

Financial Growth of Private Non-life Insurers in India: A Trend Analysis

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Abstract


In the non-life insurance sector, General Insurance Business Act of 1972 was approved by the Indian Parliament through amalgamation of 107 general insurance companies operating on that time. In the non-life insurance segment, there are 6 public sector insurers and the rest 28 are private insurers. Apart from these, there is a sole national re-insurer, namely general Insurance Corporation of India (GIC). In this context, the study attempts to analyze the financial growth of the private non-life insurers in India from 2010-11 to 2019-20. Varied results are observed in respect of selected performance indicators of private non-life insurers in India. Overall, we found no significant change in financial recital indicators during the study epoch. To conclude, it may be stated on the whole, it may be stated that despite momentous positive enlargement in FDIR, the private non-life insurers in India have not shown acceptable recital with respect to financial indicators during the time under study.

Keywords: Financial, Growth, Non-life Insurers, Private, Trends.


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Introduction

In the non-life insurance sector, General Insurance Business Act of 1972 was approved by the Indian Parliament through amalgamation of 107 general insurance companies operating on that time. After amalgamation, four nationalized companies were formed. They are:

- National Insurance Company Limited,
- New India Assurance Company Limited,
- Oriental Insurance Company Limited, and

- United India Insurance Company Limited.

In the non-life insurance segment, there are 6 public sector insurers and the rests 28 are private insurers. Apart from these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC). In India, insurance sector was first started with the entry of private insurers in the year 2000 after the representation of the IRDA Act, 1999. This Act enables FDI only in the private life and non-life insurance companies to the extent of 26% per cent of the total shareholding. In the year 2015, the FDI hike took place from the existing 26% to 49%.

Table- 1 depicts the status of FDI inflows of private non-life insurers as per the annual report of IRDAI for the year ended the 31st March, 2020

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Table – 1: Proportion of FDI inflows of Private Sector Non -Life Insurers in India

Private Insurers	Total Number of Companies Registered with IRDAI	Number of Companies having no FDI inflows	Number of Companies having FDI inflows upto 26%	Number of Companies having FDI inflows upto 49%
Non-Life Insurers	30	13	5	12

Source: Annual Report of IRDAI

Literature Review:

A review of key studies related to private non-life insurers are organized chronologically and shown below in Table 2:

Table 2: Review of Studies associated to Private Non-Life Insurers		
Sr. No	Responsiveness Area	References
1	Identified that entry of private sector health insurers in India is expected to have an influence on the costs and quality of health care. Private equity in the financing also affected the cost-effectiveness of healthcare sector. However, proper regulatory norms with approved bodies like IRDA had impact of healthcare packages linked with health care. New legislative standards could improve the performance of private health insurance sector.	Mahal, Ajay. (2002)
2	Identified the regulatory difference that existed in the non- life insurance industry between U.S. and India. It had highlighted theoretically the areas of regulatory disagreement in the non- life insurance business such as definition area of products, treatment of acquisition outlays, treatment of unearned premiums, creation of a calamity reserve, reinsurance cession, investment regulation, responsibilities to the rural sectors, compulsion on social sectors, formation regulations and guidelines on solvency position.	Raman,V. (2004)
3	Analysed that the public sector general insurance companies had lead the private sector general insurance companies in context of mean technical efficiency on selected parameters in constant returns to scale, while the private general insurance companies had a marginally higher mean technical efficiency on selected parameters as compared to the public general insurance companies in variable returns to scale.	Sinha, R, P. (2007)
4	Conducted a comparative study based on the parameters like number of new policies issued, gross direct premium and net incurred claims based on the secondary data during the period 2002-03 to 2010-11. Empirical results found significant difference	Shreedevi, D. and Manimegalai,

	in the growth in respect of all the parameters among public and private non-life insurers and showed that public sectors companies had done well because of their aggressive pricing and holding of existing customers.	D. (2013)
5	Compared the growth performance indicators such as Gross Direct Premium Income, No of Policies Issued, Incurred Claims Ratio, Change in Reserve for Unexpired Risk, Commission, Expenses of Management, Equity Share Capital of Non-Life Insurers and Net Profit After Tax at aggregative level during the period 2001-02 to 2013-14. The empirical results concluded that public sector non-life insurance companies had superior performance than that of the private sector non-life insurance companies in terms of all the selected parameters.	Pakira, Sanjib, K. (2015)
6	Compared the financial performance on selected parameters in respect of FDI based and non FDIbased non-life Insurance companies in India. Capital Adequacy, Asset Quality, Reinsurance and Actuarial practices were selected as performance parameters of non-life insurance sector during the period 2004 to 2016. The empirical results concluded that in most of the selected parameters, FDI based companies had superior performance than that of the non-FDI companies in non-life insurance sector.	Joshi, F. and Kohli, H.K (2018)
7	Examined the performance of Non-life Insurance sector in India after the hike of FDI limit in India from 26 percent to 49 percent (Notified as on 16 March 2016) for the years 2016-17 and 2017-18. Basic parameters used in the study were no of insurers, insurance penetration and profit after tax. The study found a growth in the insurance penetration, density and total premium collection of Indian non-life insurance sector. The article suggested that active participation of foreign investors would be very important and it will bring dynamic practices environment in the non-life insurance sector.	Surya,M, Sudha,B, and Priyanka, T. (2019)

Objectives:

- To examine the growth rate of profitability and solvency position on the basis of selected performance parameters of private non- life insurance companies.
- To examine the impact of FDI hike on the financial growth rate of private non- life insurance companies.

