Factors affecting the financial performance of select life insurance companies in India

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Abstract

This study attempts to examine the factors affecting the financial performance of select Life Insurance Companies in India. The objective of the study is toanalyze the factors determining select Life Insurance Companies' performance. For the study, five Life Insurance Companies in India were selected based on purposive sampling method based on their Profitability. The study applied Multiple Regression analysis to determine the factors affecting Financial Performance. The study found that there is a significant impact of Tangibility on Financial Performanceand there is no significant impact of Liquidity and Leverages on Financial Performance of select Life Insurance Companies in India during the study period from 2012-2013 to 2016-2017.

Keywords: 1. Financial Performance, 2.Leverages, 3.Liquidity, 4.ROA, 5.Tangibility.

JEL Classification: G2, G22

Introduction

Insurance is a form of risk management.Protection is a type of hazard administration, which is utilized to support or cover the danger of unforeseen and dubious misfortune. The protection segment goes about as prepare of reserve funds, a monetary middle person, a promoter of venture exercises, a stabilizer of money related markets and a hazard chief in the economy.The history of the insurancesector in India uncovers that it has witnessed complete dynamism for the past two centuries roughly

ICICI Prudential, who got recorded last year, recorded a revealed 2% ascend in its net Profit. It posted a PAT of Rs. 1,681 crores in FY 2016-17 as against Rs. 1,650 crores per year earlier. SBI Life Insurance recorded a development of 11% by timing a net profit of Rs. 955 crores as against a net profit of Rs. 861 crores in FY 2015-16. Furthermore, HDFC Life posted a development of 9% in PAT at Rs. 892 crores against Rs. 818 crores in its going before financial year. Other life insurance companies like Bajaj Allianz and Birla Sun Life has seen a rot in benefit. Bajaj Allianz's benefit declined from Rs. 879 crores in FY 2015-16 to Rs. 836 crores in FY 2016-17. Birla Sun Life's PAT also declined from Rs. 140 crores in FY 2015-16 to Rs. 122 crores in FY-2016-17.

For insurance companies to be economical in the competitive globalized environment, earningprofit is a pre-essential. In the absence of profit, insurers can't draw inoutside capital to meet their targets. The Financial Performance of insurance companies can be affected by many factors. A few of these components might have a positive impact on the insurers' profitability while others could have a negative impact. Besides, a few of these components that influence insurers' profitability could be under the control of the insurers' management (innervariables). Understanding the insidevariables that can influence the financial performance of Insurance Companies is fundamental not only for the insurance managers and supervisors but also for policy makers and regulatory

Review of literature

B. Charumathi(2012) in their study entitled: "On the Determinants of Profitability of Indian Life Insurers – An Empirical Study". examined and found that profitability of life insurers is positively and significantly influenced by the size and liquidity. The leverage, premium growth and the logarithm of equity capital have negatively and significantly influenced the profitability of Indian life insurers.

Sumninder Kaur Bawa and SamiyaChattha (2013), in their study entitled "FinancialPerformance of Life insurers in Indian Insurance Industry" examined and found that Regression analysis of the study shows that profitability has significant positive relationship with liquidity and size. On the other hand, there is significantly negatively relationship between profitability and capital. The result also illustrates that profitability has no significant relationship with solvency and insurance leverage.

Mirie Mwangi and Jane Wanjugu Murigu (2015), in their study entitled, "The Determinants of Financial Performance in General Insurance Companies in Kenya", examined and found that Profitability was positively related to leverage, equity capital, management competence index and negatively related to sizeand ownership structure. The study did not find a relationship between performance and retention ratio, liquidity, underwriting risk and age.

Statement of the problem

Highperformance reflects administrationadequacy and effectiveness in making utilize of the company's assets and this, in turn, contributes to the country's economy at large. (Naser, and Mokhtar, 2004). During the period 2000-2008, combined with India's quick rate of financialimprovement the Indian Life Insurance Industry picked up its foothold in the country. Private sectorinsurersmeandered into the country and the industry got a taste of market-driven competition, compared to the time when insurancebusiness was ruled by as it were public-sector insurers. On top of low-interest conditions, there has as well been a portion of flimsinessof those returns, especially since the monetary crash of 2007 and 2008. The year 2011 brought into the starting of a modern decade for the Indian Life Insurance industry. The going before a long time were basic for the life Insurance industry in India after the opening of the division of the government.

