International Journal
of
Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2021; 4(1): 11-18
Received: 12-11-2020
Accepted: 15-12-2020

Manoranjan Nayak
Kuntala Kumari
Mahavidyalaya, Balasore.
Odisha, India

Correspondence
Manoranjan Nayak
Kuntala Kumari
Mahavidyalaya, Balasore.
Odisha, India

Performance of Private Sector Insurance in India

Manoranjan Nayak

Abstract
The entry of the private players and the increased use of the new distribution are in the limelight today. The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.
Following liberalization, the private insurers made tremendous efforts in focusing untapped market and targeted the customer segments with vigor, consequently which led to gaining market share and their market presence.
That private sector insurance companies have been able to maintain good capital adequacy ratio and companies have infused more capital over the period of study, which might have enabled them to maintain required solvency margin and meet the underwriting losses. Further, the analysis reveals that the in comparison to capital, assets base has been decreasing and the underwriting losses are being met through the infusion of more capital in the portfolios of the companies.

Keywords: Asset Quality, Business Risk, Growth Uncertainty, Net Premium, Capital Assets, Actuarial Issue, Net Technical Reserves, Market Share, Liquidity.

Introduction
In the pre-reform era, Life Insurance Corporation of India dominated the Indian Life Insurance Market. But the situation drastically changed since the beginning of the year 2000. With the development of the IRDA Act in 1999, private players started entering into the life Insurance market. At the ends of the FY 2009-10, there were 22 Life Insurance Companies are operating in India. The 21 private life insurers enjoyed a market share of 29.90%.in India. The entry of the private players and the increased use of the new distribution are in the limelight today. The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favor of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards. However still the market is small in terms of insurance penetration and density, and as per the international standard. India has tremendous potential for growth. In 2008-09, the non-life insurance premium to GDP ratio (in % terms) in India was 0.60 as compared to the world average of 2.90. For the same year, the insurance premium to population ratio in India was 6.2 (in % terms) as compared to the world average of 264.2 (IRDA 2008-09) [1].
One reason for the low penetration level of general insurance business in India has been its expansion under state control for nearly three decades. Following liberalization, the private insurers made tremendous efforts in focusing untapped market and targeted the customer segments with vigor, consequently which led to gaining market share and their market presence.

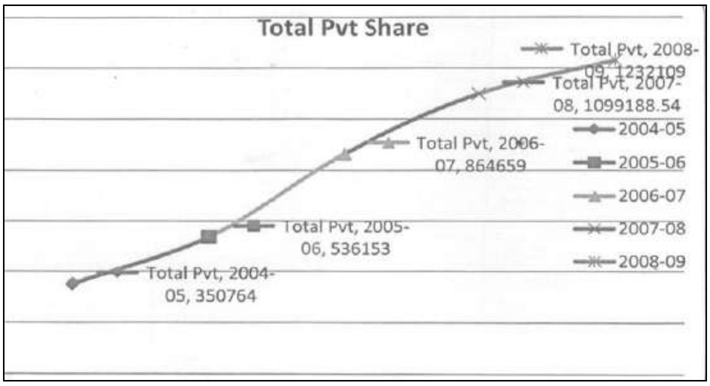
The Private Sector Insurers' Market Share
The private sector insurers have made a remarkable presence in a decade following liberalization, which is quite evident from the market share held by this sector. The sector being still in infancy is managed by experienced managers with strongly support by the

foreign expertise (LLOYDS, 2007). They are steadily building their customer base and, over time, they are expected to acquire an ever larger share of the market, their share stands at 40.59.6%, as in 2009. The major eight private companies currently operating in the Indian general insurance market are Royal Sundaram, Bajaj Allianz, IFFCO Tokyo, ICICI Lombard, Tata AIG, Reliance, Cholamandalam and HDFC with majority of them being joint ventures with the foreign partners. LLOYDS highlight various strength areas of the private sector and characterizes them small and flexible in terms of good staff, systems, processes and data, with greater focus on underwriting, strong claims paying reputation and companies focusing on the products rather than sales.

