



## A STUDY ON PERFORMANCE ANALYSIS OF SELECT LIFE INSURANCE COMPANIES

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### ABSTRACT

In this study, the performance of select life insurance companies was analysed by considering a few important parameters like persistency ratio, claim settlement ratio, solvency ratio, current ratio and the total life insurance premium received. The top five private sector life insurance companies were selected based on the new business premium received by them – SBI Life Insurance Company Ltd, HDFC Life Insurance Company Ltd, ICICI Prudential Life Insurance Company Ltd, Max Life Insurance Company Ltd, Bajaj Allianz Life Insurance Company Ltd. The study was conducted for the duration of five years i.e., 2016-17 to 2020-21. The data collected was completely based on secondary sources. Of all the companies chosen for the study, the total premiums received by SBI Life Insurance Company Ltd has shown a significant increase over the years selected for the study and the study also analysed that the persistency ratio for all the five life insurance companies was decreasing over the years though there is an increase in the life insurance premiums received by the companies over the same duration.

**KEYWORDS :** Life insurance, persistency ratio, claim settlement ratio, new business premium, current ratio, solvency ratio.

### INTRODUCTION:

Life insurance can be seen as one of the fastest-growing sectors in India. As of FY 21, the insurance penetration in India stood at 4.2% of which life insurance penetration accounts for 3.2 per cent. As per the IRDAI website, there are a total of 24 life insurance companies in India out of which one company is a public-sector player i.e., Life Insurance Corporation of India and the remaining are private life insurance players.

There are many products offered by the companies under the Life Insurance category, namely – Term Life Insurance, Endowment Plans, Retirement Plans, Money back policies, ULIPs, Whole Life Plans, Child insurance plans, Group Life Insurance, etc. Due to the impact of covid on life insurance, the term insurance which provides a pure risk coverage saw a significant rise in its demand. The life insurance industry is expected to grow at 5.8 per cent during the first half of FY22, compared to 0.8 per cent in the same period the previous year. The new premiums from the life insurance companies increased by 22.2 per cent in September 2021 when compared to 2.9 per cent in September 2020.

Though there is a significant increase in the life insurance penetration, there is still a sizeable market which is untapped. As per Swiss Re report, India ranked 11<sup>th</sup> in global insurance business and maintained 10<sup>th</sup> rank in life insurance business in the world. During the pandemic times, digitalization pushed the life insurance sector business to a greater extent by playing an important role for insurers to provide seamless services for onboarding the customers and also providing services. The Finance Ministry and IRDAI are expecting the growth rate of the insurance business at 40-50 per cent in the upcoming 5 years as a result of the technological disruption taking place.

### Need For The Study:

Life insurance has become important for every individual in the present world. The pandemic has changed all the preferences of an individual and the perception towards life insurance due to which the penetration of life insurance in India has also increased considerably post-pandemic. Private sector life insurers also showed an increase in market share post-pandemic. Therefore, the researcher identified the need to analyze the performance of select private life insurance companies with the help of a few financial ratios calculation.

### Scope Of The Study:

Only the top five Indian Private Life Insurance Players based

on new business premiums received were selected for the study. The information related to these companies was obtained from the IRDAI website and the respective company's annual reports.

### Objectives Of The Study

The main objective of the study is to measure the financial performance of selected life insurers during time period 2016-17 to 2020-21 and to compare their performances.

### Literature Review

**V.Neelaveni (2012)** in her study, calculated the performance of five life insurance companies during the time period 2002-03 with respect to various plans and policies on the basis of annual growth rate. The study concluded that the private life insurers performed well in financial aspects compared to Life Insurance Corporation which is a public sector company.

**Kumari (2013)** studied and analysed the financial performance of the public and private life insurance industry by using various parameters like the number of companies, offices, insurance density and insurance penetration, size of the insurance market, and growth in premium. The financial ratios were used to analyse the financial performance and the study resulted that there was an increase in the life insurance business post-privatisation.

**Dr. Sumninder Kaur Bawa and Samiya Chattha (2013)** in their research conducted performance analysis using various financial ratios taking into consideration liquidity, solvency, profitability and leverage of the insurance players. The study was conducted for 18 life insurance players for the years 2007-08 to 2011-12. The study was conducted to determine the impact of liquidity, solvency, leverage, size and equity capital on the profitability of life insurers in India with the help of multiple linear regression. The study revealed that the profitability of life insurers is positively influenced by liquidity and size and negatively related with capital and the profitability does not have any relationship with solvency and insurance leverage.

