

Financial Growth Assessment of Private Life Insurers in India: An Aggregative Study

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Abstract

Presently, Indian insurance industry has 57 insurance companies, out of which 24 are in the life insurance sector. Among all the life insurers, only LIC is the public insurer and the remaining 23 companies are private insurers. The entire route of allowing private insurance companies in India had begun in the early 1990s. A well-developed insurance sector with participation from both private and public players is the key to economic development as it delivers a source of long-term funds for infrastructure development.

In this background, the study aims to examine the trend growth rates and the differences in growth rates of earnings and financial health indicators during the period 2010-11 to 2019-20.

The findings of the study show mixed results with respect to earnings and financial health performance of private life insurers in India. To arrive at a meaningful conclusion, overall earnings and financial health indicators are measured. The overall results show that there has been no change in the overall earnings and financial health indicators as revealed by Chow test during the period under study.

On the whole, it may be stated that in spite of significant positive growth in FDIR, the private life insurers have not shown satisfactory performance (i.e., no significant impact due to FDI hike) with respect to earnings and financial health indicators during the study period.

Keywords: Earnings, Financial Health, Financial Growth, Indicators, Private Life Insurers

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Introduction

The first legislation passed in India leading all types of insurance to provide strict Government control over insurance business was Insurance Act of 1938. After independence, life insurance business in India was wholly nationalized on 19th January 1956 through the Life Insurance Corporation Act passed by the Parliament of India. All the existing 245 insurance companies in the country functioning on that time were amalgamated into one unit, namely the Life Insurance Corporation of India (LICI).

In the life insurance sector, LIC had monopoly in the entire market as there were no private insurers allowed to act as insurance companies in India till 1990. In accordance with the recommendations of Malhotra Committee Report in the year 1999, the Government of India formed Insurance Regulatory and Development Authority of India (IRDAI) through an act of Parliament. In India, actually IRDAI is the apex controller that supervises and regulates the insurance sector. IRDAI Act issues different guidelines time to time in respect of allowing private companies in the life insurance sector in India. Presently, Indian insurance industry has 57 insurance companies, out of which 24 are in the life insurance sector. Among all the life insurers, only LIC is the public insurer and the remaining 23 companies are private insurers.

Private Life Insurers in India

The entry route of allowing private insurance companies in India had begun in the early 1990s. In 1993, the Government of India set up R.N. Malhotra committee to provide necessary recommendations for entry norms of private companies. As an outcome of this report, the Insurance Regulatory and Development Act, 1999 (IRD Act) was passed by Indian Parliament on 2nd December, 1999. The prime objective of this Act is to provide for the establishment of an authority which will formally allow the private players to enter into the insurance business in India. The IRDAI opened up the market for private players in August 2000, with formal invitation for application to get registration in life insurance business.

The private insurers in India are comparatively new and do not have a historical record, and thus general public frequently doubt or worried their reliability to invest in various life and non-life insurance products. A well-developed insurance sector with participation from both private and public players is the key to economic development as it delivers a source of long-term funds for infrastructure development.

Foreign Direct Investment in Indian Private Insurance Sector

In India, the entry of private insurers took place in the year 2000 after the implementation of the IRDA Act, 1999. This Act legalized the inflow of foreign shareholding, commonly known as FDI only in the private life and non-life insurance companies to the extent of 26% of the total shareholding. In the year 2015, the Government of India hiked the FDI capital in private life and non-life insurers from 26 per cent to 49 per cent.

From the year 2000 (i.e., when liberalization process in the insurance sector initiated), the public sector insurers dominated the insurance market as compared to the market share of private insurers. But to increase the insurance penetration covering every corner of the country, management through FDI inflows especially in the private sector would play a better outcome. FDI in the private insurance sector would escalate the insurance penetration and can able to meet long term capital requirements in India for adequate funding in infrastructure sector. The private insurance sector has the ability of hovering long-term investment from the common people, thereby indirectly provide assistance for growth of the Indian economy.

