International Journal of Research in Marketing Management and Sales

E-ISSN: 2663-3337
P-ISSN: 2663-3329
IJRMMS 2021; 3(1): 29-36
Received: 13-11-2020
Accepted: 21-12-2020

Manoranjan Nayak
Faculty in Economics,
Kuntala Kumari Sabata
Mahavidyalaya, Balasore,
Odisha, India

Corresponding Author:
Manoranjan Nayak
Faculty in Economics,
Kuntala Kumari Sabata
Mahavidyalaya, Balasore,
Odisha, India

Performance of public sector insurance in Odisha

Manoranjan Nayak

Abstract

The rates, terms and conditions that the insurer could offer for their products were established by the Tariff Advisory Committee (TAC), a statutory body created under the Insurance Act 1938, the major piece of insurance legislation in effect at that time. The premiums were fixed at the same rate for all the companies, products were undifferentiated and coverage was limited in almost every line.

The major increase was witnessed in the miscellaneous and marine segments while as the fire segment, which is seen as profitable business continued to remain under strain and all the public sector insurers seem to lose grip on the fire segment.

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.

The greater risk to the financial stability of an insurer stems from underwriting business that is either too great in volume or too volatile for its capital base or otherwise whose ultimate result is too difficult to determine.

Keywords: capital ratio, assets quality, capital gain, net premium, equity ratio, sound management, return equity, combined ratio, liquidity

Introduction

In the recent past, the Indian insurance market has undergone major structural changes. The government monopoly was dissolved and private companies were permitted to operate and intermediaries suddenly had a significant role to play. In the country of over 1 billion people, the untapped potential for insurance and reinsurance business is enormous; nevertheless impediments to an open and competitive market still exist in the form of restrictions on foreign investments and mandatory reinsurance sessions. The scenario, however, was different prior to liberalization and deregulation of Indian insurance market. Although efforts were made to maintain an open market for the general insurance industry by amending the Insurance Act, 1938 from time to time, malpractices escalate beyond control. Thus the general insurance industry was nationalized in 1972. The General Insurance Corporation (GIC) was set up as a holding company with four subsidiaries: New India, Oriental, United India and National Insurance Companies (collectively known as NOUN). It was understood that the companies would compete with one another in the market; however, the same could not happen at that time but was possible only after 29 years (Nalini Prava Tripathy & Prabir Pal 2006) [1]. The NOUN has kicked off an internal exercise to segregate the entire investment portfolio of the GIC in 2001. The GIC had more than 2500 branches, 30 million individual and group insurance policies and assets of about USD 1800 million at market value as the end of 1999. It was a common suggestion that the GIC should close 20-25% of its non-viable branches. The GIC has so far been the holding company and reinsurer for the state run insurers. It reinsured about 20% of their business either by having them cede reinsurance business to each other or by using industry pooling. (GIC 2008) [2].

The rates, terms and conditions that the insurer could offer for their products were established by the Tariff Advisory Committee (TAC), a statutory body created under the Insurance Act 1938, the major piece of insurance legislation in effect at that time. The nature of this tariff system meant that the premiums were fixed at the same rate for all the companies, products were undifferentiated and coverage was limited in almost every line. The monopoly structure and the closing of the market to foreign and domestic private companies also meant that domestic insurers could thrive without having to face any external challenges. In this market, there was not much need for brokers. In any case, they were effectively kept out of the country by regulations that prevented them from charging fees or

commissions for their services. Nevertheless some international brokers did conduct business in the market from their offices outside of the country.

The public sector insurers' market share

The four major PSUs currently operating in the Indian general insurance market are National, Oriental, United India and New India insurance companies. In practice, the Public Sector Units tend to focus their efforts on maintaining a strong status and market position within their local region rather than competing with one another. Although New India is generally regarded as the most successful of the public sector insurers, however, LLOYDS (2007) highlight various challenges faced by public insurers and characterizes them as the companies focusing on sales rather than profitable underwriting, the companies with poor IT system, poor claims paying record and more exposure to loss making motor business which results into the loss of market share and leakage of high quality staff to private insurers. Table 01 depicts the market share of public sector non-life insurance companies. The public sector insurers exhibit a better growth in 2008-09, at 7.12 percent (IRDA, 2008-09) [3]; more than double the previous years' growth rate of 3.52 (IRDA, 2007-08) [4]. The premiums being the main input, the public sector insurers continued to underwrite a major component of the non-life business. The four public sector insurers underwrote a total premium of `18030.75crores in 2008-09 as 2007-08, registering a growth of 7.12 percent as against an increase of 3.52 percent recorded in the previous year.