Continuous changes in technology, demography, and consumer needs and desiresproceed to disturb the Insurance industry. Combined with lateradministrative and budgetarydetailingimprovements, these changes are putting a serious strain on conventionalcommerce models. Manyinsurers are reacting by imagining their inner operations and tradeprocedures, but the pace of alteringexterior the industry has been tenacious and indeed proactive companies are battling to stay on the cutting edge. TopInsurance Industry Issues in 2017 centers on changing trade and working models and the key advancements that are causing and being impacted by this later. Therefore, this study seeks to answer the research question.

1. What are thefactors affecting financial performance of Life InsuranceCompanies in India?

Objective of the study

1. To measure the Financial Performance of Selected Life Insurance Companies in India.
2. To determine the impact of Leverages, Liquidity and Tangibility on Financial Performance of Selected Life Insurance Companies in India.

Methodology

Sources of Data

The study is based on secondary data. The data which are collected mainly from the Annual Reports of the select top five insurance companies andfrom various journals, magazines, newspapers and Web sites.

Sampling Design

The Life Insurance Companies in this study were selected based on purposive sampling method, among the Insurance Companies listed with IRDA of India, top 5 Life Insurance Companies in India were taken for the study based onthe profitability of the concern. The study period from 2012- 20013 to 2016-2017. The following are the selected sample Life Insurance Companies in India for the presentstudy:

1. Bajaj Allianz Life Insurance Co. Ltd
2. HDFC Life Insurance Company
3. SBI Life Insurance
4. Birla Sun Life Insurance Company
5. ICICI Prudential Life Insurance Company

The collected data focused into the following variables:

- Independent Variable:
  - Company Leverage
  - Company Tangibility
  - Company Liquidity
- Dependent Variable:
  - Financial performance through calculating (ROA)

Model specification:

The linear multiple regression model Developed for the study is specified as:

$$ROA= \beta\ 0+ \beta\ 1LE+ \beta\ 2TAN+ \beta\ 3LIQ+ \varepsilon i$$

- ROA:Return on Assets (Net Income to Total Asset Ratio)
- LE: Leverages (Total debt to Equity)
- TAN: Tangibility (Fixed assets divided by Total assets)
- LIQ: Liquidity (Current assets divided by Current liabilities)

Hypotheses:

To attain the objectives of the study, the following null hypotheseshave been tested: -

1) There is no significant impact of Leverages on Financial performance of Life Insurance Companies.
2) There is no significant impact of Tangibility on Financial Performance of Life Insurance Companies.
3) There is no significant impact of Liquidity on Financial performance of Life Insurance Companies.

Analysis of data:

Table-1 Return on Assets of Select Life Insurance Companies in India from 2012-13 to 2016-17:

(In Percentage)

Year	Bajaj Allianz	HDFC	SBI	Birla Sun	ICICI Prudential
2012 - 2013	3.31	0.75	1.25	2.47	2.01
2013 - 2014	2.64	0.99	1.33	1.56	1.91
2014 - 2015	2.11	1.23	1.25	1.03	1.62
2015 - 2016	2.00	1.11	1.13	0.46	1.57
2016 - 2017	1.78	0.99	1.06	0.37	1.34
Mean	2.37	1.01	1.20	1.18	1.69
S.D	0.61	0.18	0.11	0.87	0.27
C.V	25.94	17.55	8.94	73.58	16.00

Source: Compiled and computed from Annual Reports of Insurance Companies.

Table 1 reveals the Return on Assets ratio of select Life Insurance Companies in India from 2012 - 2013 to 2016 – 2017. The average of Return on Assets ratio of select companies shows a fluctuating trend during the study period. The Bajaj Allianz has the highest average on Return on Assets ratio of 2.37, followed by the ICICI Prudential, Birla Sun Life, SBI.The HDFC has the lowest average on Return on Assets ratio of 1.01.