Literature Review

Relevant Studies on Insurance Sector

An appraisal of key studies related to private life insurers are organized chronologically and shown below in Table 1:

Sl. No.	Attention Area	References
1	The researcher identified the problems regarding the liquidation risk, ratings of the insurer and outstanding elements which had led to the underperformance of LIC business in the northern region part of India.	Ramesh, Lal (2002)
2	The study showed that within six years from the entry of private players in the Indian life insurance market, LIC had lost 29% market share, although market size and the amount of insurance premium collected was raised for LIC along with private players.	Goswami (2007)

3	The study indicated the reasons behind the decrease in growth in new insurance policies of LIC after privatization across the country. The areas suggested for underperforming of LIC were related with the functioning of branch managers, development officers and all types of insurance agents.	Shrinivas (2008)
4	The researchers analysed an inclusive performance of life insurance sectors in India between pre- and post-economic reforms period. The study period covered from 1980 to 2009. The empirical results found an incredible growth in the performance of both public and private life insurance sectors due to the policy of LPG. The nature of insurance industry also upgraded due to the opening up of foreign players in private sector insurers.	Bedi and Singh (2011)
5	The study evaluated the performance of Indian private and public life insurance industries with various ratios. The study showed an increase in insurance penetration and density due to opening up of the private sector insurance players. The performance of different ratios was found to be favourable.	Kumari (2013)
6	The researcher conducted a comparative study between public and private sector life insurance companies in India with some selected parameters like market share, new business premium, number of new policies issued, etc. The study found that for all the selected parameters, LIC accounted a dominated player in the market. The study also concluded that the private insurance companies have to ensure more quality products with a competitive premium by reducing their operational cost and also provide better service quality to increase their profitability and productivity performance.	Mishra (2015)
7	The study stated that an increase in FDI showed a positive move for the future of Life Insurance Sector in India. It was suggested that as the insurance sector needs huge amount of capital investment, it can be done effectively only through increase in FDI which would lead to enhance the overall performance of life insurance sector.	Yadavand, Mohania (2016)
8	The researchers analysed how liberalization had made an impact on life insurance sector for a study period of 17 years. The study also compared the performance of public and private life sector insurance companies in India during the post liberalization period with a sample size of 24 companies. It was concluded that during the liberalization period, India has reported a significant increase in life insurance density, penetration, premium collection, and number of policies.	Patel and Dwiveli (2019)
9	The study examined the impact of FDI on SBI Life Insurance Company Limited on the basis of primary data that were collected from officials and policyholders. Secondary data were also collected from the reports that were available from the websites. The study concluded that FDI played a significant role in life insurance industry and accounted a good growth in FDI participation. It also showed that there was an improvement in quality of service rendered to the policy holders of SBI Life Insurance Company Limited.	Kanzal, and Harsha (2021)

Research Gap

From the prior studies as stated above, it is detected that many studies were carried out to assess the performance with respect to profitability on few selected indicators within life insurance companies. Majority of the studies have made a comparative assessment at disaggregate level i.e., company-wise analysis between public and private life insurance sectors during the FDI period. Therefore, we hardly get any idea about the impact of FDI in the private insurance sector.

Objectives

- To examine the growth rate of profitability and solvency position on the basis of selected performance parameters of private life insurance companies.
- To examine the impact of FDI hike on the financial growth rate of private life insurance companies.

Conceptual Model and Hypotheses of the Study

Conceptual Model for Development of Hypotheses

According to the objectives as stated above in section 5, the conceptual model for development of hypotheses has been framed which is shown in Figure 1.

1st Hypothesis

H₀₁: There has been no substantial growth in selected financial performance parameters of private life insurance companies.

H_{A1}: H₀₁ is not true.

2nd Hypothesis

H₀₂: There is no substantial impact on selected performance parameters of private life insurance companies due to substantial FDI hike that took place during the period under study.

H_{A2}: H₀₂ is not true.