As is reflected in Table 01 the major increase was witnessed in the miscellaneous and marine segments while as the fire segment, which is seen as profitable business continued to remain under strain and all the public sector insurers seem to lose grip on the fire segment. Despite the increasing business, the state owned insurers continued to lose the business which indicates that the public insurers could not keep pace with the increasing market. Figure representing the premium collection depict that despite the increasing premium collection, the market share of these companies declined to 59.41 percent from 79.93 percent. United India however showed signs of recovery in the last year of study and underwrote a premium of `4277.77 crores in 2008-09 as against `3739.56 crores in the previous year, which led to its market share to 14.09 per cent from 13.44 percent in 2007-08. However there has been gradual decrease in the market share witnessed by all the public insurers, Table 01 reflects the market share of the public sector insurers. The figures indicate that drastic fall in the market share of 7.64 percent, 5.94 percent, 4.20 percent and 2.75 percent was witnessed by National, New India, Oriental and United respectively.

Table 1: Market share of public sector non-life insurers

(Figures in percent) Companies		2004-05	2005-06	2006-07	2007-08	2008-09
New India	Fire Share	18.73	17.52	18.14	14.09	14.04
	Marine Share	6.00	6.26	6.40	8.29	8.10
	Misc. Share	75.27	76.22	75.46	77.63	77.86
	Market Share	24.09	23.54	20.14	18.97	18.15
Oriental	Fire Share	16.37	15.51	13.75	12.56	11.12
	Marine Share	7.80	9.22	8.85	8.90	8.39
	Misc. Share	75.83	75.28	77.40	78.54	80.49
	Market Share	17.26	17.32	15.77	13.69	13.06
National	Fire Share	14.15	13.73	12.91	9.50	9.20
	Marine Share	6.61	4.92	5.37	4.37	4.69
	Misc. Share	79.24	81.34	81.72	86.13	86.11
	Market Share	21.74	17.31	15.32	14.40	14.10
United	Fire Share	20.07	20.46	18.99	14.02	13.34
	Marine Share	8.28	6.47	7.54	8.04	7.90
	Misc. Share	71.65	73.07	73.47	77.93	78.75
	Market Share	16.84	15.50	14.05	13.44	14.09
Total Premium (In Lakhs)		13972.96	14997.06	16258.91	16831.84	18030.75
Total Market share Public		79.93	73.66	65.28	60.49	59.41

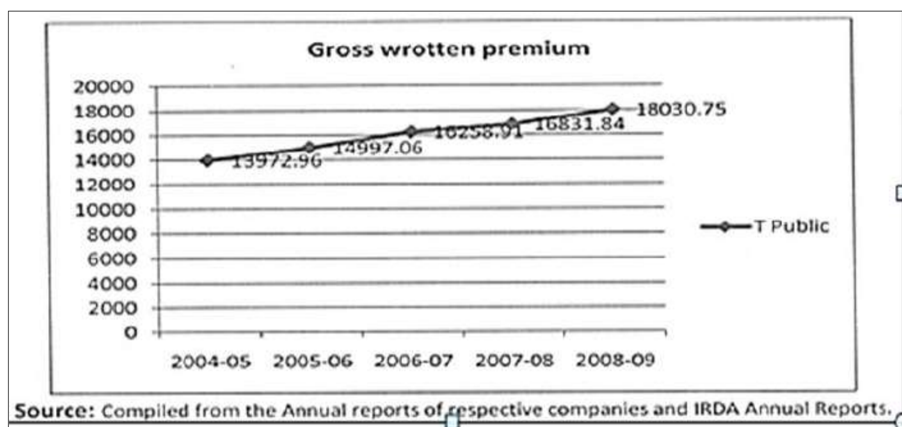


Fig 1: Gross premium collection of public insurers

The market position of the public insurers though has been deteriorating, however, surprisingly, represent robust growth is witnessed in the miscellaneous segment and marginal accretion in marine area, where as they seem to be losing profitable fire segment as the study progresses. In the present scenario, this situation calls for in depth analysis of the public sector non-life insurers, in the light of CARAMEL parameters. CARAMEL model is basically ratio based model of evaluating financial performance of insurance undertakings prescribed in the Handbook of Financial Sector Assessment by World Bank and IMF. (M. J. Mathew 1998) [5] has also prescribed the same encouraged set of indicators.