The Birla Sun Lifehas the highest standard deviation of 0.87, followed by the Bajaj Allianz, ICICI Prudential, HDFC. The SBI has the lowest standard deviation of 0.11 and it is found to be stable in Return on Assets ratio.

The Birla Sun Life has the highest coefficient variance of73.58, followed by Bajaj Allianz, HDFC, ICICI Prudential. The SBI has the lowest coefficient variance of 8.94and it is found that there is more consistency in Return on assets than the other Life Insurance Companies.

Table-2Leverages of Select Life Insurance Companies in India from 2012-13 to 2016-17:

(In Times)

Year	Bajaj Allianz	HDFC	SBI	Birla Sun	ICICI Prudential
2012 - 2013	6.91	28.69	18.30	17.29	15.83
2013 - 2014	5.69	24.71	16.65	18.75	15.69
2014 - 2015	5.46	24.97	16.88	18.70	16.47
2015 - 2016	4.81	22.44	16.06	17.47	16.50
2016 - 2017	4.83	22.78	16.87	18.50	18.46
Mean	5.54	24.72	16.95	18.14	16.59
S.D	0.86	2.49	0.82	0.70	1.11
C.V	15.48	10.07	4.86	3.88	6.68

Source: Compiled and computed from Annual Reports of Insurance Companies.

Table 2 indicates the Leverage ratio of select Life Insurance Companies in India from 2012 - 2013 to 2016 – 2017. The average of Leverage ratio of select companies shows a fluctuating trend during the study period. The HDFC has the highest average ofLeverage ratio of 24.72, followed by the Birla Sun Life, SBI, ICICI Prudential. The Bajaj Allianz has the lowest average ofLeverage ratio of 5.54.

The HDFC has the highest standard deviation of 2.49, followed by theICICI Prudential, Bajaj Allianz, SBI. The Birla Sun Life has the lowest standard deviation of 0.70 and it is found to be stable in Leverage ratio.

The Bajaj Allianz has the highest coefficient variance of 15.48, followed by HDFC, ICICI Prudential, SBI. The Birla Sun Life has the lowest coefficient variance of 3.88 and it is found that there is more consistency in Leverage than the other Life Insurance Companies.

Table-3Tangibility of Select Life Insurance Companies in India from 2012-13 to 2016-17:

(In Percentage)

Year	Bajaj Allianz	HDFC	SBI	Birla Sun	ICICI Prudential
2012 - 2013	65.69	0.76	0.53	0.15	23.50
2013 - 2014	65.07	0.68	0.48	0.16	25.30
2014 - 2015	52.09	0.60	0.38	0.16	21.70
2015 - 2016	49.55	0.54	0.55	0.21	21.40
2016 - 2017	45.85	0.39	0.54	0.23	17.50
Mean	55.65	0.59	0.50	0.18	21.88
S.D	9.16	0.14	0.07	0.04	2.91
C.V	16.46	23.74	14.16	19.58	13.28

Source: Compiled and computed from Annual Reports of Insurance Companies.

Table 3describes the Tangibility ratio of select Life Insurance Companies in India from 2012 - 2013 to 2016 – 2017. The average of Tangibility ratio of select companies shows a fluctuating trend during the study period. The Bajaj Allianzhas the highest average of Tangibility ratio of 55.65, followed by the ICICI Prudential, HDFC, SBI. The Birla Sun Life has the lowest average of Tangibility ratio of 0.18.

The Bajaj Allianz has the highest standard deviation of 9.16, followed by theICICI Prudential, HDFC, SBI. The Birla Sun Life has the lowest standard deviation of 0.04.

The HDFC has the highest coefficient variance of 23.74, followed by Birla Sun Life,Bajaj Allianz, SBI. ICICI Prudential has the lowest coefficient variance of 13.28 and it is found that there is more consistency in Tangibility than the other Life Insurance Companies.

