Performance of Insurance Sector in India - A Review

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ABSTRACT

It has been recognized for many years by the researchers, practitioners and academicians that the insurance sector is instrumental in development and growth of any economy. It seems Insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation. More specifically, insurance can have effects such as promoting financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs. In view of importance of the insurance sector in economic development one could expect that good quantum of research might be available on studying direct impact of insurance services on the economic growth. The present study attempts to give a bird's eye view on the different aspects of the insurance sector and its contribution on economic growth and also the financial performance of insurance sector.

Keywords-- Financial Performance, Financial Intermediation, Sustainable Business & Economic Performance

I. INTRODUCTION

In India, life insurance business existed even before nationalization. After nationalization, the Constitution set up the LIC of India. Due to the impact of globalization, privatization and liberalization policy in the present era, LIC has opened many branches inside and outside India.

Insurance companies from other countries have also come to India. In recent years the growth rate of insurance business of private sector companies has been higher than that of LIC. The competition between the two will ultimately benefit the consumer. Life insurance is not simply a business proposition. It is not just a question of mobilization of resources for development; it is a question of citizen’s sense of security. It provides a link between the present and the future. It is a matter of the socioeconomic vision that a society has of its future. Ultimately it becomes the problem of mutuality of trust between the people and their government (Arora).

Life insurance industry expanded tremendously from 2000 onwards in terms of number of offices, number of agents, new business policies, premium income etc. Further, many new products (like ULIPs, pension plans etc.) and riders were provided by the life insurers to suit the requirements of various customers. However, the new business of such companies was more skewed in favor of selected states and union territories. Private life insurers used the new business channels of marketing to a great extent when compared with LIC. Investment pattern of LIC and private insurers also showed some differences. Solvency ratio of private life insurers was much better than LIC in spite of big losses suffered by them. Lapsation ratio of private insurers was higher than LIC and servicing of death claims was better in case of LIC as compared to private life insurers (Ravichandran, 2007).

II. FINANCIAL REPORTING PRACTICES OF LIFE INSURANCE COMPANIES

Private life insurers used the new business channels of marketing to a great extent when compared with LIC. Investment pattern of LIC and private insurers also showed some differences. Solvency ratio of private life insurers was much better than LIC in spite of big losses suffered by them. Lapsation ratio of private insurers was higher than LIC and servicing of death claims was better in case of LIC as compared to private life insurers (Chaudhary & Kiran, 2011).

It has been observed that profitability of life insurers is positively and significantly influenced by the size (as explained by logarithm of net premium) and
liquidity. The leverage, premium growth and logarithm of equity capital negatively and significantly influence the profitability of Indian life insurers. This study does not find any evidence for the relationship between underwriting risk and profitability. In view of the untapped huge insurance market; unique regulatory environment comprising a hybrid model of regulation with competition; proposed approval to allow the players to tap the capital market for public issues; proposal to tie up with banks; and the proposal to increase the foreign direct investment, life insurers would shift their focus towards designing products providing long term savings and protection for the economy, through sustainable business models (Charumathi, 2012).

The size of life insurance market increased on the strength of growth in the economy and concomitant increase in per capita income. This resulted in a favorable growth in total premium both for LIC to the new insurers. If we observe the financial performance of insurance industry, total Assets to Earned Premium Ratio indicates how efficiently the organizations assets are utilized to increase the business. This ratio is increasing year by year. It shows a favorable growth in the performance of insurance business in the country. Investment Income to Earned Premium Ratio increasing year by year during the study period the insurance industry as a whole shows the increased level of performance (Kumari, 2002).

III. PERFORMANCE OF AND PROFITABILITY INSURANCE SECTOR

It has been depicted by research that higher level of profitability and competitiveness in the market can be achieved through special emphasis on underwriting discipline to avoid underwriting losses. Needs of customers should be properly judged to have advantage of price deregulation and to be best in terms of quality also the insurers need to properly tailor their insurance products. Hence profitability in insurance sector is a by-product of customer need. It is also important that proper pricing and proper risk selection system should be put in place to get rid of higher combined ratio, which will enable insurers in proper claim management and expenses management (Dar & Thakur, 2015).