Conceptual Model and Hypotheses of the Study:

Conceptual Model for Development of Hypotheses

On the basis of the objectives of the study, the conceptual model for development of hypotheses is shown in Figure 1.

1st Hypothesis

H₀₁: There is no considerable growth in selected fiscal performance indicators of private non-life insurance companies.

H_{A1}: H₀₁ is not true.

2nd Hypothesis

H₀₂: There are no considerable differences in growth rates in selected performance indicators of private non- life insurance companies due to FDI hike.

H_{A2}: H₀₂ is not true.

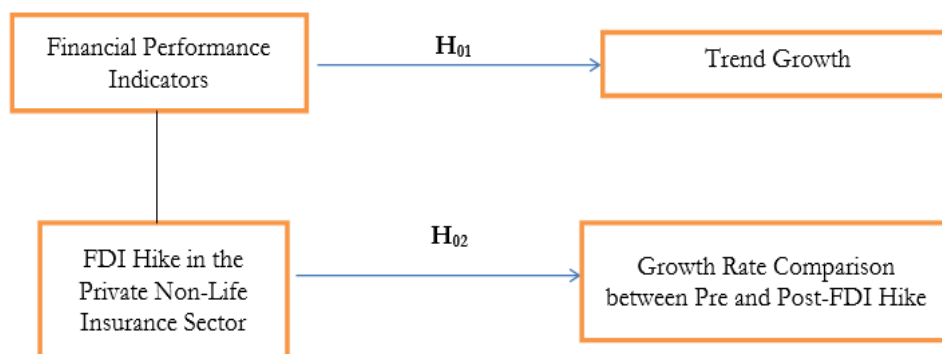


Fig. 1: Conceptual Model for Hypotheses Development

Research Methodology:

Sample

The study considers the entire private non- life insurance companies.

Data and Study Period

The data have been collected from IRDA during 2010-11 to 2019-20.

Methods for Data Analysis

Trend growth rates of the selected recital indicators are estimated by semi-log trend equation which is shown below:

$$\text{Log } Y = a + bt + Ut$$

Further, Chow test is used to make comparison of growth rates between pre and post-FDI hike. The Chow statistic is shown below:

$$F = \frac{RSS_c - (RSS_1 + RSS_2) / k}{RSS_1 + RSS_2 / n - 2k}$$

Findings and Discussion:

Growth Rate Trends of Selected Financial Performance Indicators of Private Non-Life Insurance Companies

The trend growth rates of selected recital indicators of private non-life insurers are presented below in Table 2.

Table 2: Growth Rates of Financial Indicators of Private Non-Life Insurers in India

Instruments	R ²	Constant (a)	Growth Rate (%)	F Value	Comments
Return on Equity (ROE)	0.383	-0.698 (-16.11)	3.4 ⁱ (1.48)	4.96	Positive and Insignificant
Commission Expenses Ratio (CER)	0.537	-1.073 (-99.14)	1.1** (3.04)	9.28	Positive and Significant
Operating Expenses Ratio (OER)	0.004	-0.675 (-59.823)	-0.1 ⁱ (-0.172)	0.02	Negative and Insignificant
Solvency Ratio (SR)	0.377	0.348 (26.99)	-1.0 ⁱ (-2.19)	4.83	Negative and Insignificant
FDI Inflow Ratio(FDIR)	0.692	-0.601 (-33.62)	2.6*** (4.23)	17.96	Positive and Significant

Source: Computed

Notes:

- i. The trend co-efficient (represented by 'b') has been multiplied by 100 to express the growth rate in percentage form.
- ii. *** marked value indicates significant at 1% level (two tailed).
- iii. ** a marked value indicates significant at 5% level (two tailed).
- iv. \dot{m} marked value indicates insignificant.
- v. Figures in bracket indicate 't' value.
- vi. d.f. = (n-k-1) > (10-1-1) = 8

Table 2 reveals affirmative growth rate in ROE, CER, and FDIR, although the result is significant for CER and FDIR, leading to the rejection of the first null hypothesis of the study. Moreover, OER and SR show insignificant negative growth and these results lead to the acceptance of the first null hypothesis of the study. The above results indicate that noteworthy increase in FDI has not brought significant increase in return on equity of the private non-life insurers during the study time.

Analysis of the Differences in Financial Growth due to FDI hike of Private Non-Life Insurers in India

Chow test is used to measure the differences in financial growth of the private non-life insurers in India. The results are shown in Table 3.

