CHAPTER -3

LITERATURE REVIEW
# CHAPTER – 3
## LITERATURE REVIEW

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3.1. INTRODUCTION

The insurance sector is sine-quo-non for development and economic growth of any economy and it has been recognized for many years. The significance of insurance was also acknowledged in the first conference of the United Nations Conference on Trade and Development (UNCTAD) in 1964 by stating that “a sound national insurance and reinsurance market is an essential characteristic of economic growth.” It seems insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation (Ward and Zurbruegg, 2000). More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs (Skipper, 2001).

In view of importance of insurance sector in economic development one could expect that good quantum of research might be available on studying direct impact of insurance services on the economic growth. However, ground reality is different that only few researchers have analysed the relationship between insurance market size in terms of gross direct premium (Skipper, 1998) and property liability insurance premium (Beens et al., 1988 and Osterville, 1990) or total insurance premium (Ward and Zurbruegg, 2000) as insurance activities indicator. It has been ascertained from the review of literature on the subject that either little or no research has been conducted on contribution of insurance sector on economic growth and on ascertaining the financial performance of insurance sector as such.
Been stock et al., (1998) and Osterville (1990) studied by considering property-liability premium, but ignored other parts of insurance industry (such as long term insurance, motor insurance and etc). On other hand, Ward and Zurbruegg (2000) use aggregate variable of total insurance premium in their study. Although Ward and Zurbruegg (2000) acknowledged Brown and Kim (1993) suggestion that total premium fail to account for different market forces in various countries and make comparisons difficult and fail for account for regulatory effects on pricing, but availability of data for longer period was stated as a reason for using total premium. In addition authors claimed:

“If one views the key economic benefits of insurance as risk transfer, indemnification and financial intermediation, then the benefits of risk transfer and indemnification are likely to be the major characteristics of non-life and health insurance, while financial intermediation is a part of life insurance. Thus an aggregate approach will embrace all of these ideas within the same analysis.” (Ward and Zurbruegg, 2000)

Although this interpretation seems correct and logical, but some studies which have been conducted in the economic literature about aggregation problem show it may cause unreliable results. An example of aggregation is cross-sectional aggregation which occurs when a number of micro variables are aggregated to get a macro variable (Maddala and Kim, 1998). Granger, (1990) showed it is possible to have co-integration at the aggregate level and not at the disaggregate level and vice versa. If it is true, one might accept finding of Ward and Zurbruegg (2000) about no long run relationship between economic growth and insurance market size in countries like Austria, Switzerland, United Kingdom and the United States.

In this chapter, an endeavour has been made to provide an overview of various aspects and issues related to this research work through the review of studies already carried out both at the national and international level in the insurance sector. The review of literature can lead to draw some significant conclusions and serve as a guide mark for this study. It also gives a fair chance to identify one gap that exists in the area of research. Some of the important studies have been reviewed under different performance
measures such as Role of Insurance in economic growth and development, financial intermediation and domestic capital market, efficiency, productivity, profitability and service quality in the following paragraphs.

3.2 PROFITABILITY RELATED STUDY

Norgaard and Schick (1970), determined how profitable property and liability insurance companies had been during the period 1953-67. The technique used is based on a risk return trend analysis. For this purpose, four random samples and one selected sample of insurance companies are compared with 622 major industrial corporations. It was found that insurance companies earned profits at par with those earned by the major industrial corporations. Among insurance companies, automobile underwriters performed considerably better than multiple line of fire and allied line underwriters. The data indicated that within the insurance industry, there is an economy of scale in degree of specialization and size.

Hussain and Islam (1996), in their article, evaluated the accounting policies disclosed in the financial statements of the insurance companies in Bangladesh. The study found that despite some shortcomings, disclosure practices relating to accounting policies of the insurance companies in Bangladesh deserve high appreciation. It was observed that 100 per cent of surveyed companies disclosed accounting policies in their financial statement, as compared to 23 per cent found by Parry and Khan (1984) and 70 per cent by Alam (1990). This is, undoubtedly, a chronological development owing to disclosure consciousness in the company reporting.

