

Performance Evaluation of SBI Life Insurance Company Limited



MANAGEMENT

KEYWORDS :

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ABSTRACT

The major change of the life insurance industry in India is the opening up to private and global players. With this, the monopolistic character of the public sector giant i.e. LIC of India, has been replaced by competition subject to the regulatory conditions of the IRDA. Insurance has become a matter of persuasion rather than solicitation. As a result, a new concept Bancassurance came into existence. SBI Life Insurance Company a predominant player in banc assurance is positive about the channel bringing about a transformation in the way insurance has been sold so far. Having considered a decadal voyage of SBI Life Insurance Company Limited and its successive position among all other banc assurance institutions, the main objective of this study is to evaluate the performance of SBI life insurance company.

Introduction

The Indian insurance sector has undergone a big change in the last decade, ever since the sector was opened up for private players. With the opening up of this sector to private players, Insurance industry in India has been progressing at a rapid pace. The size of the country, a diverse set of people combined with problems of connectivity in rural areas, makes insurance selling in India a very difficult proposition. This distribution will undergo a sea change as various insurance companies are proposing to bring insurance products into the lives of the common man by making them available at the most basic financial point, the local bank branch, through Bancassurance. SBI Life Insurance Company is a predominant player among all private insurance companies.

Objectives of the Study:

- To analyze the performance of SBI Life in various dimensions like operational, financial as well as managerial performance during the study period.
- To draw policy conclusions on the basis of the findings and to make suggestions for enhancing the present status of SBI life insurance company.

Hypothesis:

Null Hypothesis: There is no significant effect on the performance of SBI during the study period. Alternative Hypothesis: There is significant effect on the performance of SBI during the study period.

Methodology and Data Collection:

The study is mainly based on the secondary data for a period of ten years i.e. from 2001-02 to 2010-11. In present study, CARAMEL parameters are used to study the financial performance of insurance companies which is advised by IMF and World Bank. For measuring the performance of insurance companies on the basis of CARAMEL parameters and statistical techniques such as mean, standard deviation and one sample t-test have been used to test the hypothesis by using sigma XL.

1. Capital Adequacy Analysis: Capital Adequacy is viewed as the key indicator of an insurer's financial soundness and prudential standards recognize the importance of adequate capitalization with solvency as key focus area of insurance supervision.

Table 1 (Rs. In '000)
Capital Adequacy Ratio analysis of SBI Life Co.

year	Net Premium	Capital	Ratio
2001-02	146,900.00	1,250,000.00	0.12
2002-03	723,854.00	1,250,000.00	0.58
2003-04	2,255,248.00	1,750,000.00	1.29
2004-05	5,992,990.00	3,500,000.00	1.71

2005-06	10,730,924.00	4,250,000.00	2.52
2006-07	29,234,387.00	5,000,000.00	5.85
2007-08	56,112,047.00	10,000,000.00	5.61
2008-09	72,023,885.00	10,000,000.00	7.20
2009-10	100,804,813.00	10,000,000.00	10.08
2010-11	128,755,224.00	10,000,000.00	12.88

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

Hypothesis testing:

Results:	Ratio
Count	10
Mean	4.784
StDev	4.314
SE Mean	1.364
t	3.507
p-value (2-sided)	0.0066
UC (2-sided, 95%)	7.870
LC (2-sided, 95%)	1.698

Interpretation:

The descriptive statistical table express that during the study period 2001-02 to 2010-11, indicates the t-value 3.507 and it's p- value is 0.0066 and it is less than the alpha i.e. 0.05. So null hypothesis is reject.

2. Asset Quality Analysis

Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The indicator, equities/total assets, reveals the degree of insurer's exposure to the stock market risk and fluctuations of the economy.

