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FINANCIAL PERFORMANCE OF ICICI PRUDENTIAL LIFE INSURANCE COMPANY AND KOTAK MAHINDRA LIFE INSURANCE COMPANY: A COMPARATIVE STUDY

Ranjit Roy
Research Scholar, Department of Commerce, Assam University, Silchar
Email: ranjitroy27@gmail.com

Dr. Kingshuk Adhikari
Assistant Professor, Department of Commerce, Assam University, Silchar
Email: adhikari.au@gmail.com

ABSTRACT

In the age of cut-throat competition, the performance of all the life insurance companies are under considerable stress because almost all the companies strive to retain their customers and also to increase their market share by raising their profitability and maintaining their solvency and liquidity position. Financial performance of life insurance companies may be assessed through various techniques but ratio analysis plays the most important role in studying the performance of life insurance companies in the sphere of profitability, solvency and liquidity. The assessment of financial performance of life insurance companies has gained relevance as these companies make significant contribution in the matter of economic activities of the country. Thus, life insurance companies are expected to maintain their profitability without making much compromise in the liquidity and solvency front. The study makes a modest attempt to compare the financial performance of ICICI Prudential Life Insurance Company and Kotak Mahindra Life Insurance Company for a period of six years and for this purpose profitability, solvency and liquidity ratios have been considered for comparing the financial performance of these two life insurance companies.

KEYWORDS: Profitability, Solvency, Liquidity

INTRODUCTION

Life Insurance companies widen their hands to secure the life of people by collecting premiums and channelizing them into productive investments. In this pursuit, life insurance companies are expected to be financially solvent and profitable (Adhikari and Ghosh, 2018). With the introduction of Liberalization and privatization of the Indian economy, several private players entered in the Indian life insurance industry (Dey, et.al., 2015). This rise in private Life Insurance companies led to increase in competition in Indian life insurance sector (Rajsekhar and Kumari, 2014). In this context, need for expanding the market share and maintaining a sound financial position are extremely important for the survival and growth of life insurance companies (Adhikari and Ghosh, 2018).

REVIEW OF LITERATURE

Akotey, sackey, Lordina and Amoah (2013) conducted a study with aim to identify the determinants of profitability in the life insurance industry of Ghana. The study period was for ten years started on 2000 and ends on 2010. Investment income, sales profitability, underwriting profit, gross written premium, claims, expenses, reinsurance, size, interest rate, total debt, GDP were the parameters used for the study. Panel regression model used to analyze the data. They found that gross written premiums have a positive relationship with insurers' sales Profitability, its relationship with investment income is a negative one and there is a complementary relationship between underwriting profit and investment income towards the enhancement of the overall profitability of life insurers.

Bawa and Chatta (2013) conducted a study to analyse financial performance of life insurance companies. The study period was for five years starting from 2007-08 and ending on 2011-12. Current ratio, solvency ratio, returns on asset ratio and leverage were the parameters used for the study. Multiple regression linear model was used to analyze the data. Regression analysis shows that profitability has positive relationship with liquidity and size and so far as leverage and liquidity LIC has better performance than that of private sector.

Cekrezi (2015) conducted a study with objective to explore the factors that affect financial performance of Albania insurance companies. The study was for five years from 2008 to 2013. Company sizes, financial leverage, tangibility, flexibility, risk, ROA were used as parameters. Mean, median, coefficient, and correlation, standard deviations were used to analyze data. Analysis shows that debt and risk have a negative relationship with ROA but tangibility has positive relationship with ROA. Flexibility and size have no significant impact on performance of insurance companies.

Charumathi (2012) conducted a study to examine Profitability of Indian Life Insurance taking 23 private insurance and 1 public insurance company. The study period was for three years starting from 2008-09 and ending on 2010-11. Return on Assets (ROA), Insurance leverage, size, premium growth, underwriting risk, equity capital were the parameters used for the study. Multiple linear regression model was used to analyze the data. Regression analysis shows that Profitability of life insurers is positively and significantly influenced by the size and liquidity. On the other hand, equity capital negatively influences the profitability of Indian life insurers.

Bardhan, Dey, and Adhikari (2015) conducted a study with the objective to measure and test solvency position of ten select life insurance companies out of twenty-four. The period of the study was seven years from 2006-07 to 2012-13. Ratio of total assets to total liabilities, shareholders fund to total assets, solvency, tangibility, ratio of fixed assets to total assets were the parameters used for the study. In order to attain the objective Average and ANOVA had been used as the tools. This analysis shows that ICICI Prudential has better average performance for solvency among the select companies and tangibility ratio is higher for Max New York life insurance companies compared to others. Ratio of shareholders fund to total assets shows that Indian life insurance companies should increase this ratio to more than 0.50 at 5% level of significance.

Malik (2011) made a study to examine the determinants of profitability in insurance companies of Pakistan. The study period was for four years commenced on 2005 and ends on 2009. ROA, age, size, volume of capital, leverage were the parameters used for the study. Multiple regressions, correlation, standard deviation, mean was used to analyze the data. The findings of the study were that there is no relationship between profitability and age of the company but volume of capital is significantly and positively related to Profitability.

Mehari, Aemiro (2013) measured the performance of life insurance companies in Ethiopia. The period of the study was for five years from 2005 to 2010. Leverage, tangibility, size, age, risk, growth premium was used as parameters to evaluate the performance. Regression analysis was used to analysis the data. Regression analysis shows that insurers' size, tangibility and leverage are statistically significant and positively related with return on total assets, however, loss ratio (risk) is statistically significant and negatively related with ROA.

