# SUMMARY, FINDINGS AND SUGGESTIONS

<table>
<thead>
<tr>
<th>Points No.</th>
<th>Name of Topics</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1.</td>
<td>Introduction</td>
<td>308</td>
</tr>
<tr>
<td>6.2.</td>
<td>Summary</td>
<td>309</td>
</tr>
<tr>
<td>6.3.</td>
<td>Findings</td>
<td>312</td>
</tr>
<tr>
<td>6.4.</td>
<td>Suggestions</td>
<td>318</td>
</tr>
<tr>
<td>6.5.</td>
<td>Scope For Future Research</td>
<td>324</td>
</tr>
<tr>
<td>6.6.</td>
<td>Bibliography</td>
<td>325</td>
</tr>
</tbody>
</table>
CHAPTER – 6

SUMMARY, FINDINGS AND SUGGESTIONS

6.1 INTRODUCTION

The growth of the insurance industry is associated with the general growth of industry, trade and commerce. The origin of services may be traced back to the 14th century in Italy when ships carrying goods were covered under different perils. The systematic and orderly beginning of the insurance industry took place in UK at Lloyds coffee house in Tower Street in London. In developing countries the potential to speed up the rate of growth of the economy.

Insurance industry assists the development of an economy in several ways, primarily; it acts as a mobilizer of savings, financial intermediary, promoter of investment activity, stabilizer of financial market, risk manager, and an agent to allocate capital resources efficiently. Although the insurance industry has grown rapidly in the industrialized countries, its growth in developing countries has neither been satisfactory nor in tandem with the growth of other sectors of the economy. The 12 most industrialized countries in the world still account for 88% of global premium volume. The share of developing countries is extremely low. The slow growth of insurance services in developing calls for an in-depth analysis of the nature and pattern of evolution of these services. Policies pursued to develop the insurance industry and constraints thereof also need closed examination.

Regrettably, the Indian insurance industry has lagged behind even amongst the developing countries of the world. Although general insurance services started in India about 150 years ago, their growth has been dilatory, as reflected by low insurance penetration and density. Several factors are responsible for this state of affairs, the chief being the monopoly status of the industry till 1999. The general insurance business was nationalized in 1973. The lack of competition has impeded the development of insurance industry in India, resulting in low productivity and poor quality of customer services.

The process of liberalization and globalization of the Indian Economy started
in right earnest in mid-1980. The market mechanism was the moving factor underlying the New Economic Policy. In consonance with the New Economy Policy, Insurance Sector was opened up for the private sector in 1999. The new competitive environment in expected to benefit the consumers, industry and the economy at large. The consumers will have a greater choice in terms of the number and quality of products, low premium rates, efficient after sales services while the economy will benefit in terms of the larger flow of savings, increased availability of investible funds for long-term projects, enhanced productivity and growth of multiple debt instruments.

At the time when things are changing very fast and the General Insurance in India is undergoing considerable expedition and modernization with latest technology. It will be right to study and analyze the “Comparative Study of Financial Performance evaluation of selected non-life Insurance Companies of India” and to suggest measures to outgo control and improve their financial performance.

The present study deals with the “A Comparative Study of Financial Performance evaluation of selected non-life Insurance Companies of India” For analyzing the financial performance evaluation of selected non-life insurance companies of India, the data relating to selected non-life insurance companies for the past seven years vis. 2005-06 to 2011-12 have been collected and For the present study, Ratio-Analysis in percentage as an Accounting tool and F-Test - ONE WAY ANOVA as a Statistical have been applied to analyze and drew conclusions. The present study has been divided into six chapters. Chapter wise findings have been discussed as here below.

6.2 SUMMARY

Chapter wise summary is described below

Chapter-1 Overview of Insurance Industry

This chapter deals with an overview of insurance sector The chapter covers the introduction of insurance with a number of terms of insurance like risk insured, insurer Beneficiaries, control, etc. The chapter also reveals the history of Non-Life Insurance Industries in the world as well as in India, background and definition of
CHAPTER - 6  Summary, Findings And Suggestions

Non-Life Insurance, importance and function of Non-Life Insurance, Advantages and limitations of Non-Life Insurance.

