International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Volume 7 Issue 3, March-2018, Impact Factor: 3.578

Profitability Analysis of some selected Private Life Insurance Companies in India with reference to ICICI Prudential Life, Bajaj Allianz Life and Birla Sun Life - A Comparative Study

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ABSTRACT

With the establishment of Insurance Regulatory Development Authority and abolition of the Life Insurance Corporation of India monopoly business right, the life insurance industries have taken a prodigious shape in India. In this regard, the Malhotra Committee on insurance sector reform has suggested for co-existence of both public and private companies side by side and as a result the industry has made a rapid growth due to the entrants of private life insurance companies in India. As per the annual reports, however on the basis of some financial ratios such as claim ratio, net retention ratio, commission ratio, operating ratio, net earnings ratio, combined ratio, return on equity ratio, expenses of management ratio and investment income ratio for the period (2006-2007 to 2015-2016) it has become imperative to have a comparative study on the profitability analysis of some selected private life insurance companies in India such as ICICI Prudential Life, Bajaj Allianz Life and Birla Sun Life.

Key Words: Profitability, LICI, Financial ratios, Performance, Liberalization.

1. INTRODUCTION

Presently, Insurance is a growing part of financial sector in all developed and developing countries. A resilient and well-regulated insurance industry can significantly contribute to economic growth and efficient resource allocation through transfer of risk and mobilization of savings and can enhance financial system efficiency by reducing transaction costs, creating liquidity and facilitating economies of scale in investment. Prior to Liberalization, the competition was restricted to existing public insurers only. Life Insurance Corporation of India (LICI) had a dominant role in case of life insurance. In this regard, the Malhotra Committee on insurance sector reform has suggested for co-existence of both public and private companies side by side and as a result the industry has made a rapid growth due to the entrants of private life insurance companies in India. The insurance industry in India has gone through a number of phases by allowing private companies to solicit insurance and allowing foreign direct investment and setting a limit on FDI to 26% which increased to 49% in 2014. The study intends to evaluate the comparative study of profitability performance of some selected private life insurance companies to limelight their financial standing in the post liberalization period and also to find out the profitability position on the basis of ratios with reference to ICICI Prudential Life Insurance, Birla Sun Life Insurance and Bajaj Allianz Life Insurance.

2. LITERATURE REVIEW

Gulati and Jain, (2011) pointed out the comparative performance of all players of Indian life insurance industry relating to agency force, premium income, no. of policies etc. and also concluded that the entry of private players has resulted in a slight drop in market share of LICI. **Bhatt (2012)** analyzed the profitability of LICI after the liberalization period by taking the premium, no. of policies, claims settlement, assets growth etc. as parameters and found that the quantum of business of life insurance has increased more than ten times in the span of 20 years. **Chowdhury and Huda (2014)** observed that all the selected Private Life Insurance Companies were able to achieve a stable growth of premium, total assets during the period of 2007-2011. Trend value of premium, investment fund, total assets, earnings per share etc. have been tested positive for different activities of private life insurance companies. **Dar and Bhat (2015**) reveals that statistically a significant difference between capital adequacy, earnings and profitability and liquidity position in selected public and private life insurers. However, in terms of earnings and profitability, the public life insurers have outperformed the private life insurers during the period under review.

3. OBJECTIVES OF THE STUDY

The objective of the present study is to measure the profitability performance of some selected private life insurance companies in India - Bajaj Allianz Life Insurance, Birla Sun Life Insurance and ICICI Prudential Life Insurance.

4. RESEARCH METHODOLOGY AND PERIOD OF STUDY

It is an analytical study and based on secondary data. The required data were collected from standard books, reputed journals and magazine, research papers, media reports, Annual reports and websites of the related companies. For the purpose of data analysis, various profitability ratios, statistical tools are taken into consideration. The period of present study is 10 (Ten) years i.e from 2006-2007 to 2015-2016 which is relevant for profitability analysis of the selected Private Life Insurance Companies.

5. UNDERSTANDING PROFITABILITY

Profitability refers to the ability of the enterprise to get sufficient return on the investment in financial as well as human resources used in the business operations. However, the profitability performance of a Life insurance companies critically depends on its operating activities such as selling new policies and providing services to existing policies and financial activities such as investing the premium of policies in viable opportunities to analyse the drivers of profitability which are useful to decompose Return on Equity (ROE) into its main components.

6. ANALYSIS AND FINDINGS

Claim Ratio
It refers as the ratio of total net incurred claims to net written premium. This indicator is a good complement to the picture of economics, client value and service quality of the various life insurance schemes and measures underwriting efficiency. The lower the ratio, the better will be the financial health of an insurer.