Table 2 Asset Quality of SBI Life Insurance Company

Year	Equities	Total Assets	Ratio
2001-02	1,250,000.00	1,392,500.00	0.90
2002-03	1,172,967.00	2,019,502.00	0.58
2003-04	1,517,442.00	4,149,272.00	0.37
2004-05	3,160,967.00	10,479,107.00	0.30
2005-06	3,985,522.00	20,652,587.00	0.19
2006-07	4,609,837.00	46,033,191.00	0.10
2007-08	10,067,721.00	100,098,760.00	0.10
2008-09	9,784,210.00	140,031,320.00	0.07
2009-10	12,652,296.00	281,431,231.00	0.04
2010-11	16,297,016.00	395,258,108.00	0.04

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

The decreasing ratio was as a result of earlier robust growth in the investments, fixed assets and advances and later increase in the short term assets base of the company.

Hypothesis testing:

Results:	Ratio
Count	10
Mean	0.269000
StDev	0.281640
SE Mean	0.0890624
t	3.020
p-value (2-sided)	0.0145
UC (2-sided, 95%)	0.470473
LC (2-sided, 95%)	0.067526854

Interpretation:

The descriptive statistical table express that the ratio of equities to total assets of the selected organization i.e. SBI during the study period 2001-02 to 2010-11, indicates the t-value 3.020 and it's p- value is 0.0145 and it is less than the alpha i.e. 0.05. So null hypothesis is reject.

3. Risk retention Ratio

Reinsurance and Actuarial issues also known as the risk retention ratio reflects the overall underwriting strategy of the insurer and depicts what proportion of risk is passed onto the reinsurers.

Table 3 Ratio of Net Premium to Gross Premium

Year	Net Premium	Gross Premium	Net Retention Ratio
2001-02	146,900.00	146,900.00	1.00
2002-03	723,854.00	723,854.00	1.00
2003-04	2,255,248.00	2,256,659.00	1.00
2004-05	5,992,990.00	6,011,845.00	1.00
2005-06	10,730,924.00	10,753,219.00	1.00
2006-07	29,234,387.00	29,284,856.00	1.00
2007-08	56,112,047.00	56,221,372.00	1.00
2008-09	72,023,885.00	72,121,032.00	1.00
2009-10	100,804,813.00	101,040,265.00	1.00
2010-11	128,755,224.00	129,116,429.00	1.00

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

The analysis of risk retention ratio clearly indicates that the risk retention capacity of the selected organization is constant.

Management Soundness Analysis

Sound management is crucial for financial stability of insurers. The analysis of the management soundness is presented in the following table.

Table 4 Ratio of Operating Expenses to Gross Premium (Rs. In '000)

Year	Operating xp.	Gross Premium	Op.Exp/Gross Pre.
2000-01			
2001-02			
2002-03	233,000	723,854	0.32
2003-04	573,485	2,256,659	0.25
2004-05	1,245,613	6,011,845	0.21
2005-06	1,900,340	10,753,219	0.18
2006-07	3,223,895	29,284,856	0.11
2007-08	4,869,627	56,221,372	0.09
2008-09	6,205,029	72,121,032	0.09
2009-10	7,529,812	101,040,265	0.07
2010-11	8,834,570	129,116,429	0.69

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

The ratio of operating expenses to gross premium preferred to be low one.

Hypothesis testing:

Results:	Op.Exp/Gross Pre.
Count	9
Mean	0.182727
StDev	0.195811
SE Mean	0.059039138
t	3.095
p-value (2-sided)	0.0113
UC (2-sided, 95%)	0.314275
LC (2-sided, 95%)	0.051179876

Interpretation:

The descriptive statistical table express that the ratio of operating expenses to gross premium of the selected organization i.e. SBI during the study period 2001-02 to 2010-11, indicates the t-value 3.095 and it's p- value is 0.0113 and it is less than the alpha i.e. 0.05. So null hypothesis is reject.

5. Earnings and Profitability Analysis

The following table presents a detailed analysis of earnings and profitability of SBI.