This chapter also reveals basic principles of insurance, the nature of insurance business, classification of insurance and the organizational set-up and management of Selected Non-Life Insurance companies, The chapter deals with the legal framework of Insurance, the policy of Non-Life Insurance companies, products of Non-Life Insurance companies and finally the opportunities and challenges before the insurance industry in India as well as in the world.

Chapter-2 Conceptual Frame Work of Financial Performance

The chapter reveals the concept of financial efficiency by an easy explanation of framework related to the research topic. For that the chapter deals with the points like objectives of financial efficiency, measurement of efficiency, area of efficiency, the role concept of an appraisal, the needs and importance of appraisal of efficiency, the role of financial efficiency in planning, control and decision making. The chapter deals with the analysis and application of appropriate techniques, concepts of measurement and profitability and importance of profitability and the operational efficiency of the organization.

Chapter-3 Review of Literature

In view of the Literature review various aspects of the insurance industry have been studied and their impact has well been discussed. For example, Skipper (2001) highlights the various benefits of liberalization of insurance sector, however, afterwards the literature is silent regarding the quantification of the 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-4 Research Methodology

The subject of the present study is “A Comparative Study of financial Performance evaluation of selected non-life Insurance Companies of India”, which covers the period of the seven years from 2005-06 to 2011-12. This study covers the four public sector, non-life insurance companies of India and four private sector, non-life insurance companies of India. Selection of Research Unit for private sector, non-life insurer is based on high business on 31st March, 2005 as the record date. The study is based on secondary data published by Selected Non-Life Insurance Public Sector Companies and selected Non-Life Insurance, Private Sector Companies of India in their annual reports and accounts. The main objective of the present study is to measure comparative financial performance of selected non-life insurance companies from public as well as private sector insurer and to find out their various factors which affect the profitability. Statistical measures “F” test one way ANOVA have been applied to test the validity of two hypotheses namely (1) Null Hypothesis and (2) Alternative Hypothesis. Finally, a survey of existing literature on the subject has been made and the limitations of the present study have also been shown.

Chapter- 5 Data Analysis and Interpretation

The present study has particularly been undertaken for comparative financial performance analysis for selected public sector and selected private sector, non-life insurer during the period of seven years from 2005-06 to 2011-12. In this context, CARAMEL parameters were analyzed to study comparative financial performance analysis for selected public sector and selected private sector, non-life insurer during the period of seven years on capital adequacy, asset quality, reinsurance and actuarial issues, management soundness, earnings and liquidity of insurance companies, so that the study will be helpful in formulating an effective financial strategy and risk management policy.
6.3 FINDINGS

The primary findings and conclusions are given hereunder:-

1. Capital Adequacy

The minimum capital requirement for the insurance company to get registered has been fixed by IRDA at Rs.100 crores; however, there are no regulatory capital adequacy norms for insurance companies as are applicable to banks. Simply IRDA has put in force solvency norm requiring every non-life insurance company to maintain the ratio of 1.5, monitored quarterly, and the stipulation enables them to formulate and finalize their business plans and be in a position to meet the capital requirements in a timely manner. However, insurance companies are on their own moving towards risk based capital approach, making arrangements to implement solvency II norms which the IRDA were supposed to implement by 2012 (Ernst &Young, 2010). The capital adequacy ratio has been high enough, although no minimum requirements are prescribed, meaning that companies have an adequate cushion to counter the underwriting risks. The capital adequacy ratio analyses presents picture on two fronts viz; risks to capital and capital to total assets ratio. The analysis depicts different look of both the sectors, the public sector insures have strong capital adequacy ratios but is witnessing a fall in titanic style whereas the private sector has recorded low capital adequacy ratios but are showing surge year after year. The detailed findings of Capital Adequacy parameters are summarized as