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. However, unfortunately there are no internationally accepted standards for capital adequacy of insurance companies. The greater risk to the financial stability of an insurer stems from underwriting business that is either too great in volume or too volatile for its capital base or otherwise whose ultimate result is too difficult to determine. Analysis of capital adequacy depends critically on realistic valuation of both assets and liabilities of the insurance companies. Capital is seen as a cushion to protect insured and promote the stability and efficiency of financial system, it also indicates whether the insurance company has enough capital to absorb losses arising from claims. Although insurance regulator has not prescribed any norm to maintain the minimum capital adequacy ratio as RBI has prescribed to maintain it to a minimum of 8 percent in banking sector, instead regulator has asked insurance companies to maintain solvency margin of 1.5 i.e. excess of assets over liabilities, monitored now on quarterly basis, moreover IRDA issues registration to those companies only having capital base of minimum of `100 crores. For the capital adequacy analysis of the insurers two capital adequacy ratios have been used in present study i.e. Net Premium to Capital and Capital to Total Assets ratio. The former reflects the risk arising from underwriting operations and the latter reflects assets risk. Net premium is a convenient proxy for the quantum of retained indemnity risk, that is, risk the insurer retains after reinsurance, being the risks that must be covered by own capital. Due to absence of international norm, capital is defined as total equity capital plus reserves plus long term debt minus miscellaneous expenses.

The healthy growth in net premium is considered to be risky unless supported by optimal balanced capital, to act as cushion to bear shocks. Empirical results have shown that good growth of premium volume is one of the casual factors in insurer insolvency (Kim *et al*., 1995) [6]. Being too obsessed with growth can lead to self-destruction as other important objectives might be neglected. This is especially true during an economic downturn, such as the South Asian Financial Crisis.

1. Ratio of Net Premium to Capital
2. Ratio of Capital to Total Assets

The higher capital adequacy ratio is considered as good, although no benchmark has been prescribed by IRDA, however, to ensure safety against insolvency, high capital adequacy ratio is desirable. The ratio of net premium to capital, witnessed mixed trend for all public sector insurers. The National and Oriental insurance companies have witnessed increasing trend in ratio ranging between 193.07 & 248.93 and 132.83 & 155.39 respectively, while as for United and New India insurers, the ratio has witnessed decreasing trend is ranging between 106.56 & 83.38 and 87.28 & 69 respectively. This indicates that the business was supported by the fair amount of capital for all the public insurers, however, the decreasing trend witnessed by United and New India was as a result of more capital infusion by these insurers to the tone of `50 crores each during 2006-07. This ratio indicates that National and Oriental insurers have retained more indemnity risk and which is to be covered by capital. Similarly, United and New India insurers have been able to shift indemnity risk and have fewer burdens on capital due to said risk retention.

The analysis of ratios clearly indicates that public sector insurance companies have been able to maintain capital and companies have infused more capital over the period of study, which might have enabled them to maintain required solvency margin, indicating that the reserves built in the pre liberalization era are being used to meet solvency requirements during post liberalization period. Further, the analysis reveals that the assets base has been increasing and the underwriting losses are being met through the realization of loans and advances especially by United and New India insurance companies.

Asset quality analysis

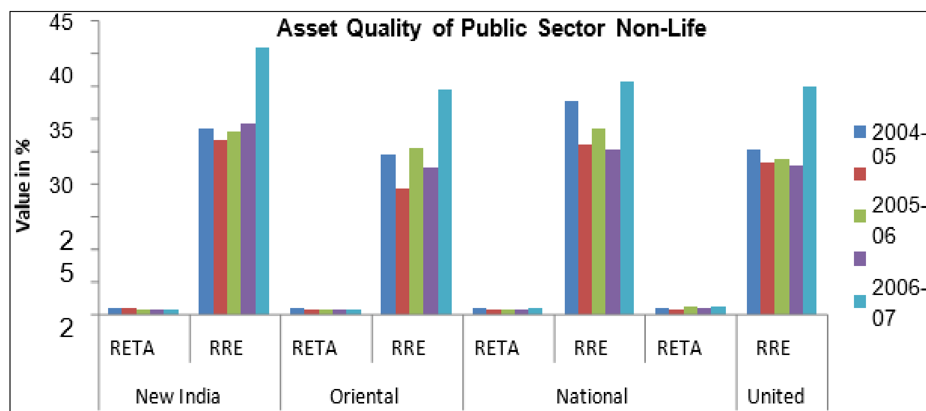
Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The primary factor affecting overall asset quality is the quality of the real estate investment and the credit administration program. Investments in real estate and housing sectors amounts 10 percent of the total assets base of the non-life insurance companies. Other item which has significant impact on an asset quality is to receive debtors. In this analysis an attempt is made to explore the structure of assets and focus on the existence of potentially impaired assets as well as on the degree of credit control, an insurance company exercises. The asset quality analysis reflects the quantum of existing and potential credit risk associated with the loan and investment portfolios, real estate assets owned and other assets, as well as off-balance sheet transactions. The indicator―Real Estate + Unquoted Equities + Debtors/Total Assets‖, highlights the exposure of insurers to credit risk because these assets classes have the largest probability of being impaired. Both real estate and unquoted equities are illiquid assets, with real estate often being difficult to value in less developed countries. Further, receivables (debtors) may expose the insurance companies to considerable credit risk and overstated assets if there are insufficient provisions for collection difficulties. The indicator, equities/total assets, reveals the degree of insurer‘s exposure to the stock market risk and fluctuations of the economy. Equity investments on the balance sheet of the insurer but in fact are part of risk pass-through products to be excluded. If the proportion of equities in total assets is significant, further examination of the portfolio is necessary, with special emphasis on the possible correlation of exposure on the asset and liabilities side of the balance sheet. In fact, the need to consider both sides of the balance sheet simultaneously is more general, while the indicators of