Chidambaran et al. (1997), in their article, presented an empirical analysis of the economic performance of the U.S. property-liability insurance industry, using estimation across 18 lines of insurance for the years 1984 through 1983. The study adopted an industrial organisation at approach, focusing on the economic loss ratio as a measure of pricing performance. The research found that there are still questions about performance
that are related to industry concentration. One explanation is that higher concentration is conducive to the muting of pricing rivalry. Another is that higher differences in firm efficiency result in both higher concentration and higher profit rates. These two explanations are not mutually exclusive, and the former is a plausible explanation for property-liability insurance. The study concluded that the concentration ratio for the line and the share of direct writers in the line are both found to be significant determinants of performance.

**Baltelsmit and Bouzouita (1998)**, in their paper, examined the relationship between profitability and market structure in automobile insurance and tests for the existence of a positive relationship between concentration and performance. The data for the study pertained to the period 1984 to 1992. The results showed a significant positive impact of concentration on profitability for combined liability and physical damage lines in private passenger automobile insurance. These results differ from previous studies using state level data from the previous decade but confirm.

**Rao (1998)**, in his paper, examined the efficiency of the LIC, in physical and financial terms. Insurance, being essentially a service industry, a distinct set of criteria (both, physical and financial) had been developed to evaluate its overall efficiency. There has been a significant improvement in the physical performance of the LIC. But the financial performance in terms of profitability had not been up to the expected level. However, given the constraints of statutory regulations and government control, coupled with a highly cost-prone rural business, the financial performance may be considered as satisfactory, although there is a considerable scope for improvement. The LIC should vigorously try to improve its operational efficiency to benefit the policyholders and to compete in a liberalized environment.

**Verma (2000)**, in her thesis, evaluated the performance of the GIC and its subsidiary companies over the years, throwing light on the probable effects of the various insurance sector reforms on the future development of General Insurance in the country.
She also studied the origin, aims and functions of the corporation and its product development. The study was based on the published and primary data. The techniques like trend analysis, averages, graphs etc. were used to analyse the quantitative data. The study found that the GIC along with its subsidiaries has emerged not only as a strong insurance institution but also as an influential institutional investor in the financial market of India due to large amount of funds at its disposal. It made investment with the objective of safety and maximization of return. The underwriting results showed losses in about all the years except 1993-94. Despite the rise in premium income, the profit position had not improved due to rise in expenses, commission and net incurred claims at a higher rate than the growth premium income. The study suggested that GIC should bring reform in pricing the General Insurance contracts and use information technology for better management, customer service, efficiency and competitiveness.

**Rudolf (2001),** in his paper, examined the key factors and latest trends determining profitability in the major non-life insurance markets. The study focused on the non-life insurance markets of the group of seven countries (G7) mainly for the period 1996 to 2000. To analyse the profitability, investment results and underwriting results were compared between countries and across lines of business and to analyse the drivers of profitability, return on equity was decomposed into its main components namely underwriting results and investment income. The results indicated that only Germany and Japan did not have negative underwriting results and return on equity was high in UK, moderate in Canada and US, and low in France and Germany. The study found that underwriting result and investment yield are negatively correlated. The research suggested that due to uncertain prospects for investment results, the insurers must focus on underwriting results to achieve greater profitability.

**Brien (2001),** in his paper, examined two questions, namely, has the conduct of the new entrants been different from that of the established players which has been the subject of criticism, secondly, what has been the performance of the new entrants? The study used 28 companies authorised to write long-term insurance in the UK in 1990-99. The paper indicated that there was strong evidence that the new entrants have had high
growth rates (in new businesses and assets) but, from a low base, they have made little impact in terms of market share. The largest new entrants, in terms of new business APE, are the investment house life companies. There have been large financing requirements for the new entrants, and they have tended to concentrate on no advice channels, paid less commission and granted higher surrender values in the early years.

Sangmi (2002), in his study, analysed the profitability and identified the factors which are responsible for profitability performance of 10 selected public sector commercial banks in India. The period has been taken from 1991-92 to 1997-98. The study of the relationship of profit and components of profit, viz. spread, burden, interest revenue, non-interest revenue, interest cost, manpower cost, facility cost etc. with working funds has been worked out by using the regression equation. The results indicated that the profitability in Class II banks was not satisfactory as compared to Class I banks. The main factors identified for such state of affairs were interest earned in the case of Class I banks were more than the interest paid by them. The Class I banks had been successful in earning larger income from non-fund activities than the Class II banks; and the operating costs in the case of Class II banks have been higher as compared to Class I banks.