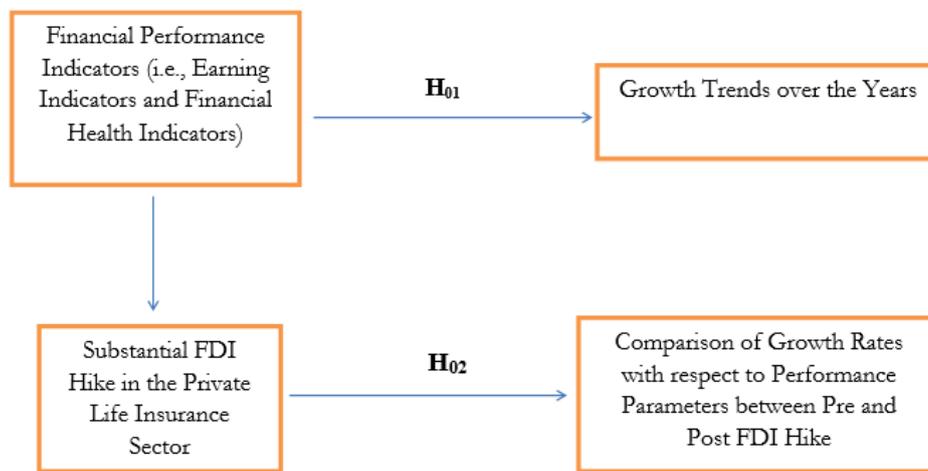


Fig. 1: Conceptual Model for Hypotheses Development

Research Methodology

Sample

The study considers all the private life insurance companies that are operating in India.

Data Source

The data have been collected on an aggregative basis chiefly from secondary sources, i.e., from the website of IRDA and from the published Annual Reports of IRDA.

Study Period

The period under study ranges over ten years from 2010-11 to 2019-20. The reason for selection of this study period is due to substantial hike in FDI norms in the year 2015.

Tools and Techniques

Estimation of Trend Growth Rates: To calculate trend growth rates of the selected performance indicators, semi-log trend equation has been used in the study which is shown below:

$$\text{Log } Y = a + bt + Ut$$

Where:

Y represents dependent variable, a represents constant, b represents growth rate (beta co-efficient), t represents time, and Ut represents random disturbance term.

In our study, Y indicates performance indicators in terms of Return on Equity (ROE), Commission Expenses Ratio (CER), Operating Expenses Ratio (OER), Solvency Ratio (SR), and FDI Inflow Ratio (FDIR).

Chow Test: To facilitate comparison of growth rates with respect to performance parameters between pre and post FDI hike in private life insurance sector, Chow test is applied in the study which is presented below:

$$F = \frac{RSS_c - (RSS_1 + RSS_2) / k}{RSS_1 + RSS_2 / n - 2k}$$

Where:

RSS_c = Residual Sum of Square of Combined Observations

RSS₁ = Residual Sum of Square of Pre Break Observations

RSS₂ = Residual Sum of Square of Post Break Observations

n = Number of Observations, k = Number of Breaks

n = n₁ (Number of Pre Break Observations) + n₂ (Number of Post Break Observations)

Degree of Freedom = n₁+n₂-2k

Findings and Analysis

Growth Rate Analysis of Selected Financial Performance Parameters of Private Life Insurance Companies

The trend growth rates of private life insurers with respect to return on equity, commission expenses ratio, operating expenses ratio, solvency ratio, and FDI inflow ratio are estimated and presented below in Table 1.

