Outline of the Chapter:-

1. Introduction
2. Review of literature
3. The title of the problem
4. Research problem
5. Research design
6. Objectives of the study
7. Scope of the study
8. Period of the study
9. Hypotheses
10. Source of Data collection
11. Analysis and Interpretation of Data
12. Significance of the study
13. Limitation of the study
14. Chapter planning
1. Introduction:

The Insurance segment in India governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. Today Insurance business stands as a business growing at the rate of 15-20 per cent annually. Together with banking services, Insurance sector adds about 7 per cent to the country’s GDP.

In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance.

“Malhotra Committee” was constituted by the government in 1993 to examine the various aspects of the industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform. The present study aims to find out the profitability of Life Insurance Corporation (The public venture) in pre and post liberalization era.

2. Review of Literature:

Realizing the necessity to undertake in depth analysis of studies relating to financial performance appraisal, the researcher has investigated earlier studies. Following studies are made on this aspect in India.

1. **Browne, Carson, and Hoyt, 1999** says that previous academic studies and rating organizations generally identify bellwether financial variables and characteristics of insolvent insurers, as
opposed to important economic and market conditions in which insurers operate.  

2. **BarNiv and Hershbarger (1990)** found insolvent insurers tend to be smaller in size than solvent insurers and changed their product mix more.

3. **Ambrose and Carroll (1994)** found that financial variables combined with IRIS ratios in a logistic regression model outperformed A. M. Best’s recommendations in distinguishing between insurers likely to remain solvent and those insurers likely to become insolvent. Combining all three types of predictors into one model provided the most accurate classification.

4. **Carson and Hoyt (1995)** found that surplus and leverage measures are strong indicators of insurer financial strength, and also found a slightly higher risk of failure among stock insurers than mutual insurers.

5. **Carson and Scott (1996)** examined the “run on the bank” risk, and found that prior to 1992 rating organizations generally did not appreciate the risks inherent in liabilities such as guaranteed investment contracts.  

6. **Cummins et al. (1999)** showed that cash flow simulation variables add explanatory power to solvency prediction models.

7. **A. M. Best (1992)** found that the number of insolvencies is correlated with the accident and health underwriting cycle (lagged one to three years). The increased number of insolvencies also is correlated with increases in interest rates and the life-health insurance industry’s focus on investment-related products. The Best study did not examine the various economic factors in a multivariate framework, thus
precluding the ability to identify the relative significance of the individual factors.

8. Prior studies of insurance company financial operations, including those by Outreville (1990), Cummins (1991), Browne and Hoyt (1995), Grace and Hotchkiss (1995), and Hodes et al. (1999) suggest that economic factors are significantly related to insurer financial performance.

9. Browne et al. (1999) provided empirical evidence that life insurer insolvency was significantly related to several exogenous economic and market factors. The data and relatively long time period examined by Browne et al. (1999), quarterly data for 1972 to 1994, provides a more robust testing of the relevant economic and market variables than would be possible using shorter periods for which insurer-specific annual data are readily available. The combination of using this validated set of economic and market variables with the insurer-specific data (discussed below) provides a more rigorous evaluation of the relevant economic factors in a dynamic modelling framework.

10. Berger (1995) investigated the impact of capital asset ratio on return on equity. He concluded that capital asset ratio has a positive relationship with profitability.

11. Anghazo (1997) examined the impact of firm level characteristics on US bank net interest margin. The results documented that bank interest margin positively related with leverage, opportunity cost, default risk and management efficiency.
12. **Neeley and Wheelock (1997)** explored the determinants of profitability of commercial banks and find that profitability positively related with changes in per capita income.

13. To investigate the performance of banks, **Ben Naceur and Goaied (2001)** used the sample of Tunisian banks over the period of 1980 to 1995. They advocated that the banks who tried to maintain their high deposits and improve their capital and labour productivity are performed well.

14. **Guru et al. (2002)** examined the determinants of performance of Malaysian banks over the 10 years period from 1986 to 1995. For this purpose, they selected both micro and macro level characteristics. The results revealed that inflation positively while efficient expense management and high interest rate negatively related with profitability. The results of **Goddard et al. (2004)** showed that Profit is an important prerequisite for future growth of banks and the banks that maintain a high capital assets ratio tend to grow slowly.

15. A study conducted by the **Sufian, F. et al (2009)** to investigate the determinants of profitability by selecting the non-commercial banks financial institutions. The findings indicated that credit risk and loan intensity negatively related with profitability while large size and financial institutions with high operational expenses tended to high profitability ratio.

16. **Hakim and Neaime** (2005) observed that liquidity, current capital and investment are the important determinants of banks profitability.

17. **Aburime, U. (2006)** identified the firm level determinants of profitability of Nigerian banks over the five years period from 2000 to 2004. He concluded that credit portfolio, size, capital size and
ownership concentration are important determinants of Nigerian banks.