The relationship between profitable property and liability of insurance companies had been first studied by Norgaard & Schick (1970), during the period 1953-67 (Norgaard & Schick, 1970). The technique used is based on a risk return trend analysis. It was found that insurance companies earned profits at par with those earned by the major industrial corporations. Among insurance companies, automobile underwriters performed considerably better than multiple line of fire and allied line underwriters. The study indicated that within the insurance industry, there is an economy of scale in degree of specialization and size.

A study by Hussain and Islam (1996), evaluated the accounting policies disclosed in the financial statements of the insurance companies in Bangladesh. The study found that despite some shortcomings, disclosure practices relating to accounting policies of the insurance companies in Bangladesh deserve high appreciation. It was observed that 100 % of surveyed companies disclosed accounting policies in their financial statement, as compared to 23 % found by Parry and Khan (1984) and 70% by Alam and Abdullah (1990) (Alam & Abdullah, 1990; Parry & Khan, 1984). This is, undoubtedly, a chronological development owing to disclosure consciousness in the company reporting.

An empirical analysis by Chidambaran et al. (1997) of the economic performance of the U.S. property-liability insurance industry, using estimation across 18 lines of insurance for the years 1984 through 1983 which adopted an industrial organization at approach, focusing on the economic loss ratio as a measure of pricing performance found that there are still questions about performance that are related to industry concentration (Chidambaran et al., 1997). One explanation is that higher concentration is conducive to the muting of pricing rivalry. Another is that higher differences in firm efficiency result in both higher concentration and higher profit rates. These two explanations are not mutually exclusive, and the former is a plausible explanation for property-liability insurance. The study concluded that the concentration ratio for the line and the share of direct writers in the line are both found to be significant determinants of performance.

IV. FACTORS AFFECTING INSURANCE INDUSTRY

Apart from financial issues like profitability and efficiency it is also very important to study other aspect which affects the insurance sector and influence the market conditions. Among various factors which need a serious attention are training for the marketing staff, competition analysis, market survey and trend analysis. Though there are very few papers are found for literature review, all attempts should be taken to make the review exhaustive. The findings of this study have implications for financial sector companies as it provides them with an opportunity to critically analyze the contribution of human capital to their organization and will aid the design of strategies for enhanced corporate performance. It will also help management of companies in other economic sectors, especially those in knowledge-based industries, to understand the contributions of various components of intellectual capital to their business growth. This study will help decision makers to be aware of the importance of intellectual capital as a key factor that can enhance
company’s ability to maintain their competitive position (Joshi et al., 2013).

The doctoral study of Arora (1987) is a classic example of human resources management linked to financial performance. The research revealed that the total investment of LIC has increased at a faster rate than the increase in total fund, total assets and controlled fund. It is a very good sign, because a large portion of the amount is being utilized for earning income and a small portion of the amount is left idle. The percentage of investment in government securities to total investment has been declining. It has no reverse impact on the interest of the policyholder. The LIC arranged investment in such a way that it got a constant inflow of funds. The study observed that the LIC has no systematic planning to foresee the needs of its employees. The study suggested that the personnel department of LIC should be equipped with specialized and qualified personnel to manage its functioning properly (Arora, 2008).

Arora (1988) has also thrown light on investment policy of GIC and examined critically the role played by the GIC in providing finance to industry. The study revealed that the Investment Policy of GIC evolved within the ambit of the provisions of the Insurance Act 1938, and the guidelines issued by the government from time to time, with a view to maximizing investment income, ensuring safety, liquidity of funds and be consistent with national objectives and priorities under the guidelines. It also invested in corporate securities and participated in underwriting of new issues. The promotional role played by the GIC over the years has been considerable. It has taken keen interest in the area of rural insurance, foreign business development and development of human resource(Arora, 1988).

The need for private sector entry has been justified on the basis of enhancing the efficiency of operations, achieving a greater density and penetration of life insurance in the country, and for a greater mobilization of long-term savings for long gestation infrastructure projects. Introducing competition involves several regulatory issues and the role of the regulator has also been discussed here. In the wake of such coming competition, the government monopoly of LIC is a strong incumbent.

V. CONCLUSION

In view of the Literature review various aspects of insurance industry have been studied and their impact has well been discussed. Where almost all the industries in the world are trying hard for survival due to the major economic meltdown, Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. The study has clearly outlined the financial performance of Indian life insurance companies through analyzing the determinants of their profitability. This paper has highlighted the performance of insurance companies which has gained the relevance because they are not only providing the mechanism of saving money and transferring risk but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support the investment activities in the economy.

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