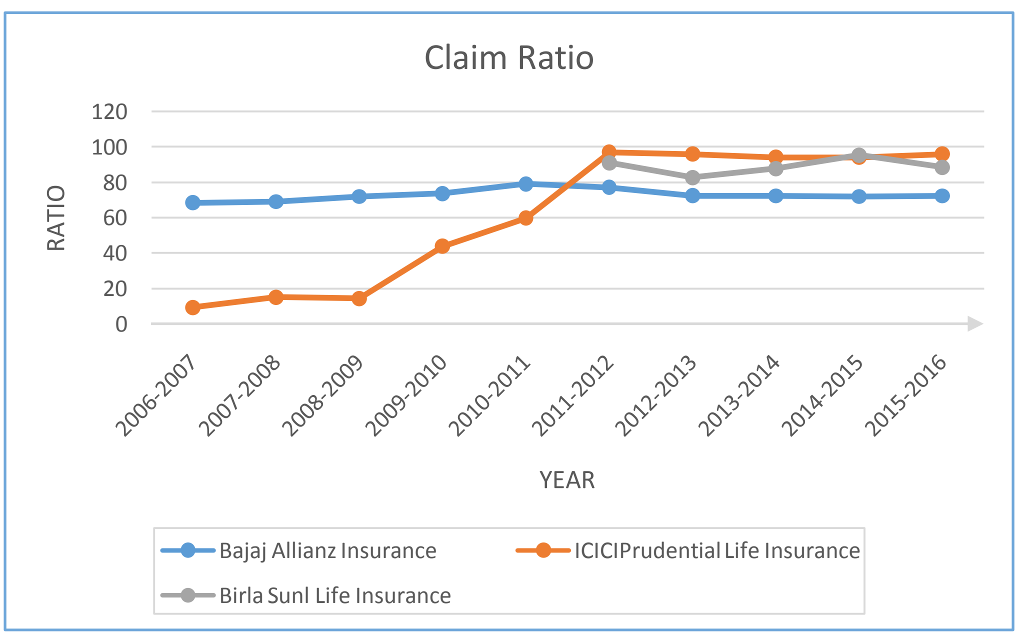

Fig 1: Claim Ratio

Table 1: Claim Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation Coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	72.78	71.57	0.295
ICICI Prudential Life Insurance	61.89	47.5	0.973
Birla Sun Life Insurance	89	4.67	0.984
Source: *Self computed by author(s)*			

Table 1 represents the Claim Ratio of the some selected private life insurance companies for the period 2006-2007 to 2015-2016 and also reveals the mean, standard deviation and Pearson correlation coefficient. The above table reveals that highest average Claim ratio among all the three companies has Birla Sun Life i.e 89 % and the lowest average claim ratio has ICICI Prudential Life i.e 61.89%. It is also evident that Birla Sun Life and ICICI Prudential Life Insurance have the Standard Deviation value i.e. 4.67 and 47.5 respectively. **Table 1** also reveals high degree of positive correlation of Claim Ratio between industry average and Birla Sun Life Insurance Company and ICICI Prudential Life Insurance Company. It indicates that the way other insurance companies takes decision in relating to the Claim Ratio, Birla Sun Life Insurance and ICICI Prudential Life Insurance takes decision accordingly.

Expenses to Management Ratio

It is calculated by dividing the management expenses by the gross direct premium of the company. The expense ratio evaluates managerial competency and efficiency. The lower the rates, better the financial health of an insurer.