Verma (2003), in his research paper, examined what has gone wrong with auto insurance market and how to generate profit from this portfolio-in-trouble. The study found that the motor insurance is the biggest and fastest growing general insurance portfolio in the Indian markets. It accounts for more than 42per cent of the cash flow of general insurers. The paper also indicates that motor portfolio is the key contributor in building the brand and corporate image of any insurer. It deals with the largest customer base. The insurance companies point out that they shell out crores of rupees more in losses and expenses than they earn each year in premium. They incur huge underwriting losses. On the other hand, consumer activists counter that insurers take home crores of rupees in investment on policyholders' funds that result in excessive profits. Both sides from their respective stand points are not incorrect. Insurers do incur underwriting losses and earn investment income. The study also found that the new private companies have
shown a cautious approach. They are unwilling to insure commercial and old vehicles, and have preferred to stay away from this segment. The study suggested that insurers must act pro-actively on sound underwriting of business and better loss-prevention techniques.

**Lai and Limpaphayom (2003)**, in their study, examined the relation between organisational structure and firm performance in the Japanese non-life insurance industry. The data used for this study has been collected from the annual special issues of the Statistics of Japanese Non-life Insurance Business published by the Insurance Research Institute of Japan and from the PACAP Japan database. As many as 26 non-life insurers for the period 1983 to 1994 were taken for the purpose of study. The results indicated that the stock companies that belong to one of the six horizontal Keiretsu groups have lower expense and lower levels of free cash flow than independent stock and mutual insurance companies. Keiretsu insurers also have higher profitability and higher loss ratios than independent insurers. There was also evidence that mutual insurers have higher levels of free cash flows, higher investment incomes and lower financial leverage than their stock counterparts. Overall, empirical evidence suggested that each structure has its own comparative advantage.

**Oetzel and Ghosh (2008)**, in his paper, explored the relationships between market liberalization and insurance firms' performance in emerging markets and developing countries. The sample for this study includes a data of 196 insurance companies operating in 16 different countries across Latin America and Asia. The dependent variable used to measure firm level performance was adjusted firm's profits. The variable was measured as profits before taxes divided by total firm assets, because data on firm profitability was easily available. The independent variables are 'type of firm' and 'the degree of market liberalization'. The results of the analysis suggest that the host country liberalization is positively associated with firm profitability for all insurers, foreign and local, operating in a given host country. No significant profitability differences were found between foreign and locally owned firms, although U.S. owned
subsidiaries were significantly less profitable than subsidiaries from any other country. Additionally, firms located in Latin America had significantly less profitability than those operating in India.

**Dhanda (2004),** in his study titled, 'Divisional Performance Evaluation of LIC Business in North Zone' evaluated the performance by using both primary and published information. It was found that the growth of individual business had not been very consistent during the period from 1957 to 1990. The share of individual business remained more than 50per cent in total business. The profitability analysis showed that more than 60per cent of total income was received by way of premium income and the remaining income was earned by investing funds. The average sum assured was the highest in Delhi-1, Karnal, Delhi-II, Jaipur & Jodhpur. The AAGR & TGR for rural new business was the highest in Srinagar division. Management expenses/total premium income ratio varied from 17per cent to 27per cent among different divisions. The Udaipur division has the highest ratio indicating low efficiency and Delhi-I has the lowest ratio indicating highest efficiency level. Introduction of computers will certainly affect the efficiency level and improve the quality of services as indicated by a majority of respondents. Training programmes organised by life insurance offices affect the performance positively.

**Chen and Wong (2004),** in their research paper, analysed the solvency of general and life insurance companies in Asia using firm data and macro data separately. It used different classification methods to classify the financial status of both the general and the life insurance companies. The research revealed that except Japan, failures of insurers' in Singapore, Malaysia and Taiwan are non-existent. The paper found that the factors which significantly affect general insurers' financial health in Asian economies are firm size, investment performance, liquidity ratio, surplus growth, combined ratio and operating margin. Similarly, the factors that significantly affect life insurers' financial health are firm size, change in asset mix, investment performance, and change in product mix but the last three factors are more applicable to Japan. The research indicated that the
The financial health of a Singapore insurer seems to be significantly weakened by the Asian financial crisis as the insurance industry in different Asian economies is at different stages of development. They require different regulatory guidelines.