Table 1: Trend Growth Rates of Earnings and Financial Health Indicators of Private Life Insurers

Instruments	R ²	Constant (a)	Growth Rate (%)	F-Value	Comments
Return on Equity (ROE)	0.216	-0.739 (-14.90)	2.6 ⁱ (1.48)	2.21	Positive and Insignificant
Commission Expenses Ratio (CER)	0.001	-1.280 (-85.01)	-0.1 ⁱ (-0.09)	0.009	Negative and Insignificant
Operating Expenses Ratio (OER)	0.834	-0.801 (-88.28)	-2.0 ^{***} (-6.34)	40.27	Negative and Significant
Solvency Ratio (SR)	0.703	0.523 (61.876)	-1.3 ^{***} (-4.35)	18.95	Negative and Significant
FDI Inflow Ratio (FDIR)	0.787	-0.543 (-40.97)	2.5 ^{***} (5.434)	29.52	Positive and Significant

Source: Computed.

Notes:

- i. The trend co-efficient (represented by 'b') has been multiplied by 100 to express the growth rate in percentage form.
- ii. *** marked value indicates significant at 1% level (two tailed).
- iii. ** a marked value indicates significant at 5% level (two tailed).
- iv. ⁱmarked value indicates insignificant.
- v. Figures in bracket indicate 't' value.
- vi. d.f. = (n-k-1) > (10-1-1) = 8

Table 1 shows positive growth rate in ROE and FDIR. However, the result is significant for FDIR and insignificant for ROE. Furthermore, OER and SR show significant negative growth, while CER reveals insignificant negative growth. These results lead to the acceptance of first hypothesis for ROE and CER, while the same hypothesis is rejected for OER, SR, and FDIR. Thus, increase in FDI has not brought desired results with respect to earnings and financial health indicators of private life insurers during the study period.

Assessment of Difference in the Earnings and Financial Health Indicators due to Capital Structural Change of the Private Life Insurers during the Pre-FDI hiked and Post-FDI hiked Periods

To measure whether there is any noteworthy change in earnings and financial health indicators of private life insurers, Chow test is employed during the study period. The results of Chow test in this respect are shown below in Table 2.

Table 2: Chow Test for Examining the Differences in Growth Rates of Performance Indicators between Two Sub-Periods with respect to Private Life Insurers

Selected Performance Indicators	Calculated Value of F-Statistic	Differences in Growth Rates between Two Sub-Periods	
Return on Equity (ROE)	3.156	Insignificant at 5% Level	Accept H ₀₂
Commission Expenses Ratio (CER)	12.00	Significant at 1% Level	Reject H ₀₂
Operating Expenses Ratio (OER)	2.27	Insignificant at 5% Level	Accept H ₀₂
Solvency Ratio (SR)	5.57	Significant at 5% Level	Reject H ₀₂
FDI Inflow Ratio (FDIR)	10.68	Significant at 5% Level	Reject H ₀₂

Source: Computed

Table 2 reveals insignificant results for ROE, CER, and OER, which indicates that there has been no significant change during the study period. However, the results are found to be significant for SR and FDIR. These results lead to the acceptance of the second hypothesis for ROE, CER, and OER. On the other hand, the second hypothesis has been rejected for SR and FDIR.

From the above results, no definite conclusion can be arrived as it shows different results with respect to selected performance parameters. Therefore, to arrive at a definite conclusion, we run two regression equations and the estimated beta coefficients of the respective equations are applied in the Chow test. The first equation takes ROE as dependent variable and the independent variables are represented by CER and OER. In respect of second regression equation, the dependent variable is represented by SR and the independent variable is represented by FDIR.

Assessment of Overall Difference in the Relationships between Earnings and Financial Health Indicators with that of FDI inflows due to Capital Structural Change of the Private Life Insurers during the Pre-FDI Hiked and Post-FDI Hiked Periods

The results of overall differences in growth rates of earnings and financial health indicators of the private life insurers between the two sub-periods are presented in Table 3 below.

Table 3: Chow Test for Examining the Overall Differences in Growth Rates of Earning and Financial Health Indicators of Life Insurers between Two Sub Periods

Selected Performance Indicators	Calculated Value of F-Statistic	Differences in Growth Rates between Two Sub-Periods	
ROE- Life Insurers	0.500	Insignificant at 5% Level	Accept H ₀₂
SR- Life Insurers	3.686	Insignificant at 5% Level	Accept H ₀₂

Source: Computed

From table 3, it is found that Chow F Statistic value of ROE and SR of private life insurers is insignificant at 5% probability level, which leads to the acceptance of second null hypothesis of the study. This shows that there has been no change in growth rates of earnings and financial health indicator during the period under study.

