Outline of the Chapter:-

1. Meanings

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4. Common Size Profit and Loss Accounts of Selected Companies

5. Conclusion
A common size statement is one that shows the separate item appearing in the percentage form. In it, each item is shown as a percentage of sum totals of which that item is a part, so by it proper evaluation of relationship among item, at a particular date becomes possible. It helps especially for comparison of different companies, which are varying in production capacity.

In this chapter, the researcher will discuss concept of common size analysis and prepare common size analysis profit and loss accounts of selected private sector life insurance companies, in order to study percentage of various items to Net premium and to make a comparative study.

1. Meanings:

In the words of Ray H. Garrison, “A common size statement is one that shows the separate items appearing on it in percentage form, rather than in dollar form. Each item is stated as a percentage of sum total of which that item is a part, percentage of common-size statement is known as vertical analysis”

“Common size statement supplemented by additional analytical financial date is the effective tools of a historical financial study of a business or industry”

It should be noted that the relative importance of various items in financial statement can be highlighted by relating them to a common base. Thus in the income statement the “Net premium”, figure is assumed to be 100 and all figures are expressed as a percentage of net premium. Similarly in the balance sheet, the total of assets or total liabilities is taken as 100 and all the figures are expressed as percentage of total. Thus each item within each base is expressed as percentage of that base. Since, this base represents 100 percent in all the statements in the comparison; there
prevails a common size statement. Common size statements are also known as “Components is reduced to the total of 100 and each individual item on the statement is expressed as percentage of total.”

Mainly, the common size statements are concerned with the evaluation of relationship among items at a particular date. It simply means to calculate the percentage of each figure in each year’s financial statements to a concerned total i.e. each item of expense and revenue account and also the net income may be expressed in terms of percentage of net premium. It is a static type of analysis or the study of the financial profits of a company.

In the income statements, percent-wise comparison is made of each item shown here with the amount representing net premium. The analysis of income-statements method represents whether the net profits operating profits are increasing or decreasing in comparison to Net premium, whether, the changes are made in the various items of expenses; whether retained earnings are increasing and also as to what the percentage change of the cost of good sold is over the period of comparison. “When common size income statement is read horizontally, does not give information about the trend of individual items but the trend of their relationship of total.”

2. Significance of Common size Analysis

The various benefits of preparation of common-size analysis can be narrated as follows:-

- A needful comparison of two or more periods or two or more companies is possible, particularly when productive capacity varies from company to company.

- A careful study of common size percentage of a company will indicate the structure of profit and lost accounts.
The common-size income statements will show the allocation of profit in the form of interest, taxes, dividends and retained earnings.

The relative importance of each individual item of expense and income will stand out clearly.

3. Limitation of Common size Analysis

The various limitations of preparation of common-size analysis can be narrated as follows:-

- The comparative common-size income statement shows the percentage of each item to the total period but not variation in respective item from period to period.

- It gives information about the trend of individual item’s relationship to total but observations of these trends is not very useful because there are no definite norms for proportion of each item to total.

- In calculating percentages, if the figure is negative, the percentages cannot be calculated and likewise, if the change is from or to a zero balance in account, it is not possible to calculate the percentage.

4. Common Size Profit and loss accounts of the selected Companies

Researcher has made an effect to prepare common-size profit and loss account of the selected private life insurance companies as under:-

4.1 SBI Life Insurance Co. Ltd.:--
Table 8.1
Chart 8.1
It can be remarked from the table 8.1 that the surplus from surplus from policy holders accounts stabled at 1.44 percent between the year 2007-08 to 2008-09 then it increased gradually and reached at 2.6 percent of total net premium in 2010-11 after that it increased sharply and reached at 7.30 percent of total net premium at the end of the year.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income which ranged between 0.57 percent of total net premium and 4.83 percent of total net premium during 2003-04 to 2012-13, which show declining trend from beginning of the year. The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 12.21 percent of total net premium at beginning of the year 2003-04 then it declined sharply and ranged between 0.43 percent to 3.84 percent of total net premium from during the year 2004-05 to 2011-12 but then it increased again at the end of the year.

The profit before tax was the highest at the end of the year 2012-13 5.50 percent of net premium and the lowest of -7.37 percent of total net premium in 2003-04.