18. Kosmidou (2008) showed that money supply growth has insignificant impact on profitability while GDP and stock market capitalization to assets are significant and have negative relation with the ROA.

19. Samitas and Papadogonas (2009) illustrated that firms profitability is positively affected by size, sales growth and investment. On the other hand, leverage and current assets negatively related with profitability. Several studies also have been conducted to measure the performance of the insurance companies.

20. Sloan, A and Conover, J.(1998) deduced that functional status of insurers do not affect the profitability of being insured but public coverage have significant impact on profitability of insurance companies.

21. Chen and Wong (2004) examined that size, investment, liquidity are the important determinants of financial health of insurance companies.

22. Chen et al. (2009) examined the determinants of profitability and the results showed that profitability of insurance companies decreased with the increase in equity ratio. In addition, insurance companies must have to diversify their investment and use effective hedging techniques which help them to create better financial revenues.

23. Uninsured risk leaves poor households vulnerable to serious or even catastrophic losses from negative shocks. It also forces them to undertake costly strategies to manage their incomes and assets in the face of risk, lowering mean incomes earned. Welfare costs due to shocks and foregone profitable opportunities have been found to be
substantial, contributing to persistent poverty (Morduch, 1990; Dercon, 1996, 2004; Rosenzweig and Binswanger, 1993; Elbers et al., 2007, Pan, 2008).

24. Micro insurance has the potential to reduce these welfare costs. By offering a payout when an insured loss occurs, it avoids other costly ways of coping with the shock leaving future income earning opportunities intact. Furthermore, the security linked to being insured can be expected to allow the avoidance of costly risk-management strategies with positive impacts on poverty reduction.

25. Health insurance is more complicated. The impact of health insurance is most appropriately assessed in terms of health, but this is directly dependent on the strength and weaknesses of the health care provision, and not just the financial side of the insurance scheme. For example, factors such as the structure of health service delivery system, its financing, monitoring and regulation play a crucial role in determining health insurance performance (Preker, 2007).

26. Dr. Aziz has studied on "Performance Appraisal of Tyre Industry in India" during the period 1980 to 1986 in 1989. He has studied five tyre companies namely – Apollo Tyres Ltd., MRF Ltd., Goodyear India Ltd., Ceat Tyres of India Ltd. and Dunlop India Ltd. He has made an attempt to study and review production performance, cost and sales trends, profit performance, funds management, financial strength and value added. His book about this research work has been published by pointer publishers, Jaipur.

27. Dr. M. C. Gupta has studied on “Profitability Analysis of Selected Cement companies of India" for the time period 1981-82 to 1985-86. He has studied eight cement companies namely-ACC Ltd., Jaipur Udyog Ltd., Birla Cement Works, Udaipur Cement Works, J.K.
Cement works, Mangalam Cement Ltd., Shree cement Ltd. and Lakshmi Cement Ltd. He has highlighted profit margin and assets turnover, return on capital employed and appropriation of profits, common-size analysis, value added, price policy and profitability and cost accounting. His book about this research work has been published by pointer publishers, Jaipur.\(^7\)

28. Khanderao K. prasannak has studied on “Performance Appraisal of Andhra Pradesh industrial development corporation ltd, with special reference to twin cities: hyderadad, and Sicundradad” under the supervision of Dr. A. V. panutkas, Department of commerce, Swami ramanandteerthMarathwaba University, Nanded in March-April 2005.\(^8\)

29. Dinesh N. Patel has studied on “Financial Performance Appraisal of fertilizer industry with reference to Gujarat State” under the supervision of Dr. H.S. Virmgami, department of Commerce,Hemchandracharya North Gujarat University in March-April 2009.


All these studies reveal that a number of researchers have come out on financial performance appraisal but a research working with special reference to financial performance of private sector life insurance companies located in India has not been under taken to the best of my knowledge. Hence the present study attempts to study and review
scientifically the comparative financial performance appraisal of private sector life industry with special reference to India

3. The Title of the Problem:

“A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE APPRAISAL OF SELECTED PRIVATE LIFE INSURANCE COMPANIES OF INDIA”

4. Research Problem:

An attempt is made in the present research to address a basic problem: Whether there is any change in profitability of Life Insurance Companies due to liberalization policy of government.

5. 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 and economical.

According to Busrchman “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 Life Insurance Private 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.

6. 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.

✦ To study service performance of selected private sector life insurance companies.

✦ To study net premium from various policies of selected private sector life insurance companies.

✦ To study capital structure of selected private sector life insurance companies.

✦ To study profit margin and assets turn over of selected private sector life insurance companies.
To study return on capital employed and appropriation of profit of selected private sector life insurance companies.

To examine common – size analysis with special reference to common size Profit and Loss Account and Profit and Loss Appropriation Account of selected private sector life insurance companies.

To suggest an appropriate strategy for the Life insurance private sectors.

To examine the financial strength and efficiency of Life insurance private sectors.