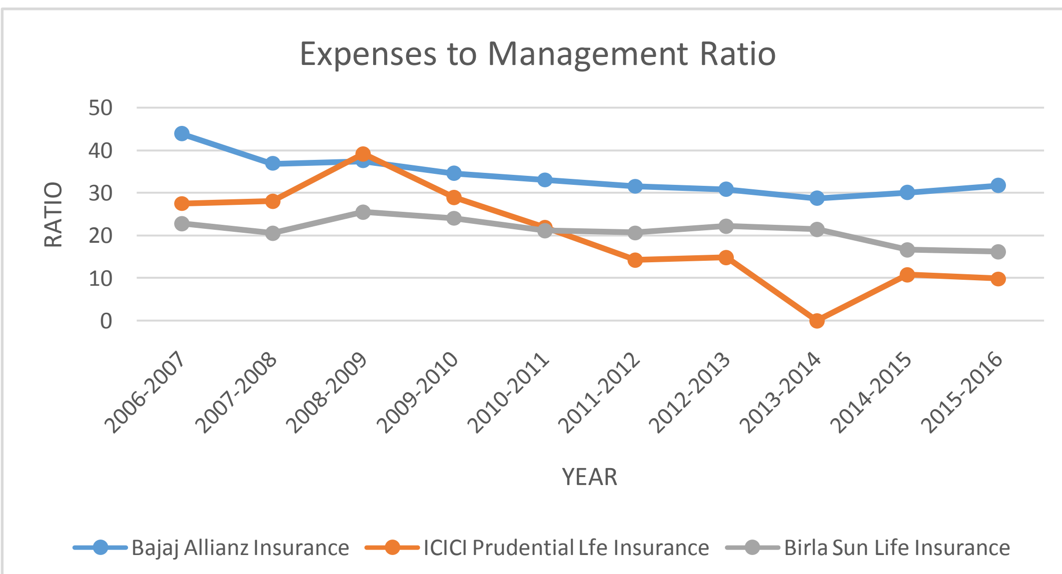

Fig 2: Expenses to Management Ratio

Table 2: Expenses to Management Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	33.87	14.95	0.277
ICICI Prudential Life Insurance	21.73	9.66	0.953
Birla Sun Life Insurance	21.37	3.38	0.691
Source: *Self computed by author(s)*			

The **Table 2** depicts expenses to management ratio of some selected private life insurance companies for the year 2005-2006 to 2015-2016. It reveals the mean, standard deviation and Pearson correlation coefficient among the three private sector life insurance companies where Bajaj Allianz Life Insurance have highest average expenses ratio i.e. 33.87% whereas Birla Sun life Insurance have the lowest i.e. 21.37%. It is also evident that Bajaj Allianz Life Insurance and Birla Sun Life Insurance have the Standard Deviation value i.e. 14.95 and 3.38 respectively. **Table 2** also reveals high degree of positive correlation of Expenses to Management Ratio between industry average and ICICI Prudential Life Insurance Company. It indicates that the way other insurance companies take decision in relating to Expenses to Management Ratio, ICICI Prudential Life Insurance Company also takes decision accordingly.

Combined Ratio

It depicts the combined effect of expenses of management ratio and claim ratio and is usually used to measure underwriting profitability and managerial competency.

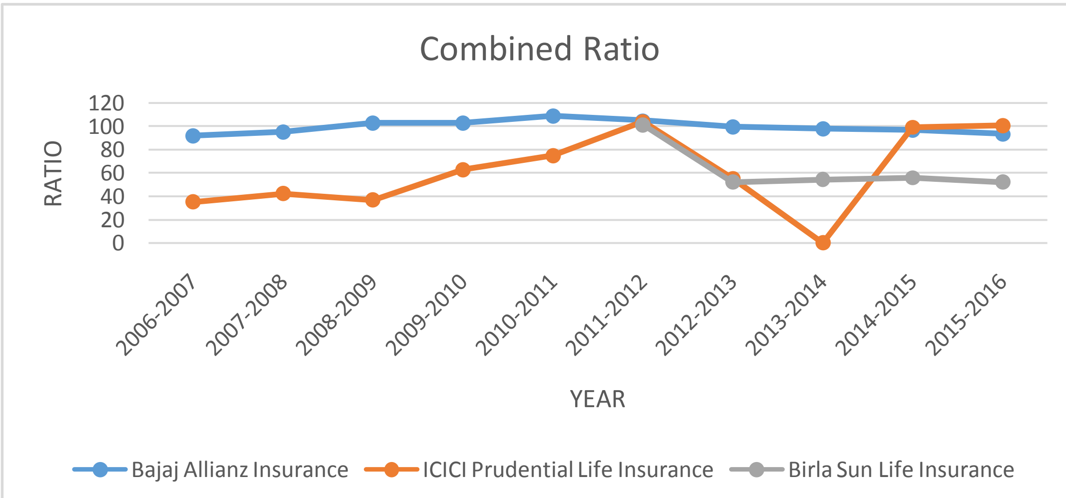

Fig 3: Combined Ratio

Table 3: Combined Ratio of three companies

Name of the Company	**Average (%)**	**SD**	**Pearson correlation coefficient between Individual company and Industry Average**
Bajaj Allianz Life Insurance	99.45	73.29	0.022
ICICI Prudential Life Insurance	68.19	46.35	0.256
Birla Sun Life Insurance	63.32	21.26	0.904
Source: *Self computed by author(s)*			

Table 3 shows that the highest average combined ratio of Bajaj Allianz Life Insurance i.e. 99.45% and the lowest of Birla Sun Life Insurance i.e. 63.62%. Standard deviation of Bajaj Allianz Life and Birla Sun Life is 73.29 and 21.6 respectively. **Table 3** also shows high degree of positive correlation of Combined Ratio between industry average and Birla Sun Life Insurance Company which indicates that the way all the other insurance companies takes decision in relating to Combined Ratio, Birla Sun Life insurance company takes decision accordingly.