**Gulati and Jain (2011)** studied on the business performance of all the life insurance companies on the basis of various indicators and the study specified that the entry of private sector life insurance players in our country did not hamper the growth of public sector life insurance players in spite of encountering various challenges.

**Gour and Gupta (2012)** in their study evaluated the solvency

ratio of Indian Life insurance companies for the period of 3 years i.e., 2009-10 to 2011-12 to check if there's any significant difference in their performances. analyzed whether performance of different companies was similar or not. The study revealed that ICICI Prudential Life Insurance Company was the best.

**Research Methodology:**

Five top private life insurance players were selected as the sample for the study based on the New Business Premium received by them. These companies were analysed on their performance by considering a few parameters – Solvency ratio, Persistency ratio, Claim settlement ratio, Current ratio and Total business premium received. The study was conducted for a period of 5 years i.e., 2016-17 to 2020-21. The data collected for the study was completely from the secondary sources – IRDAI website, IRDAI annual report and respective insurance company's annual reports. The tool used for data analysis is MS-Excel.

**Data Analysis:**

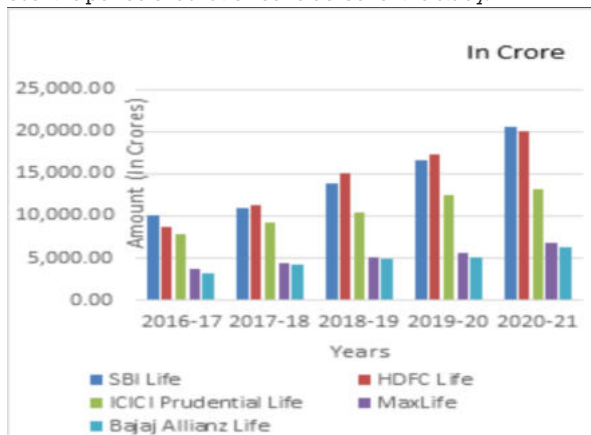
The data used for this study is secondary data. The past data has been collected from the IRDAI website, IRDAI annual report and the five insurers annual reports. By using the data, solvency ratio, persistency ratio, claim settlement ratio, current ratio and total business premium received for these players have been identified and analysed with the help of graphs, tables and charts.

**Table 1: New Business Premium**

Company Name	2020-21 (Amount in Crores)
SBI Life Insurance Company Ltd.	20,624.25
HDFC Life Insurance Company Ltd.	20,106.63
ICICI Prudential Life Insurance Company Ltd.	13,226.06
MaxLife Insurance Company Ltd.	6,826.22
Bajaj Allianz Life Insurance Company Ltd.	6,313.23

Source: IRDAI Annual report

The above table depicts the new business premium of the selected private life insurance companies and these companies are in the top 5. SBI Life insurance company LTD. Has the highest NBP for the year 2020-21 amounting to Rs20,624.25 crores followed by HDFC Life insurance Company Ltd, ICICI Prudential Life Insurance Company Ltd, Maxlife Insurance Company Ltd, and Bajaj Allianz Life Insurance Company Ltd. The figure 1 clearly shows the increase in new business premium for all the five companies over the period of duration considered for the study.



