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An Empirical Analysis Of Key Determinants Affecting The Financial Performance Of Hdfc Life Insurance Company

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Abstract

Liberalization and globalization paved way for many new ventures in various sectors throughout the country. Privatization of life insurance sector is one of the major contribution towards this. For more than forty years, LIC, the powerful monopoly ruled over the Indian life insurance industry. Entry of many private life insurance companies increased the insurance penetration. To be more competitive, every life insurance company should have a better financial performance. Financial performance can be analyzed by evaluating their financial statements and reports. On this context, this study tries to assess various key determinants which helps in analyzing the financial performance of selected life insurance company. Various ratios such as return on premium ratio, return on equity ratio, benefits paid ratio, operating expenses ratio, commission expenses ratio, current ratio, claims settlement ratio and solvency ratio, were taken into consideration to identify the company's solvency position, profitability position, liquidity position, expenses management ability, claim management, etc**.,** and how far the company performs financially well.

Keywords: Financial Performance, Claims Settlement Ratio, Solvency Ratio.

1.1 Introduction

The financial system of any country consists of two major financial institutions namely banking and insurance sector which effectively and efficiently channelize funds, mobilize savings, transfer risk from one economic unit to another so as to facilitate trade and resources. Under the umbrella of financial system, insurance sector plays a significant role in regulating funds to different industries, thereby contributing majority of cash inflows towards the economic and financial growth of the nation (Danish and Kokab 2019). The insurance providers offer a variety of products to businesses and individuals in order to provide protection from risk and to ensure financial security and it is considered to be the backbone of a country's risk management system (Krishnamurthy et al., 2005). Insurance companies provide unique financial services to the growth and development of every economy (Kwaning et al., 2015). It plays an important role in the service based economy and its services are now being integrated into wider financial industry (Malik, 2011).

Insurance companies play a pivotal role in offering insurance products which meet the requirements of the people at an affordable price. The insurance business is broadly divided into life, health, and non-life insurance. Individuals, families, and businesses face risks of premature death, health risks, decrease in income due to retirement, loss of property, risk of legal liability, etc. The insurance companies offer variety of insurance policies such as life insurance, pension and retirement income, property insurance, legal liability insurance, etc., to cover these risks. They also provide several specialized products to meet the specific needs and requirements of businesses and individuals (Krishnamurthy et al., 2005).

1.2 Financial Performance

Evaluation of a company's financial soundness and performance is a continuous process of regulators, rating agencies, securities board, financial analysts to provide an accurate information to customers, shareholders, policyholders, employees, potential investors and other interested parties (Ghimire, 2013). Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Sri Iswatia and Anshor, 2007) In insurance company, performance is normally expressed in net premiums earned, annual turnover, profitability from underwriting activities, returns on investment and return on equity (Bhattarai, 2020). Performance can be classified into two viz., financial performance and non-financial performance. Financial performance refers to the measure to identify how well a company uses its assets and generate profits. It is very essential to management since it is an outcome that has been achieved by a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethics (Sri Iswatia and Anshor, 2007).

1.3 About HDFC Life Insurance Company

HDFC Life Insurance Company Limited was incorporated in the year 2000 as a Joint Venture between Housing Development Finance Corporation Limited (HDFC Ltd) and Standard Life Aberdeen PLC. Almost 61.65 percent stake were held by HDFC Ltd and 35 percent stake is with Standard Aberdeen and rest with the others. HDFC Life is the first private sector life insurance company permitted by IRDA. With its headquarter in Mumbai, HDFC Life has around 414 branches in more than 980 towns and cities throughout the country. It also consists of various distribution channels through several partnerships. These partnership consists of 265 bancassurance partners which include micro finance institutions, non-banking financial companies, small finance banks, etc., and has a very strong financial consultant base throughout the country. The company offers various products to its policy holders such as protection plans, savings plans, pension plans, investment plans, health plans, women plans, children plans and much more. In 2012, it opened its representative office in Dubai to start their international operations. In the year 2016, the company established its wholly owned subsidiary in UAE to carry out its reinsurance business activities. HDFC Life always occupies a place in top three private life insurance company in terms of its profitability and its market share.

