CHAPTER –2
RESEARCH METHODOLOGY

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2.1 INTRODUCTION

Insurance is an idea of the people, by the people and for the people an insurer therefore can’t be adversted to a popular sentiment. Insurance and social well being for social economy is therefore in forever flourish of one leads to the flourish of the other and vice versa.

Insurance is basically a co-operative Endeavour. It is a noble portfolio where in assurance is offered against contingencies and / or for tuitous. The subject matters of assurance may relate to life or non-life matter in either case, it mitigate the hardship caused to individuals and through them to society. This helps in keeping the economy sound.

Insurance business has emerged as one of the prominent areas of financial services during recent times. Insurance performs remarkable function by insuring the insurable public and property located at different places. Nowadays in India, insurance sector is most developing business area. Through the process of LPG, Indian economy has been opened up for foreign players as well as private players. In the light of the economic reform process. Insurance process has been opened up since 1999 for private sector and foreign players. To regulate insurance sector in India IRDA has been set up\textsuperscript{1}.

In India there two big insurance corporate, first one is life insurance corporation of India and second one is General Insurance Corporation of India GIC was forms for the purpose of superintending, controlling and carrying in business of general insurance.

As soon as GIC was formed, Government of India transferred all the share it held of the general insurance companies to GIC. Simultaneously, the nationalized undertakings were left as fully owned subsidiary companied of GIC.

1. National Insurance Company Ltd.
2. The New India Insurance Company Ltd.
3. The Oriental Insurance Company Ltd.
4. United India Insurance Company Ltd.

For many years general insurance companies and GIC have been the solo player with virtual monopoly in the general insurance sector. Due to opening up of insurance industry year 2001-02 number of private players entered the general insurance sector. The entry of so many companies in this sector was likely to affect
the financial efficiency of general insurance public sector companies. The general insurance public sector companies i.e. The four company, which never faced competition earlier, now have to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. They are also coming up with different type of innovative policies and other strategies plan. it is also expected that the total business of general insurance companies, in terms of premium, number of policies sum assured and market share would have been affected.

It is therefore necessary to examines the interrelationship between insurance services and economic development and future prospects of general insurance public sector companies in India. It is also necessary to put spot light on the financial efficiency in GIPSC by studied and observation of profitability and workout comparative study of GIPSC and all the factors which are effect on the financial efficiency. Hence it became imperative to evaluate the financial efficiency of general insurance public sector companies. Therefore, the researcher has try to examines the financial efficiency of general insurance public sector companies of India.

2.2 RESEARCH DESIGN

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”

Research Design is a logical and systematic planning of a piece of research work. The research design has to be geared on the basis of the availability of time, energy and money, the availability of data to which it is desirable or possible to impose upon persons or individuals or social units or institutions which might supply data. So a good design is often characterized by adjectives like flexible, appropriate, efficient, economical and so on.

According to Buschman “There is no such thing as a single or correct research design, a research design represents a compromise dictated by many practical considerations that go in to research.

Thus the research design is not highly specific plan to be followed without deviation but rather a series guide point to be headed. It is always tentative as the study progresses new aspects, new conditions and new connecting links in the data
come to light and thereby it becomes necessary to change the plan as circumstances demand.

In the present study however the research design includes area of the study, research tools, procedure of data collection and classification of data. According to Labovits and Hagedorn “The most of research designs are case study; survey design or experimental designs”.

The present study “Financial efficiency of General Insurance Public Sector Companies” is based on secondary data. It means researcher has to use facts of information already available and analyze these to make an evaluation of material. Hence the present research work has to follow two or more type of research i.e. Case study, efficiency research etc. It means this research is a mixture of different research design.

2.3 THE TITLE

“A COMPARATIVE PERFORMANCE STUDY OF GENERAL INSURANCE PUBLIC SECTOR COMPANIES OF INDIA”

2.4 OBJECTIVES OF THE STUDY

The global environment has thrown the challenge for public sector companies especially for finance and insurance. After the formation of IRDA private players started entering in the general insurance industry in India. The structure of the insurance industry has undergone a drastic change since liberalization. The number of private players are coming forward with competitive operating strategies for the business. To use result for profit planning. The main objectives are as under.

1. To study the overall financial efficiency of general insurance public sectors companies of last seven-years (2001-02 to 2007-08)
2. To examine the profitability in the GIPSC.
3. To examine the financial strength and efficiency of GIPSC.
4. To document the operational efficiency of GIPSC.
5. To suggest an appropriate strategy for the GIPSC.
6. And to make suggestions for improving profitability.
2.5 SCOPE OF THE STUDY

The scope of the study is limited to General Insurance Public Sector Companies of India. The researcher has selected the four general insurance companies, as under.