Source: IRDAI Annual report

**Figure 1. New Business Premium**

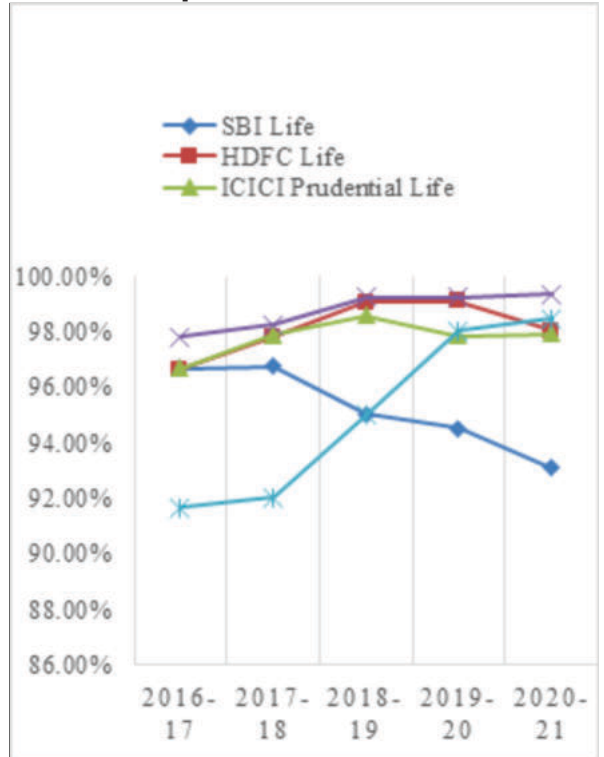
**Claim Settlement Ratio:**

The claim settlement ratio acts as one of the important indicator to analyse the credibility of life insurance company. It basically indicates the percentage of claims settled in an year out of the total claims received and higher this ratio the better it is.

**Table 2: Claims Settlement Of Life Insurers**

Company	16-17	17-18	18-19	19-20	20-21
SBI Life	96.69%	96.76%	95.03%	94.52%	93.09%
HDFC Life	96.62%	97.80%	99.04%	99.07%	98.01%
ICICI Prudential Life	96.68%	97.88%	98.58%	97.84%	97.90%
MaxLife	97.81%	98.26%	99.22%	99.22%	99.35%
Bajaj Allianz	91.67%	92.04%	95.01%	98.02%	98.48%

Source: Annual reports



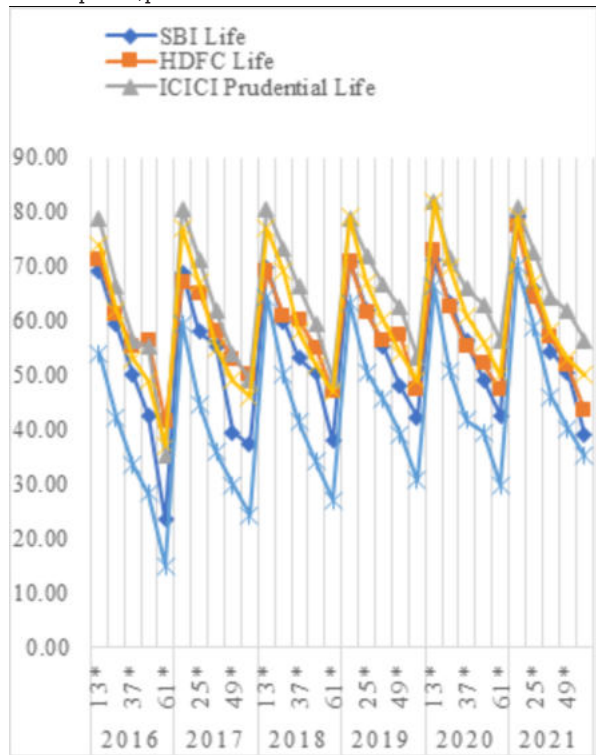
**Figure 2: Claims Settlement of Life Insurers**

From the above illustrations, it can be analyzed that the claim settlement percentage of Max Life Insurance Company is higher for all five years when compared to other life insurers considered for the study. Moreover, it is also visible that the claims settlement has been steadily increasing for Max Life Insurance over years. Max Life insurance uses Insta claim settlement feature to settle death claims within one day of receiving the claim request if certain conditions are satisfied- a) if Claim amount on all eligible policies is upto Rs.1 crore. b) Claims are for policies that have completed three continuous years c) All mandatory documents have been submitted before 3:00 PM on a working day and d) The claim does not warrant any field verification. The lowest claim settlement ratio is with SBI Life insurance in the recent years and there is also a declining trend in its claims settlement which is not a good sign for the company to make the customers choose and trust SBI Life. Bajaj Allianz has also shown a drastic increase in its claim settlements when compared to others.

**Persistency Ratio**

Persistency ratio is another important performance measure for life insurers. It basically reflects the renewal premiums paid by the policyholders. This indicates how persistent the policyholders are towards the payment of renewal premiums.

