Chapter 9: Findings, Analysis, Observations and Recommendations

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9.1 Introduction

This study revolves around the recent status of the life insurance industry in terms of efficiency. After one and a half decade of liberalization the insurance industry should be seen in a growth trajectory. This study is therefore unique in a sense that it has covered a long period of time along with most of the prominent companies in this sector. The outcome of the study gave useful insights on the future of the life insurance industry in India.

This study has reached to the efficiency measurement very gradually. In the initial part of the study the concept of insurance has been described in a vivid manner. The penetration of insurance to India was during the British rule. After much turmoil in the sector Indian companies came into existence and also suffered due to high mortality rate of Indians. After freedom there was huge hue and cry in the financial sector of India. Insurance was no exception to that. The importance of nationalization was discussed in this study. The post nationalization status of the sector was also highlighted using few key parameters like business in force, policies issued, assets under management etc. The LPG (Liberalisation, Privatisation and Globalisation) drive in India influenced the Insurance sector in the year 1999. Formation of IRDA and its relevance has been also covered in this study. The liquidity position of LIC before and after liberalization has been also studied. The CARAMELS approach helped to understand the financial solvency of the companies in the post liberalization period. The research methodology adopted has been discussed thoroughly. The results derived from efficiency analysis have been depicted with adequate inferences. This chapter throws light on the findings and analysis, observations, recommendations and scope for further research.

9.2 Findings and Analysis

The findings and analysis from this empirical study are enumerated below:

I. A probe on the actuary report indicated the position of the life assurance companies. The companies were ranked based on the dividends paid by the Indian life assurance firms. Oriental and Empire of India were the best amongst others (Appendix III and V).

II. The liquidity is an important aspect for the financial firms specially life insurance. Claim settlement is the ultimate reason for their existence. So, the liquidity of LIC had been studied during pre liberalization and post liberalization period. The study on liquidity structure indicates that LICI has maintained a strong liquidity position in the past twelve years as in the past. The company had sufficient current assets to meet the current liabilities. The profit position of the company is also considered to be quite satisfactory. It can be inferred that the profit of the firm remains unaffected even after opening up of the insurance sector. The study revealed that LICI has a strong footing both in terms of its working capital management and profitability even in this era of strong competition.

III. The study used ratio analysis to measure the financial performance of life insurers in India in the post nationalisation period. The study covered 18 life insurers during the period. The companies were studied from inception to 2015-16. The study used CARAMELS framework for analysing the various aspects of financial performance. Overall ranking of the life insurers were made based on the performance based on ratios. Chapter six of the study gives an overall view about the financial position of the life insurers individually and then collectively. The overall results reveal that LIC is found to be the best so it has been assigned the rank of one. Among the private insurers, the leading ones on the basis of their ranks are-ICICI Pru, IDBI Life, Kotak Life, Exide Life, PNB Met Life and Max Life Insurance Company.

IV. This study aimed to find out the financial strengths and weaknesses of the Indian life insurance companies. Various financial ratios have been used for understanding the financial soundness of the life insurers. The key aspects addressed are capital adequacy, asset quality, reinsurance and actuarial issues, management soundness, earnings/ profitability and liquidity. Liquidity has been a big drawback for most of the insurers under study. The study also found that there is a great asymmetry in the results during the period of nine years. Investment yield is a major problem for some insurers which requires serious attention by the regulator and the concerned firm. The reinsurance and cost control is improving as the companies are getting matured over the years. So, overall we may see

that the sector as a whole is improving gradually which is a positive symptom for the industry.

V. The study is on efficiency analysis of the life insurers. In this study various models of Data Envelopment Analysis (DEA) were used. The study used CCR model and BCC Model, the two basic models in DEA. The technical efficiency and pure technical efficiency was studied using the basic models. The scale efficiency was also studied during the period. It was found that LIC was the efficient company during the period of study i.e.2007-08 to 2015-16. The other companies were Bajaj Allianz and Shriram Life. SBI Life was found to be efficient upto 2012-13. The company dripped from the efficient frontier in the recent past. The other companies were lagging behind in terms of efficiency. For the efficient companies their immediate benchmarks have been suggested for improving the performance of the private players. Overall in the last three years the companies are not doing very well in terms of efficiency.

VI. The study revealed more than one company to be efficient in all the years considered for the study. So, a probe was made to measure the super efficiency of the companies. As expected, LIC was found to be the most efficient company with a very high score. Though the score of LIC had gone down in the last three years. So, in the next part of the study a probe was made to find the efficient companies baring LIC. Thus, the test of efficiency was made without taking LIC. The private sector companies like ICICI prudential, IDBI Life, Sahara Life were found to score good in most of the years covered under the study. The rank as per these study also shows that considering only the private players, the number of efficient firms has increased. This is because DEA is a measure of relative efficiency. So, those companies which were under the efficient frontier due to superb performance of LIC was seen to be on the efficient frontier when the study was conducted without LIC. The study also revealed that the private players mostly lag behind due to scale inefficiency.