The tax was not paid during 2003-04 to 2006-07. Tax burden ranged from 0.01 percent of total net premium in the year 2007-08, 2009-10 and 2011-12 the highest 0.03 percent of total net premium.

The profit after tax was the highest 5.50 percent of total net premium in the year 2012-13 but in the year 2003-04, 2004-05 and 2008-09 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. is very healthy unit from the view point of profitability.

4.2 Bajaj Allianz Life Insurance Co. Ltd.-
Table 8.2
Chart 8.2
Table 8.2 shows that the surplus from policy holders accounts did not appear during the year 2003-04 to 2005-06 but after it indicates mixed trend between year 2006-07 and 2008-09 after it increased sharply and reached at 9.77 percent of total net premium in 2010-11 after that it declined dramatically and reached at 9.17 percent of total net premium at the end of the year.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income which was the highest 6.2 percent of total net premium then it narrates fluctuation trend during the year 2004-05 to 2009-10 but after the income from investment increased and remained stable at around 1.9 percent of total net premium.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 18.43 percent of total net premium at beginning of the year 2003-04 then it shows decreasing trend and ranged between 0.38 percent to 4.57 percent of total net premium from during the year 2004-05 to 2010-111 but then it increased again at the end of the last two year.

The profit before tax was the highest at 11.3 percent of total net premium during the year 2010-11 and the lowest of -12.23 percent of total net premium in 2003-04.

The tax was not paid during 2003-04 to 2012-13.

The profit after tax was the highest 11.3 percent of total net premium in the year 2010-11 but during the study period it shows increasing trend.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. has not shown good position during the year 2003-04 to 2008-09 but then it became very healthy unit from the view point of profitability.

4.3 Max New York Life Insurance Co. Ltd.:--
Table 8.3
Chart 8.3
It can be remarked from the table 8.3 that the surplus from surplus from policy holders accounts remain constant at 0.01 percent of total net premium between the year 2005-06 and 2006-07 then it increased gradually and reached at 6.5 percent of total net premium in 2011-12 after that it goes up sharply and reached at 23.99 percent of total net premium at the end of the year which was the highest.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income registered a declining trend during the period under the study which ranged between 6.52 percent of total net premium and 2.37 percent of total net premium during 2003-04 to 2011-12 but then it peaked at 17.47 at the end of the year.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other registered an increasing trend during the first two years 2003-04 to 2004-05 but then it decreased and reached at 5.3 percent of total net premium in the year 2006-07 after it shows increasing trend between the year 2007-08 and 2008-09 but then it declined again and reached at 0.92 percent of total net premium at end of the year.

The profit before tax was the highest at 37.73 percent of net premium at the end of the year 2012-13 and the lowest of -24.38 percent of total net premium in 2004-05.

The tax was not paid during the study period 2003-04 to 2012-13.

The profit after tax was the highest 37.73 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2009-10 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. has not shown good position till the year 2009-10 but then it shows healthy position from the view point of profitability.

4.4 Reliance Life Insurance Co. Ltd.:
Table 8.4
It can be remarked from the table 8.1 that the surplus from policy holders accounts stabled at 1.44 percent between the year 2007-08 to 2008-09 then it increased gradually and reached at 2.6 percent of total net premium in 2010-11 after that it increased sharply and reached at 7.30 percent of total net premium at the end of the year.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income which ranged between 0.57 percent of total net premium and 4.83 percent of total net premium during 2003-04 to 2012-13, which show declining trend from beginning of the year. The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 12.21 percent of total net premium at beginning of the year 2003-04 then it declined sharply and ranged between 0.43 percent to 3.84 percent of total net premium from during the year 2004-05 to 2011-12 but then it increased again at the end of the year.

The profit before tax was the highest at the end of the year 2012-13 5.50 percent of net premium and the lowest of -7.37 percent of total net premium in 2003-04.

The tax was not paid during 2003-04 to 2006-07. Tax burden ranged from 0.01 percent of total net premium in the year 2007-08, 2009-10 and 2011-12 the highest 0.03 percent of total net premium.

The profit after tax was the highest 5.50 percent of total net premium in the year 2012-13 but in the year 2003-04, 2004-05 and 2008-09 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. is very healthy unit from the view point of profitability.