To make a comparative study of financial performance appraisal of selected private sector life insurance companies and to appraise the overall performance of the private sector life insurance industry with a special reference to India.

To put forward suggestions in order to make financial performance better and the best of the private sector life insurance industry with a special reference to India.

7. **Scope of the Study:**

The scope of the study is limited to Life Insurance Private Sector Companies of India. The researcher has selected the ten private sector life insurance companies, are as under.

1. SBI Life Insurance
2. Bajaj Allianz Life
3. Max Life Insurance Co. Ltd.
4. Reliance Life Insurance Company Limited
5. ING Vysya Life Insurance Company Limited
6. Birla Sun Life Insurance
7. ICICI Prudential Life Insurance
8. HDFC Standard Life Insurance Company Limited
9. Tata AIA Life Insurance Company Ltd.
10. Met Life India Insurance Co. Pvt. Ltd

8. Period of the Study:

The present study will cover ten years from 2003-04 to 2012-13.

9. 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.\(^\text{11}\)

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 the 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.

**Hypothesis Based on “F” test.**

- When it is believed that two independents 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.

- **H₀**: Difference in the proportion of respective variables namely - percentage of various components to capital structure related ratio, profit margin and assets turnover related ratio, return on capital employed related ratio and income from investment, rend and dividend ratio over the year and among selected private sector life insurance companies do not differ significantly.

- **H₁**: Difference in the proportion of respective variable namely - percentage of various components to capital structure related ratio, profit margin and assets turnover related ratio, return on capital employed related ratio and income from investment, rend and dividend ratio over the year and among selected private sector life insurance companies differ significantly.

**10. Source of Data Collection:**

The study relates is the financial efficiency of life insurance private sector companies.

The study covers a period of 10 years from 2003-04 to 2011-12. The study is entirely based on secondary data. The data have been collected from the relevant annual reports of life insurance private sector companies.

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.

11. Analysis and Interpretation of Data:

In order to analysis financial performance appraisal of the selected private sector life insurance companies, all the financial data related to the study is rounded off in lakh to rupees and balance sheets and profit and loss A\c have been re-arranged in a format suitable. With the help of data obtained in the financial statements, various statements have been prepared and ratios have been calculated. Year 2003-04 has been selected as a base
year. On the basis of interpretation of the statements and ratios, conclusion has been drawn. F-test has been applied for testing the hypothesis.

Financial performance of selected private sector life insurance companies has been appraised by utilizing following techniques-

1. Service Performance
2. Capital Structure
3. Profit Margin and Assets Turnover
4. Return on capital Employed and Appropriation of Profit
5. Common-size Analysis

12. 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 life insurance private sector companies. 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 life insurance private sector companies.

13. Limitation of the Study:

The data used in the present study will been primarily collected from published financial statements of SBI Life Insurance, Bajaj Allianz Life, Max New York Life Insurance, Reliance Life Insurance Company Limited, ING Vysya Life Insurance, ICICI Prudential Life Insurance, HDFC standard Life Insurance, Met Life Insurance, Birla Sunlife and
Tata AIG Life insurance companies for the year from 2003-04 to 2012-2013, which may be subject to following limitations.

1. The data will also be collected from various publications. However, companies may refuse to provide to some confidential financial information, which may restrict the proposed research study to limitations.
2. The proposed research study will be limited to only 10 selected private sector life insurance companies.
3. Non available of useful data on some aspects may restrict the research study to certain limitation.
4. Financial performance appraisal is very wide subject and there are many techniques available for financial performance appraisal. Hence the researchers will select only selected financial performance appraisal technique. Limitations of time and resources are accounting for such limitation.

14. Chapter Planning:
The present research study will be divided into following chapters.

This chapter will deal with meaning and concept of financial management, financial performance, financial statements, need for performance appraisal, areas and techniques of performance appraisal, limitations of performance appraisal and recent trends in performance appraisal.

Chapter 2: Profile of private life insurance companies:
This chapter will deal with origin, organization, management, growth and development of selected private sector life insurance companies.
Chapter 3: Research Methodology:
This chapter will deal with research techniques, tools and hypotheses, chapter planning of this chapter.

Chapter 4: Services Performance:
This chapter will deal with various services performance of selected private sector life insurance companies.

Chapter 5: Capital Structure:
This chapter will deal with capital structure related ratio.

Chapter 6: Profit Margin and Assets Turnover:
This chapter will deal with calculation and comparative study of ratios related with profit and assets turnover ratio.

Chapter 7: Return on capital Employed and Appropriation of profit:
This chapter will deal with return on capital employed and appropriation profit.

Chapter 8: Common-size Analysis:
This chapter will deal with common-size analysis and compare profit of selected companies.

Chapter 9: Summary and Findings:
Various observations, findings and respective suggestions will be put forward in order to make financial performance more efficient and effective of with special reference to private sector life insurance companies.
References:


4. Rajbhvanjharkhandf.nic.in/vdu.pdf

5. Ibid,


9. Ibid,