**Deloitte and Touche (2004)**, analysed the profitability and effectiveness of the federal Multi Peril Crop Insurance (MPCI) programme. The study used aggregate historical data on both the MPCI business, and the property and casualty insurance business for the period from 1992 to 2002. The results indicated that the MPCI line of business does not possess risk return advantages relative to the P & C business. The P & C business, as a whole, has had an annual net loss in only 2001 in its history. In contrast, the MPCI business, as a whole, lost money in three years, i.e. 1988, 1993 and 2002 during the period 1988 to 2002 alone. MPCI expense ratio were substantially below those found in the P & C business.

**Uppal (2004)**, in his research paper examined the comparative trends in profitability and factors which are affecting the profitability of five major bank groups in the post-liberalization era. The time period for the study was taken from 1997 to 2001. Ten factors have been selected which are affecting the profitability of these bank groups in either direction. Mean, S.D. and co-efficient of variation have been calculated for each variable and each bank group. For evaluating empirical estimates, correlation, co-efficient matrix has been calculated and similarly, R² has been calculated, which explains the effect of each variable on group profitability. The results indicated that saving deposits spread and credit deposit ratio were the major factors which affected the profitability of SBI and its associate banks in the positive direction. But, on the other hand, in the burden of the priority sector credit, fixed deposits ratio adversely affected the group profitability of this group. In the case of old private sector banks, FDS per cent TDS, in foreign banks, spread per cent WFs; and in the case of new private sector banks, FD per cent TD is the major factor which affected the group profitability. The profitability of PSBs was lower as compared to foreign banks and new private sector banks.
**Hoyt and Powell (2006),** in their research paper, analysed the financial performance of medical liability insurer by using two appropriate measures, namely, the economic combined ratio and the return on equity. The period for the study was from 1996 to 2004. Based on ECR, medical liability insurers, as a group reported modest profitability in only three years (1996, 1997 and 2004). In contrast, these insurers sustained losses in six consecutive years from 1998 to 2003. The average profit ratio (return on net premiums earned) during the period 1996 to 2004 was -13.0 per cent. The study found that there was no evidence that medical liability insurers had been earning excessive returns or that they were over-capitalized. The research concluded that there was no evidence that medical malpractice insurance was overpriced.

**Holzheu (2006),** in his research paper, measured the underwriting profitability of insurance markets. The study used economic combined ratio as alternative key performance indicator instead of conventionally published combined ratio. It reflects underwriting profitability more accurately. The study focused on the underwriting profitability of six major non-life markets, the US, the UK, Germany, Japan, France and Canada from 1994 to 2004. The results indicated the picture for the business year results for Japan, Canada, France, Germany and the UK were broadly consistent with the US results. The results for the years 1994 to 1997 and 2002 to 2004 were profitable, though often only moderately. The period from 1998 to 2001 exhibited dismal underwriting results. Substantial improvements in underwriting results from 2001 to 2003 restored profitability to the level of the 1994 to 1997 period. The study further pointed out that the ten year average underwriting margins before taxes were positive in all countries implying a positive contribution to profits from the insurance activities. However, the contribution was only about 1-2 per cent in the US and Japan, 2-3 per cent in France, 5 per cent in Canada and the UK, and 6 per cent in Germany. The study found that these positive results were necessary but not a sufficient condition for creating shareholder value. Profits must also cover tax and the insurers’ capital cost. During the period 1994 to 2004, it was difficult for the industry to earn its underwriting cost of capital.
Kasturi (2006), in his article, focused on the performance management system in the insurance corporation in general based on the principles of performance management in the service organization. The study reveals that success of an insurance company depends on four important functions, such as identification of markets, assessment of risks and estimation of losses, penetration into and exploitation of markets, control over investment and operating costs. Performance of a company in financial terms is normally expressed in net premium earned profitability from underwriting activity, return on investment, return on equity etc. Some of the non-financial performance measures may include growth in number of policies, market share, number of branches, speed in policy processing, speed in delivery of policy notes, timely reminder to customers, number of dropouts from the policies, growth in products and product lines, customer satisfaction, speed in settlement of claims, employee training, research and development market intelligence and a survey of number of policies per agent, agents training, retention of efficient agents etc.