Commission Ratio

It refers to as the ratio of commission expenses to the gross direct premium. Commission expenses include commission paid to agents, brokers, corporate agencies, commission on reinsurance accepted etc.

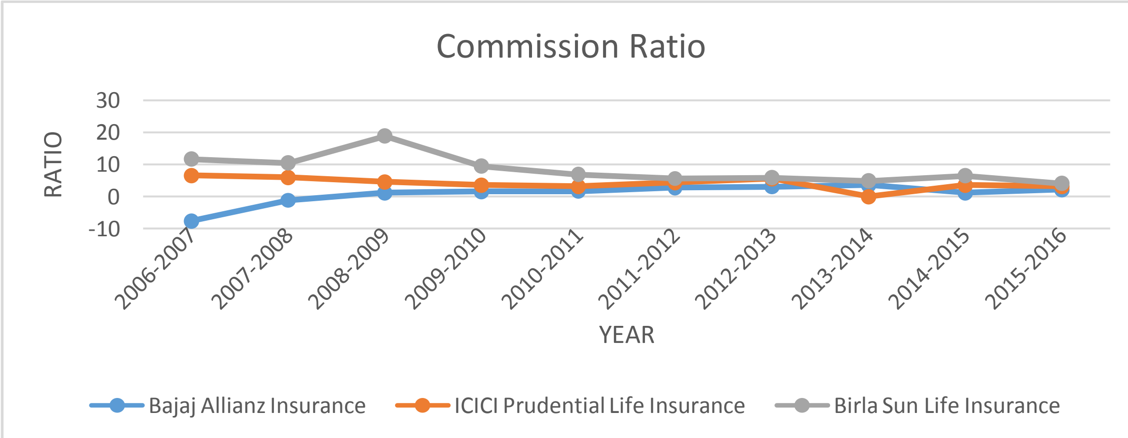

Fig 4: Commission Ratio

Table 4: Commission Ratio of three companies

Name of the Company	**Average (%)**	**SD**	**Pearson correlation coefficient between Individual company and Industry Average**
Bajaj Allianz Life Insurance	0.86	32.20	0.127
ICICI Prudential Life Insurance	4.49	29.72	0.167
Birla Sun Life Insurance	8.4	26.48	0.818
Source: *Self computed by author(s)*			

Table 4 shows the highest average Commission Ratio of Birla Sun Life Insurance i.e 8.4% whereas the lowest average ratio is .86% of Bajaj Allianz Life Insurance. Here, standard deviation of Bajaj Allianz Life Insurance is 32.20 and 26.48 of Birla Sun Life Insurance. **Table 4** also shows high degree of positive correlation of the Commission Ratio between the industry average and Birla Sun Life Insurance Company which indicates that the way other insurance companies takes decision in relating to Commission Ratio it takes decision accordingly.

Investment Income Ratio

It is determined by investment income to net written premium. The investment income as a proportion of the premium income evaluates the performance of an insurer’s underwriting strength in relation with its asset allocation capacity to viable investment portfolios.