Table 01 depicts the market share of private sector non-life insurance companies. The private sector insurers exhibited a growth of 12.09 (IRDA, 2008-09) in year 2008-09 percent, but witnessed retardation in growth from growth rate of 27.12 (IRDA, 2007-08) of 2007-08. The market share, however, increased marginally to 40.49 (2008-09) from 39.51 (2007-08). The sector underwrote a major component of their business from miscellaneous segment, which has suddenly seen an upward surge following de-tarrification. The private sector insurers underwrote a total premium of ` 12321.09 crores in 2008-09 as against `10991.89 crores in 2007-08, registering a marginal increase in business compared to previous year collection.

Table 1: Market share of private sector non-life insurers (Figures in percent)

Companies		2004-05	2005-06	2006-07	2007-08	2008-09
Royal Sundaram	Fire Share	19.05	20.00	16.45	9.92	6.08
	Marine Share	5.08	3.99	3.08	2.82	2.49
	Misc. Share	75.87	76.01	82.85	87.27	91.44
	Market Share	1.89	2.25	2.40	2.50	2.65
Bajaj Allianz	Fire Share	25.77	27.62	20.37	11.49	9.66
	Marine Share	5.28	4.27	3.99	3.16	3.37
	Misc. Share	68.96	68.11	75.28	85.35	86.97
	Market Share	4.87	6.25	7.17	8.55	8.63
IFFCO Tokio	Fire Share	34.79	29.49	25.43	19.07	14.21
	Marine Share	6.22	5.17	11.21	5.89	8.27
	Misc. Share	58.99	65.34	63.36	75.04	77.51
	Market Share	2.84	4.38	4.60	4.05	4.53
ICICI Lombard	Fire Share	31.75	19.49	13.18	12.62	8.32
	Marine Share	9.44	5.41	5.19	6.55	6.36
	Misc. Share	58.81	75.10	81.63	80.83	85.32
	Market Share	5.00	7.77	12.00	11.89	11.21
Tata AIG	Fire Share	18.68	20.30	19.27	16.58	17.57
	Marine Share	9.11	8.36	9.87	12.50	13.57
	Misc. Share	72.21	71.34	70.85	70.92	68.86
	Market Share	2.56	2.81	2.85	2.81	2.71
Reliance	Fire Share	33.14	29.42	15.99	7.36	7.15
	Marine Share	7.85	6.62	1.96	1.76	1.93
	Misc. Share	59.01	63.96	82.05	90.88	90.92
	Market Share	0.92	0.80	3.66	7.00	6.31
Cholamandala m	Fire Share	28.23	33.08	25.02	13.08	7.85
	Marine Share	9.39	7.72	8.52	6.25	5.33
	Misc. Share	62.38	59.20	66.46	80.67	86.81
	Market Share	0.97	1.08	1.25	1.88	2.26
HDFC	Fire Share	1.03	2.91	5.72	5.82	17.33
	Marine Share	0.28	0.86	1.24	1.49	2.44
	Misc. Share	98.68	96.23	93.04	92.69	80.23
	Market Share	1.00	0.98	0.78	0.79	1.12
Total Premium *	(In Lakhs)	350764	536153	864659	1099189	1232109
Total Market share		20.07	26.34	34.72	39.51	40.59



Source: Compiled form the annual reports of respective companies and irda annual reports

Fig 1: Representing the premium collection depict the uphill graph of the private sector insurers

Figure 01 representing the premium collection depict the uphill graph of the private sector insurers. ICICI Lombard held the highest market share of 11.21among the private sector. This was followed by Bajaj Allianz (8.63), Reliance (6.31), IFFCO Tokio (4.53), Tata AIG (2.71), Royal Sundaram (2.65), Cholamandalam (2.26) and HDFC Ergo (1.12). ICICI, Tata and Reliance insurers reported marginal decrease in the market share, however, the other five made good advances in the business collection. The market position of the private sector insurers indicate that private insurers seem to focus on untapped market, rather than competing with public insurers, which surely is a healthy sign for the market and consequently market itself. It indicates that market overall is expanding and more people are coming under the purview of insurance. The growing market presence of private sector insurers therefore calls for in depth analysis.

Capital Adequacy Analysis

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. As mentioned in the earlier chapter, regulator IRDA has not prescribed any norm to maintain the minimum capital adequacy ratio, instead regulator has asked insurance companies to maintain solvency margin of 1.5. For the capital adequacy analysis of the insurers two capital adequacy ratios have been used 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. Table 02 reflects the capital adequacy position of the private insurers. (Financial services).