4.5 ING Vysya Life Insurance Co. Ltd.: -
Table 8.5
Chart 8.5
The table 8.5 that the surplus from surplus from policy holders accounts shows an increasing trend during the year from 2007-08 to 2012-13 which ranged between 0.06 percent to 3.94 percent of total net premium. The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income which was 14.49 percent of total net premium in the beginning year but then it decreased immediately and reached at 1.57 percent after it peaked at 26.21 percent of total net premium in the year 2005-06 then it ranged between 0.24 percent to 2.02 percent of total net premium during 2006-07 to 2012-13.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 85.83 percent of total net premium at beginning of the year 2003-04 then it declined sharply and ranged between 4.63 percent to 31.44 percent of total net premium from during the year 2004-05 to 2012-13.

The profit before tax was the highest at the end of the year 2012-13 1.33 percent of net premium and the lowest of -71.34 percent of total net premium in 2003-04. The tax was not paid during the study period 2003-04 to 2012-13 due to losses.

The profit after tax was the highest 1.33 percent of total net premium in the year 2012-13 but in the year 2003-04, 2004-05 and 2008-09 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. has not shown very healthy unit from the view point of profitability.

4.6 Birla Sun Life Insurance Co. Ltd.:--
Table 8.6
Chart 8.6
It can be seen from the table 8.6 that the surplus from surplus from policy holders accounts indicates mixed trend during the study period from 2003-04 to 23012-13 which ranged between 0.15 percent to 12.37 percent of total net premium.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income shows also mixed trend which ranged between 0.3 percent of total net premium and 1.4 percent of total net premium during 2003-04 to 2012-13. In the year 2011-12 1.4 percent of total net premium was the highest.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was showing declined trend during the year 2003-04 to 2005-06 which ranged between 15.54 percent to 5.71 percent of the total net premium but after that it increased gradually and reached at 17.33 percent of total net premium in the year 2008-09 then it declined sharply and reached at 1.12 percent of total net premium in the year 2010-11 then it increased again and reached at 5.75 percent of total net premium in 2011-12 and declined once at the end of the year.

The profit before tax was the highest in the year 2010-11 8.02 percent of net premium and the lowest of -15.91 percent of total net premium in 2008-09. The tax was not paid during 2003-04 to 2012-13 due to more expenses than income.

The profit after tax was the highest 8.02 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2009-10 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that Birla Sun Life Insurance Company Ltd. has not shown healthy position from the view point of profitability.

4.7 ICICI Prudential Life Insurance Co. Ltd.:-
Table 8.7
Chart 8.7
It can be remarked from the table 8.7 that the surplus from surplus from policy holders accounts shows increasing trend during the study period. It was the highest 14.55 percent of total net premium at the end of the year and lowest at 0.18 in beginning of the year.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income narrates declining trend during the year 2003-04 to 2009-10 then it rose very quickly and peaked at the highest at 53.53 percent of total net premium in the year 2012-13.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 24.14 percent of total net premium at beginning of the year 2003-04 then it declined sharply and reached at the lowest at 0.02 percent of total net premium in the year 2011-12 but then it increased again at the end of the year.

The profit before tax was the highest at the end of the year 2012-13 20.1 percent of net premium and the lowest of -22.68 percent of total net premium in 2003-04.

Tax burden ranged from -0.24 percent to 0.54 percent of total net premium between the year 2009-10.

The profit after tax was the highest 20.1 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2008-09 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that ICICI Prudential Life Insurance Company Ltd. has not shown healthy position during the year 2003-04 to 2008-09 but then it indicates good position of the company from the view point of profitability.

4.8 HDFC Standard Life Insurance Co. Ltd.:--
Table 8.8
Chart 8.8
The table 8.8 that the surplus from policy holders accounts indicates mixed trend during the year 2007-08 to 2008-09 which ranged between 0.5 percent to 3.5 percent of total net premium.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income shows declining trend from the year 2003-04 to 2012-13 which ranged between 0.46 percent of total net premium and 5.29 percent of total net premium during 2003-04 to 2012-13.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 14.34 percent of total net premium at the year 2004-05 then it declined sharply and ranged between 0.08 percent to 3.84 percent of total net premium from during the year 2004-05 to 2012-13.

The profit before tax was the highest 4.05 percent of net premium at the end of the year 2012-13, and the lowest of -13.33 percent of total net premium in 2004-05.

