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The Insurance Sector In India: A Comparative Analysis Of Key Performance Indicators

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Abstract

Life insurance or life assurance is a contract between an insurer and insurance policy holder, where the insurance company promises to pay an agreed sum of money on the happening of certain insured contingency. For this the policyholder has to pay a fixed amount called insurance premium either regularly or in lump sum. The contingency may involve either death of an insured person, terminal illness or critical illness, which can trigger payment. In this research paper the total premium, assets under management, operating expenses ratio, claim Settlement Ratio & Indian Life Insurance Penetration have been considered for few insurance companies.

Keywords: *Assets Under Management, Operating Expense Ratio, Performance, and Liquidity*

1. Introduction

Life is unpredictable. We cannot never know or predict what will happen in next moment. The unpredictble moment may involve immediate unimaginable loss either of person or of goods.
People take insurance mainly for two reasons

a) After his death his family members or dependents get money
b) To reduce his tax liability

To cover the above events, he enters into contract with insurance company. He starts paying insurance premium for agreed time. Either on the death or happening of agreed contingency before the completion of contract, a guarenteed sum is paid by insurance company to one or more beneficiaries. However if the policy holder survives, he/she receives the full value of the policy.

2. Insurance Companies in India

2.1 LIC

Life Insurance Corporation of India (LIC) is a state owned insurance group and investment company headquarters situated in Mumbai. The life insurance corporation of India was founded in 1956 when the parliament of India passed the Life Insurance Act. LIC continues to be the prominent life insurance provider in India.

2.2 HDFC Life

HDFC Life (HDFC Standard Life Insurance Company) is a long term insurance provider offers individual and group insurance plans. The headquarters of HDFC Standard Life Insurance situated in Mumbai. It is a joint venture between Housing Development Finance Corporation (HDFC) & Standard Life Aberdeen PLC, United Kingdom.

2.3 Max Life Insurance

Max life Insurance Company Limited is the subsidiary of the publicity listed. It was founded in 2000 but operations began in 2001. The company headquartered at New Delhi. Mr. Analjit Singh, founder of Max Healthcare, is the chairman of Max Life Insurance.

2.4 Aditya Birla Sun Life Insurance

ABSLI is a subsidiary of Aditya Birla Capital Limited (ABCL). It is the private sector life insurance company in India. ABSLI is a 51:49 a joint venture between the Aditya Birla Group and Sun Life Financial Incorporation, a leading international financial incorporation in Canada. It was incorporated on August 4, 2000 and began its operations in the year 2001. Its headquarters are situated in Mumbai.

2.5 Kotak Mahindra Life Insurance

Kotak Mahindra Life Insurance Company Limited, a private Life Insurance company in India. The company was founded in the year 2001. It caters to 15 million customers. The kotak Mahindra Life Insurance Company consists of 232 branches in around 167 cities and towns in India with 99,275 agents.
The company has many protection plans, savings and investment plans, child plans and retirement plans that it offers to its customers.

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The crucial information about the insurance companies is mentioned below:-

Name of the Insurance Company	Year of Establishment	Headquarters	Key People	Parent Organization
Life Insurance Corporation of India	1956	Mumbai	Usha Sangwan (CEO)	-
HDFC Standard Life Insurance	2000	Mumbai	Vibha Padalkar (CEO)	Housing Development Finance Corporation
Aditya Birla Sun life Insurance	2000	Mumbai	Pankaj Razdan (CEO)	Aditya Birla Group
Max Life Insurance	2000	New Delhi	Prashant Tripathy (CEO)	Max Financial Services
Kotak Life Insurance	2001	Mumbai	G. Murlidhar (MD)	Kotak Mahindra Bank

3. Key performance indicaters

3.1 Total Premium

The insurance company compensates the insured for any loss suffered. But for that insurance company charges some specified amount. The amount which insured/policy holder pays to the insurance company for compensating the specified loss is called the insurance premium.
Insurance premium is a major source of receipt for the insurance companies. But it converts into income only when it is earned otherwise it represents a liability of the insurance company towards the insured or the policyholder.

