**EVALUATION OF THE PRODUCTIVITY AND EFFECIENCY OF NON-LIFE INSURANCE COMPANIES IN INDIA IN THE PRIVATE AND PUBLIC SECTOR AND COMPARISON BETWEEN THE TWO**

Abstract

The insurance industry in India is currently flourishing with the involvement of various national and international insurance players. A new era began in the Indian insurance industry with the Life Insurance Act of 1912, which brought in with it a fast-growing Life Insurance sector in India. Moreover, since the government allowed private players in the sector, Life Insurance has become the fastest growing sector in India and the FDI had increased up to 26 percent. The insurance sector was opened for private players with the condition that despite the presence of the public sector insurance companies and their significant contributions in the industry, along with expansion of coverage and awareness about insurance, the private players would be able to serve the interests of the consumers better. Despite the increase in FDI, the insurance sector in India has a lot of scope for growth. Thus, it is important to evaluate the performance of not just life insurance but all insurance companies in India.

Keywords: Insurance, India, Government policy, Life Insurance, sector, productivity

Introduction

The insurance sector in India has been growing dynamically and over the years it has managed to penetrate the Indian market and play a role in the Indian economy. As of October 2018, the IRDAI has recognised 34 non-life insurance companies which account for 25.3% of the insurance market share in India (IRDAI 2018). Out of these, six companies are in the public sector and the remaining in the private sector. Despite the low number of companies in the public sector, they hold a greater share of the market. Majority of the private sector insurers entered the Indian insurance market in the decade following the introduction of the insurance sector and the new players in this sector have mostly been in the non-life, standalone health, and re-insurance sectors. There is greater competitive volatility in the system due to the increase in the competition with the entry of more players in this field. The private sector insurance companies have been increasing their share in the Indian market gradually in both life as well as non-life segments. As per IBEF, 2019 the share of the private sector non-life insurance companies has increased from 13.12% in FY2003 55.7% in FY2020. The bar graph given below shows the share of the public and private insurance companies across the segments (Saon Ray 2020).

**Fig [1]: Non-Life Insurers across segments (in %)**

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*Source: IRDAI Annual Report, 2017-18*

The second research objective aims to assess the productivity and efficiency of non-life insurance companies in India in the public and private sector by analysing them on the grounds of two aspects:

1. Their financial productivity and,
2. Their efficiency by calculating three ratios using the output maximization model: claim ratio, expense ratio and investment income ratio.

For this purpose, eight non-life insurance companies are selected, four in the public sector and four in the private sector. The data for the same is taken over a period of five years, from 2015-16 to 2019-20.

**Table [1]: Selected eight non-life insurers in Inia**

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*Source: IRDAI*

1. Financial Productivity:

The financial productivity is another way to determine the efficiency of the company. This can be done with measuring how much revenue or profit companies generate. Here, the financial productivity of the eight companies is ascertained by observing the Profit After Tax or PAT since it is the most important parameter to determine the health of the business and in turn its financial stability and productivity.

Given below is a table and the corresponding which shows the PAT for the selected eight non-life insurance companies (in crores) for the period 2015-16 to 2019-20.

**Table[2]: Profit After Tax (PAT) of selected eight non-life insurers (2015-16 to 2019-20)**

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*Source: (ask)*

**Fig [2]: Graphical representation of PAT for selected eight insurance companies**

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Analysis: From the given table and graph, it is observed that the PAT shows an upward trend for Bajaj Allianz General Insurance, Reliance General Insurance and United India Insurance. Even though there are a lot of fluctuations in the PAT of United India Insurance, it has managed to get a profit of 1485 crore for the year 2019-20. Even New India Assurance has maintained a positive PAT in FY19-20.

In the private sector, Aditya Birla Health Insurance which commenced its operations from FY2016, has had its PAT on a declining slope and comparatively, Bajaj Allianz has been doing very well, likewise for Reliance General Insurance. Even though Kotak General Insurance has had a negative PAT in these five years, it has managed to reduce the losses and is seen on an upward trend. From this it can be inferred that the financial efficiency of the insurance companies in the private sector based on their PAT is going well.