The tax was not paid during 2003-04 to 2011-12 but at the end of the year company has paid 0.04 percent of total net premium.

The profit after tax was the highest 4.01 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2010-11 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that HDFC Standard Life Insurance Company Ltd. is not very healthy unit from the view point of profitability.

4.9 TATA AIG Life Insurance Co. Ltd.:--
Table 8.9
Chart 8.9
It can be remarked from the table 8.9 that the surplus from policy holders accounts narrates an increasing trend during the study period between the year 2004-05 to 2012-13. It ranged between 0.82 percent of total net premium to 10.37 percent of total net premium.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income shows mixed trend during the study period which ranged between 0.6 percent of total net premium and 2.48 percent of total net premium during 2003-04 to 2012-13.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was showing decline trend during the year 2003-04 to 2012-13. The highest 25.78 percent of total net premium at beginning of the year 2003-04 and the lowest 0.22 percent of total net premium at the end of the year.

The profit before tax was the highest at the end of the year 2012-13 12.07 percent of net premium and the lowest of -23.29 percent of total net premium in 2003-04.

The tax was not paid during 2003-04 to 2012-13.

The profit after tax was the highest 12.07 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2008-09 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that TATA AIG Life Insurance Company Ltd. has not shown healthy position from the view point of profitability.

4.10 MET Life Insurance Co. Ltd.:
Table 8.10
It can be seen from the table 8.10 that the surplus from policy holders accounts stabled at 0.03 percent between the year 2008-09 to 2009-10 then it increased gradually and reached at 0.23 percent of total net premium in 2012-13.

The income from investment include interest, dividend, rent, profit or loss on sale of investment and other income shows declining trend during the year 2003-04 to 2008-09 which ranged between 0.7 percent to 26.96 percent of total net premium then it rose gradually and reached at 3.83 percent of total net premium.

The expenses of insurance business includes bad debts written off, contribution to policy holder accounts and other was the highest 70.9 percent of total net premium in the year 2004-05 then it declined sharply and ranged between 0.03 percent to 4.67 percent of total net premium from during the year 2006-07 to 2012-13.

The profit before tax was the highest at the end of the year 2012-13 4.03 percent of net premium and the lowest of -61.48 percent of total net premium in 2003-04.

The tax was paid only during the year 2005-06 which was -8.99 percent of total net premium.

The profit after tax was the highest 4.03 percent of total net premium in the year 2012-13 but in the year 2003-04 to 2006-07 company got losses due to more expenses.

On the basis of the forgoing analysis, it can be said that SBI Life Insurance Company Ltd. has not shown healthy position from the view point of profitability during the year 2003-04 to 2006-07 but after it shows very healthy position.
5. Conclusion:

The comparison of the common-size analysis of various private sector life insurance companies under the study makes it evident that the surplus from policy holders accounts in 2012-13 was the highest 23.99 percent in Max New York followed by ICICI Prudential, Reliance, Tata AIA, Bajaj Allianz, SBI, ING Vysya, HDFC Standard, BSLI and Met respectively. Throughout the study period, the surplus from policy holders accounts was the lowest in Met during the year 2008-09. Moreover, the surplus from policy holders accounts under study was nearly 0.1 to 3 during the year 2005-06 to 2009-10.

The percentage of income from investment was the highest in ICICI Prudential during 2003-04 to 2012-13 and the lowest in BSLI during the study period. However, income from investment more than 0.16 percent in the all selected companies.

Expenses were the highest 85.83 percent of ING Vysya in 2003-04. The percentage of expenses was always more than 15 percent in all the selected companies during the year 2003-04. It was the lowest 0.07 percent in ICICI Prudential during the year 2009-10.

On analyzing the taxation front, the taxes were the highest in ING Vysya, which was 0.66 percent of the net premium in 2008-09. In ICICI prudential, the tax was lowest 0.07 percent in 2009-10.

At last profit after tax was the highest in Max New York, it was 37.73 percent of net premium in the year 2012-13 and the lowest -71.34 percent of net premium in ING Vysya during the year 2003-04.

In concluding, it can be said that common size profit and loss account of all the selected private sector life insurance companies have shown growing results.
References:


3. Ibid, p.179

4. Ibid, p179.