The amount of insurance premium is different for different policies. Within the same policy premium amount may vary depending upon the amount insured. For higher insured amount the premium will also be higher. If premium is to be paid in installments, then premium will be lower and vice versa.

The insurance company has to pay the insured amount immediately on the happening of certain contingency. For that the insurance company must keep certain level of liquid assets so that the company can pay the insured amount without any delay. The insurance regulators have fixed certain percentage of premium received that must be kept in liquid form.

Table 1: TOTAL PREMIUM (In Crs.)

S. No.	Insurance Company	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1.	HDFC Life Insurance	12,063	14,830	16,313	19,445	23,564
2.	Aditya Birla Sun Life Insurance	4,833	5,233	5,580	5,724	5,903
3.	Max Life Insurance	1,769	1,948	2,103	2,639	3,215
4.	Kotak Life Insurance	2,701	3,038	3,972	6,599	5,140

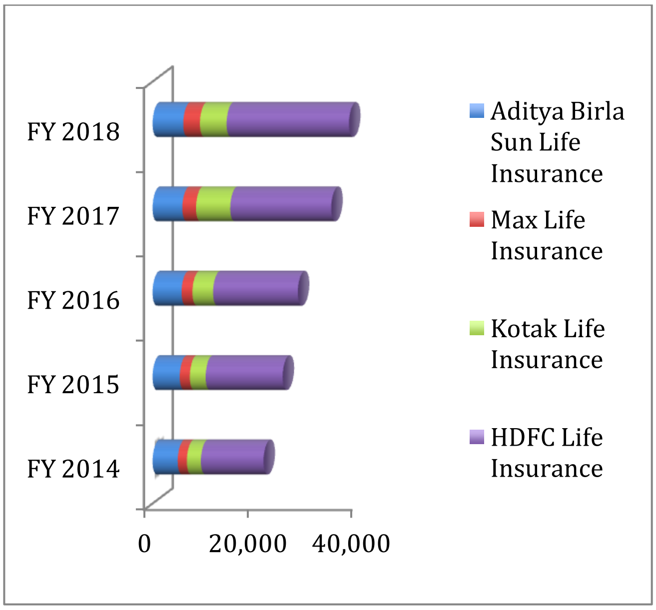

Fig. 1 TOTAL PREMIUM (in Crs.)

Highest Total Premium – Rs. 23,564 cr. HDFC Standard Life Insurance Company – FY 2018.

Lowest Total Premium – Rs. 1,769 cr. Max Life Insurance Company Limited – FY 2014.

3.2 Assets Under Management (AUM)

Investment company or a finance company collects funds from different sources. These funds are invested by them in Exchange Traded Funds(ETF), mutual funds, hedge funds etc. The market value of

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total assets invested in the market are called Assets Under Management.

Calculating AUM
To calculate the total value of AUM we first ascertain the market price of all the investments made. The aggregate value of all these investments make up AUM.
The AUM will increase when the market value of investments will decrease. It can increase also when new additional funds received from new or old clients. investments are made by investors. AUM decrease when market value of investments decreases or when redemptions are demanded by clients.

Why AUM Matters

The larger is the size of the company's AUM the greater is the size of operations of the company. Huge size of AUM attracts new customers easily. It shows larger number of people are interest in such company primarily due to better performance among its competitors. Better proportion of asset mix will also lead to higher the returns of the company.

Table 2: ASSETS UNDER MANAGEMENT (in Crs.)

S.No.	Insurance Company	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1	HDFC Life Insurance	50,552	67,047	74,247	91,742	1,06,603
2	Aditya Birla Sun Life Insurance	24,775	30,185	30,811	34,523	36,867
3	Max Life Insurance	24,716	31,220	35,824	44,370	52,237
4	Kotak Life Insurance	12,104	15,236	16,936	20,940	25,128

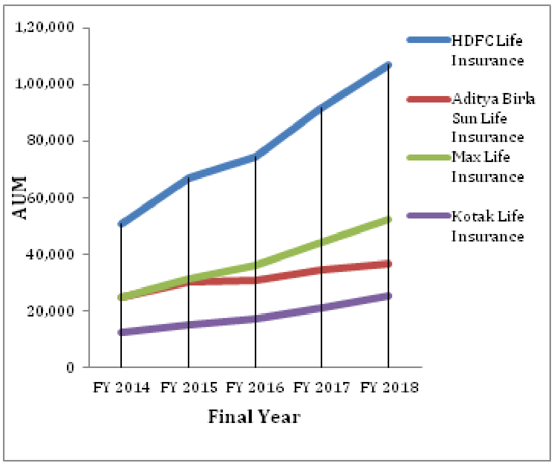

Fig. 2 ASSETS UNDER MANAGEMENT (in Crs.)