1.4 Need for the Study

Liberalization, privatization and globalization throughout the world brought about a vast change and advancement in the insurance sector in our country. Due to the entry of many new private insurers into this sector, competition among themselves increased and every insurance company brought their own new techniques and innovative products, provided various incentive schemes on policies. They attracted new customers and tried to maintain better customer relationship. To do so, the insurance company is expected to be financially solvent and very strong by being profitable in their operation. As a layman, customers consider profitability as the major determinant to understand the financial performance of a company. Financial performance refers to the measure to identify how well a firm or a company uses its assets and generate profits. Hence, measuring the determinants or factors affecting the financial performance is the need for the study. Therefore, an empirical investigation has been made to sort out the factors affecting the profitability of the selected private life insurance company.

1.5 Review of Literature

Charumathi (2012) made an investigative analysis to identify the determinants that affect the profitability of life insurance companies in India. Using multiple regression model on selected variables, the study concluded that liquidity and size of the company had positive impact on the profitability of the firm, whereas equity capital, leverage and premium growth had negative impact on the profitability. It was also found that there was no relationship between profitability and underwriting risk. The study suggested that the firm can improve their profitability by increasing foreign direct investment and by focusing on designing the products that provides protection and long term saving to the economy which helps to increase the profitability of the life insurance industry as a whole.

Malik (2011) examined the financial determinants of profitability of insurance companies of Pakistan by collecting the necessary data from thirty-five insurance companies between the period of 2005 and 2009. The result indicated that there was a positive association between size of the company and profitability, whereas there was no relationship between profitability and age of the company. It also indicates that the volume of capital is significantly and positively related to profitability of the company.

Kaur Bawa & Chattha (2013) made an attempt to examine the financial performance of Indian life insurance companies by analyzing various determinants of their profitability. The study reported that the only public sector insurance company LIC has sound liquidity position and stable solvency position among all other life insurers in India. The study summarized that profitability has a significant positive relationship with liquidity and size while it has negative relationship with capital of the company.

Oner Kaya (2016) analyzed the financial performance of six non-life insurance companies using grey relational analysis model. Various ratios were examined and the result indicated that profitability ratios has the greatest impact on the financial performance of these companies. The study also explained that these companies can improve their financial performance by having appropriate amount of equity capital, setting up of investment policies with optimum combination of liquidity and profitability principles, behaving very cautiously in risk selection and following a growth strategy on the basis of sustainable profitability.

Ovgücan Karadag Erdemir (2019) made an attempt to identify the determinants that measure the financial performance of thirty non-life insurance companies in Turkey. Using correlation, regression and panel data analysis, the study found that the return on equity, current ratio, expense revenue ratio, equity asset ratio, total premium production assets ratio, insurance leverage ratio are the financial determinants which positively affects the financial performance of these insurance companies. It also reported that the company size, market share, etc., are some of the non-financial determinants which negatively affect the financial performance of these insurance companies.

Murigu Jane Wanjugu (2012) tried to establish the factors determining the profitability of twenty-three non-life insurers in Kenya for the period between 2009-2012. Firm specific determinants life liquidity ratio, underwriting risk, leverage, retention ratio, equity capital, size, management competence index, age, ownership was taken into account and the study concluded that profitability is positively influenced by leverage, equity capital and management competence index. While size of the firm, liquidity and ownership structure have a negative effect on its performance. The study also suggested that by introducing new products in the market and bringing about improvement in service delivery platforms can bring about higher level of growth the insurance industry in Kenya.

Mwangi & Iraya (2014) analyzed the relationship between various factors such as growth of premiums, size of the company, loss ratio, expense ratio and financial performance of insurance companies in Kenya. Using multiple linear regression analysis, the study explored that financial performance was negatively related to both loss ratio and expense ratio. It was also found that there was no relationship between financial performance and growth rate and retention ratio. The study concluded that higher the ratio of earning assets to total assets, better the financial performance of the companies in Kenya. Also it was established that higher investment yield is related to better financial performance and suggested that managers should attempt to maximize the allocation of resources towards the income generating assets to receive high returns.