Table 2: Capital Adequacy Ratio Analysis of Private Sector Non-Life Insurers (Figures in percent)

Companies	Ratios	2004-05	2005-06	2006-07	2007-08	2008-09
Royal Sundaram	1	133.02	178.13	234.19	251.66	268.40
	2	43.547	32.517	24.593	22.664	22.181
Bajaj Allianz	1	207.67	219.56	207.86	245.18	281.24
	2	24.217	25.118	23.785	23.007	21.233
IFFCO Tokio	1	139.94	123.61	184.54	210.48	182.02
	2	31.328	36.743	33.116	25.831	28.686
ICICI Lombard	1	86.45	141.50	113.15	145.65	123.15
	2	32.436	22.752	31.912	28.358	29.223
Tata AIG	1	182.08	146.11	156.54	174.57	173.19
	2	29.924	32.988	33.649	29.955	31.201
Reliance	1	34.70	35.33	94.16	158.16	174.25
	2	62.274	59.969	35.227	34.878	37.425
Cholamandala m	1	50.04	62.27	89.66	167.89	247.98
	2	61.306	54.728	42.240	33.227	28.958
HDFC Chubb	1	99.49	110.77	110.51	98.71	89.20
	2	56.543	54.272	52.530	54.198	47.703

Source: - Compiled from the Annual Reports of Insurance Companies

Note:

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

The companies continue to show higher capital adequacy ratio despite earning premiums more than the capital infused. Bajaj Allianz has been leading in the ratio, where it ranged from 207 percent to 281 percent during the period of study. This was followed by Royal Sundaram where the ratio ranged from 133percent to 268 percent. IFFCO Tokio recorded the ratio ranging from 123 percent to 210 percent showing a decline in 2008-09, whereas Tata AIG has the ratio ranging 146 percent to 182 percent. The company witnessed sharp decline in 2005-06, however, making it better in the last year of study. Cholamandalam has been the only company witnessing continuous growth in the ratio, year 2007-08 and 2008-09 witnessed the company with the ratio of 167 and 247 percents respectively, attributed to the robust growth of premiums. The ratio of the company ranged between 50 and 247 percents. Reliance, ICICI and HDFC had the ratios

ranging between 34 and 174 percents, 86 and 145 percents and 89 to 110 percents respectively. Reliance also showed the continuous increase in the ratio where as cyclical pattern was shown by ICICI showing increasing and deceasing view of the ratio. HDFC initially saw an increasing trend in the ratio, however later it decreased below the initial year ratio to the tune of 89 percent.

The analysis of ratios clearly indicates that private sector insurance companies have been able to maintain good capital adequacy ratio and companies have infused more capital over the period of study, which might have enabled them to maintain required solvency margin and meet the underwriting losses. Further, the analysis reveals that the in comparison to capital, assets base has been decreasing and the underwriting losses are being met through the infusion of more capital in the portfolios of the companies.

Despite the fact IRDA has made it mandatory for registration of insurance companies to have initial capital of `100 crores; all the private concerns have been infusing more capital. Besides increasing capital and the support of reserves, companies have also relied on borrowings to cushion their liabilities. Since the claims of non life insurers are not of long tailed nature, as in case of life segment, there are no signs of worry for the regulator regarding the capital adequacy norm. Although there have been some volatility in these ratios which arise as a result of gradual deregulation policy of the government for the sector and that the growth of the assets has been more pronounced than the growth of capital for the study period. The ratios are stable and present a healthy picture of private insurers and it seems that their solvency position is better, moreover it is mandatory for the insurance company to adhere to the solvency ratio which is now monitored quarterly and the concerns falling short of the required ratio is strictly taken care of.

Asset Quality Analysis

The primary factor effecting 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. 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. Table: 03 presents look of the asset quality of the private insurers.