Highest AUM – Rs. 1,06,603 cr. – HDFC Standard Life Insurance Company – FY 2018.

Lowest AUM – Rs. 12,104 cr. – Kotak Mahindra Life Insurance Company Limited – FY 2014.

3.3 Operating Expenses Ratio

Generally the ratio between operating expenses and sales is called operating expenses ratio. Higher operating expense ratio means lower profits and vice versa. Material increase in operating expense ratio may be due to decrease in operating income, increase in maintenance expenses such as repairs etc. Thus decrease in operating expense ratio indicates better utilization of resources i.e. efficiency of the organization has increased.
Operating expense ratio = Operating Expenses/Revenue

Table 3: OPERATING EXPENSE RATIO (in %)

S. No.	Insurance Company	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
1.	HDFC Life Insurance	10.7	10.2	11.6	12.6	13.5
2.	Aditya Birla Sun Life Insurance	21.5	18.6	16.2	16.3	15.6
3.	Max Life Insurance	17.80	16.50	15.00	14.50	13.00
4.	Kotak Life Insurance	25.55	28.02	26.49	24.38	22.59

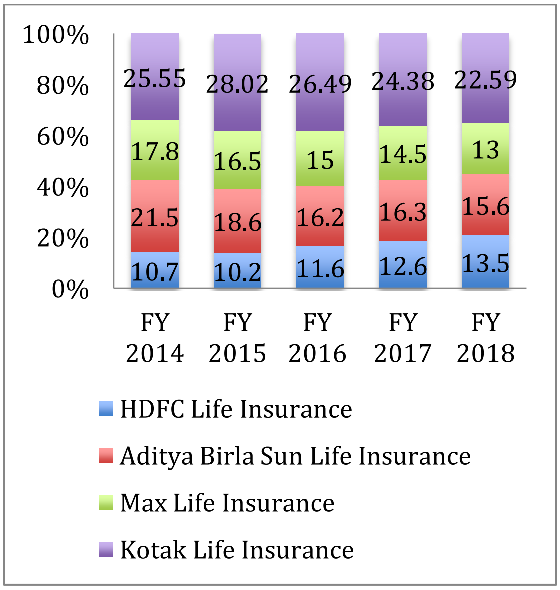

Fig. 3 OPERATING EXPENSE RATIO (in %)

Highest OER – 22.59% - Kotak Mahindra Life Insurance Company Limited – FY 2018.

Lowest OER – 10.7% - HDFC Standard Life Insurance Company – FY 2014.

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3.4 Claim settlement Ratio

The ratio between total claims settled in a year to total claims received in one financial year is called claim settlement ratio.

Claims settled in a year/Claims received in a year*100

The regulator of insurance company which is IRDAI in India, sets the standard claim settlement ratio of each individual insurance company. The basic purpose of taking insurance by the policy holder is that he will get the monetary compensation on the happening of certain contingecy. On the occurance of that event the claim must be approved immediately. And after being approved it must be paid to the policy holder as soon as possible. If the payment is delayed then the very purpose of insurance is defeated. Thus the settelemnt ratio helps in knowing the efficiency of inusrance companies. The higher the ratio the better the insurance company is effeicient.