The analysis of ratios, graphical and statistical analysis clearly indicates that public sector insurance companies have been more able to maintain capital and companies have infused more capital over the period of study, which might have enabled them to maintain required solvency margin. Further, the analysis reveals that the asset base has been increasing and the underwriting losses are being met through the realization of loans and advances. Private sector insurers are showing little poor as per both capital adequacy norms, that may be due to Public sector insurers are in the long run while private insurers have established in recent past decades.
2. Asset Quality

The asset quality of insurers is the measure of reliance on equity in built sound and quality asset portfolio of the company. The requirement of Rs.100 crores makes any company eligible to do insurance business in India; however, it is subject to revision by the company itself to meet solvency requirements. The pattern of ratio may differ for the public and private sectors as public sector insurers hold a good amount of reserves and therefore may not need more capital infusion. The growing market penetration and presence by private insurers in underwriting risks do impact their solvency margins and as a result of which there are evidences of fresh capital infusion by almost all the private insurers. The journey of the Indian insurance market towards free market has pushed private insurers to have more capital base to operate freely in the risk prone market. The analysis of the asset quality ratio of both the sectors reveals the following picture

The analysis of ratios, graphical and statistical analysis clearly indicates that all the selected public sector insurance companies and all the selected private sector insurance companies have been showing good asset quality norms during the research period with reference to Equity share capital to Total Asset norms. As all the selected research unit showing a downward trend during the research period which shows that all the research unit are more focused on more on asset base in comparison to equity share capital base during the research period, But Public sector insurer are having more Asset Quality norms in comparing to Private sector insurer.

3. Reinsurance and Actuarial Issues

Reinsurance of risks means sharing of premium claims and profits also. The retention of more business underwritten depicts increasing risk bearing capability of insurers, which is a healthy sign in the insurance business. The insurers are required to reinsure their 15 percent of tariffed and 10 percent of de-tariffed business (IRDA, 2008-09) and therefore all the insurers pass on their risks quantitatively to the minimum possible extent. The growing reinsurance ratio also indicates the growing capability to handle risks efficiently, however, the public and private sectors differ to a larger extent in this context. The parameter also indicates the position of technical
reserves in an organization to meet unforeseen claims. The main findings of reinsurance and actuarial analysis are given hereunder.

The analysis of ratios, graphical and statistical analysis clearly indicates that all the selected public sector insurance companies showing below average norms of risk retention during the research period as well as it shows the overall downward trend in risk retention norms while all the selected private sector insurance companies have been showing good progressive risk retention ratio during the research period.

4. Management Soundness

Management soundness of insurance business means operational soundness. This ratio reflects the operational efficiency of the insurer and indicates cost efficiency of the business, which ultimately reflects the efficiency of decisions regarding proper utilization of funds. The prescribed ratio of operational expenses to gross premium under Insurance Act, 1938 is restricted to 20 percent. Liberalized Indian non-life insurance market is characterized as loss incurring, the ratio will better judge the operational efficiency and preferably when used across various business segments, it will bring to front the underwriting performance and also will act as an operational benchmark for the years to come. In the post de-tariffed regime the insurers are required to be more alert in respect of underwriting business and this indicator of management soundness surely should be one of the basic competitive tools for a successful insurer. The decreasing ratio is considered desirable; the findings of the analysis are summarized below.

The analysis of ratios, graphical and statistical analysis clearly indicates that all the selected public sector insurance companies showing below average norms of Management efficiency during the research period as well as it shows the overall downward trend in Operating Expense control management while all the selected private sector insurance companies have been showing good progressive Operating Expense control management during the research period.
5. Earnings and Profitability