Table 3: Asset Quality Ratio Analysis of Private Sector Non-Life Insurers (Figures in percent)

Companies	Ratios	2004-05	2005-06	2006-07	2007-08	2008-09
Royal Sundaram	1	43.459	32.509	24.172	21.749	20.905
	2	42.64	44.46	41.06	44.44	48.12
Bajaj Allianz	1	14.914	10.350	6.493	4.393	3.481
	2	23.74	30.81	21.93	32.48	42.43
IFFCO Tokio	1	24.998	28.879	24.552	18.699	15.483
	2	23.50	27.99	34.98	38.00	49.12
ICICI Lombard	1	28.611	14.947	11.364	9.946	7.351
	2	42.45	47.08	46.06	50.80	55.81
Tata AIG	1	29.924	32.913	31.054	25.925	27.594
	2	26.55	33.74	30.95	35.59	53.87
Reliance	1	45.893	40.038	13.997	6.157	5.310
	2	24.79	26.27	27.90	38.44	46.54
Cholamandala m	1	61.306	54.728	42.240	31.822	26.453
	2	24.73	34.06	31.43	31.99	39.70
HDFC Chubb	1	56.607	54.317	51.723	53.479	47.418
	2	27.33	26.41	27.53	31.61	35.74

Source: - Compiled from the Annual Reports of Insurance Companies

Note: 1.Ratio of Equities to Total Assets

2. Ratio of Real Estate + Unquoted Equities* + Debtors/Total Assets

* 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.

Bajaj Allianz, ICICI and Reliance have witnessed steep decrease in the asset quality ratio which ranged between 14.91 & 3.48 percents, 28.61 & 7.35 percents and 45.89 & 5.31 percents respectively. Tata and HDFC witnessed slight decline in the ratio where it lied between 32.91 & 25.92 percents and 56.60 & 47.41 percents respectively. Royal, IFFCO and Cholamandalam also had the ratios with decreasing trend and it ranged between 43.45 & 20.90 percents, 28.87 & 15.48 percents and 61.30 & 26.45 percents.

Second ratio of the asset quality reveals that asset base of the private companies witnessed gradual increase as the study progresses. Besides other assets, the proportion of real estate and debtors in the total assets position of almost all the private companies witnessed a considerable increase gradually, which may be attributed to mandatory investment in real estate by the companies and surprisingly, the ratio is having a positive synergy with the market share and growth in business volumes. ICICI Lombard witnessed the higher increase in the ratio and it ranging between 42.45 and 55.81percents, where as Tata AIG is seen to have the ratio ranging from 26.55 and 53.87 percent. IFFCO Tokyo had the ratio ranging from 23.50 to 49.12 percents and Royal has the ratio lying between 41.06 and 48.12percents. Reliance, Bajaj, Cholamandalam and HDFC Ergo insurers also saw a gradual increase in the ratio and it was ranging between 24.79 and 46.54 percents, 23.74 & 42.43 percents, 24.73 & 39.70 percents and 27.33 & 35.74 percents respectively.

From the analysis of asset quality ratios of eight private insurers, the ratio of equities to total assets decreased by large proportion due to tremendous increase in the assets of the companies. Although there has been exceptional growth of equities by HDFC, ICICI, IFFCO, Royal and Tata, which is more than the IRDA requirement of `100 crores, but looking at their assets portfolio, the side has shown growth many folds during the study period. Looking at the assets side of their position statement, companies have also grown many folds in their investments side, since these investments are strictly subject to regulations regarding the investment in the central government securities (25%), state government (10%), loans to state government (35%), the investments may be termed as risk free and at the time of unexpected claims occurrences, the companies may not face problems insolvency (business-standard).

The analysis reveals that the earlier practice of ‗underwrite and reinsure‘ has faded away to a good extent and the private insurers seem to become more risk tolerant as they grow. However, adequate provisioning for the claims is not made overall, except Reliance, ICICI and Bajaj. All the companies from the sector do not have good technical reserve position to support any untoward incident incurring high claims.

Management Soundness Analysis

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 and personnel expenses to 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. The analysis of the management soundness is presented in the Table 04 below:

Table 4: Management Soundness of Private Sector Non-Life Insurers (Figures in percent)

Companies	2004-05	2005-06	2006-07	2007-08	2008-09
Royal Sundaram	22.019	22.853	22.801	25.108	27.329
Bajaj Allianz	17.502	16.398	19.383	21.812	22.862
IFFCO Tokio	19.567	17.126	17.889	17.844	17.439
ICICI Lombard	17.273	18.844	16.685	16.968	19.946
Tata AIG	23.770	26.389	27.239	29.540	32.924
Reliance	21.221	16.783	19.833	28.918	28.255
Cholamandalam	25.365	25.976	25.498	25.294	23.919
HDFC Chubb	26.237	28.863	32.965	33.588	31.694