Table-4 Liquidity of Select Life Insurance Companies in India from 2012-13 to 2016-17:

(In Times)

Year	Bajaj Allianz	HDFC	SBI	Birla Sun	ICICI Prudential
2012 - 2013	0.51	0.57	1.59	0.63	0.65
2013 - 2014	0.55	0.31	1.73	0.65	0.59
2014 - 2015	0.30	0.28	1.49	0.63	0.69
2015 - 2016	0.28	0.25	1.05	0.58	0.67
2016 - 2017	0.34	0.21	0.88	0.64	1.01
Mean	0.40	0.32	1.35	0.63	0.72
S.D	0.13	0.14	0.36	0.03	0.17
C.V	31.57	43.95	27.07	4.32	22.89

Source: Compiled and computed from Annual Reports of Insurance Companies.

Table 4 discloses the Liquidity ratio of select Life Insurance Companies in India from 2012 - 2013 to 2016 – 2017. The average of Liquidity ratio of select companies shows a fluctuating trend during the study period. The SBI has the highest average of Liquidity ratio of 1.35, followed by the ICICI Prudential, Birla Sun Life,Bajaj Allianz. The HDFC has the lowest average of Liquidity ratio of 0.32.

The SBI has the highest standard deviation of 0.36, followed by theICICI Prudential, HDFC, Bajaj Allianz. The Birla Sun Life has the lowest standard deviation of 0.03 and it is found to be stable in Liquidity ratio.The HDFC has the highest coefficient variance of 43.95, followed by Bajaj Allianz, SBI, ICICI Prudential. The Birla Sun Lifehas the lowest coefficient variance of 4.32 and it is found that there is more consistency in Liquidity than the other Life Insurance Companies.

Impact of Leverages, Liquidity and Tangibility on Financial Performance of Selected Life Insurance Companies in India.

H0 = There is no significant impact of various factors on Financial performance of select Life Insurance Companies.

Table 5 Model Summary and ANOVA Table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.795[a]	.633	.580	.43999	12.049	.000[b]

a. Dependent Variable: ROA
b. Predictors: (Constant), Tangibility, Liquidity, Leverages

Table 5shows the goodness of fit of multipleregression with financialperformance as the dependent variable and various determinants as predictors. The R-squared result of 63.3 percent, which demonstrates that the variation in the dependent variable ROA and explained by the independentvariables of the model.

The modelshows a statisticallysignificant relationship between financialperformance and independentvariables (Sig. =< 0.05). The significant value of 0.00 (less than 0.05) provides evidence that there is a low probabilitythat the variation explained by the model is due to chance, which shows that the independentvariablesaltogetherexplain the dependent variable ROA very well.

Table-6 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.822	.714		1.152	.262		
	Liquidity	.220	.253	.134	.868	.395	.740	1.352
	Leverages	.006	.030	.057	.202	.842	.222	4.498
	Tangibility	.027	.009	.879	2.969	.007	.200	5.000

a. Dependent Variable: ROA

Table 6indicates that therelationship between financial performance and various determinants. The Unstandardized Beta value for Liquidity is.220. So, for every unit increase in Liquidity we expect an approximately .220-point increase in the ROA, holding all other variables constant. The coefficient for leverages is .006. So, for every unit increase in leverages we expect an approximately .006-point increase in theROA, holding all other variables constant.The coefficient for Tangibility is .027. So, for every unit increase in tangibility we expect an approximately .027-point increase in the ROA, holding all other variables constant. The Standardized Beta value of the Tangibility (.879) has the strongest relationship with ROA, compared to Liquidity (.134) and Leverages (.057). The Liquidity and Leverages are not statistically significant. In this analysis, all VIF is lower than 5 and therefore there is no multicollinearity problem.

The model identified for the variables studied is as follows:

ROA=.822+.220LIQ+.006LE+.027TAN

CONCLUSION

Life insurance has nowadaysgotten to be a pillar of any showcase economy since it offers a bounty of scope for gatheringhugesums of cash for a long period of time. This paper analyzes the componentsinfluencingFinancialPerformance of Select Life Insurance companies over the period of 2012 to 2017.Birla Sun Life Insurance company has a sound liquidity and leverage ratio as compared to others. Return on asset and Tangibility measure of SBI Life Insurance Company sounds good and it is found that there are more consistentthan other Life Insurance Companies.Multiple Regression analysis results show that there is a significant relationship between Tangibility and Financial performance. The result also illustrates that Financial Performance has no significant relationship with Liquidity and insurance leverage.

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