The persistency ratio is measured at various intervals – 13<sup>th</sup> month, 25<sup>th</sup> month, 37<sup>th</sup> month, and 61<sup>st</sup> month. For e.g. 13<sup>th</sup>-month persistency ratio indicates the first renewal premium paid by the policy holders on stepping into the second year of the policy. The higher the persistency ratio, the better it is for the company. Persistency ratio also gauges the trust and satisfaction level the policyholder/customer is having in the products and services being offered for a longer tenure. From the figure below which depicts the persistency ratio of five life insurance players, it can be clearly seen that over the years, the 13<sup>th</sup> month persistency itself is declining for all the companies and by the time it reached 61<sup>st</sup> month, the renewal percentage of policies is in the range of 20-40% for all the companies when compared with the initial policy subscriptions/purchases.



Source: Annual Reports

Figure 3: Persistency Ratio Of Life Insurance Companies

Of all the selected companies, Bajaj Allianz Life Insurance Company has the lowest persistency ratio. The low persistency ratios should act as a wake-up call for the companies to look into their products, services and also customer interactions to regain a decent position in this parameter. Few of the reasons which the companies are facing this issue could be: Customers not clear with usage of policy throughout their life, Customers do not value the policy, Customers facing financial distress and also the economic downturn, customers not satisfied with the performance of products and the service they are receiving after-sales. There could be very less cases wherein the family members of the customers are not aware of the existence of the policy post the demise of the policyholder.

**Solvency Ratio:**

The solvency ratio of the life insurers mainly describes about the financial stability of the company. It directly indicates the ability of the company to repay the claims to the customers.

Higher solvency ratio of a company indicates that the company is more financially stable. As per IRDAI guidelines, the solvency ratio of the life insurers is expected to be maintained at 1.5 (150% solvency margin).

Table 3: Solvency Ratio Of Life Insurance Companies

Company	16-17	17-18	18-19	19-20	20-21
SBI Life	2.04	2.06	2.13	1.95	2.15
HDFC Life	1.92	1.92	1.88	1.84	2.01
ICICI Prudential Life	2.81	2.52	2.15	1.94	2.17
MaxLife	3.09	2.75	2.42	2.07	2.02
Bajaj Allianz	5.82	5.92	8.04	7.45	6.66

Source: IRDAI Annual Report

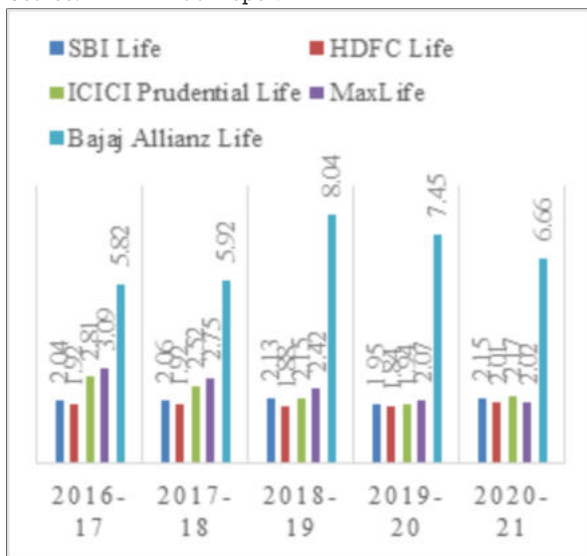


Figure 4: Solvency Ratio Of Life Insurance Companies

From the above table and figure on the solvency positions of the selected life insurance players, it can be clearly seen that all the companies are maintaining their solvency ratios over and above the prescribed ratio by IRDAI. This clearly indicates that the companies are financially stable and they could also sustain for longer duration and have the capacity to repay the claims received. Bajaj Allianz Life Insurance Company maintains the highest solvency ratio of all the companies for all the years considered under the study.

**Current Ratio**

The current ratio is considered one of the core ratios for understanding the short-term liquidity of a company. It is considered as one of the important liquidity ratios. This ratio helps us in analyzing the resources availability of a company to repay its short-term obligations. The ideal current ratio of 2:1 is considered as a benchmark.