Outcome of the Conceptual Model

Based on the findings of the study, the outcome of the conceptual model is presented in Figure 2 below.

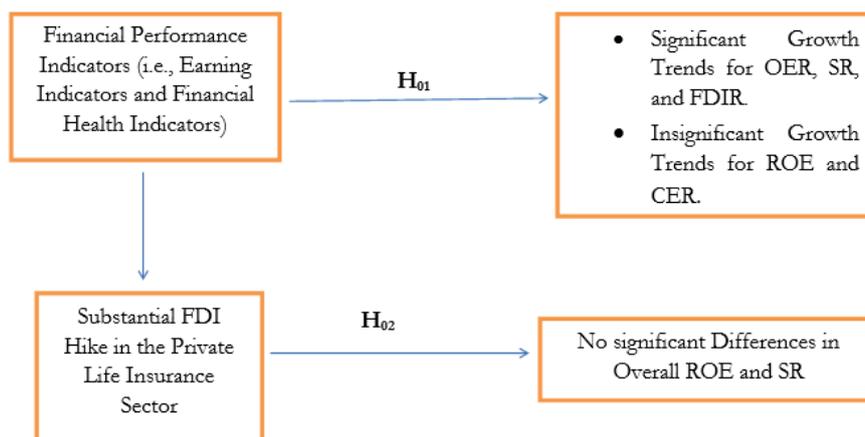


Figure 2: Outcome of the Conceptual Model

Conclusion

The study shows mixed results with respect to performance of earnings and financial health of private life insurers in India. To arrive at a meaningful conclusion, overall earnings and financial health indicators are measured. The overall results show that there has been no change in the overall earnings and financial health indicators as revealed by Chow test during the period under study.

On the whole, it may be stated that in spite of significant positive growth in FDIR, the private life insurers have not shown satisfactory performance (i.e., no significant impact due to FDI hike) with respect to earnings and financial health indicators during the study period.

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Dr. Tamal Basu, presently the Assistant Professor in the Department of Commerce (UG & PG), Prabhat Kumar College, Contai, Purba Medinipur, West Bengal. He has an experience of 15+ years under graduate and 8+ years post graduate teaching. He acquired his B.Com and M.Com degree from Vidyasagar University, West Bengal and awarded gold medal in both the examinations. He has awarded his doctoral thesis in the field of NBFCs in October, 2020. His specialisation areas are Accounting, Finance and Taxation. He has 26 publications in different national and international journals and edited volumes. In addition to that he has presented 22 papers in different national and international seminars/conferences.

Prof. P. Sreeramana Aithal, presently the Vice-Chancellor of Srinivas University, Mangalore, India, has 32 years' experience in Teaching & Research and 22 years' experience in Administration. Prof. Aithal currently has FIRST RANK in TOP 12,000 Business Management Authors in the Global Ranking of Elsevier's SSRN (USA) for maximum number of open access research paper publications in SSRN. He got his first Ph.D. degree in Physics from Mangalore University and second Ph.D. degree in Business Management from Manipal University. He worked as Post Doctoral Research Fellow at PRL, Ahmedabad from 1999-2000. In the year 2002, he has been selected for the prestigious Overseer Fellowship of Dept. of Science & Technology, Govt. of India – BOYSCAST Fellowship and did Post Doctoral Research at CREOL, University of Central Florida, U.S.A. Recently, he obtained D.Sc. Degree from Srinivas University for his research on Technology Management. Prof. Aithal has more than 600 research publications in refereed International Journals and presented more than 300 research papers in National & International Conferences/Seminars. He has also written text books on Engineering Physics and Basic Electronics, which have been published by ACME Publishers, New Delhi.

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