In the earnings and profitability section, the focus of the analysis is on the operational and non-operational income. This analysis is done by computing five ratios, the first three ratios embrace the major components of underwriting performance and the rest of the to determine the non-operational income and return to shareholders. The first three ratios of this analysis are required to be minimal for the positive and sustaining financial performance of the insurance company and reflect their underwriting efficiency are positively correlated with capital adequacy. The analysis of overall underwriting performance includes loss ratio, expense ratio and combined ratio, analysis of which reveals that every rupee of earned premium is draining in the shape of claims and costs plus some portion of non-operational income which the insurers seem to adjust initially out of cross subsidization and investment income. However, the price war in the post de-tariffed regime has resulted in thinning of profit margins from profitable segments and prevailing bearish capital market. Therefore, insurers need to be choosy in business selection, otherwise their funds may get drain away and to meet stipulated solvency norm, shareholders might not sustain continuous funding without return resulting in the insolvency of the companies. The findings of this analysis are outlined here below.

The analysis of Earning & Profitability of selected non-life insurer researcher have taken five parameters of which first three parameters show overall cost management while last two parameters indicates the income approach of the selected non-life insurer. Cost management is always sensible for any business, especially service sector industry because of the service sector has to deal with the psychological requirement of consumers while product base industry is generally based on need or want the satisfaction of the consumer and due to that careful management with reference to cost management is essential. Non-Life insurance is purely based on high sensitivity uncertainty, risk base business and doing the business in three broad segment fire, marine and miscellaneous. The researcher has made the special focus on cost management of each segment. Claim management, operating activity and commission analysis show average fluctuation during the research period while income from investment and return on equity is not satisfactory level during the
research period for the entire selected non-life insurer both from public sector and the private sector.

6 Financial Soundness & Liquidity Analysis

The contract of non-life insurance policy usually lasts for one year; consequently insurers are more vulnerable to liquidity crises, if sufficient provisioning is not made. Hampton 1993 in his guidelines suggests that liquidity ratio should be greater or equal to 100. However, when seen in the context of Indian insurers, none of the insurers under study seem to follow the benchmark, the following results are inferred from the individual and comparative analysis of the public and private sector insurers.

The researcher has considered four parameters for the calculation of financial soundness and liquidity analysis. As discussed earlier, there are numerous indicators, tools for financial soundness but of which most reliable and most technically tools with reference to the insurance industry is considered for this study. It does not mean that other FSI (Financial Soundness Indicators) are less powerful or it has no use at all. But insurance is a special kind of business, especially non-life insurance sector, hence special care is taken in choosing such kind of financial soundness indicators

The first indicator for this FSI is return on net worth which is nearer below to 10% for selected public sector, non-life insurer and nearer to below 20% for selected private sector non-life insurers.

Second indicator for this FSI is ratio of total assets to total liabilities which indicates convertibility of assets to cover the liability all the selected public sector non-life insurer shows average nearer above 200% ratio during research period while all the private insurer shows average ratio ranging between 120% to 160% during research period which indicates that both selected public sector non-life insurer and private sector non-life insurer are having better asset utilization norms during research period.

The third indicator for this FSI is liquidity analysis with reference to current assets to current liabilities and standard norms for liquidity is 200%, but the entire selected research unit from the public sector as well as private sector, non-life insurer
is shown below to 100% during the research period which indicates poor liquidity management for the entire research unit during the research period.

Fourth indicator for this FSI is solvency ratio. There are various norms to measure solvency test as narrated above of which solvency margin as per IRDA norm is considered for this analysis. A standard defined by IRDA for solvency is 1.5% the entire research unit shows nearer 1.5% during the research period.

From this analysis, it is concluded that the entire research unit for defining FSI shows average outcomes in comparison to standard norms of financial tools of Non-Life insurance industries.
6.4 SUGGESTIONS

In the light of the analysis and findings, following suggestions are reproduced for development of efficient insurance sector:-

(A) Regarding Outgo Control and Outgo Reduction:

1. The companies should have to cut the management expenses. The company should have to meet the prescribed norms formed by IRDA in concern of management expenses.

2. To increase the productivity of branches, Non-life insurance should have to increase infrastructural facility so that common people can reach to Non-life insurer easily. If the productivity starts to improve hence efficiency will automatically improve.

