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Are General Insurance Companies Efficient in their Performance? – A Comparison

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Abstract

The insurance sector has witnessed significant changes in the last few years, specifically due to the effects of liberalisation, globalisation, and privatisation. It is imperative to compare and study the earnings and profitability of public sector non-life general insurance companies in India. The public sector non-life general insurance companies are competing with each other, and also with the private players in the same industry and thereby reducing the processing costs and facilitating the innovation of different types of policies across the geographic boundaries. In this paper, secondary data is used to analyse the earnings and profitability of non-life general insurance companies in India by using certain ratios which are available exclusively to evaluate the performance of insurance companies such as Claim Ratio, Expenses Ratio, Combined Ratio, Investment Income Ratio and Return on Equity Ratio.

Keywords: Economic Reforms, Non-life General Insurance Companies, Earnings and Profitability, Ratio Analysis

1. Introduction

The history of general insurance can be traced back to the Industrial Revolution in the west and the subsequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of the British occupation. The process of re-opening of

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the sector had begun in the early 1990s and in the last decade and more it has opened up substantially. Since 1991, the Indian economy has experienced a tremendous change due to liberalisation, privatisation and globalisation. Accordingly, financial sector reforms have brought a structural change in the insurance sector. This has challenged the life insurance corporation of India and four general insurance companies in the public sector (Dar, 2015). India is in the fifteenth position with regard to the insurance sector in the world in terms of premium volume and has the prospect to grow rapidly in the years to come (Rao, 2016).

The post-liberalised Indian Insurance sector brought changes in the level of competition, business environment, managing strategies, service quality and advanced technology.

Therefore, the present study addresses the financial efficiencies of four public sector non-life insurers namely, National Insurance Company Limited, The Oriental Insurance Company Limited, The New India Assurance Company Limited and United India Insurance company.

2. Review of literature

Singh (2011) suggested that the policy of Liberalisation, Privatisation and Globalisation and the emergence of the private sector has facilitated the positive growth of LIC. In a study to provide an overview of the financial efficiency and level of financial soundness of 16 non-life insurance companies in the private sector, Ghimire (2013) concluded that maintaining the sound financial health of the insurance industry is one of the most challenging jobs for regulatory agencies. Dar (2015) assessed the financial and statistical returns of non-life insurers by using the set of ratios and CARAMEL Model. The authors found that the private insurers have a lower mean ratio and higher variability when compared to the public insurer which perhaps reflects the underwriting inefficiency. The solvency margin of public and private sector insurers need to be evaluated in this regard as well. Joo (2013) concluded that they have performed successfully in the grabbing the market in a deregulated environment.

Chakravorty (2016) assessed the financial efficiencies of four general insurance companies from the public-sector in India. The author found that the United India general insurance company is the best performer among all the four public-sector general insurance firms in India.

Studies have also examined the financial performance of Indian Life Insurance Companies through analysing the determinants of their Profitablity (Samiya, 2013). Samiya (2013) evaluated that the public sector player LIC has good liquidity position among all life insurers.

On another note, Singh (2015) has highlighted the changes in the selling environment in the digitalisation era and has also analysed the trends and challenging issues regarding the same. The financial performance in terms of capital adequacy and asset quality of public sector general insurance companies in India is an important aspect for this study and we have taken insights from the study conducted by Shankar (2014). Savitha (2014) has analysed the major source of income like premium and expenses like claims of GIC to measure the operational efficiency. The author found that the overall efficiency of the GIC is good.

3. Objectives of the study

The study has the following objectives:

1. To analyse the Earnings and Profitability of four Non-Life General Insurance companies in India during the period between 2012-13 to 2016-17
2. To know the relative position of the four Non-Life General Insurance companies in India during the period between 2012-13 to 2016-17

4. **Data and methodology**

The study is based on secondary data collected from the Handbook of IRDA. The reference period is restricted from 2011-12 to 2015-16.

The performance of insurance companies can be measured by using a number of indicators. However, in the present study only key ratios of insurance sector like Claim Incurred Ratio, Expenses Ratio, Combined Ratio, Ratio of Investment Income to Net Premium and Return on Equity are used.

In addition to the Ratio Analysis, the variables are tested by using the following statistical tools like Mean and Standard Deviation.

5. Results and discussion

The following variables are chosen to analyse the financial performance of the insurance companies.