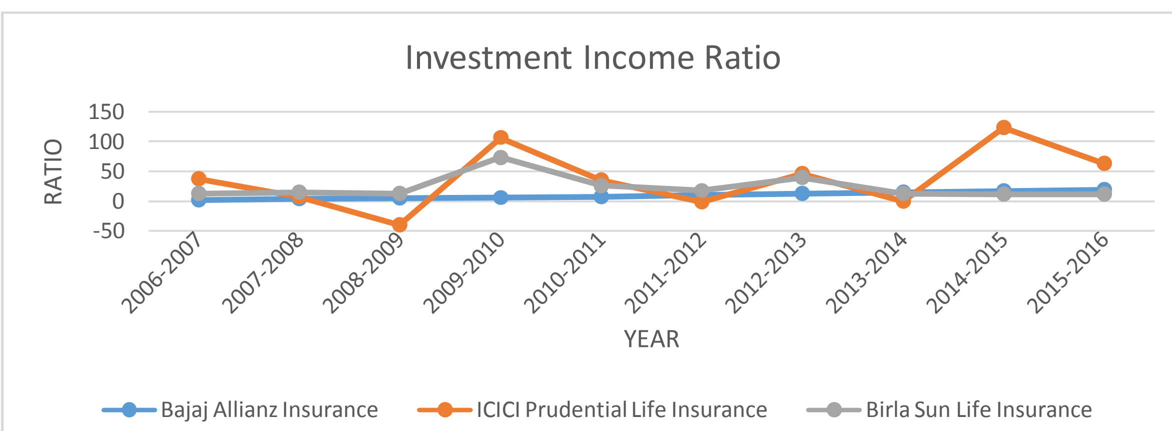

Fig 5: Investment Income Ratio

Table 5: Investment Income Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	10.01	23.61	0.312
ICICI Prudential Life Insurance	41.94	42.75	0.938
Birla Sun Life Insurance	23.63	21.78	0.601
Source: *Self computed by author(s)*			

Table 5 shows the highest average of Investment Income Ratio is related to ICICI Prudential Life Insurance i.e 41.94% and the lowest average of investment income ratio 10.01% of Birla Sun Life. The standard deviation for ICICI Prudential Life Insurance and Birla Sun Life Insurance is 42.75 and 21.78 respectively. **Table 5** also shows high degree of positive correlation of Investment Income Ratio between industry average and ICICI Prudential Life Insurance in comparison to the other 2 private life insurance companies. It indicates that the way other insurance companies take decision in relating to the Investment Income Ratio, ICICI Prudential Life Insurance Company takes decision accordingly.

Operating Ratio

It refers as the profit before tax divided by net written premium and is a useful way to evaluate a company's core operations. The operating ratio is also an indirect measure of efficiency of a company.

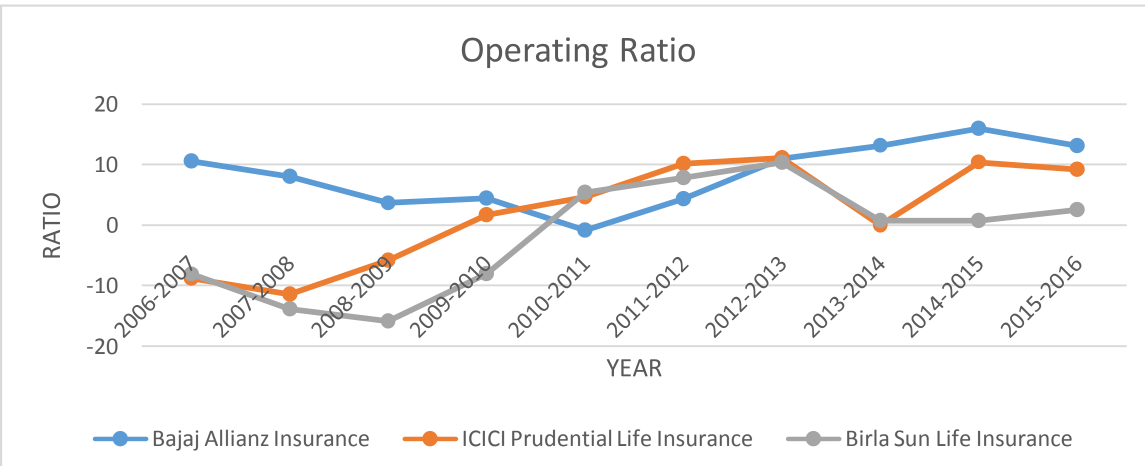

Fig 6: Operating Ratio

Table 6: Operating Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	8.38	26.50	0.454
ICICI Prudential Life Insurance	2.38	30.53	0.955
Birla Sun Life Insurance	-1.786	36.16	0.912
Source: *Self computed by author(s)*			

Table 6 shows the highest average value of Operating Income Ratio is 8.38% of Bajaj Allianz Life Insurance and the lowest average value of Operating Income Ratio is -1.786% related to Birla Sun Life Insurance. Standard deviation is 36.16 of Birla Sun Life Insurance and 26.50 of Bajaj Allianz Life Insurance. **Table 6** also shows the high degree of positive correlation of Operating Ratio between the industry average and Birla Sun Life Insurance Company and also with ICICI

Prudential Life Insurance. It indicates that the way other insurance companies takes decision in relating to Operating Income Ratio, Birla Sun Life Insurance Company and ICICI Prudential Life Insurance Company takes decision accordingly.

Net Earnings Ratio

It is calculated by dividing profit after tax to net written premium. Shareholders look at net earnings closely because they are the source of compensation to shareholders of the company and if a company cannot generate enough profits to compensate owners, the value of shares will plummet. Conversely, if a company is healthy and growing, higher stock prices will reflect the increased availability of profits.