VII. All these models were static models so in the next part the study adopted a dynamic model for research. A pilot study was made using a two input-two output framework for a period of six years. The outcome was very helpful in analysing the overall efficiency of the life insurers during the period of the study. So, in the next part the study proceeded with a three

input- three output framework covering a period of nine years from 2007-08 to 2015-16. The result of the study was very disappointing for the insurance industry. The number of efficient firms had drastically decreased. LIC was found to be near to one with a score of 0.9967. So, this gives immense scope to the life insurers for improvement in their efficiency score.

VIII. Overall the results indicated LIC as the super efficient company in the life insurance sector. The private players baring a few lagged much behind the market leader LIC. The private companies which have robust bancassurance channels can be seen doing better in terms of efficiency. The inefficiency aspect of most of the private participants has been revealed in the study. The study has also suggested the appropriate benchmark for the in-efficient companies.

IX. The technical efficiency score, the pure technical efficiency score and the scale efficiency score can be all used together to understand the inefficiency of the private firms. This gives enough opportunity to the private players for improvement. The study clearly indicates that the inefficient firms are utmost sufferer due to their scale inefficiencies.

X. The inefficient firms should manage their inputs adequately to give maximum output. The resources of the inefficient companies need to be reallocated in order to arrest the situation. The window analysis has been used to compare the performance of the major life insurance companies operating in India. This result also suggests that there still exists a huge gap between the LIC and other life insurance companies in terms of technical efficiency. Among the private sector insurance companies, Bajaj Allianz Insurance performed much better than the other in-sample insurers. It is expected that the existing gap between LIC and the private sector life insurers would narrow down in future with growing market share of the new entrants as this would facilitate the onset of economies of scale.

9.3 Observations

The study helps to depict some important observations about the life insurance sector of India, which are as follows:

I. The chapter on the historical development of the insurance industry in India indicates that the concept of insurance dates back to the history of mankind. The concept of insurance entered India with the Britishers mainly for the purpose of insuring businesses, goods etc. After the life insurance business was started by the foreign houses, it was realized that they practiced discrimination in their businesses. So, with increase in force of the nationalist movement and the call for Swadeshi, large number of Indian business houses also started the life insurance business. There was a jump in the quantum of business on one hand and an increase in the illegal and fraudulent practices on the other. With a view to develop sound business practices, several Acts were passed from time to time in the pre-Independence period. After the Indian independence, during the early years of the 1950s, when several lacunae were observed in the business practices of the life insurers, there was a call for nationalization of the life insurance industry which took effect in 1956 with the formation of LICI.

II. The independence of India brought many financial sector reforms with it. After the Indian independence, during the early years of the 1950s, there was a call for nationalization of the life insurance industry which took effect in 1956 with the formation of the LICI. During the early 1950s, it was observed that the operation of the Indian insurance business had a number of lacunae and thereby the overall industry suffered. This situation supported H.D.Malaviya's opinion to the call for nationalization of insurance in India. So, on the 19th January, 1956 the Union Government announced the nationalization of this sector. They considered taking over the private enterprises those were operating during that time. This decision was followed by the formation of the Life Insurance Corporation of India on 01st September, 1956. So, from 1956 to 2000, LIC operated as a monopoly. LIC has made significant contribution towards the country's economic development and spread of insurance among the masses covering different corners of the country.

III. The next financial sector reforms took shape in the 1990s with the advent of LPG. The Malhotra Committee was set up in 1994 to bring reforms in the insurance sector of the country. They recommended the opening up of the sector to the private and foreign players. Consequently, the industry was deregulated in 1999 with the passage of the IRDA Act and the formation of the IRDA.

IV. Insurance Regulatory and Development Authority (IRDA) was formed exclusively for the insurance sector in order to regulate the insurance business of India. Since its inception IRDA has been playing a very important role for developing the insurance market. IRDA has been also entrusted with the duty of protecting the policyholders' interests. In adherence to these objectives, the regulator has been laying down several measures for the insurers like, mandatory business in the rural areas, better transparency by common declaration about the financial whereabouts of the insurers, encouraging insurers towards better solvency position, uniform reporting of financial reports, suggesting proper portfolio management, promoting confidence of public on the insurers, ensuring, licensing sales personnel for better quality of sales and avoiding mis-selling, spreading awareness about insurance among public, etc. The insurance regulator has been playing a very important role in ensuring the sound growth of the industry, protection of the policyholders' interests and development of the society.

V. The insurance sector has undergone a rapid growth in the first decade after the liberalization. On studying the growth trajectory of the insurance sector it may be realized that few opportunities were the leading factors behind such growth. The various factors are the growth in the domestic market, changes in the demographic factors mainly due to education, rise in the overall household savings, increase in the middle class population and fall in the poor population, decreasing mortality rate due to medical advancements, dearth of social security schemes, ignorance about health insurance, increasing education expenses of the children and parents financial planning to support those, promotion of micro-insurance etc.