Table 4: Current Ratio Of Life Insurance Companies

Company	16-17	17-18	18-19	19-20	20-21
SBI Life	1.89	1.84	1.78	1.93	1.69
HDFC Life	0.78	0.76	0.79	0.87	0.76
ICICI Prudential Life	1.01	0.79	0.91	1.15	1.04
MaxLife	1.04	1.31	1.12	1.31	1.02
Bajaj Allianz Life	1.12	1.14	1.54	1.25	1.06

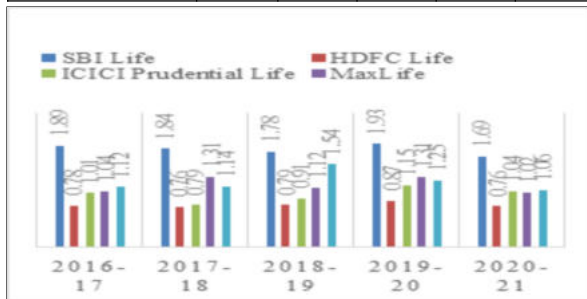


Figure 5: Current Ratio of Life Insurance Companies

The above table and figure depict the current ratio of select life insurance players. It is evident from the table that SBI Life Insurance Company Ltd is having good liquidity position when compared to other players. A ratio of less than 1 indicates that the companies may not have enough sources to meet their short-term debt obligations. In such a scenario we can interpret from the table that HDFC Life insurance company with a weak current ratio may have a liquidity issue when it comes to repayment of its short-term obligations. Hence the company needs to focus on increasing its liquid assets or decreasing its short term obligations. The reason behind the weak current ratio of HDFC Life insurance is mainly because of the increase in its sundry creditors due to their normal business activities and also the claims outstanding which are to be paid to the customers.

**Total Life Insurance Premium**  
**Table 5: Total Life Insurance Premium**

Company	16-17	17-18	18-19	19-20	20-21
SBI Life	21,015.13	25,354.19	32,989.42	40,634.73	50,254.17
HDFC Life	19,445.49	23,564.41	29,186.02	32,706.89	38,583.49
ICICI Prudential	22,354.00	27,068.77	30,929.77	33,430.70	35,732.82
MaxLife	10,780.40	12,500.89	14,575.23	16,183.65	19,017.90
Bajaj Allianz	6,183.32	7,578.37	8,857.16	9,752.53	12,024.84

From the above table, it can be seen that the total life insurance premium received by these five private life insurance companies for all their life insurance products together showed a significant increase over the years chosen for the study. This clearly indicates that the awareness of life insurance among the people in our country is increasing leading to an increase in insurance penetration and density of our country.

**Findings & Suggestions:**

- The new business premium and also the total premiums received by the life insurance players show an increasing trend year-on-year.
- The claim settlement ratio for SBI Life Insurance is decreasing year on year whereas, for Maxlife Insurance and Bajaj Allianz, the claim settlement ratio is in an increasing trend. The ratio is higher for all the years for Maxlife Insurance because of the internal processes followed by the company for speedy claims payment.
- The persistency ratio for all the companies over all the years is showing a decreasing trend. This is very alarming for the companies and they have to look into this aspect by considering the customers' reviews/feedback on their products and services and also the reasons why the customers are not willing to pay the renewal premiums. This helps the companies to improvise their products and services which could meet the customers' demand and also could enhance the long-term trust issues with their products and services and increase the customer loyalty.
- The current ratio of HDFC Life is very low when compared to the industry-level ideal ratio to be maintained by all the companies. The company should focus on reducing its dependence more on sundry creditors and focus more on meeting their obligations from their operational income itself.

**CONCLUSION:**

This study aimed at examining the performance of the selected private life insurance players by analyzing their new business premium, total premiums received, persistency ratio, solvency ratio, claim settlement ratio, and current ratio. All the selected companies for the study have higher solvency ratio

compared to the industry benchmark set by IRDAI. The claims settlement ratio for Maxlife Insurance is very high when compared to other players which is making the company its unique presence in the private sector life insurance industry. All the companies should focus more on increasing their persistency ratio for all the durations. Life Insurance is also acting as one of the important players in our financial system facilitating the mobilization of funds from area of surplus to the areas of deficit.

The study also revealed that out of the five companies chosen for study, HDFC Life is having very weak liquidity position for a short-term duration which is not suggestible.

**Future Research:**

The present study was conducted only from the data available from secondary sources and focused only on 5 private life insurance players. Further studies on performance analysis can also be conducted by considering various other parameters which may include all financial ratios important for life insurance companies. The same can also be separately analyzed for non-life insurers and comparative analysis can also be conducted between both life and non-life insurers (both public and private sector companies) with the help of statistical tools and analysis.

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