1. National Insurance Company Limited
2. New India Insurance Company Limited
3. United India Insurance Company Limited
4. Oriental Insurance Company Limited

2.6 PERIOD OF THE STUDY

The present study will cover seven years from 2001-02 to 2007-08.

2.7 HYPOTHESES

Hypothesis is usually considered as the principal instrument in research. Its main function is to suggest new experiments and observations. Hypothesis may be defined as a proposition or a set of proposition set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provisional conjecture to guide some investigation of accepted as highly probable in the light of established facts. Hypothesis states what someone looking for and it is a proposition which can be put to a test to determine its validity.

Basic concept in the context of testing of hypothesis need to be explained null hypothesis and alternative hypothesis. If someone is to compare method A with method B about is superiority and if someone proceed on the assumption that both methods are equally good, then this assumption is termed as null hypothesis. As against this, someone may think that the method A is superior or the method B is inferior, someone then stating what is termed as alternative hypothesis. The null hypothesis is generally symbolized as Ho and the alternative hypothesis as H1.

Alternative hypothesis is usually the one which wishes to prove and th null hypothesis is the one which someone wishes to disproved. Thus, and null hypothesis represents the hypothesis someone trying to reject and alternative hypothesis represents all other possibilities.
(1) There is no significant difference in operational efficiency in between the companies and in between the years.

(2) There is no significant difference in profitability trends in between the company and in between the years.

(3) There is no significant difference regarding liquidity trends in between the companies and in between the years.

(4) There is no significant difference regarding investment efficiency in between the companies and between the years.

(5) There is no significant difference regarding credit efficiency in between the companies and in between the years.

(6) There is no significant regarding overall financial efficiency in between the companies and between the years.

(7) There is significant difference in operational efficiency in between the companies and between the years.

(8) There is significant difference in profitability trends in between the companies in between the years.

(9) There is significant difference regarding liquidity trends in the companies in between the years.

(10) There is significant difference regarding investment efficiency in between the companies in between the years.

(11) There is significant difference regarding credit efficiency in between the companies in between the years.

(12) There is significant difference regarding overall financial efficiency in between the companies in between the years.

(1) **Hypothesis Based on “F” test.**

When it is believed that two independent factors might have an effect on the response variable of interest, two way classification “F” test is designed to the effect of the two factors simultaneously. A null hypothesis is taken that the variance appeared is not significant, while an alternative hypothesis is also taken that the variance appeared is significant. There after, the calculated values of “F” are compared with the table values. If the calculated value of “F” is higher than the table value at pre-assigned level of (5%) significance, the null hypothesis is rejected, otherwise accepted.⁴
Moreover, it has been assumed that the difference arose in the preparation of respective variables over the years and among the various companies did not differ significantly. The difference between two variables is accidental.

(2) Hypothesis Based on chi-square test.

For purpose of establishing casual relationship, regression line of variable “Y” on variable “X” have been calculated in the selected General Insurance Public Sector Companies, because the relationship enables researcher in prediction and control over the future course of action.

Thereafter, the chi-square ($X^2$) test has been applied to find out whether the difference between the actual variables and computed variables, on the regression-line in various selected General Insurance public sector companies are significant or not. The statement of null hypothesis is that the variables in different general insurance public sector companies under study are not significant while the statement of alternative hypothesis is that the difference between the actual value and computed value of respective variables in different general insurance companies under study are significant. The chi-square test of significance. If the table value of chi-square is greater than the computed value of chi-square ($X^2$) is shows that the difference between actual and computed value will be insignificant and the result will be as per our expectations and test holds good and the null hypothesis will be accepted while the alternative hypothesis will be rejected.

2.8 DATA COLLECTION AND ANALYSIS OF DATA

The study relates is the financial efficiency of general insurance public sector companies.

The study covers a period of 7 years from 2001-02 to 2007-08.

The study is entirely based on secondary data. The data have been collected from the relevant annual reports of general insurance public sector companies statistical year book of GIPSC and various news bulletins of the GIPSC. The annual reports of IRDA and other related literature available both as hand copy and on the net have been consulted for collection of data apart from these various magazines devoted to the issues related to insurance like Insurance Chronical, Insurance Times, Business Today, Business World, etc. with the officials of the GIPSC have also contributed in

Raw data has been first subjected to simple tabulation and then these have been further processed to get the required form so as to represent various variables required for the study. These variables have been identified as per the objective of the study. Line graphs and pie charts have also been drawn whenever necessary to provide a visual pattern of growth and comparison.

2.9 SIGNIFICANCE OF THE STUDY

“All progress is born of inquiry” Doubt is often better than over confidence, for it leads to inquiry and inquiry leads to invention” is a famous Hudson Maxim in context of which the significance of research can well be understood.