Table 4: Claim Settlement Ratio (in %)

S. No.	Insurance Company	FY 2014	FY 2015	FY 2016	FY 2017
1.	HDFC Life Insurance	94.01	90.5	95.02	97.62
2.	Aditya Birla Sun Life Insurance	87.76	95.3	88.45	94.69
3.	Max Life Insurance	93.86	96.95	96.95	97.81
4.	Kotak Life Insurance	90.69	90.73	89.09	91.24
5.	Life Insurance Corporation	98.14	98.19	98.33	98.31

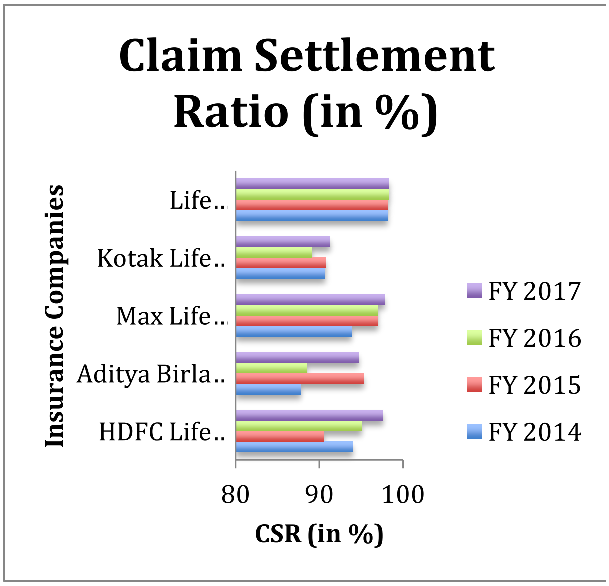

Fig. 4 Claim Settlement Ratio (in %)

Highest CSR – 98.33% - Life Insurance Corporation of India – FY 2016

Lowest CSR – 87.76% - Aditya Birla Sun Life Insurance – FY 2014

3.5 Penetration of Indian Life Insurance Market

Insurance is important not only from investment point of view but also helps in solving monetary problems on the happening of contingencies. In a way insurance is a socially desirable product. So more the people of a country are inusured the better it is for the society and economy. If higher people are insured then we can say that the insurance sector has more penetration in the market.

Table 5: Indian Life Insurance Peneration (in %)

Years	Figures
FY 2010	4.6
FY 2011	4.4
FY 2012	3.4
FY 2013	3.2
FY 2014	3.1
FY 2015	2.6
FY 2016	2.7
FY 2017	2.7

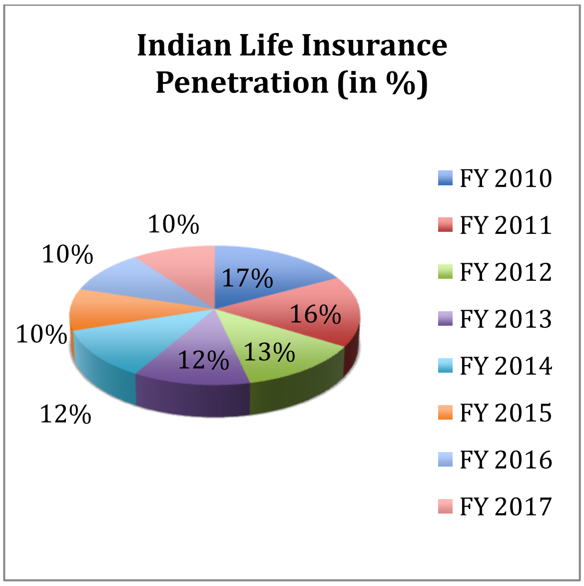

Fig. 5 Indian Life Insurance Peneration (in %)

Highest Indian Life Insurance Penetration Rate – 4.6% - FY 2010

Lowest Indian Life Insurance Penetration Rate – 2.6% - FY 2015

4. Conclusion

Higher number of educated persons has increased the need of insurance products. The level of awareness among people is increasing. CBSE has introduced a chapter on insurance industry which highlights the advantages of taking insurance policy. Many universities have launched insurance courses in graduate and post-graduation level. The government has liberalised the insurance sector by making positive changes in the laws. Training and development programmes initiated by insurance company for their agents have led to massive increase in insurance policy takers.

Now due to advertisements in the TV have made illiterate persons aware about the benefits of insurance. All these factors if taken in aggregate will tremendously increase in policy takers.

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