Almajali et al., (2012) tried to investigate the effect of various determinants such as leverage, age, size, liquidity, management competence index on the financial performance of Jordanian insurance companies. Using correlation and regression analysis, variables were analyzed and concluded that leverage, size of the company, liquidity and management competence index has a significant statistical impact on financial performance, while company's age has no statistical impact on financial performance of the companies. The study also recommended that the companies should increase the assets and leverage as it helps to increase the shareholders return on the investment which leads to growth and development of the companies.

Batool & Sahi (2019) made a comparative analysis of two insurance industries of two countries USA and UK to identify the determinants that affect the financial performance during the global financial crisis between 2007 and 2016. Data were collected from twenty-four insurance companies. Using panel data techniques, internal variables such as size, liquidity, leverage, asset turnover and external variables like GDP, CPI, WTI, interest rate were analyzed. The study concluded that USA insurance industry is more powerful and efficient when compared with UK as USA insurance company's size of the firm, leverage, asset turnover, liquidity, GDP and WTI have positive impact. While in UK, size of the firm, liquidity, CPI, GDP, WTI have positive impact, but leverage, asset turnover and interest rate has negative significant impact.

1.6 Objectives of the Study

1. To measure the financial performance of HDFC life insurance company.
2. To identify the extent to which the key determinants affect the financial performance of HDFC life insurance company.
3. To give necessary suggestions to improve the financial performance of HDFC life insurance company.

1.7 Research Methodology

The present study has been conducted using secondary data of HDFC Life Insurance Company of India. The required data for a period of 12 years from 2009 -10 to 2020 - 21 were collected from annual reports, public disclosures, magazines, IRDA journals, website of the company. The other required data were gathered from various academic journals, literatures, etc. Descriptive statistics and inter correlation of ratios were done for analyzing the financial performance of the selected company.

1.8 Scope of the Study

Risk is inherent in life of every human being. In this fast moving risky world, life insurance plays an active part in every human providing safety against any type of risk in our lives. Better financial performance of a company leads to better satisfaction of customers which ultimately leads to success of the business. The present study tries to identify the key determinants affecting the financial performance of the HDFC Life Insurance Company. The key parameters used for analysis are profitability ratio, liquidity ratio, claim settlement ratio, solvency ratio, operating expenses ratio, commission expenses ratio, benefits paid ratio using the following formulas for calculation.

Table: 1.8.1 Ratios used for Analysis

S.NO	RATIOS USED	FORMULAS
1.	Return on Equity Ratio	Net profit after tax / Shareholders equity
2.	Return on Premium Ratio	Net profit after tax / Net premium earned
3.	Claims settlement Ratio	Claims settled / Claims received
4.	Solvency Ratio	Available Solvency Margin/ Required Solvency Margin
5.	Current Ratio (Liquidity)	Current Assets/Current Liabilities
6.	Operating Expenses Ratio	Total operating expenses / Net premium earned

7.	Other expense ratio(commission)	Total commission expenses /Net premium earned
8.	Benefits paid ratio	Net benefits paid/ Net premium earned

1.9 Limitations of the Study

The study has considered only one private insurance company in India to evaluate and measure its performance. Even though there are many other private life insurance companies functioning in India, due to time constraint, HDFC Life insurance company, one of the top most private life insurance company is taken into consideration. The suggestions and interpretation of data is based on the data collected through the websites and annual reports of the company.