asset quality for non-life insurers need to be evaluated in connection with the associated liabilities and in the context of business. For instance, it would be reasonable for a non-life insurance company to have relatively larger proportion of assets invested in more risky (e.g. equities) or less liquid (e.g. real estate) assets, than a life insurer which better match the future long-term obligations. However, given the Indian scenario, the insurers are not allowed to invest in stock markets and neither are the companies listed, as a result unquoted equities could not be computed for the purpose. The indicator here shall reflect the quality of assets base in comparison to equities, which is reflected in the Table 02.

Table 2: Asset quality of public sector non-life insurers (Figures in percent)

Companies		2004-05	2005-06	2006-07	2007-08	2008-09
New India	1	0.762	0.746	0.731	0.626	0.743
	2	28.310	26.518	27.765	29.076	40.839
Oriental	1	1.029	0.744	0.721	0.617	0.743
	2	24.29	19.14	25.51	22.49	34.37
National	1	0.991	0.731	0.739	0.635	0.798
	2	32.53	25.90	28.41	25.05	35.55
United	1	0.960	0.737	1.129	0.982	1.157
	2	25.20	23.10	23.78	22.57	34.87

Source: Compiled from the annual reports of public sector insurance companies



Note: 1. Ratio of equities to total assets (RETA). 2. Ratio of real estate + Unquoted equities* + Debtors/Total assets (RRE)

Fig 2: Asset quality of public sector non-life insurers

Unquoted Equities could not be figured out due to the fact that companies were not listed up to the submission of the study; as a result, the term has been omitted in the calculation of ratio.

The analysis of the asset quality ratio clearly signals the robust growth of assets base of the companies in comparison to the equities. The decrease in ratio was witnessed by New India, Oriental and National where it ranged between 0.63 & 0.76 percent, 0.62 & 1.03 percent and 0.64 & 0.99 percent respectively. However, United saw an upward swing in the ratio and it ranged between 0.74 and 1.16 percent. 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 companies, with the exception of United where great decrease was seen in the investments, loans and other short term assets.

Reinsurance and actuarial issues

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. Overall, insurer‘s capital and reinsurance cover need to be capable of covering a plausible severe risk scenario. If the insurer relies on reinsurance to a substantial degree, it is critical that the financial health of its reinsurers is examined. At the industry level, this ratio indicates the risk bearing capacity of the country‘s insurance sector; however, any international comparison needs to be taken into account wherein some countries impose a requirement to reinsure a pre-determined percentage of business with a state-owned reinsurance company. Like in India the insurance companies are required to reinsure 20 percent of their business prior to de-tariffication and 15 percent of the risk after de-tariffication and 10 percent from 2008 onwards (IRDA Annual Report 2008-09) [4].

The adequacy of technical reserves also called as survival ratio shows the quality of company‘s estimate of the value of reported and outstanding claims, which reveals that some of the companies are better in holding the marginally higher reserves relatively to average claims to recent three years, triggering more detailed enquiry.