VI. The sector has been seen growing rapidly in most of the years. The dependence of private players on the ULIP policies brought a major set back during the turmoil in the financial market followed by the influence of sub prime crisis. The last three years under the study also did not pose very cosy picture. The prime challenges faced by the insurers are the high lapse ratios so customer retention and persistency is a problem for the insurers, training the agents and improving their quality of sales, reducing the possibilities of fraudulent practices, returning back to the growth trajectory in terms of business, exploring new distribution channels to reach customers, using bancassurance channels efficiently, spreading insurance amongst rural population, promoting micro insurance to tap the uninsured masses, portfolio management, earning profit by adhering to the stringent regulations by IRDA etc.

9.4 Recommendations

The findings and observations have enabled few recommendations to encourage overall performance and better industry prospects.

I. The history of the life insurance teaches a lesson on how the Indian insurance companies turned towards liquidation. Assets – Liability management is therefore a major issue in insurance business. The liquidity structure of insurance companies should be very sound. Re-insurance has a big role to play here. The Indian insurance firms are not adopting re-insurance to a great extent which is not advisable.

II. LIC has very sound position in terms of financial ratios. Most of the private sector companies should analyse their financial position and take necessary steps as applicable.

III. The efficiency score of the life insurers over the years is not satisfactory in all the cases. The study has recommended the benchmark company as per order of preference in chapter 8. LIC has turned up to be the benchmark for almost all the companies in the later years followed by Bajaj Allianz.

IV. On measuring the scale efficiency, it was revealed that the private sector companies are mostly scale inefficient. So, they should try to adopt Constant Returns to Scale (CRS) till they meet up their problem i.e. increase their output with same level of

input. The companies which had relatively good scale efficient scores should observe the pure technical efficiency scores.

V. The companies with low pure technical efficiency scores suffer from managerial incompetence or faulty implementation of policies. This may turn up to be a serious issue in the future days to come. So, immediate action to arrest the situation has been highly recommended.

VI. On analyzing the relative efficiency score of only the private players the study revealed that various private companies are also performing well, so the companies which are lagging much behind may benchmark these companies also as they are more easily approachable than LIC.

VII. LIC being the market leader is at a superior position and therefore will act as an overall benchmark for all the private sector companies. Few companies like SBI Life, Birla, HDFC life were seen to perform very well in the first part of the study but in the last three years the study they were trailing much behind in terms of efficiency.

VIII. The dynamic panel approach depicts the dynamic efficiency score of the life insurers in all the years under study. As the study did not reveal a very good score for the insurers in long run. So, the study reflects immense scope for improvement by the life insurers.

IX. The spread of insurance business in rural India and among all social classes is truly unsatisfactory. IRDA should introduce incentives for insurers who fulfil the criteria of mandatory spreading rural business and social class.

X. The insurance companies have already adopted telephonic verification about the policies sold through agency channels. Such measures will lead to maintain confidence of the masses towards insurers. The grievance redressal should be also made very simple so that anybody can approach without much effort.

XI. “Free look-in period” should be vigorously campaigned so that common public become aware about their rights and read the policy document within these period of 15 days. In certain cases, specially remote areas this period should be extended to ensure it’s applicability.

XII. The banks should be very diligent while selling insurance. Many customers may consider the premium to be as one time deposit. Well-trained people should be

entrusted with the job of selling insurance. Licensing may be made mandatory for the bank staff as well to sale insurance through bancassurance channels.

XIII. The websites of the insurance firms should have all the years financial reports under mandatory disclosure. A summary of at least ten years should be on the first page of the website to build trust among the prospective buyers.

XIV. The regulator may also maintain an archive of year wise annual reports of the insurers which will be of immense help to the various interested parties specially the researchers.

XV. Traditional plans should be given importance by the private players to avoid impact of market turbulence to an extent.

XVI. The respective channel should be penalized for policy lapses in order to reduce the policy lapse ratio.

XVII. IRDA should take drastic steps for any fraudulent practices adopted by the insurance firms. The higher management should also impose proper vigilance on the distribution channels.

XVIII. IRDA should increase its reach in all the states to ensure better control over the sector.

XIX. Emphasis should be on selling life insurance products as insurance and not an investment product. IRDA should conduct awareness campaigns through advertisements, sponsored seminars in local languages and workshops even in the rural areas.

XX. Portfolio management should be top priority for the insurers also like any investment company.

XXI. Solvency ratio should not be the only measure about the effectiveness of the insurers. A detailed analysis of various financial aspects should be adopted.

The above points, if adhered by the insurers and regulator, will lead the life insurance sector towards financial health and the society towards financial security.

9.5 Scope for Further Study

The scope for future research may be enumerated as follows:

(i) The study may be extended to some more years to understand the trend of life insurance industry in the future days to come.

(ii) Other techniques of efficiency analysis can be applied and the relationship among the scores obtained under the different methods can be determined.

(iii) After a few years, when there would be better dissemination of information in the website of the insurers and the IRDA, some other input and output variables may be used for efficiency measurement.

iv) Efficiency analysis can also be carried out using the application of recent DEA techniques.

The study has widely covered the important aspect of the life insurance sector of our country and will richly contribute to the existing literature on the subject.