1.10 Analysis and Interpretation

Table: 1.10.1 Descriptive Statistics of Ratios of HDFC Life Insurance Company

YEARS	ROE	ROP	CSR	SR	CR	OR	OER	BPR
2009-10	-13.98	-3.93	91.14	180	0.62	21.54	7.5	19.09
2010-11	-4.96	-1.09	95.41	172	0.8	16.6	5.29	31.4
2011-12	13.58	2.67	96.17	188	0.85	12.5	5.69	29.09
2012-13	22.63	4.01	95.76	217	1.09	11.93	5.67	37.76
2013-14	36.35	6.01	94.01	194	0.97	11.72	4.22	38.64
2014-15	39.37	5.29	91	196	0.89	10.04	4.2	55.04
2015-16	41.02	5.02	95.02	198	0.73	11.47	4.3	50.12
2016-17	44.64	4.58	97.62	192	0.77	12.26	4.07	50.61
2017-18	55.13	4.71	97.8	192	0.75	13.4	4.56	54.72
2018-19	63.31	4.3	99.3	188	0.9	13.1	3.82	46.81
2019-20	64.12	4.1	99.4	184	0.86	13.3	4.64	59.02
2020-21	67.32	3.52	99.4	201	0.76	12.2	4.43	60.41
Mean	**35.71**	**3.27**	**96.00**	**191.83**	**0.83**	**13.34**	**4.87**	**44.39**
Median	**40.20**	**4.20**	**95.97**	**192.00**	**0.83**	**12.38**	**4.50**	**48.47**
S D	**26.72**	**2.89**	**2.92**	**11.29**	**0.12**	**3.02**	**1.03**	**13.10**
Sample Variance	**713.72**	**8.36**	**8.53**	**127.42**	**0.02**	**9.10**	**1.06**	**171.65**
CAGR	**20.76**	**22.98**	**73**	**92**	**17.11**	**-4.34**	**-4.29**	**10.08**
Confidence Level(95.0%)	**16.97**	**1.84**	**1.86**	**7.17**	**0.08**	**1.92**	**0.65**	**8.32**

Table 1.10.1 indicates the descriptive statistics of various ratios of HDFC Life Insurance Company for the period of 12 years from 2009-10 to 2020-21 used in this study. Return on equity (ROE) shows an increasing trend from 2009-10 to 2020-21 which indicates the profitability of the selected company is showing a positive trend. It is observed that the mean value of return on equity ratio is 35.71 and CAGR is 20.76 percent with Standard deviation of 26.72.

Return on premium ratio (ROP) indicates an increasing trend of -3.93 (2009-10) to 3.52 (2020-21) which indirectly shows the improvement in company's business activities and increase in the number of policyholders throughout these years. Mean value of return on premium ratio is 3.27 and standard deviation is 2.89.

The above table indicates that there is an increasing trend in claim settlement ratio (CSR) during the selected period of study from 91.14

percent to 99.4 percent which ultimately shows that the company settle the policyholders claims on time, which results in policyholders' satisfaction.

As per the regulations of IRDA, every company should maintain 150% as their solvency ratio (SR). The above table shows that the company is always maintaining the solvency ratio more than 150%, i.e., 2009-10 (180 percent) to 2020-21 (201 percent). Even though the solvency ratios fluctuate, the company always maintains its solvency position in a better manner.

Current ratio (CR) of the selected company also indicates an increasing trend of 0.62 (2009-10) to 0.76 (2020-21) which indicates that the liquidity ratio of the company is maintained as per the requirement and also shows company's stability in the financial planning. The mean value of the current ratio is 0.83 and the standard deviation is 0.12.

The operating expenses includes all the day to day expenses met out by the company to carry on its daily activities Operating expenses ratio (OR) shows a decreasing trend of 21.54 (2009-10) to 12.2 (2020-21). The table shows the mean value of 13.34 with standard deviation of 3.02 and the CAGR with a negative value of -4.34.

The above table depicts that there is a decreasing trend in the other expenses ratio (OER) from 2009-10 (7.5) till date (4.43) which indicates that the company had taken enormous effort to reduce the commission expenses so as to increase its profitability.

Benefits paid ratio shows an increasing trend from 2009-10 to 2020-21, which shows when compared with the premium earned, net claims paid to its policyholders are more. It is observed that the mean value of benefits paid ratio is 44.39 and CAGR is 10.08 percent with Standard deviation of 13.10.