Management soundness analysis

A particularly interesting form of financial performance analysis of insurance companies is the analysis of management efficiency. The efficient management shall reflect in operating expenses, and gross premium, affecting overall operating efficiency of the insurance concerns, reflecting management soundness. Sound management is crucial for financial stability of insures. It is very difficult; however, to find any direct quantitative measure of management soundness, the indicator of operational efficiency is likely to be correlated with general management soundness. Unsound efficiency indicators

could flag potential problems in key areas, including the management of technical and investment risks. The indicator is operating expenses by gross premiums. Gross premiums are used because they are a reflection of the overall volume of business activity. The analysis reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness. It also needs to be taken into account that insurers may use different distribution channels to sell their products and sometimes may spin off their distribution into subsidiaries or other companies in a group.

Table 3: Management soundness of public sector non-life insurers (Figures in percent)

Companies	2004-05	2005-06	2006-07	2007-08	2008-09
New India	28.218	27.275	22.973	19.312	26.412
Oriental	24.186	24.121	19.199	21.628	23.067
National	22.616	25.048	21.116	22.402	22.112
United	29.304	30.958	25.565	24.403	24.111

***Source*:** Compiled from the annual reports of insurance companies
Note: Ratio of operational expenses to gross premiums

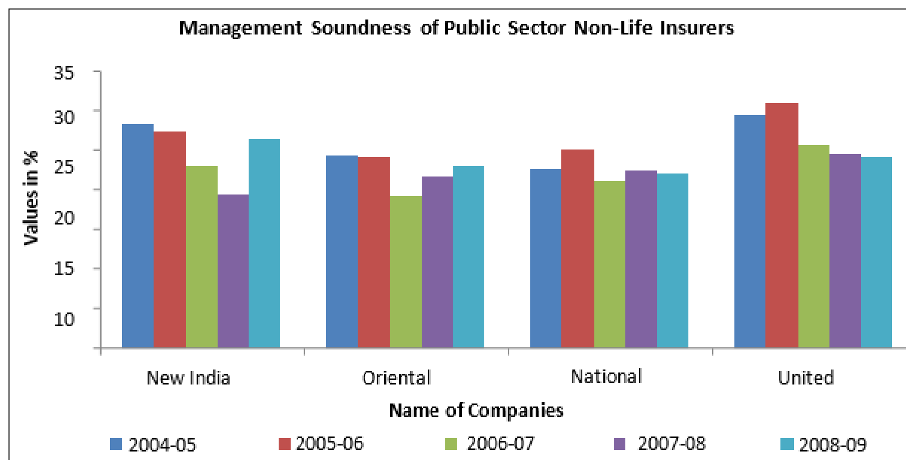


Fig 3: Management soundness of public sector non-life insurers

The ratio of operating costs to gross premium preferred to be on the lower side, witnessed considerable decrease throughout the study period in case of all the PSUs and in case of United it was quite encouraging to see the ratio decline by more than 6 percent from the earlier ratio 30.96 to 24.11 during the last year of study. The others to follow were National with around 3 percent decrease i.e., to 22.11 from the earlier 25.04 percent, New India and Oriental were also able to bring marginal decrease of 2 percent and 1 percent respectively and the ratio ranged between 28.22 percent & 26.41 percent after witnessing good decrease in 2007-08. Oriental has also been successful in keeping it to 23.07 percent from 24.19 percent with a major decrease in the year 2006-07.

Earnings and profitability analysis

Earnings are the key and arguably the only source of long term capital. Low profitability may signal fundamental problems of the insurer and may consider a leading indicator for solvency problems. Therefore, considerable attention is given to this area so that all indicators of earnings and profitability are included in this area. For non-life insurers, the ratio (net claims/net premium) is an important indicator of whether their pricing policy is correct, while the expense ratio (expenses/net premium) adds the aspect of operating costs into the analysis. It is important to note on technical detail; while the loss ratio has earned net premium into the denominator (and, on accrual basis, net claims are directly related to the denominator); the expense ratio is commonly defined with written net premium in the denominator (and again, the expenses other than claims are directly related to the denominator).

Then, the combined ratio, defined as the sum of the loss ratio and expense ratio, is a basic, commonly used measure of profitability (but note that it is not mathematically symmetric due to the different denominators). This indicator measures the performance of the underwriting operation but does not take into account the investment income. It is not uncommon to see combined ratios of over 100 percent and this may indicate that investment income is used as a factor in setting the premium rates. Prolonged triple-digit combined ratios, in an environment of low or volatile investment yields, signal a drain on capital and the prospect of solvency problems. Another indicator, investment income/net premium, focuses on the second major revenue source-investment income. Return on equity then indicates the overall level of profitability and return to shareholders.