OBJECTIVES OF THE STUDY:

1. To compare the profitability of ICICI Prudential Life Insurance Company and Kotak Mahindra Life Insurance Company
2. To compare the solvency of ICICI Prudential Life Insurance Company and Kotak Mahindra Life Insurance Company
3. To compare the liquidity of ICICI Prudential Life Insurance Company and Kotak Mahindra Life Insurance Company

RESEARCH METHODOLOGY

The study covers a period of six years i.e., from 2008-09 to 2013-14. Out of 24 number of life insurance companies operating in India, two life insurance companies, namely, ICICI Prudential Life Insurance Company and Kotak Mahindra Life Insurance Company have been selected in order to assess their financial performance and make necessary comparison. Data for the study has been collected from secondary sources for analysing the profitability, solvency and liquidity position of both the companies. Ratio analysis and statistical tools have been used to arrive at the findings of the study.

SCOPE OF THE STUDY:

- The present study is confined to a period of six years from 2008-09 to 2013-14.
- Only three financial ratios are considered for the study.

LIMITATIONS OF THE STUDY

- The data has been taken for a period of six years (2008-09 to 2013-14) only for analysis which may not be quite sufficient to arrive at the findings of the study.
- Only few financial ratios have been used. These ratios have their own limitations.

RESULT AND ANALYSIS

Table 1: Ratio of Benefits Paid Net Premium of Select Life Insurance companies.

Year	ICICI Prudential	Kotak Mahindra
2008-09	0.1440	0.1053
2009-10	0.4376	0.1743
2010-11	0.5944	0.3523
2011-12	0.6070	0.4960
2012-13	0.9904	0.6542
2013-14	0.9830	0.6995
Average	0.626	0.414
SD	0.325373	0.245959

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

Table 1 depicts average and standard deviation of Benefits Paid to Net Premium of Select Life Insurance companies. The average performance is better in case of ICICI Prudential Life Insurance Company as compared to Kotak Mahindra Life Insurance Company over the period of study. The value of standard deviation for underwriting risk is higher in case of ICICI Prudential Life Insurance Company as compared to Kotak Mahindra Life Insurance Company which implies that values of underwriting risk of Kotak Mahindra Life Insurance Company during different years of study has been more concentrated as compared to ICICI Prudential Life Insurance Company.

Table 2: Ratio of Shareholders' Fund to Total Assets of Select Life Insurance Companies

Years	ICICI Prudential	Kotak Mahindra
2008-09	0.1456	0.1413
2009-10	0.0843	0.0841
2010-11	0.0711	0.0657
2011-12	0.0709	0.0637
2012-13	0.0661	0.0738
2013-14	0.0626	0.0864
Average	0.0834	0.0858
SD	0.0313	0.0287

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

Table 2 reveals the average and standard deviation for ratio of shareholders fund to total assets. During the period of study average is higher in case of Kotak Mahindra Life

Insurance Company as compared to ICICI Prudential Life Insurance Company. Kotak Mahindra Life Insurance Company reveals better performance in terms of average of solvency position represented by shareholders fund to total assets ratio. The value of standard deviation for shareholders fund to total assets is lower in case of Kotak Mahindra Life Insurance Company as compared to ICICI Prudential Life Insurance Company. The higher value of standard deviation for shareholder fund to total assets of ICICI Prudential implies that during the study period its values are relatively more scattered as compared to Kotak Mahindra Life Insurance Company.

Table 3: Ratio of Current Assets to Current Liabilities of select Life Insurance companies

Year	ICICI Prudential	Kotak Mahindra
2008-09	0.574	0.903
2009-10	0.376	0.695
2010-11	0.417	0.723
2011-12	0.535	0.668
2012-13	0.649	0.747
2013-14	0.587	0.823
Average	0.523	0.760
SD	0.105382	0.087889

Source: Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

Table 3 reveals the average and standard deviation of current ratio of two life insurance companies for a period of six years. In case of average performance of current ratio, Kotak Mahindra Life Insurance Company has been much better as compared to ICICI prudential Life Insurance Company. Liquidity position of Kotak Mahindra Life Insurance Company has been growing continuously over the period of study. The value of standard deviation for this ratio has been found to be lower in case of Kotak MahindraLife Insurance Company as compared to ICICI Prudential Life Insurance Company which means that the value of current ratio of Kotak MahindraLife Insurance Company during different years of study has been more concentrated as compared to ICICI Prudential Life Insurance Company. Hence the values of standard deviation of current ratio suggest that the volatility is higher in case of ICICI Prudential Life Insurance Company as compared to Kotak Mahindra Life Insurance Company.

CONCLUSION

In terms of profitability, the performance of ICICI Prudential Life Insurance Company is better than Kotak Mahindra Life Insurance Company as Ratio of Benefits Paid Net Premium is higher in case of ICICI Prudential Life Insurance Company as compared to Kotak Mahindra Life Insurance Company. However, the consistency in profitability is more in case of Kotak Mahindra Life Insurance Company during the study period. The solvency position represented by ratio of Shareholders Fund to Total Assets of Kotak Mahindra Life Insurance Company has been better as compared to ICICI Prudential Life Insurance Company. But the volatility is higher in case of ICICI Prudential Life Insurance Company as compared to Kotak Mahindra Life Insurance Company. The liquidity position represented by ratio of Current Assets to Current Liabilities is more in case of Kotak Mahindra Life Insurance Company as compared to ICICI Prudential Life Insurance Company. But the volatility in the performance of ICICI PrudentialLife Insurance Company during the period of study in terms of current ratio is more as compared to Kotak Mahindra Life Insurance Company.

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