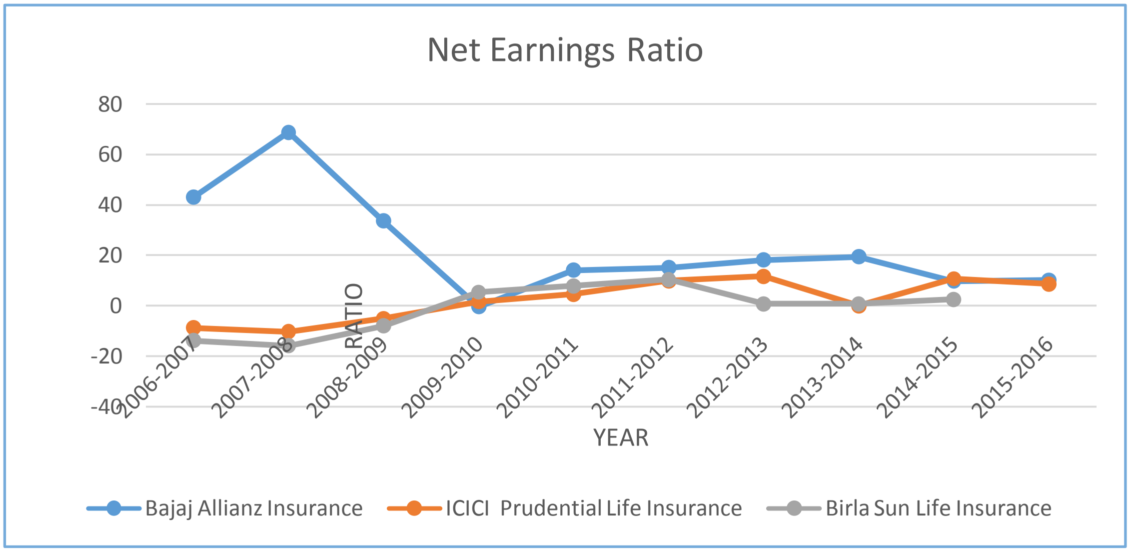

Fig 7: Net Earnings Ratio

Table 7: Net Earnings Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	23.17	27.05	0.1836907
ICICI Prudential Life Insurance	3.22	30.29	0.346548
Birla Sun Life Insurance	-1.786	36.16	-0.5413
Source: *Self computed by author(s)*			

Table 7 shows the highest average value of Net Earnings Ratio is 23.17% of Bajaj Allianz Life insurance and the lowest average value is -1.786% of Birla Sun Life Insurance. The Standard deviation of Birla Sun life Insurance and Bajaj Allianz Life Insurance is 36.16 and 27.05. **Table 7** also shows low degree of correlation of Net Earnings Ratio between the industry average and with individual industry. This indicates all three private life insurance companies take their decision in different way relating to the Net Earnings matter.

Return on Equity Ratio

It is computed by dividing profit after tax to Net worth. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROEs between 15% and 20% are generally considered good.

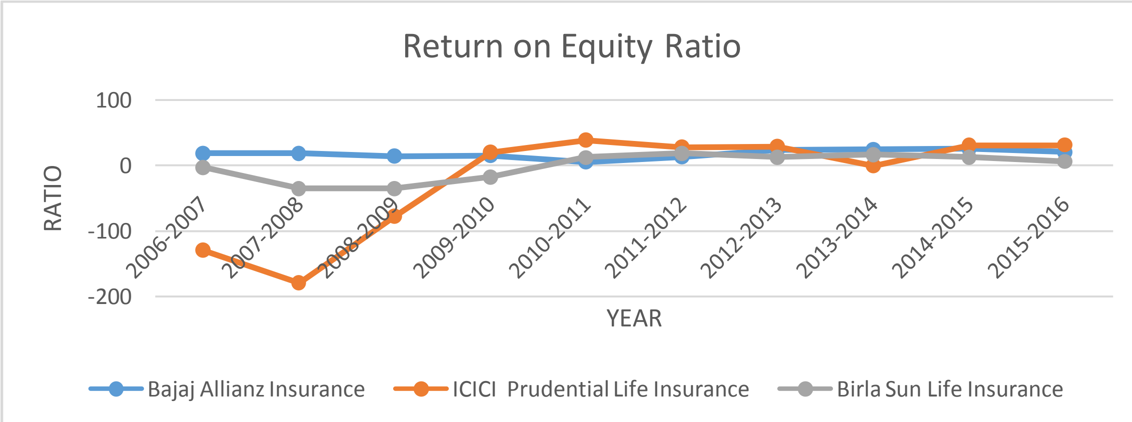

Fig 8: Return on Equity Ratio

Table 8: Return on Equity Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	17.78	18.33	0.14
ICICI Prudential Life Insurance	18.31	91.26	0.97
Birla Sun Life Insurance	-1.016	40.50	0.846
Source: *Self computed by author(s)*			