The financial efficiency of the companies in the public sector are balanced to a certain extent.

National Insurance and Oriental Insurance have been facing heavy losses, but United India Insurance is doing very well with a PAT of 1485 crores in the FY2019-20. The New India Assurance has managed to maintain an upward trend of PAT in these five years.

The overall fluctuations in the PAT of these companies due to the changes in the operating expenses, investment income and benefits paid.

Overall, it can be concluded that the private sector companies ae doing relatively well financially as compared to public sector companies.

1. Efficiency analysis using output maximization model:

The output maximization model is used for the valuation of the productivity and efficiency of the eight insurance companies. This is done by using three parameters as mentioned below (in percentage form), to assess the productivity:

• Claim ratio (Net claim incurred to net written premium)

• Expense Ratio (Expenses of management to net written premium)

• Investment Income Ratio (Investment income to net written premium)

Under this model, the outputs are taken as net incurred claim in the first parameter, net written premium in the second parameter and investment income as well as net written premium in the third parameter.

Parameter 1:

Claim Ratio - Net claim incurred to net written premium (%)

This parameter is one of the most important elements of an insurance company and it is used to indicate whether the pricing policy proposed by the company is appropriate or not. It is used to represent how credible the company is and reflects the portion of claims in the premium earned (Bagaria 2020).

Given below is a table displaying the claim ratio for each of the companies from 2015-16 to 2019-20 and a corresponding graph for the same.

**Table [3]: Claim Ratio for selected eight non-life insurers (in %)**

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**Fig [2]: Graphical Representation of Claim Ratio (in %)**

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Analysis of parameter 1:

In case of claim ratio, higher the ratio, the better it is for the insurer and it would be a good indicator for people to buy the plan, with profitable pricing. From the given table and graph we can see that the claim ratio for all the insurance companies is high. Higher claims usually reflect higher drainage of funds. It is observed that companies in the public sector show a higher claim ratio as compared to private sector, the highest being 105.86% in FY2019-20 – National Insurance. Moreover, the consistency of high claim ratio is more in the public sector companies. This indicates that a buyer would be more attracted to insurance offered by a company in the public sector or would have more faith in public sector companies.

Parameter 2:

Expense Ratio - Expenses of Management to Net Written Premium

This parameter is used to indicate the expenditure incurred by the management during the business. More the expenditure, lesser will be the profit margin. It is a good measure for providing clarity on the financial aspects of the insurance company which is turn signifies the efficiency of the company and measures its profitability (SEBASTIAN 2020).

Given below is a table displaying the expense ratio for each of the companies from 2015-16 to 2019-20 and a corresponding graph for the same.

**Table [4]: Expense Ratio for selected eight non-insurers (in %)**

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**Fig [3]: Graphical Representation of Expense Ratio (in %)**

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Analysis of Parameter 2:

The expense ratio can be used to compare insurance companies and analyse their performance over time. If the ratio is less than 100%, the insurance firm is either receiving or writing more premiums than it is paying out as expenditure to generate or cover these premiums. In this case, from the given table and graph we can see that companies in the public sector have a lower expense ratio than those in the private sector. This shows that the public sector companies can manage their expenses and thus show high efficiency and profitability. Highest expense ratio is seen in the case of Kotak General Insurance and Aditya Birla Health Insurance, both belong to the private sector. Whereas, lowest and most consistent is in the case of The New India Assurance. One of the reasons for the increased expense ratio in private companies is the competition to gain more market share.

Parameter 3: Investment Income Ratio - Investment Income to Net Premiums

This parameter Investment Income Ratio represents the income the company earns on investments. The investment income ratio compares the revenue generated by an insurance company's investment activities versus its operations. It is used to figure out how profitable an insurance company's assets are and hence are a great indicator of their profitability and productivity (KAGAN, Investopedia 2020).