Table 3: Differences in Growth Rates of Performance Indicators in Private Non-Life Insurers in India

Performance Indicators	F-Statistic	Differences in Growth Rates between Two Sub-Periods	
Return on Equity (ROE)	2.65	Insignificant at 5% Level	Accept H_{02}
Commission Expenses Ratio (CER)	6.00	Significant at 5% Level	Reject H_{02}
Operating Expenses Ratio (OR)	0.030	Insignificant at 5% Level	Accept H_{02}
Solvency Ratio (SR)	1.33	Insignificant at 5% Level	Accept H_{02}
FDI Inflow Ratio (FDIR)	1.34	Insignificant at 5% Level	Accept H_{02}

Source: Computed

Table 3 shows unimportant results for ROE, OR, SR, and FDIR. However, significant result is observed for CER, which indicates that there is important change in the growth rates of CER. This also leads to the rejection of the second null hypothesis of the study.

To arrive at a meaningful conclusion, two regression equations are applied. In this respect, ROE is considered as dependent variable in the first regression with independent variables comprising of CER and OER. In the second equation, SR is considered as dependent variable and FDIR is taken as independent variable. The results are shown in Table 4.

Table 4: Overall Differences in Financial Growth Rates of Performance Indicators in Private Non-Life Insurers in India

Performance Indicators	F-Statistic	Differences in Growth Rates between Two Sub-Periods	
ROE- Non-Life Insurers	0.281	Insignificant at 5% Level	Accept H_{02}
SR- Non-Life Insurers	1.478	Insignificant at 5% Level	Accept H_{02}

Source: Computed

Table 4 shows insignificant results for both ROE and SR of private non-life insurers in India. This also leads to the acceptance of the second premise of the study. Thus, it indicates that there has been no alteration in growth rates of selected fiscal performance indicators during the study epoch.

Result of the Conceptual Model

Based on the findings of the study, the outcome of the conceptual model is presented in Figure 2 below.

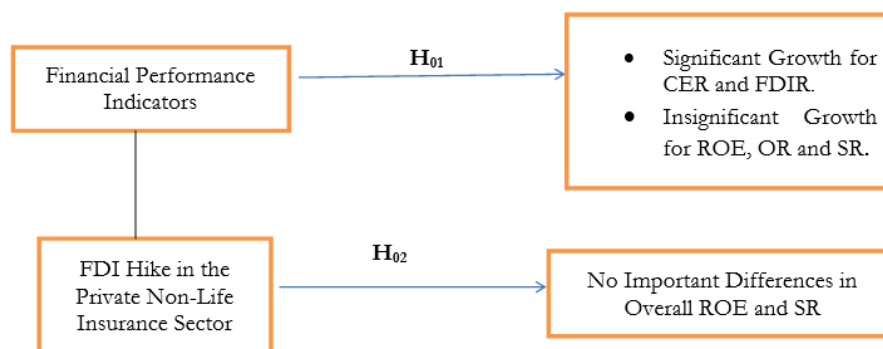


Figure 2: Result of the Conceptual Model

Conclusion

Varied results are observed in respect of selected performance indicators of private non-life insurers in India. Overall, we found no significant change in financial recital indicators during the study epoch.

To conclude, it may be stated on the whole, it may be stated that despite momentous positive enlargement in FDIR, the private non-life insurers in India have not shown acceptable recital with respect to financial indicators during the time under study.

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Author's Biography:

Dr. Tamal Basu, presently the Assistant Professor in the Department of Commerce (UG & PG), Prabhat Kumar College, Contai, PurbaMedinipur, West Bengal. He has an experience of 15+ years under graduate and 8+ years post graduate teaching. He acquired his B.Com and M.Com degree from Vidyasagar University, West Bengal and awarded gold medal in both the examinations. He has awarded his doctoral thesis in the field of NBFCs in October, 2020. His specialisation areas are Accounting, Finance and Taxation. He has 26 publications in different national and international journals and edited volumes. In addition to that he has presented 22 papers in different national and international seminars/conferences.

Prof. P. Sreeramana Aithal, presently the Vice-Chancellor of Srinivas University, Mangalore, India, has 32 years' experience in Teaching & Research and 22 years' experience in Administration. Prof. Aithal currently has FIRST RANK in TOP 12,000 Business Management Authors in the Global Ranking of Elsevier's SSRN (USA) for maximum number of open access research paper publications in SSRN. He got his first Ph.D. degree in Physics from Mangalore University and second Ph.D. degree in Business Management from Manipal University. He worked as Post-Doctoral Research Fellow at PRL, Ahmedabad from 1999-2000. In the year 2002, he has been selected for the prestigious Overseer Fellowship of Dept. of Science & Technology, Govt. of India – BOYSCAST Fellowship and did Post-Doctoral Research at CREOL, University of Central Florida, U.S.A. Recently, he obtained D.Sc. Degree from Srinivas University for his research on Technology Management. Prof. Aithal has more than 600 research publications in refereed International Journals and presented more than 300 research papers in National & International Conferences/Seminars. He has also written text books on Engineering Physics and Basic Electronics, which have been published by ACME Publishers, New Delhi.

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