a financial statement do not provide a meaningful understanding of the performance and financial position of a firms. An accounting figure conveys meaning when it is related to some other relevant it is related to some other relevant information. The relationship between two accounting figures, expressed mathematically is known as a financial ratio.

Liquidity Ratios measure the firm’s ability to meet current obligations, and are calculated by establishing relationships between Current assets and Current liabilities

Current or Quick Ratio = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)

Cash Ratio = \( \frac{\text{Cash+Marketable Securities}}{\text{Current Liabilities}} \)

Net Working Capital Ratio = \( \frac{\text{Net Working Capital}}{\text{Net Assets}} \)
Leverage/Solvency Ratios measure the firm’s ability to meet current obligations and are calculated by establishing relationships between borrowed capital and equity capital.

\[
\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Capital Employed}}
\]

\[
\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}
\]

\[
\text{Capital Employed to Net Worth Ratio} = \frac{\text{Net assets}}{\text{Net Worth}}
\]

Activity Ratios reflect the firm’s efficiency in utilizing its assets in generating sales, and are calculated by establishing relationship between sales and assets.

\[
\text{Total Assets Turnover} = \frac{\text{Net Premium}}{\text{Total Assets}}
\]

\[
\text{Current Assets Turnover} = \frac{\text{Net Premium}}{\text{Current Assets}}
\]

\[
\text{Net Assets Turnover} = \frac{\text{Net Premium}}{\text{Net Assets}}
\]

\[
\text{Fixed Assets Turnover} = \frac{\text{Net Premium}}{\text{Fixed Assets}}
\]

Profitability Ratios measure the overall performance of the firm by determining the effectiveness of the firm in generating profit, and are calculated by establishing relationships between Profit figures on the one hand and sales and assets on the other.

\[
\text{Gross Profit Ratio} = \frac{\text{Net Premium}}{\text{Total Assets}}
\]

\[
\text{Net Profit Ratio} = \frac{\text{Net Premium}}{\text{Current Assets}}
\]

\[
\text{Earnings Per Share} = \frac{\text{Net Premium}}{\text{Net Assets}}
\]

\[
\text{Operating Expenses Ratio} = \frac{\text{Net Premium}}{\text{Fixed Assets}}
\]

**CARAMEL Model**

CARAMEL parameters are used to study the financial performance of insurance companies. For measuring the performance of insurance companies on the basis of CARAMEL parameters, the present study employs ratio analysis with the following

\[
\text{Capital Adequacy} = \frac{\text{Capital}}{\text{Total Assets}}
\]
Asset Quality = \( \frac{\text{Equities}}{\text{Total Assets}} \)

Reinsurance & Actuarial Issues

Risk Retention Ratio = \( \frac{\text{Net Premium}}{\text{Gross Premium}} \)

Management Soundness = \( \frac{\text{operating Expenses}}{\text{Gross premium}} \)

Earnings and Profitability

Loss Ratio = \( \frac{\text{Net Claims}}{\text{Net Premium}} \)

Expenses Ratio = \( \frac{\text{Expenses}}{\text{Net Premium}} \)

Combined Ratio = \( (\text{Loss Ratio} + \text{Expenses Ratio}) \)

Liquidity Ratio = \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)

IRDA Ratio

IRDA has prescribed certain ratio for assessing the financial performance of Life insurers

New Business Premium Growth = \( \frac{\text{Net Business Premium for Current Year}}{\text{Net Business for Previous Year}} \)

Net Retention Ratio = \( \frac{\text{Net Premium}}{\text{Gross Premium}} \)

Ratio of Expenses of Management = \( \frac{\text{Expenses of Management}}{\text{Total Gross Direct Premium}} \)

Commission Ratio = \( \frac{\text{Gross Commission}}{\text{Gross Premium}} \)

Ratio of Policyholders liabilities to shareholders funds = \( \frac{\text{Policyholders Liabilities}}{\text{Shareholders Fund}} \)

Growth rate of shareholders fund = \( \frac{\text{Shareholders Fund for Current Year}}{\text{Shareholders Fund for Previous Year}} \)

Profit after Tax/Total Income = \( \frac{\text{Profit After Tax}}{\text{Total Income}} \)

Descriptive statistics i.e Mean, Standard deviation and coefficient of variation was used to analyse the financial performance of the Company and t-test and ANOVA were the statistical tools used to test the hypotheses.
1.11 Thesis Outline

The present study is undertaken with the following chapter scheme:

Chapter 1: - Introduction

This chapter presents the basic framework of the study and the technical details of the study report. It consists of need for the study, problem statements, objectives and hypotheses of the study. It also includes detailed section on research methodology adopted.

Chapter 2: - Review of Literature

Chapter two reviews the relevant literature on Insurance Sector. It includes the review of earlier studies in foreign countries on Financial Performance of Insurance Companies and studies made in India to address the Financial performance of Insurance companies. In this chapter, an attempt is made to identify the gap existing in the literature to find out the necessity of the study.

Chapter 3: - Profile of the Insurance Companies

In the third chapter, an attempt is made to explain the profiles of the Public Life Insurance Company – LIC and 11 the Private Insurance Companies.

Chapter 4: - Data Analysis and Interpretations

This chapter deals with the analysis of Financial Performance of Life Insurance Companies in India using Various Key Indicators.

Chapter 5: - Summary of Findings and Suggestions

This chapter presents the findings and suggestions made by the researcher based on the analysis and interpretation of the data collected through Secondary Sources.

Chapter 6: - Conclusions

This chapter concentrates on the explicit outcome of the present study. It also includes some useful suggestions for the potential directions for further related research.