Variables	Formula
Claim Incurred Ratio or Loss Ratio	Claims incurred/ Net Earned Premium
Expenses Ratio	Commission(or) operating expenses/net earned premium
Combined Ratio	Claims ratio plus expenses ratio
Ratio of Investment Income to Net Premium	Income from Investment/Net Earned Premium
Return on Equity	Operating Profit/Share Capital plus Reserves

Table 1 Claim Incurred Ratio

Claims Incurred Ratio					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National(NICL)	86	81.18	77.54	95.28	97.25
New India (NIICL)	86	83.78	84.02	87.84	91.26
Oriental (OICL)	82	85.84	81.89	83.71	112.11
United India (UIAL)	85	82.56	84.42	87.81	107.06

The Claim Incurred Ratio indicates the profitability of the insurer. It shows the percentage of pay-outs for the insured. Lower ratio is indicative of a better position. As per Table 1, the NICL's position is better in 2014-15 whereas NIICL's position is better in 2013-14. OICL & UIAL has the highest ratio in 2016-17 which is indicative that either the rate of premium is too low or the claim expenses have deteriorated.

Table No 2 Commission Expenses Ratio

Commission Expenses Ratio					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National (NICL)	5.229	6.716	5.7	5.74	2.68
New India (NIICL)	8.922	10.47	9.6	9.38	7.43
Oriental (OICL)	5.656	6.003	5.4	6.59	5.97
United India (UIAL)	4.249	5.772	6	5.12	5.20

The other indicator of profit performance is specifically connected to the commission expenses. This ratio shows how much the net premium is written off as expenses. Lower ratio is best whereas higher ratio shows that the company is performing less efficiently. In the above table, NICL performed well in 2016-17 as it had very less commission expenses, as evidenced in the ratio, 2.68. NIICL is less efficient in 2013-14 as the expense ratio is high ie., 10.47.

Table 3 Operating Expenses Ratio

Operating Expenses Ratio					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National (NICL)	22	26	32	33	30.8
New India (NIICL)	25	23	23	23	21.2
Oriental (OICL)	32	30	37	37	32.9
United India (UIAL)	28	28	30	29	24.7

Like Table 1, in Table 2, the same indication is applicable in Operating Expenses Ratio. NICL has performed well in 2012-13 as evident in the lower ratio i.e., 22. The OICL has performed less efficiently as the Operating Expenses Ratio is highest in 2014-15 & 2015-16.

Table 4 Combined Ratio

Combined Ratio					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National (NICL)	113.2	114.18	115.54	134.28	130.73
New India (NIICL)	119.9	116.78	117.02	119.84	119.89
Oriental (OICL)	119.7	121.84	123.89	127.71	150.98
United India (UIAL)	117.2	116.56	120.42	121.81	136.96

performance of non-life insurers. If the ratio is more than 100, it indicates failure in earning sufficient premiums to cover expected claims. Unfortunately, from the data projected above, we find that all the PSU non-life insurers have more than 100 as combined ratio from 2012-13 to 2016-17.

Table 5 Ratio of Investment Income to Net Premium

Ratio of Investment Income to Net Premium					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National (NICL)	12	11	11	10	9.98
New India (NIICL)	13	13	12	11	9.72
Oriental (OICL)	14	14	14	13	11.4
United India (UIAL)	13	13	13	12	11.3

The second major revenue for the non-life insurance company is the income generated from any investment. This ratio measures the company's operating profitability. The OICL is recorded with the highest investment income from 2012-13 to 2014-15 followed by UIAL.

Table 6 Return on Equity

Return on Equity					
Insurance Companies	2012-13	2013-14	2014-15	2015-16	2016-17
National (NICL)	1.9	19	31.5	16	-18
New India (NIICL)	-10	0.3	1.9	3.5	-4
Oriental (OICL)	0.7	16	7	2.9	-15
United India (UIAL)	1.7	-8.5	1.5	5.5	-8

Return on equity indicates the overall level of Profitability. Table 6 shows that net earnings that are available for each shareholder. The highest return on equity indicates higher profitability. The NICL recorded the highest ROE i.e., 31.5 in 2014-15. On the contrary, it records the lowest ROE by the same company in 2016-17. The other three companies show fluctuations in their ROE.

6. Summary and Concluding Remarks

In this paper, a set of ratios have been used to analyse the Earnings and Profitability of the public sector Non-life Insurance Companies in India. The ratios are Claim Ratio, Commission Expenses Ratio, Operating Expenses Ratio, Combined Ratio, Investment Income Ratio and Return on Equity Ratio. The Claim Ratio and Commission Expenses Ratio is concerned the lowest ratio (indicative of better performance) that is recorded by NCIL in 2014-15 and 2016-17 respectively. The Investment Income Ratio reveals that it is a major source of revenue for public sector insurers. In this perspective, OICL seems to have an advantage in comparison to other insurers. The ratio of ROE reveals that compared to other insurers, NICL has registered high ratios in all years except in 2016-17.

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