After IRDAS, insurance sector has been open for private players also. The study has been focus on profitability of GIPSC. It will give idea about changes and challenges in insurance sector after reform process particularly when the private players have entered in the market. It will give an idea about ups and down of profitability and present financial environment of GIPSC.

2.10 DEFINATIONS OF KEY WORDS

1. FINANCIAL EFFICIENCY:

The word “efficiency” refers to the working productivity with no waste of money or effort.

Financial efficiency has to be evaluated in order to reach the final target and goals without wasting money, and efforts. In order to evaluate the efficiency, definite good and objectives have to setup first. Efficiency evaluation is a must in order to find out the loopholes in the functioning and working of any activity. It also widens the scope of improvement. The efficiency evaluation is a measure of assignment based on authentic tasks such as activities, exercises or problems. Efficiency evaluation refers to measuring efficiency against expectations.5
In the era of competition, efficiency evaluation has became significant in order to survive for a long period of time. It provides a base of checking and controlling the weak areas of activities and also provides a ground for growth, expansion and diversification.

2. **RATIO:**

Ratio represents the quotient relationship between two relevant variables of the financial statements and individual item, an individual item to group item or a group item to group item or a group item to group item, which develop the meaningful relationship between these two set of variables.

In making profitability analysis management uses ratio as a tool of financial analysis, which can expressed in three different ways such as –

1. Percentage, e.g. gross profits are 25% of sales or
2. Fraction, e.g. gross profits are one fourth or sales or
3. A stated comparison between number, i.e. the relationship between gross profit to sales is 1:4

Indeed, a single figure by itself has no meaning like wise clapping is not possible by on hand. Ratio is a widely used tool of financial analysis. The term “Ratio” refers to the numerical or quantitative relationship between two items or variables. A ratio is on number expressed in terms of another. It is found by dividing one number, the base in to another. A percentage is one kind of ratio in which base is taken as equaling 100 and the quotient is expressed as “per hundred” of the base.

3. **RATIO ANALYSIS**

Ratio Analysis presents the financial statements into various functional areas which highlight various aspects of the business like liquidity, profitability structure etc.

The rationale of ratio analysis lies in the fact that it makes related information comparable and more meaningful for interpretation and analysis of financial statements.

As stated above, the ratio expressed in as absolute figures reflecting the relationship of comparison between variables. The enable analysts to draw conclusions regarding the financial efficiency of a firm. Ratio, as absolute figures fail
to reveal the position. Therefore, comparison is the basis of ratio analysis, which consists of four type of comparison, such as,

a. **TREND OR HORIZONTAL ANALYSIS**
   The values of these ratios are compared with their values for other time periods. Trend ratios indicates the direction of change in efficiency improvement or deterioration or consistency or constantly over the years, for example of the profitability of an institutions or firms for 7 years from 2001-02 to 2007-08. In brief a comparison of the ratio of the same overtime.

b. **VERTICAL ANALYSIS**
   It is a comparison of a items within a single years financial statement i.e. income statement of a firm, for example the items of income statement expressed as a percentage of sales is known as vertical analysis.

c. **INTERFIRM ANALYSIS**
   It involves comparison of the ratio of business and for the industry as a whole, reflects the financial efficiency of a firm in relation to its counterpart.

d. **COMPARISON WITH STANDARDS OR PLANS**
   It involves comparison of actual with the standards or plans to find out the variables.

**SURVEY OF EXISTING LITERATURE**

There is sizable literature on general insurance industry in conforming with its long history and economic importance. A good deal of analytical literature exists at broad levels like transition and prospects, problems associated with operating efficiency, profitability, financial performance, manpower and business expansion. Relevant existing studies and literature have been discussed below.

The most important pioneering book was written by D.C. Shrivastava and Shashank Shrivastava in 2001 in which an attempt has been made to enumerate all the aspects about related to non-life insurance industry like economic development and insurance, growth of non-life insurance industry in India, role of state in growth and
regulation of insurance industry, capital investment of general insurance industry, issue and challenges.7

R.D. Samarth and A.P. Pradhan had written an article (in book Indian Insurance Industry 2001) on pricing of insurance products (of non-life general insurance companies) in liberalized economies lesson for India and Investment management of non-life insurance companies.

T.S. Balasubramanian and S.P. Gupta published a book on insurance business environment in 1999 which mainly observed the legal environment, the economic environment, the commercial environment, the financial environment, office environment and insurance business environment outside in India. The book mainly observed the implementation of law by all the non-life insurance companies of India, opportunities to achieve business target in existing business environment, marketing strategies of companies to promote the new products in Indian non-life insurance market, financial market, financial market structure and functions, mutual funds, non-banking financial companies. Contribution in non-life insurance business, efficiency of methods of communication etc. Dr. Anand Bansal had written article in journal the management accountant in December 2005 which revealed the effects of privatization on non-life insurance industry in India. This article includes various aspects like competitive environment of non-life insurance industry, distribution network and product development challenges of Indian insurance sector, risk management.