Industry sources suggest that companies often charge a premium that is below what they feel is the economic value of the risk in soft markets because of two reasons. First, other companies are often doing the same and no company wants to be an outlier. Second, each company feels that it is cheaper to retain market share by subsidizing pricing for a short period (in particular when income is supplemented by strong investment income) than to charge economic premiums and later be forced to spend money to rebuild market share. Most arguments cited by industry insiders involve retaining market share, company size and reputation and this often includes retaining agent and broker allegiance as much as customers.

In a fast growing highly populated nation to have a competitive and customer friendly insurance market,

companies should be free to price their products. Consequently in India, the price deregulation has ignited intense competition in the insurance market and companies are marching towards more gaining more and more market without much thrust being laid on the prudential pricing. This has resulted in a situation, where the breakeven which was expected much earlier seem to be now pushed forward and in no case is expected in the coming three to four years. Here regulator IRDA has much to exercise given the juncture when insurance environment is marching towards free regime, any imperfection can erode customer faith which may be hazardous for the country like India.

The five ratios comprising the indicator Earnings and Profitability‖ highlight underwriting results and investment opportunities of the concerns simultaneously. The ratios calculated may represent the pattern, different from the earlier period‘s trend, the reason is because of unusual increase or decrease in the inputs of ratios, largely because of price deregulation announced by IRDA in year 2007-08. The impact of the free price regime of the products however may be the study out of context, the analysis aims at the trend witnessed and analysis of the operational and non-operational performance witnessed during the study period and summed under the indicator earnings and profitability of the public sector insurers after liberalization.

Analysis in Table 04 ratio presents the ratio 2 as ratio of expenses to net premiums called expense ratio. Expenses ratio in insurance parlance is the portion of premium used to pay all the costs of acquiring, writing and servicing insurance and reinsurance, the non-life insurance companies under study are seen to have been witnessing decreasing trend in this ratio which believed to be a good gesture for improving financial strength of the insurers. The expenses ratio recorded between 31.71 & 21.18 percent, 36.11 & 28.03 percent, 32.26 & 27.65 percent and 44.51 & 32.24 percent for New India, Oriental, National and United respectively. The ratio witnessed minor fluctuations during the initial years of study; however as public sector insurers have done tremendous progress in controlling the expense ratio, which surly will have positive impact on the profitability picture. (Financial services) [8].

Combined ratio, is a measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. A ratio below 100 percent indicates that the company is making an underwriting profit, while as the ratio above 100 percent means that it is utilizing more money in paying claims and expenses that it receives from premiums. Combined ratio defined as the sum of loss ratio and expense ratio indicates how every rupee earned as premiums is spent. The claims ratio is claims owed as a percentage of revenue earned from premiums. The expense ratio is operating costs as a percentage of revenue earned from premiums. The combined ratio is calculated by taking the sum of incurred losses and expenses and then dividing them by earned premium. The combined ratio of the four PSUs has been exceptionally high indicating no possibility of operational profitability, the ratio has been worsening as the study progressed. However, the signs of stability were seen in United where the ratio saw decreasing trend. The ratio for New India was recorded between 105.76 & 119.85 percent, for Oriental at 115.69 & 129.50 percent, National at 115.61 & 134.37 and for United it ranged between 137.60 & 110.56 percent. The combined ratio analysis corroborates with result of loss and expense ratios because the combined ratio has also been recorded on higher side for New India, Oriental and National insurers during 2007-08 and 2008-09. However, united insurer has been able to record healthy combined ratio during the same period, which is really good for their financial health. A combined ratio of 100 percent does not necessarily mean that the company is making losses, because this ratio is calculated after excluding the investment income. Higher returns on investment has always helped Indian general insurance companies offset underwriting losses, however, the routine has changed and there is a shift witnessed from interest or dividend income to profit from sale of investments and the trend is more pronounced among public sector insurers, which have reported strong returns by selling historical equity investments. However, declining stock prices substantially constrained investment returns of insurance companies; the profitability of the sector might decline. To report sustainable profits, insurance companies will need to generate income on their underwriting operations, instead of depending on investment returns.

The ratio presented in Table 04 ratio (4) represents the investment income ratio of the public sector insurers. The ratio indicates that there has been widespread decrease in the investment income for all insurance companies which can mainly be attributed to the global melt down and consequently higher volatility in the Indian financial market(IRDA 2008-09), the crises led to the deterioration in profitability due to loss on investments. The impact is clearly seen in the context of decrease in the investment income ratio, which ranges between 31.05 & 17.74 percent, 38.85 & 23.22 percent, 30.87 & 20.07 percent and 44.95 & 21.33 percent for New India, Oriental, National and United respectively. New India, Oriental and United seem to have been worst hit, whereas National saw an upward trend in the initial years however it settled to a bit higher than initial year‘s ratio. This scenario also hints towards poor financial risk management on the part of companies.