Source: - Compiled from the Annual Reports of Insurance Companies

Note: Ratio of Operating Expenses to Gross Premium

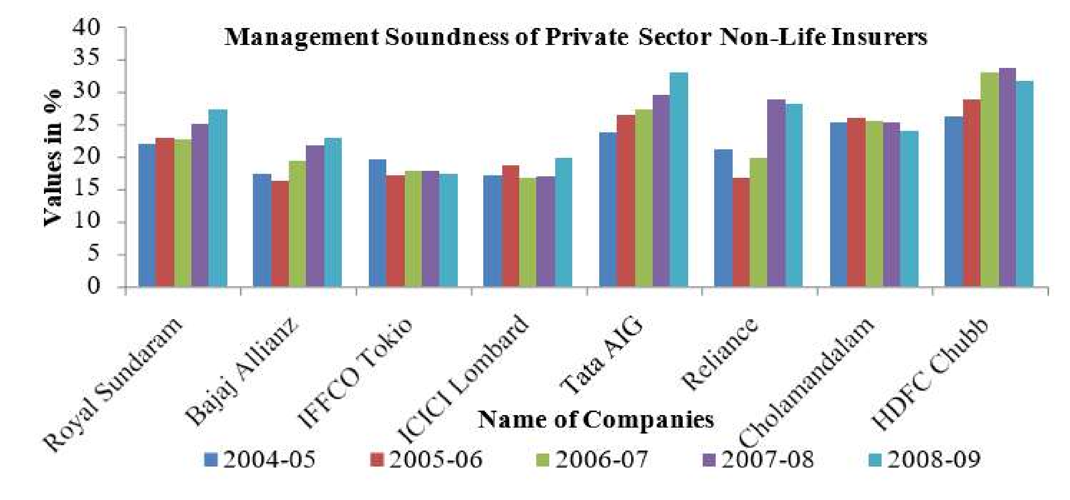


Fig 2: Management Soundness of Private Sector non-Life Insurers

Earnings and Profitability Analysis

Earnings and profitability section of the study is two tier standard; focusing on operational and non operational efficiency of the insurers. The ratios in this section include claim ratio (also known as loss ratio), expense ratio, combined ratio, investment income ratio and return on equity. 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 (on accrual basis, net claims are directly related to the denominator), the expense ratio is commonly defined with written net premium in the denominator (again, the expenses other than claims are directly related to the denominator). The combined ratio, defined as the sum of the loss ratio and expense ratio, is a basic, commonly used measure of profitability. 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 the setting of 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. 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 study of impact of the free price regime on the products, however, would be the study out of context; the analysis aims at analysis of the operational and non operational performance witnessed during the study period and are summed under the indicator earnings and profitability for the private sector insurers after liberalization

Section 40 C of Insurance Act 1938 also lays down the guidelines in respect of management expenses and according to the section; expenses should never exceed 20 percent of the net premiums. The private insurers seem to breach it; however, the silver lining is that private insurers seem to have controlled management expenses to a great extent which is reflected in their decreasing expense ratio. (cci.gov) [6]. 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 premium, (Hampton J.J, 1993) [5]. 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.

Combined ratio analysis of the private insurers‘ reveals that premiums earned is drained away in the form of claims and expenses. This speaks of the improper risk selection and mismanaged expenditure policy of the insurers, which is resulting in draining away of resources both from operations and investments. The analysis discloses that every rupee earned as premium plus the sum earned from investment income is utilized for paying claims and expenses for acquiring business. The situation is alarming, given the fact the market is turning to be more competitive in the near future, the sustenance strategy in the near future will surely be proper risk selection, proper risk pricing and cost efficient operations.

It reflects the investment income position of private sector insurers. As is evident from the analysis, the investment income constitutes a meager portion of their portfolios. ICICI, IFFCO Tokyo, Bajaj Allianz, HDFC and Royal Sundaram reported the highest investment income in the sector, the ratio for these companies ranged between 7.347 & 11.801 percents, 6.238 & 10.283 percents, 7.882 & 10.201 percents, 3.958 & 9.929 and 4.781& 9.454 percents respectively. While as the same ratio for Tata AIG, Cholamandalam and Reliance is ranging between 6.504 & 8.685 percents, 6.275 & 8.376 percents and 10.669 & 6.968 percents respectively. Except Reliance, the ratios for all the other companies in the sector indicate gradual increase in the investment income, which speaks about the good asset management of their investment portfolios. 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, declining stock prices substantially constrained investment returns of insurance companies. To report sustainable profits, insurance companies will need to generate income on their underwriting operations, instead of depending on investment returns. It seems that the global meltdown and the aftermath situation had the minimal impact on the investment income of the private insurers and they are earning a steady income from the investment incomes. However, the situation demands insurers to focus on efficient underwriting rather than on non operational income. The prime motive for insurers should therefore be proper risk selection and pricing to avoid any untoward situation.