Table: 1.10.2 Inter Correlation Matrix of HDFC Life Insurance Company

VARIABLES	ROE	ROP	CSR	SR	CR	OR	OER	BPR
ROE	1.00							
ROP	0.77**	1.00						
CSR	0.68*	0.34	1.00					
SR	0.35	0.58	0.07	1.00				
CR	0.17	0.52	0.09	0.54	1.00			
OR	-0.65*	-0.94**	-0.27	-0.62*	-0.57	1.00		
OER	-0.81**	-0.84**	-0.47	-0.22	-0.28	0.79**	1.00	
BPR	0.91**	0.72**	0.53	0.33	0.07	-0.67*	-0.79**	1.00

Source: Computed ** Significant at 1 percent level* Significant at 5 percent level

Table: 1.10.2 depicts the inter correlation matric of HDFC life insurance company. Return on equity ratio is positively correlated with return on premium ratio and benefits paid ratio at 1 percent level of significance. It is negatively correlated with other expenses ratio at 1 percent significance level and operating expenses ratio at 5 percent level of significance. Return on premium ratio is positively correlated with benefits paid ratio and negatively correlated with operating expense and other expenses ratio at 1 percent level of significance. Claim settlement ratio, solvency ratio and operating expenses ratio are negatively correlated with each other. Both operating expenses ratio and other expenses ratio are positively correlated at 1 percent level of significance. Other expenses ratio and benefits paid ratio are negatively correlated at 1 percent level of significance.

1.11 Findings

- Return on equity and premium shows a negative value in the beginning stage of analysis but gradually it increased, which indicates that the company has taken more effective steps to increase its profitability by decreasing its expenses.

- Current ratio shows stability in its percentage throughout the period of study which means the company is always maintaining its liquidity position.
- Claims settlement ratio indicates that the selected company tries to settle its policyholders claims to its fullest at 99.04 percent showing a better credibility of the company and bringing higher satisfaction and trust worthiness among the policyholders.
- Solvency ratio is always maintained above the required level prescribed by IRDA.
- There is always a decreasing trend in operating expenses and other expenses ratio (commission paid) during the period of analysis
- Benefits paid ratio shows an increasing trend during the years of analysis which indicates the selected company always try to satisfy their policyholders at their cost.
- There is positively correlation between profitability ratio, liquidity ratio and claims settlement ratio which indicates that the selected company is moving on the positive direction towards its growth and development.
- Profitability ratio and expenses ratio are negatively correlated which shows when expenses decreases, profitability increases and vice versa.

1.12 Suggestions

- After the analysis of various variables of the selected life insurance company, the present study found that benefits paid ratio is in increasing trend. To increase the profitability, the selected company should try to reduce this ratio, as the expenses increases, profitability of the company gets affected.
- Even though the company's operating expenses ratio and commission expenses are reducing, still the company should concentrate to bring down and maintain these ratios at the lowest to improve the profitability of the business.
- The required solvency ratio prescribed by IRDA is 150%. However, the selected company maintain more than the required ratio. Solvency of the company is very important for every company, but not necessarily more than the prescribed percentage.
- The claims ratio is the moment of truth of life insurance company. The company should ensure death claims is paid within the stipulated period with the satisfaction of the claimant.
- With over 21 years of operations the company's asset under management is good. This means the company has good liquid assets which gives better confidence to the customers, shareholders and the regulator. The company should increase the same over a period of time in near future to meet any unforeseen expenses, if any without having any impact on the company's day to day operations.
- It is also suggested that the company can introduce new products in the market and bringing about improvement in service delivery platforms so as to bring about higher level of growth the insurance industry.

1.13 Conclusion

Life insurance industry in India is a very big market which contributes more towards the country's economic development. The current study investigates the impact of various determinants on the profitability of selected life insurance company over the period of twelve years from 2009-10 to 2020-21. As the success of the life insurance company can be identified through its financial statements and disclosures, its financial performance can be measured using various key performance indicators like liquidity ratio, profitability ratio, solvency ratio, claims management ratio, operating expenses ratio, etc. These key performance indicators are used as yardsticks to measure the company's performance. After analysis, HDFC life insurance company, one of the top most private life insurance company has been identified as financially well performing insurance company in India.

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