3. Non-life insurers have to focus on the development of business in rural areas with innovative schemes to attract the rural clients. To make the people of rural area familiar with non-life insurance the companies have to display insurance schemes at various public places.

4. The proportion of management expenses in all the companies under study should be kept within the prescribed norms.

5. To reduce the cost the Non-life insurance should make the settlements of legal claims in the allotted time frame and according to actual loss or damage.

6. The ratio of expenses should be reduced by controlling variable expenses and the companies have to implement the paperless office work to decrease the cost.

7. For correct and exact settlement of lodge claims outgo the appointment of surveyors and advocates should be centralized exclusively at the competent authority level and there should be reviewed periodically.

8. The legal case like motor-vehicles and accident related cases, workers related cases, etc. should be settled in legal framework and speedy disposal compromise meeting should be arranged by Non-life insurer’s, so by that companies can reduce the claims outgo.
(B) Regarding to Increase the Income:

1. To generate the income of premium the Non-life insurer should develop the personal line insurance product. For that the companies have to go to the remote area of the country and to make aware the rural mass for non-life insurance products.

2. Non-life insurer should use an aggressive marketing strategy.

3. Non-life insurance should have to introduce customer friendly plans which attract the people.

4. To improve the business Non-life insurance should have to expand the business in foreign markets.

5. To increase the premium income the Non-life insurer should give the proper training to the agents to handle the problems linked with the rapid changes in the market scenario.

6. Another area of growth is likely to be in retail sector wherein the Non-life insurers can get market in a big way. This market is likely to grow rapidly due to increase in income of middle class and new value proposition given to the growing distribution channels like Bank assurance, Brokers, and Corporate Agency by way of setting up specialized offices with a focused approach.
(C) Regarding Financial Management:

1. Investment should be done under proper control of the people who are professionally qualified and having experience of capital market and the total investment portfolio should be for gate in low moderate and high risk value. By that Non-life insurer can earn more investment income and make the investment efficient.

2. Vigilance department should be established by IRDA properly and continuous vigilance should be carried out.

4. The employee should be encouraged to come forward to provide information regarding unfavorable activities in the organization and name should be kept confidential.

5. Vigilance should be finished on the time bound basis and the punishment should be given to recurrent employee to save outgoing of interest.

6. Non-life insurance should start the internal audit system on a day to day basis and to follow concern audit to make transparency in the accounting system.

7. Non-life insurance should invest their funds in infrastructure and social sector and in gold bond to accelerate their other income.
(D) General Suggestions

To fulfill the responsibility towards the society Non-life insurer have invested in infrastructure and social sector as per IRDA guidelines.

1. In terms of capital adequacy, public insurers need to restructure their capital portfolio. Relying merely on the reserves position may not last long, given the fact that investments held by public insurers are being sold profitably to support underwriting losses.

2. Private insurers need to have required quantum of technical reserves for better support for unexpected claims.

3. Inclusion of more equity will surely make the asset quality of the insurers better and public insurers in particular need to resort to it for reporting required solvency status.

4. For the improvement of reinsurance ratio, proper management of technical reserves position will help private insurers to retain and manage maximum risk efficiently.

5. Proper check on management expenses will help improve management efficiency. For the improvement in this parameter, unprofitable branches and unproductive work force if curtailed will save a huge amount of public insurers in the shape of management expenses, which otherwise is concern for public and private insurers.

6. Proper risk evaluation, pricing and risk selection will surely help insurers in proper claim management, expense management and consequently will lead to decrease in the combined ratio for the insurers and ultimately will result into underwriting profitability.

7. Regulator IRDA should allow insurers to have a diversified and risk balanced investment portfolio. The move will help insurers to enhance investment income. The increasing investment income will cushion underwriting losses to a good extent.

8. Risk based capital is the need of the hour, which requires companies to underwrite business as per the capital strength and as such adequate capital requirement for all companies should make regulatory in order to take sufficient underwriting business exposures.
9. Increasing focus on underwriting discipline should be undertaken to avoid underwriting losses, to increase profitability and to be competitive. Every segment should be seen in terms of underwriting capacity and be priced accordingly.