It represents the return on equity of the private 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 for all private insurers except Bajaj Allianz which has reported a great increase throughout the study period. The ratio for the company ranged between 42.814& 95.818 percent. Similarly Cholamandalam saw an increase in the ratio and it increased from -2.351 to 4.924 percents. ICICI too had good quantum of the ratio in the initial year; however, it got decreased from 21.976 to 5.589 percents. Royal Sundaram, IFFCO Tokyo and Tata AIG also saw decrease in the ratio and it decreased from 15.132 percent to 2.695 percents,14.720 to 1.016 percent and 14.720 and 1.413 percent respectively. HDFC Ergo and Reliance had the greatest fall in the ratio, the companies witnessed overall losses in the later years of the study and consequently no return to shareholders was expected. The ratio for these companies decreased from 3.526 to -12.875 percent and 14.085 to -46.268 percent respectively. Reliance witnessed a huge fall in the ratio in year 2007-08, the ratio decreased to the record -154.499 percent.

In India, the price deregulation has ignited fierce competition in the non-life insurance market and companies are marching forward, gaining more market without focusing on 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 has already stepped inn in the free price regime, any imperfection can erode customer faith which may be hazardous for the country like India.

Liquidity

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. However, the ratio is prescribed to be maintained more than 100 percent, (Mor Darzi T.A 2011)[8]eover the liquidity problem may call upon capital restructuring and infusion of more capital to heighten the liability graph. Table 05 presents the liquidity position of the private sector insurers as follows:

Table 5: Liquidity Analysis of Private Sector Non-Life Insurers (Figures in percent)

Companies	2004-05	2005-06	2006-07	2007-08	2008-09
Royal Sundaram	24.44	21.28	24.92	32.24	25.37
Bajaj Allianz	20.70	33.64	26.30	27.34	33.25
IFFCO Tokio	69.03	77.88	67.45	69.95	76.74
ICICI Lombard	52.21	55.61	56.54	46.24	56.55
Tata AIG	31.31	34.50	34.63	25.87	44.88
Reliance	55.50	32.72	15.44	29.49	42.77
Cholamandalam	23.90	26.59	35.46	30.64	37.11
HDFC Chubb	19.43	25.27	33.90	27.25	44.95

Source: - Compiled from the Annual Reports of Insurance Companies
Note: Ratio of Liquid Assets to Current Liabilities