Table 8 shows the highest average value is 18.31 % of ICICI Prudential Life Insurance and the lowest average value is -1.016 % of Birla Sun Life Insurance Company. Here, the Standard deviation of ICICI Prudential Life Insurance is 91.26 and Bajaj Allianz Life Insurance is 18.33. **Table 8** also shows low degree of correlation of Return on Equity Ratio between the industry average and with individual industry. This indicates all three private life insurance companies take their decision in different way relating to the net earning matter.

Net Retention Ratio

Here, the companies having a stronger capital base are able to retain more of their portfolios, whereas the companies with relatively lower capacity to retain risks have resorted to higher utilization of reinsurance. It is computed based on premiums. It is the ratio of Net written premium to gross direct premium of a life insurance company.

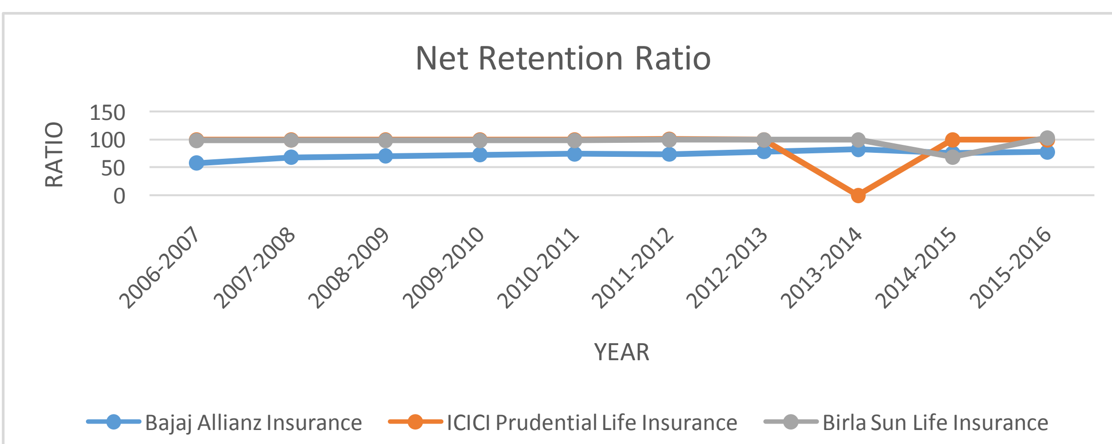

Fig 9: Net Retention Ratio

Table 9: Net Retention Ratio of three companies

Name of the Company	Average (%)	SD	Pearson correlation coefficient between Individual company and Industry Average
Bajaj Allianz Life Insurance	72.82	45.13	0.41
ICICI Prudential Life Insurance	98.74	72.87	-0.094
Birla Sun Life Insurance	96.36	71.06	0.84
Source: *Self computed by author(s)*			

Table 9 shows the highest average value of Net Retention Ratio is 98.74% of ICICI Prudential Life Insurance and the lowest average value is 72.82% of Bajaj Allianz Life Insurance. The standard deviation value is 72.87 in case of ICICI Prudential Life Insurance and 45.13 in case of Bajaj Allianz Life Insurance. **Table 9** shows the high degree of positive correlation of Net Earnings Ratio between industry average and with Birla Sun Life Insurance. It indicates that the way other insurance companies take decision in relating to Net Earnings Ratio, Birla Sun Life Insurance Company takes decision accordingly.

Table 10: Comparative Analysis

Ratios	**Name of the selected private life insurance companies**					
	Bajaj Allianz Life Insurance	ICICI Prudential Life Insurance	Birla Sun Life Insurance	Bajaj Allianz Life Insurance	ICICI Prudential Life Insurance	Birla Sun Life Insurance
	On the basis of Profitability Analysis			**Overall Ranking**		
Claim Ratio	72.78	61.89	89	2	1	3
Expenses to Management Ratio	33.87	21.73	21.37	3	2	1
Combined Ratio	99.45	68.19	63.32	3	2	1
Commission Ratio	0.86	4.49	8.4	1	2	3
Investment Income Ratio	10.01	41.94	23.63	3	1	2
Operating Ratio	8.38	2.38	-1.786	1	2	3
Net Earnings Ratio	23.17	3.22	-1.786	1	2	3
Return On Equity Ratio	17.78	18.31	-10.016	2	1	3
Net Retention Ratio	72.82	98.74	96.36	3	1	2
Composite Rank(Aggregate of Ranks)				19	14	20
Overall Rank				**2nd**	**1st**	**3rd**
Source: *Self computed by author(s)*						

According to **Table 10**, it is quite clear that ICICI Prudential Life Insurance is the best performer amongst the three companies in terms of overall profitability analysis followed by Bajaj Allianz Life Insurance and Birla Sun Life Insurance.