10. The underwriting should aim at profitable underwriting rather than mere share gaining chase. Proper risk evaluation is also facilitated by price deregulation, and in view of increasing purchasing power of individuals, profitable, but competitive pricing should be the area of focus.

11. Only operational performance should be taken into consideration, while reflecting company’s performance. More importantly, every segment should highlight its underwriting performance at the end of the financial year and imperfections may accordingly be weeded out.

12. The sector should be allowed to raise funds from the stock market to enable them report profitable figures. Consequently the insurers will focus on profitable business underwriting will lead to better liquidity management on the part of insurers.

13. Deregulation should be followed by deregulation in the key areas of risk evaluation and product pricing. This is the only way for profitable pricing otherwise in the coming time, the insurance industry will be facing insolvencies of some key insurance players, which may damage customer trust and consequently the sector will remain untapped.

14. Proper risk management practices to be made mandatory. Especially operational and market risk management should addressed in case of all insurance companies in the lines bank risk management so that hard earned money of the insured is protected.

15. Management expenses should be properly put into the cap and insurers who don’t adhere to the cap should be fined and ultimately legally challenged. New, effective and cost efficient distribution channels should be the focus area to restrict growing marketing costs.

16. FDI cap be enhanced from 26 to 49 percent, which the primary requirement of the times. The move has got its own advantages like more capital flow, more employment, and technical knowhow and in the long run cost efficiency and profitability for insurers and exchequer as such.

17. Earlier “file and use” concept of product pricing be implemented with fresh
vigor to enable insurers to price profitably their products. Market gain chase by
the insurers will come to halt by it and insurers may focus on efficient
underwriting. Otherwise to which they are worried about their sustainability in
the market.

18. Customized insurance products, as per the needs of customers. One of the
bigger advantages of price deregulation is different, prices for different needs;
however, the facility is only present in economic literature to Indian customers.
The insurers need to properly tailor their products accordingly.

19. Proper risk selection and thereafter proper risk evaluation should be done by all
insurers. In view of the growing tendency of grabbing more market chase,
proper risk selection process is ignored, which consequently leads to poor risk
evaluation, and ultimately loses.

20. Proper actuarial order of product pricing will surely arrive at profitable pricing,
provided re-regulation of prices.

21. Adoption of cost effective and viable distribution system should be made
mandatory. Modern era of computers and IT calls for locking of cost effective
and viable distribution system of insurance products, the benefits of which can
show immediate impact in the shape of decreasing costs and adding to profit
margin.
6.5 SCOPE FOR FUTURE RESEARCH

This study was limited only to the Comparative Study of Financial Performance of Selected Public Sector Non-life Insure and Selected Private Sector Non-life Insurer. But Further Research can be made on

2. A Study of Segment wise Profitability of Public Sector non-life insurance Company.
3. A Study on Segment wise Profitability of Private Sector non-life Insurance Company.
CHAPTER - 6  Summary, Findings And Suggestions

BIBLIOGRAPHY

REFERENCE BOOKS

16. Insurance Compendium (2005-06 to 2011-12)
NON-LIFE INSURANCE LITERATURE

1. Annual Reports of IRDA 2005-06 to 2011-12
2. Non-Life Insurer’s – Chairman’s review working results 2005-06 to 2011-12

JOURNALS AND PERIODICALS

1) Management Accountant
2) IRDA Journal
3) Insurance Watch
4) Insurance World
5) The Insurance Times
6) Fortune India
7) Insurance Chorine
8) Insurance Advisor
9) Chartered Accountant
10) Chartered Financial Analyst

WEB SITES

1. www.nationalinsuranceco.ltd.com
2. www.newindiainsuranceco.ltd.com
3. www.uiic.com
4. www.orientalinsuranceco.ltd.com
5. www.irda.com
6. www.generalinsuranceco.com
7. www.instituteofinsurance.com
8. http://etheses.saurashtrauniversity.edu/