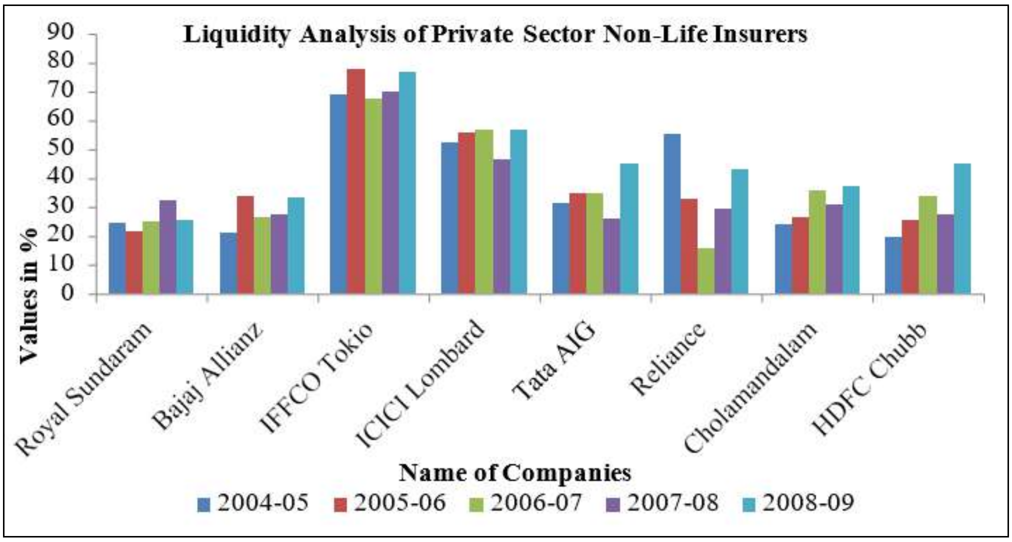


Fig 3: Liquidity Analysis of Private Sector Non-Life Insurers

Since the insurance contract lasts usually for a year, it is as such imperative on part of insurers to maintain the ratio at 100 percent to meet the short tail liabilities. In contrast, however, none of the private insurers seem to be meeting the standard, although analysis reflects improvement in the ratio. Analysis reveals that IFFCO Tokyo reporting the highest liquidity ratio ranging between 67.45 & 77.88 percent, followed by ICICI Lombard, where the ratio ranged between 46.24 & 56.55 percent. This was followed by HDFC Ergo, Tata AIG and Cholamandalam, the liquidity ratios for these insurers is ranging between 19.43 & 44.95 percent, 25.87 & 44.88 percent and 23.90 & 37.11 percent respectively. Bajaj Allianz and Royal Sundaram had the lower liquidity ratios ranging between 20.70 & 33.64 percent and 21.28 & 32.24 percent respectively. Reliance was a sole company reporting gradual decrease in the liquidity position from 55.50 to 15.44 percent in the initial years; however, latterly the company managed an upward surge in the ratio and finally settled at 42.77 percent in year 2008-09. The analysis reveals that private insurers need to make enough provisioning in the liquid assets to have a better liquidity position. Otherwise, the situation may require capital restructuring, consequently which may require more fund inflow.

The analysis has been quite interesting, highlighting various unaddressed issues in financial performance analysis of the insurers and it is concluded that liberalization had a positive and promising impact on private sector insurance companies‘ performance especially on capital adequacy and asset quality standards. It is concluded that although private sector insurers are doing exceptionally well in gaining the market share, which is reflected in their continuous growing business volumes and strong market presence, however, earnings and profitability had been under strain and free market instincts continue to worsen the earnings. Whereas the capital base has been good throughout the study period, the underwriting losses seem to have been met out of the more capital infusion. The negative impact is seen in the key underwriting and investment side of the sector. It is also important to note that private non-life insurers have responded well in risk selection, which is reflected in their claims ratio; however, growing expenses and deteriorating management efficiency are the main area of concern for the insurers. The underwriting profitability has been under strain for the insurers which stems from growing management expenses, however, given the factor that they are still in infancy stage, more efficient functioning in terms of underwriting and management expenses is expected in the coming years. The growing free market regime has been a tough challenge and competition is fierce because of presence of public insurers who have got good market presence and strong financial base. The competition is also felt in the areas of product pricing from public insurers, to which private insurers are responding quite efficiently. However, the phenomenon is worrying for the private insurers, who can have sustainability problems in the competitive environment. The problem is being smelt and private insurers are forced to inject more capital to arrive at solvent state, which is not the same for public insurers, given the fact that they possess huge reserve base. The market in expanding which is quite visible from the fact that business volumes for every individual company is increasing, as a result head to head competition is not felt between public and private sector insurers. However product pricing is the main weapon of competition after de-tarrification, which resulted in the huge underwriting losses for both the sectors. In view of these findings, it would be quite interesting to have a look into statistically comparative financial performance of the both the public and private sectors of life insurance, which has been attempted in the next chapter to follow. The chapter also embraces the comparison on the basis of Insurance Solvency International Limited (ISI) standards. Moreover determinants of solvency have also been figured out statistically by employing multiple regressions of the key areas of insurance functioning.

References

1. IRDA annual reports 2001 to 2012
2. www.financialservices.gov.in
3. zwww.business-standard.com
4. Mathew MJ. Insurance‖, RSBA Publications, Jaipur B.S. 1998, 67-84
5. Hampton JJ. Financial Management of insurance Companies‖, (Amacon, NY: American Management Association) 1993, 266-288
6. www.cci.govt.in
7. Pujari PC. Law and Economics of Insurance 2001, 124-148
8. Darzi TA. Financial Performance of Insurance industry in Post Liberalization Era in India 2011, 80-102.