7. OBSERVATIONS

- According to **Table 1**, it is found that the average Claim Ratio of Birla Sun Life Insurance Company is higher than comparatively with other two private insurance companies. This indicates Birla Sun Life have a poor financial health in relating to claim settlement where as ICICI have the lowest claim ratio and Bajaj Allianz have moderate claim ratio.
- According to **Table 2**, it is found that the average Expense to Management Ratio of Bajaj Allianz Life Insurance Company is higher than comparatively with other two companies. This indicates Bajaj Allianz Life Insurance also has a poor financial health.

- According to **Table 3**, it is found that average Combined Ratio of Birla Sun Life Insurance is higher than comparatively with other two private insurance companies. This indicates that for better financial position of Birla Sun Life Insurance it is necessary to lower both the Claim Ratio and Ratio of Expenses to Management. Higher these two ratios higher will be the combined ratio.
- According to **Table 4**, it is found from the average Commission Ratio that Birla Sun Life Insurance is higher than comparatively with other two companies which is not a good indication for company's financial efficiency and performance of the company.
- According to **Table 5**, it is found ICICI Prudential Life Insurance have higher average Investment Income Ratio in comparison to the other two companies. This indicates higher the Investment Income of any company higher the degree of quality, adequacy and the profitability of the investment of an insurer.
- According to **Table 6**, it is found that Bajaj Allianz Life Insurance have higher average Operating Ratio in comparison to the other two companies which is an indirect method to measure the efficiency of a company.
- According to **Table 7**, it is found that Bajaj Allianz Life Insurance have higher average Net Earnings Ratio in comparison to the other two companies. This ratio plays an efficient role in company's financial health and shareholders also look at the Net Earning closely because Net Earnings are the source of compensate to the shareholders of the insurance company.
- According to **Table 8**, it is found that ICICI Prudential Life Insurance have higher Return on Equity Ratio compared to the other two companies. This indicates ICICI Prudential Life Insurance very efficiently uses the investment fund to generate earnings growth.
- According to **Table 9**, it is found that ICICI Prudential Life Insurance has higher Net Retention Ratio compared to the other two companies. This indicates ICICI Prudential Life Insurance having a strong capital base and is able to retain more of their portfolios.

CONCLUDING REMARKS

In this paper a set of profitability ratios have been presented and discussed to lend in the analysis of life insurer's financial and statistical returns to help out in forming a view to strength the insurer's operation and financial standing. For testing the profitability of the some selected private life insurance companies of India. We have considered *Claim ratio, Ratio of expenses to management, Combined ratio, Commission ratio, Operating ratio, Net Earnings ratio, Return on Equity Ratio, Net Retention Ratio, Investment income ratio.*

The ratios such as *Claim ratio, Ratio of expenses to management, Combined ratio, Commission ratio* are considered to be minimal for the positive and prolonging performance of the life insurance companies. Accordingly, on that basis both Birla Sun Life Insurance and Bajaj Allianz Life Insurance Companies need to check on their ratio to ensure their solvency position which should not be jeopardized at any moment. Relating to combined ratio as well for Birla Sun Life Insurance, proper pricing and risk selection system should be put in place to enable the insurer in case of proper claims and expenses management.

Another ratios such as *Operating ratio, Net Earnings ratio, Return on Equity Ratio, Net Retention Ratio, Investment income ratio* are considered to be fit for measuring the positive and prolonging performance of the above mentioned life insurance companies in the present study. Here, ICICI Prudential Life Insurance has shown a highest ratio relating to Investment income ratio, Return on equity ratio and Net retention ratio whereas in case of Operating ratio and in Net earnings ratio it shown the 2nd highest ratio which gives a clear signal to the society that the company is performing very efficiently in terms of providing compensation to the shareholders of the company, generating high profit and also maintaining a strong capital base.

Finally, it has to be concluded that aforesaid life insurance companies are required to pay more attention on efficient underwriting, otherwise their sustainability in the cut throat competitive market will be questionable. However, underwriting losses can be minimized if the insurance regulator makes proper risk management practices mandatory.

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