Kaur and Kapoor (2007), in their paper, evaluated the profitability and the relative efficiency of public sector banks (PSBs) in India during post-liberalization period. All the twenty-eight PSBs have been included in the study and the period selected for analysis is 2001-05. To evaluate the overall profits and profitability performance of these banks the credit deposit ratio, return on assets, operating profit to total assets, spread of total assets, interest income to total income and interest expenditure to total expenditure were computed. The mean, standard deviation, co-efficient of variation and exponential growth rate and concentration index were used. The research indicated that the overall profitability of these banks has increased during the period of study. The relative efficiency of nationalised banks is higher than the relative efficiency of State Bank of India and other associates of SBI Group. Among the nationalised banks, Group Corporation Bank, Oriental Bank of Commerce, and Union Bank of India, while in the case of associates of SBI Group State Bank of Patiala and State Bank of Hyderabad performed very well.
Pal and Malik (2007), investigated the differences in the financial characteristics of public sector banks, private sector banks and foreign banks in India, based on factors, such as profitability, liquidity, risk and efficiency. To measure the performance of the commercial banks in terms of various financial characteristics embodied in the financial ratio such as return on equity, return on assets, asset utilization, expense ratio, net interest margin, efficiency ratio, earning assets to total loan and business per employee and net NPA. To identify the differences, multinomial regression analysis was used on the sample of 74 Indian commercial banks comprising 27 public sector banks, 24 private sector banks and 23 foreign banks for the period 2000-05. The results suggested that foreign banks had better performance, as compared with the other two categories of banks, in general and in terms of utilization of resources, in particular during the period chosen for the study.

Mahmoud (2008), identified the financial performance of insurance companies in Egypt. The data consisted of six insurance companies, three of which were from the public sector, while others represented private sector companies for the period 1992-93 to 2005-06. The author has used 25 ratios to measure the efficiency and financial performance. These ratios were reduced to six factors through factor analysis. The study found that the mean of efficiency of financial performance, ratios of the public and private sectors do not vary significantly for the following ratio returns on investments, net profit to total assets, net profit to surplus, total liabilities to total assets, and underwriting expenses paid to premiums written. Public sector cases represent 66.7 percent of the low-efficiency clusters of financial performance, while private sector cases comprise 47.6 percent of high-efficiency clusters for financial performance. Thus, there is a relationship between the fuzzy classification of the insurance company's financial performance efficiency and its ownership type.
3.3 INSURANCE RELATED OTHER STUDIES

Arora (1987), in his doctoral research work, analyzed the investment and personnel management of LIC. The research revealed that the total investment of LIC has increased at a faster rate than the increase in total fund, total assets and controlled fund. It is a very good sign, because a large portion of the amount is being utilized for earning income and a small portion of the amount is left idle. The percentage of investment in government securities to total investment has been declining. It has no reverse impact on the interest of the policyholder. The LIC arranged investment in such a way that it got a constant inflow of funds. The study observed that the LIC has no systematic planning to foresee the needs of its employees. The study suggested that the personnel department of LIC should be equipped with specialized and qualified personnel to manage its functioning properly.

Arora (1988), in her doctoral work, studied quantitative analysis of the investment policy of GIC and examined critically the role played by the GIC in providing finance to industry. The study revealed that the Investment Policy of GIC evolved within the ambit of the provisions of the Insurance Act 1938, and the guidelines issued by the government from time to time, with a view to maximizing investment income, ensuring safety, liquidity of funds and be consistent with national objectives and priorities under the guidelines. It also invested in corporate securities and participated in underwriting of new issues. The promotional role played by the GIC over the years has been considerable. It has taken keen interest in the area of rural insurance, foreign business development and development of human resource.

Negi and Sarkar (1995), in their paper, analyzed and critically examined the portfolio management policy of LIC with respect to its investment in Govt. of India's securities. The study revealed that up to 1987, the LIC had increased its investment under the Govt. Of India securities with the increase of its total controlled fund. But after 1987, its investments under the two heads did not increase with the increase in total controlled
funds. After 1987, the corporation decided to take more risk in order to earn higher return. It decided to be little aggressive for their portfolio management and tilted towards investment in securities and financial instrument where higher returns were possible, keeping in view the satisfaction of customers. It was important for the corporation to earn higher profit so that bonus might be declared at a higher rate.