Given below is a table displaying the investment income ratio for each of the companies from 2015-16 to 2019-20 and a corresponding graph for the same.

**Table [5]: Investment Income Ratio of selected eight insurers (in %)**

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**Fig [4]: Graphical representation of investment income ratio (in %)**

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Analysis of Parameter 3: Insurers have often relied on investment income to help them write off underwriting losses. This is more prevalent among public insurers, but private insurers also rely heavily on investment income. However, because of the global meltdown, investment income has had a less prevalent impact. Almost all the companies have a low investment income ratio as is observed from the table and the graph. However, most of the companies in the public sector have a decent investment income ratio as compared to those in the private sector.

Conclusion:

Insurance companies in the public sector are still going strong and enjoy dominance in the market as their ratios are better than private insurers. However, private insurers are seen to be pacing forward and grabbing more market share. Even tough financially, the private sector is doing better, the overall insurance reliability, credibility, productivity, and efficiency of the public sector companies is more. To improve its financial position, the public sector could focus on its capital adequacy since its ratio in the market is lower than private insurers and they would not want to lose their market share. The private sector on the other hand needs to focus on the reliability and productivity so that they can gain a stronger base of customers in India. All in all, in terms of productivity and efficiency, it can be concluded that the public sector companies dominate the market but looking at the figures of private sector companies and their market share, even they have a good scope for growth in the future.

Literature Review:

(Saon Ray 2020) in their report give us an overview of the Indian insurance sector briefly. Under this, they have explained how most private sector insurers have entered the market in the decade which was followed by the opening of the insurance sector and the new entrants in this sector have mostly been in the non-life, standalone health, and reinsurance sectors. They have observed that even though the number of public insurers is less in the Indian market currently, they hold a much greater share of the market and thus enjoy dominance. However, most private sector insurers are also working towards increasing their market share and dominance. The figures shown by them in the report indicate that the share of private sector in life insurance segment has grown from 2% in FY 2003 to 33.8% in FY 2019 and that of the non-life insurers in the public sector have increased from 13.12 per cent in FY03 to 55.7 per cent in FY20.

(Supriyaa 2018)paper focuses on the evaluation of financial performance of life insurance companies in India and uses this information to ascertain the productivity and efficiency of the companies. For this purpose, they have selected six life insurance companies and have used parameters like profit after tax and surplus for financial evaluation and three ratios: claim ratio, expense ratio and investment income ratio for valuation of productivity. Using these parameters, they were able to conclude that private sector insurance companies are seen to be moving ahead and grabbing more market share and how the global meltdown has had an impact on the profitability of insurance companies. They have also suggested measures which insurance companies in the public and private sector could take to increase their profitability and liquidity positions. Overall, their analysis highlights the superior status of private insurers in the market.

**(Bagaria 2020)** website article covers the importance of claim ratio in the assessment of the productivity of insurance companies. It defines the claim ratio as a measure of the number of claims that are accepted and paid by the company. It also explains the importance of the claim ratio for determining the credibility of the company. A higher ratio is generally a good indicator for the company and this higher ratio attracts more consumers as a smaller ratio would be an unfavourable outcome for them.

In the website article by (SEBASTIAN 2020)**,** expense ratio has been explained and how it is used to analyse insurance companies have been explained in detail. It defines expense ratio as a measure of the profitability of an insurance company which is calculated by dividing the expenses associated with the management to the net premiums earned by the company. It plays an important role in measuring the company’s efficiency and is a key part for calculating combined ratio of the firm.

The website article by **(KAGAN, Investopedia 2020)** explains the investment income ratio which an important parameter is to assess the productivity and efficiency of insurance companies. It defines investment income ratio as the net investment income of a company to its earned premiums. It defines the income that an insurance company gains from its investments rather than its operations which in turn helps us assess the profitability of the insurance company’s investments.

References:

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