Anabil Bhattacharya, N.I.C. Ltd. Kolkata has studied on profit generation in general insurance in 2002. This study includes various aspects like successful claims management requires, unit of profit and growth, greater attention to existing business and improvement in various areas like insured consumerism, increased social instability, growth of large corporations, higher disposable incomes, easier availability etc. Ingredients to be nurtured extract the maximum yield of premium income in terms of GDP.8

S. Chand & Company ltd. Published a book which is written by M. M. Mishra 2006 analysing the role and importance of non-life insurance, principle and practice of non-life insurance. The book also revealed function of insurance sector in India and abroad and all the historical facts regarding to various aspects of general insurance industry.9

An article on “Insurance as an investment” by sampada and D.G. Kodwani (The Insurance Times May-2003) which expressed by the survey findings that it may
not be very difficult to win over the confidence of small investors towards insurance policies if good marketing techniques are adopted to educate the targeted population about the uses of the insurance policies from investment point of view. To study the investment pattern of non-life insurance companies the writer has applied multivariate discriminate analysis.

Insurance Institute of India published a book on the competition and efficiency of insurance business in the context of a public sector enterprise from 1988 to 2005, which an attempt was made to analyze the business environment of insurance business and competition and efficiency of insurance business in the context of a public sector enterprise. This book includes the method of measurement of financial efficiency. This book also focused on the device to measure the efficiency of the insurers is the calculation of an expense ratio, i.e. the ratio of expenses to the premium incomes. The book includes effective factors responsible for profitability mainly marketing share of insurer, relevance of high cost assets and unwarranted liabilities and the competitor’s performance.

Harsh Walia in his article attempted to develop the key to innovation and variety of products for improving the financial efficiency and profitability of general insurance public sector companies. He identified certain important products which influence profitability i.e. credit insurance, crop insurance, rainfall insurance, cyclone insurance etc.

Jagendra Kumar in his article made an international comparison of getting business from national and multinational companies by the private non-life insurance companies and state-owned non-life insurance companies.

S. Parthasarathy published an article on corporate governance in general insurance (non-life insurance) companies in September-2003. In which article an attempt was made to analyze a professional style of management with good ethics and cost-conscience, the internal audits, vigilance area have to function as system analyst and not as a constabulary force. He wrote this is right time to evoke people’s faith and the trust in the insurance industry.

S.N. Basu published an article in 2006 in “The Insurance Times”, touching on the various aspects of the general industry like the cut-throat competition amongst the private and public limited companies, de-tariff status in insurance business, on-line facilities by private and public sectors companies, the management of customer
relationship, quality service, maintain cost-competitiveness, technology adoption and better HRD (Human Resource Development) culture.10

2.11 CHAPTER PLAN

The study covers a period from 2001-02 to 2007-08. The study has been organized into five chapters including this chapter.

Chapter-1 Insurance sector: An overview

This chapter is introductory in nature and explains overview of the insurance sector.

Chapter-2 Research Methodology

Database methodology for the study has been explained in this chapter. It explains the universe of the study.

Chapter 3 Conceptual framework of financial efficiency

Chapter-4 Evaluation of Financial efficiency of general insurance public sector companies.

Deals with the concept of profitability and its importance, factors affecting profitability and analysis of operational ratios, profitability ratios and the ratios affecting financial efficiency of general insurance public sector companies.

Chapter-5 Summary, findings, conclusions and Suggestions.

This chapter presents a summary of earlier chapters and covers major findings and suggestions regarding an appropriate strategy to enhance the overall efficiency of general insurance public sector companies.

2.12 LIMITATION OF THE STUDY

The limitations of the study are as under.

1. The study covers only GIC, only public sector units of India.

2. The data which has been used for this study mainly secondary data, which has been taken from published annual reports and other reports from time to time.
The limitation of secondary data remains with it and also applies to this research work.

3. The researcher is an external evaluator of GIPSC hence the insight view of GIPSC is beyond the limitation of researcher.

CONCLUSION

This chapter deals with the whole framework of the research study. The chapter covers all the systematic terms which makes complete the research study like the title of the research topic, research design, objective of the study, scope of the study, period of the study, hypothesis, data collection and analysis of the data, significance of the study, definition of the key words like ratio, statistical tools, the experts review of concern topic chapter plan and limitation of the study.
References:

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