**Gupta (2003),** in his paper, highlighted the need of branding in insurance, because the changing scenario is forcing the players to differentiate themselves from others; hence, they are now examining the possibility of branding their product and services to fuel growth. The study revealed that settlement of claims is the most important factor in the mind of customers followed by quality services and security of investments. The other expectations included nine other types desired by the customer. It, therefore, logically follows that the expectations of the customers, especially the claim factor, should be strategically incorporated in the brand strategies of the insurance players.

**Jampala and Rao (2005),** in their study on corporate social responsibility of LIC, analyzed the data related to LIC's contribution towards its employees, agents, government, policyholders, assistance to development activities, social security schemes, social investment and lives covered from 1999-00 to 2003-04, and concluded that C.S.R. is one of the prime focus area of LIC. However, it did not have a proper feedback system to gauge the impact of its contribution to social development.

**Rao (2005),** in his research paper titled, “LIC Agents : Are They All Productive", found that during 2003-04 the business procured through Agents constitutes 99.78 per cent, while through all other sources is 0.22 per cent only, which shows the basic strength of LIC is its huge agency force. The data from 1996-97 to 2003-04 shows that the number of agents and average business per agent is increasing year by year. But it does not mean that all agents are productive. The analysis revealed that 15 per cent of LIC agents are highly productive, and the remaining 85 per cent are not so productive. In a
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nutshell, 15per cent of the agents bring 61per cent of the new business. In view of this, LIC would have to undertake training & development programmes for its non-performing agents to make them good performers.

Mandal (2006), in his study, observed that in India, insurance is an advisor dominated business where 90.5per cent of the business is conducted via advisors’ retail distribution. The study was carried out with the following objectives:

To study the advisors’ profile.

To study how advisors’ profile influence business performance.

To know the most preferred advisors’ profile.

The data was collected through a questionnaire, and partially through interview. The research showed that majority of respondents think that insurance industries are growing very fast where retail distribution is the main channel. Distributors and advisors are the most important channel members. Success rate depends on the advisors’ selection and the best prioritization of specification, whereas age is the first and community is the last priority. The research also revealed that a married person between the age of 31-45 years having earnings between Rs. 5000 to Rs.10000 P.M., academic qualification 12th or graduation, self-employed , staying in the same place for at least two years is more successful.

Rao and Parkash (2006), in their study titled, “Investment Portfolio Performance of the LIC” observed that the LIC while investing its funds, has to consider various factors and forces such as safety, liquidity and productivity of funds plus various other regulatory bindings in terms of investment norms, asset liability management etc. In the year 2004-05, LIC had total funds to the tune of Rs. 416910.36crore and a total investment of Rs. 413800.95 crore. In India 86.14per cent of the investment is made in stock exchange securities. The study concluded that LIC should constantly monitor the
business environment and accordingly change its investment portfolio, so as to enhance its investment performance.

Sekar (2006), in his article, examined that insurance companies in the absence of a holistic measurement system, and the evaluation procedures would lack a balanced structure giving a balanced outlook of different facts of business performance. The drawback is overcome by employing a balanced score card system. It is one of the powerful tools of stakeholder management, enabling an insurance company to develop, grow and sustain competitive advantage. It provides the necessary means for evaluating the effectiveness of different strategies at different levels of business. The balanced score card does a performance measurement in insurance industry in four contexts, namely, financial, customer, internal business process, and learning and growth. The financial component is focused more on shareholders’ value. The different variables present in the sequence of achieving shareholder value are: cost efficiency, investment returns, capital efficiency, underwriting profitability and premium growth. The customer perspective consists of core measures like market share, customer acquisition, customer profitability, customer retention, customer satisfaction etc. It takes care of bringing customer value by carrying on the following stages: brand reputation, quality of relationship, quality of services, terms and conditions and the market share. The stage of measuring and evaluation of internal process consists of business process, underwriting process, innovation capability, and client relationship management process. The learning and growth perspective has the following stages: claims management skills, financial skills, marketing skills, and underwriting skills.