The 5th ratio presented in table 04 represents the return on equity of the public sector insurers under study. Since return on equity (ROE) is the reward for the investors, the ratio seems to be decreasing over the period of study. In fact, the decreasing PAT has been attributed to the decrease in ratio, where as in case of National and Oriental, negative ROE has been as a result of overall losses incurred by the two companies. The ratio for the two companies ranged between 421.28 & -149.21 and 497.27 & -52.66 respectively, with the year 2006-07 as the prosperous to see highest ratios. New India and United on the other hand had the ratio ranging between 729.98 & 112.08 and 425.23 & 307.71 respectively. Year 2006-07 and 2005-06 has witnessed highest ratio for the two insurers, whereas overall, the ratio represent wave like trend with ups and downs for United and upward graph till 2006-07 followed by marginal decrease in the next year and thereafter steep downwards trend witnessed by New India.

Table 4: Earnings and profitability analysis of public sector non-life insurers (Figures in percent)

Companies		2004-05	2005-06	2006-07	2007-08	2008-09
New India	1	77.113	88.134	80.342	86.824	89.000
	2	31.541	31.713	25.415	21.181	27.718
	3	108.654	119.847	105.757	108.005	116.718
	4	24.343	31.052	30.700	28.162	17.744
	5	268.155	358.190	729.976	700.564	112.075
Oriental	1	89.884	87.643	87.665	90.473	99.687
	2	34.377	36.113	28.030	28.635	29.817
	3	124.261	123.756	115.695	119.108	129.504
	4	38.847	34.911	31.002	27.857	23.215
	5	330.523	283.915	497.269	9.302	-52.660
National	1	84.962	102.431	86.510	94.047	99.162
	2	32.258	31.942	29.104	29.740	27.652
	3	117.22	134.373	115.614	123.787	126.814
	4	20.068	28.426	30.873	30.123	23.401
	5	131.125	-106.252	421.277	163.430	-149.210
United	1	92.411	93.093	90.259	92.753	78.617
	2	39.897	44.508	37.689	33.772	32.240
	3	132.308	137.601	127.948	126.525	110.857
	4	35.554	44.951	37.363	38.014	21.333
	5	307.711	425.230	352.574	421.083	317.367

Source: Compiled from the annual reports of insurance companies
Note: 1. Loss ratio = (Net claims/Net premiums) 2. Expense ratio = (Expenses/Net premiums) 3. Combined ratio = Loss ratio + Expense ratio 4. Ratio of investment income to net premium 5. Return on equity (ROE)

Liquidity

The frequency, severity and timing of insurance claims or benefits are uncertain, so insurers need to plan their liquidity carefully. Liquidity is usually a less pressing problem for insurance companies at least as compared to banks, since the liquidity of their liabilities is relatively predictable and for non-life insurers the liabilities, besides claims are for shorter period of time. Further along with the link between illiquidity and insolvency, through the loss of confidence and runs, is less marked in insurance, a loss of confidence in an insurer nearly always causes policyholders to cancel over, demand a return of unexpired premium, and seek insurance elsewhere. Moreover the liquidity problem may call upon capital restructuring and infusion of more capital to heighten the liability graph.

Table 05 indicates the liquidity ratios of current assets to current liabilities. The ratio saw an increasing trend, except National insurance company as the study proceeds. The ratio lied between 46.45 & 68.80 percent, 32.37 & 47.87 percent, 38.95 & 43.56 percent and 27.40 and 35.52 percent respectively for New India, Oriental, National and United. National insurer, however, saw sharp increase in the current liabilities as a result the ratio witnessed a decrease in the later years.

Table 5: Liquidity of public sector non-life insurers (Figures in percent)

Companies	2004-05	2005-06	2006-07	2007-08	2008-09
New India	6.45	2.87	1.62	9.28	8.80
Oriental	2.37	3.33	2.04	9.27	7.87
National	3.56	8.95	9.42	7.40	9.26
United	7.40	2.93	0.75	1.88	5.52

Source: Compiled from the annual reports of insurance companies,
Note: Liquidity = Current assets/Current liabilities