Table 5 Ratios showing Earnings and Profitability

Year	Claims Ratio	Exp. Ratio	Combined Ratio	Investment Income Ratio	ROE
2000-01					
2001-02					
2002-03	0.04	0.35	0.39	0.07	(0.06)
2003-04	0.10	0.30	0.40	0.05	(0.11)
2004-05	0.08	0.25	0.33	0.07	0.04
2005-06	0.08	0.24	0.32	0.12	0.01
2006-07	0.05	0.18	0.23	0.08	0.01
2007-08	0.06	0.17	0.23	0.09	0.03
2008-09	0.06	0.16	0.22	(0.24)	0.03
2009-10	0.08	0.13	0.21	0.59	0.22
2010-11	0.23	0.12	0.35	0.23	0.22

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

Interpretation:

The descriptive statistics express that the claims ratio, expenses ratio and combined ratio of the selected organization i.e. SBI during the study period 2001-02 to 2010-11, indicates the t-value 3.442, 5.173 and 5.843 respectively and it's p- values are 0.0063, 0.0004 and 0.0002 respectively and they are less than the alpha i.e. 0.05. So null hypothesis is reject. However, in case of investment income ratio and ROE ratio p values are 0.14 and 0.27 respectively and they are greater than the alpha i.e. 0.05. So in this case null hypothesis is accepted.

6. Liquidity: Liquidity is usually a less pressing problem for insurance companies. The following table presents the liquidity position of the SBI Life as follows:

Table 6 Ratio of Current Assets to Current Liabilities Liquidity Ratio (Rs. In Lakhs)

Year	Current Assets	Current Liabilities	Current Ratio
2001-02	2,953.00	565.00	5.23
2002-03	2,911.00	1,209.00	2.41
2003-04	7,653.00	4,772.00	1.60

2004-05	10,892.00	11,947.00	0.91
2005-06	21,718.00	22,683.00	0.96
2006-07	29,878.00	39,247.00	0.76
2007-08	28,433.00	46,801.00	0.61
2008-09	40,534.00	101,687.00	0.40
2009-10	64,387.00	143,657.00	0.45
2010-11	79,821.00	171,841.00	0.46

Source: Compiled from SBI Life Annual Reports from 2001-02 to 2010-11

The analysis reveals that the SBI life need to make enough provisioning in the liquid assets to have a better liquidity position.

Hypothesis testing:

Results:	Current Ratio
Count	10
Mean	1.379
StDev	1.490
SE Mean	0.471146
t	2.927
p-value (2-sided)	0.0168
UC (2-sided, 95%)	2.445
LC (2-sided, 95%)	0.313193

Interpretation:

The descriptive statistical table express that the ratio of current assets to current liabilities of the selected organization i.e. SBI during the study period 2001-02 to 2010-11, indicates the t-value 2.927 and it's p- value is 0.0168 and it is less than the alpha i.e. 0.05. So null hypothesis is reject.

Findings:

- Liberalization had a positive and promising impact on private sector insurance companies' performance especially on capital adequacy and asset quality standards.
- Maximization of premium income becomes the most important objective of the insurance company. SBI is increasing slowly its grip over the market with the entry of the private operators.
- The ratio of capital to total assets of the company indicates have quite satisfactory ratio.
- The analysis of the asset quality ratio signals the fluctuating trend in the assets base of the company in comparison to the equities.
- The analysis of risk retention ratio clearly indicates that the risk retention capacity of the selected organization is constant.
- Combined ratio analysis of the SBI life reveals that premiums earned is drained away in the form of claims and expenses.

- In case of liquidity ratio, SBI Life needs to make enough provisioning in the liquid assets to have a better liquidity position.
- In case of hypothesis testing, in case of CAMEL parameters also it is showing significant difference. It indicates that the SBI life has showing great differences among various years under the study.

Recommendations:

- It is suggested to improve the investments of the company to give better position to the investment holders as well as policyholders.
- It is suggested to control the management expenses as it is a private organization for survival in the long run.
- The selected organization should maintain proper combined ratio, otherwise it's profits drain away by way of claims and management expenses.
- The selected organization should maintain proper liquidity ratio.
- It is suggested that the SBI Life should take necessary steps to improve the market share.
- SBI Life should take necessary steps to increase profits.

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