Vembu and Uthara (2006), in their article titled, “CRM : An Essential Yardstick for Success in Insurance” observed that the Indian CRM market can be sized at Rs.50-100 crore. The study claimed that 18per cent of Indian firms were either unaware or unconvinced of CRM. The service sectors like banking & insurance are the best fit to CRM. Many insurance companies started to review CRM as a tool to deliver high service quality. LIC Aviva, ICICI Prudential Life, HDFC, and Standard Life Insurance
companies have already deployed CRM. Players such as Birla Sun life, Met life etc. are expected to adopt CRM in near future. The study concluded that to survive in the competitive market insurance companies need to implement CRM, not only technically but also as a part of culture. The successful CRM results in the ability to measure customer value and improve services.

Sharma and Kalyani (2006), conducted a study titled, “CRM in LIC: Some Reflections.” For the purpose of study Warangal division was selected, since its performance in offering services to the customer was remarkable in the past few years. It was based on secondary data obtained from the records of divisional office of Warangal. The results showed that the LIC adopted the CRM philosophy at all levels and initiated necessary measures for providing better services to policyholders. Computerization and networking of operating units was also taken up for better access. New methods like single window and customer service centres had received wide recognition and acceptance among users.

Banerjee and Parhi (2007), revealed that competition was yet to reach the pricing arena in health insurance. The oligopoly nature of market has turned to restrict the free play of market forces through product differentials. Post-detariffing, the upcoming probable price war in other fields of insurance, may create a momentum in this section. In future, health insurance premium goes up by another 40per cent to factor the increased claim ratio of 130per cent in health insurance, which obviously is unacceptable.

Sabera (2007), in his paper, highlighted that growing insurance industry has recorded a growth of 16per cent in the financial year 2005-06. Innovative products, better marketing and aggressive distribution have enabled fledgling private companies to sign up Indian customer faster than expected. The private players are mainly concentrating on customer service. For this, they are looking at delivery channels like call centres, internet, telemarketing and direct marketing. The public sector companies are also identifying new
ways to satisfy the needs and will be competing with private players in the near future. There will be a large scope for growth and the industry will become highly competitive.

Rao (2007), in his article, discussed how the industry performed since liberalization, why the mindset of insurance continued to be premium obsessed as in the past, and why it was very necessary for them to switch their focus to measuring performance on a different basis for their survival in the market place, that is getting hotter and hotter at a competitive level. And why it was even more important to the public sector insurers to get their act together, as not doing so, might hurt them more as continued solvent insurers. The study revealed that non-life insurance industry performed superbly in FY 2006-07 in terms of rising premium volumes, recording its highest growth rate ever of 23per cent, with an accretion of Rs.4626 crore. The premium volume crossed Rs.25003 crore. The growth rate during FY 2005-06 was 16per cent & during 2004-05 was 12per cent. The private players whose premium share in FY 2000-01 was Rs. 500 crore had taken it to Rs.8700 crore, with their market share up from 4per cent to 35per cent. It was observed that measuring performance only by monthly premium has lowered the morale of staff. Even after the market was liberalized, this situation has not changed much.

Capgemine and EFMA (2007), in their quantitative and qualitative research, revealed key themes on which today's insurance is focused. The key issues studied were increasing the emphasis on customer centricity, enabling the distribution network with improved sales & service tools, implementing integrated multi-channel strategies, replacing legacy technology with more flexible systems and improving operational efficiency. The research showed insurers must re-evaluate how they handle customer interactions, align their offering with customer purchasing criteria, hone channel mix and better understand, and act on the drivers of customer satisfaction, loyalty and defection. At the same time, they can optimize the distributor strategy by proactively seeking to retain and attract quality distributors, enable distributors to function more effectively, integrate distributors more deeply into the enterprise, and build an enterprise view of the
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to integrate systems and enable them free from information throughout the insurance enterprise, insurers need to upgrade or replace policy administration systems. Insurers should also explore alternative methods to reduce costs and improve operational efficiency.

Jha and Agarwala (2007), in their article, studied the impact and challenges of detariffing in insurance industry. The paper revealed that detariffing creates intense competition, sharp drop in premium, reduction of premium more evident in corporate portfolios, and non-reasonable basis for reduction in premium. In the case of retail/small portfolios, the premium cut was less due to ignorance about detariffing of insurance market, premium reduced irrespective of the quality of risk management, direct impact on the balance-sheet of insurers and review in reinsurance rates by several leading re-insurers etc. They found that the only way out available with the insurance companies will be to vigorously market the policies, create new customer base, spread the net of insurance, not to compromise with quality of risk insured, proper appraisal of risks and motivate the insured to practice risk management.