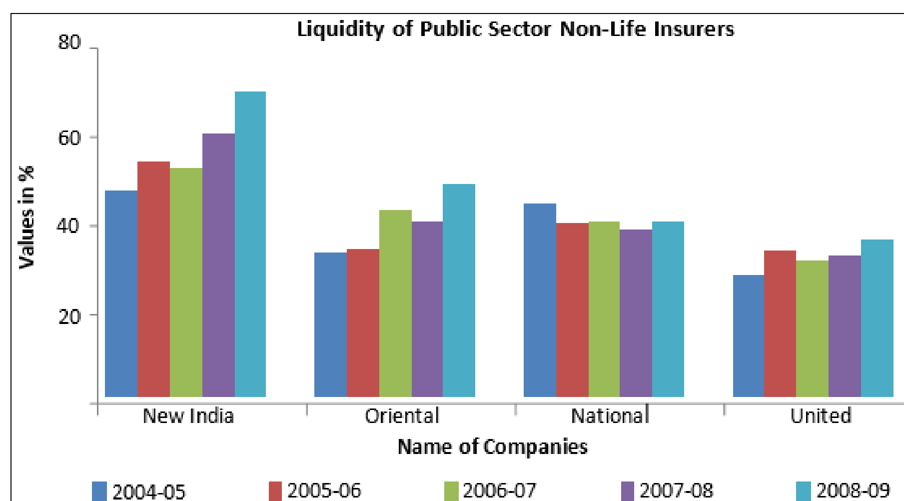


Fig 4: Liquidity of public sector non-life insurers

The rule of thumb which usually is considered to be for liquidity is that it should be above 100 and more profoundly due to term nature of business of non-life insurance, however given that the provisions kept aside as unexpired risk reserve the growing ratio does not seem to be worrying for the public sector insurers. The shorter tale nature of liabilities of non-life sector of business also does not call upon the insurers to maintain the required ratio as per the general requirements, however, insurers may require more liquid funds to continue their solvent state and moreover the unforeseen claims call for the better liquidity position of the companies, which needs to be taken care of seriously.

Performance of LIC

Life Insurance Corporation of India is one of the most significant public sector which plays excellent job in selling its products. But since last few years it is facing tremendous competition as many private players have emerged. The idea behind this study therefore to know the growth and performance of LIC. The setting up of the Insurance Regulatory and Development Authority (IRDA) was a clear signal of the end of the monopoly in the insurance sector. It has become imperative for LIC to face the competition posed by the entry of new private players. If under this pressure, Life Insurance Corporation of India improves its performance, the whole economy will be benefited. The insurance industry has undergone a drastic change since liberalization, privatization and globalization of the Indian economy in general and the insurance sector in particular. For almost four decades LIC has been sole player with virtual monopoly in the life insurance sector. The entry of so many companies in this sector was likely to affect the performance of Life Insurance Corporation. Thus the LIC public sector giant, which never faced competition earlier, now has to compete with the private players who boast of the rich and long experience of their partners from the developed countries of the world. It becomes imperative at this instance to appraise the performance of Life Insurance Corporation of India.

The LIC was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. LIC's slogan is Sanskrit "yogakshemam vahamyaham" which translates in English as "Your welfare is our responsibility". This is derived from the Ancient Hindu text, the Bhagavad Gita's 9th Chapter, 22nd verse. The slogan can be seen in the logo, written in Devanagiri script.

Life Insurance Corporation (LIC) is doing business of Insurance in India since 1961. By providing insurance, as such it tries to secure the human life value and there by adds further security to the person having insurance policy. As mentioned earlier that as per the type and nature of the data available researcher has analyzed major five components of the expenses of the sampled unit. All Expenses are analyzed through statistical measures. This chapter goes further, and Descriptive Analysis has been being carried out. The following table shows the major five variables which are taken for the analysis. (LIC).

Reference

1. Nalini Prava Tripathy, Prabir Pal. "Insurance Theory and Practice" Prentice - Hall of India Private Limited, New Delhi 2006.
2. GIC International Operations: Annual Reports 2007-08.
3. IRDA. Annual Reports for various years from 2000-2001 to 2012-13.
4. www.irda.com
5. MJ Mathew. Insurance, RSBA Publications, Jaipur B.S 1998.
6. Kim YD, Anderson DR, Amburgey TL, Hickman JC. The Use of Event History Analysis to Examine Insurer Insolvencies, Journal of Risk and Insurance 1995;62:94-110.
7. Swiss Re. "Exploiting the Growth Potential of Emerging Insurance Markets: China and India in the Spotlight," Sigma 2004, P5.
8. www.financialservices.gov.in
9. www.licofindia.com
10. Younus Mohamad. Insurance Industry in a Liberalized Environment-An Analysis‖, Osmania Journal of International Business Studies 2006;1(1):98-102.