Sethu (2007), in his paper, showed the effect of privatization and globalization on non-life insurance segments. He observed that the current trend in the insurance sector speaks volumes of the unethical practice of insurance and non-maintenance of the principles of insurance prevalent prior to the privatization of insurance in India. The basic principles of insurance are to serve the public for their security without detriment to them. It not only should aim at spreading of insurance all over the country but also promote social security keeping in view the principles of equity and natural justice, in the interests of all the insuring public. In the initial stage of privatization, the private companies were concentrating more on the creamy business and were indulging in unethical practices to grab the business by hook or crook. The PSU (Non-Life) insurers, on the other hand, having the massive strength of manpower, are unable to match with the private players who have minimum staff strength and a huge technology at their disposal. So PSU insurers are keen to reduce the staff strength by more than 50per cent to compete with the private players.
Parekh (2007), explained that the face of insurance in India has changed so radically that you cannot recognize it from the past. The changes which have been witnessed in the last seven years are: product innovation, unbundling of features and becoming more customer-responsive. Detarriffing, that is being driven by the regulator has presented another huge opportunity to the non-life sector. The insurance industry has been huge contributor to the creation of both direct and indirect employment opportunities.

Rao (2007), in his article said that the credit for the enlargement of the insurance market penetration and density should legitimately go to the private sector and rightful regulation. The increased economic activity coupled with recent reforms in general insurance market would certainly help to expand the market in the years to come. The opening up has augured well for the consumers, who now have access to wide range of new products particularly unit linked products that have attracted the attention of the insured.

Ramana (2007), in his article, observed that in the light of duties and obligations cast on the regulator in respect of protection of policyholders’ interest, growth and development of insurance business in India. What has been done and achieved till now is only a sound beginning. Much remains to be done to become true to the ideas with which the regulatory body has been conceived and constituted, particularly in the context of economic reforms initiated in our country. With increasing complexity and novelty of business opportunities thrown open to more and more players in the insurance market, the regulatory body too needs to gear up its administrative and regulatory machinery to have in place a more structured, systematic and effective approach to successfully find solutions to more and more challenges and issues in the days to come, as the market is destined to experience extreme aggressive stances both from the existing players and also the new entrants queuing up and knocking the doors of IRDA for the green signal and operational permit.
Seal and Debnath (2007), observed that detariffing in the insurance segment has been to the advantage of the consumers. The rates of premium in fire and engineering have decreased. Even though the premiums, for a segment of motor insurance increased, despite charging such increased rates of premium, insurance companies will be at loss in the area of motor insurance. Competition will bring more and more new and better products at some discount. Finally, consumers will be the beneficiaries of detariffing. The survey indicates that though a large number of studies have been conducted on non-life insurance sector at the international level, but at the national level researchers have mainly emphasized on life insurance sector. Although a few studies have been conducted on the performance of the general insurance sector prior to reforms, but no worthwhile research relating to the measurement of the overall performance of the general insurance companies in the post-reform period has been conducted, making a comparative study of the public and private sector general insurance companies. No proper study has been conducted to assess the impact of reforms on profitability and efficiency of the public sector general insurance companies and the comparative service quality level offered by the public and private sector general insurance companies. Thus, there exists a research gap and this study titled, “Performance Evaluation of General Insurance Companies - A Study of Post-Reform Period” is an attempt to fill this gap.

3.4 CONCLUSION

In view of the Literature review various aspects of insurance industry have been studied and their impact has well been discussed. For example, Skipper (2001) highlights various benefits of liberalization of insurance sector, however afterwards the literature is silent regarding the quantification of impact of liberalization on insurance markets worldwide. Similarly, no evidence is seen regarding A Comparative Study of financial Performance evaluation of selected non-life Insurance Companies of India, which happens to figure among world’s most populist country. Similarly, in this backdrop, the present study is an inclusive attempt and includes A Comparative Study of financial Performance evaluation of selected non-life Insurance Companies of India.
CHAPTER – 3  

Literature Review

3.5  REFERENCES


