A Comparative Study of Private Sector and Public Sector Non-Life Insurance Companies in India

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1. Abstract

India is one of the rapidly developing economies in the world. India is a hub, especially in terms of demand and supply of physical and non-physical produces and resources. Insurance sector plays a vital role in Indian financial system. After privatization it has drawn attention of foreign players in life and non-life insurance business. With the growth of whole economy, Indian insurance sector seems to have a bright potential. In this research paper an attempt has been made to assess the performance of private and public sector non-life insurers in India.

2. Key Words: Insurance, IRDA, Public, Private, Performance Comparison

3. Introduction

Before economic reforms insurance sector was solely operated by public sector units. After globalization and liberalization The Government of India on recommendations of Malhotra Committee, set up a regulatory body Insurance Regulatory and Development Authority (IRDA) in 1999, to protect the interest of policyholders, provide variety products, qualitative services and to grow insurance business orderly all over the nation. After IRDA insurance sector was opened up for the private sector for healthy competition and valuable services. This reforms paved way for foreign players to enter into Indian insurance business which have a far reaching effects on financial system and economy as well. For a human, security of one's belongings (property, assets) becomes secondary need after security of life. At present, 6 public sector (including 2 specialized insurers) and 22 private sector (including Standalone Health Insurers) are operating in India.

4. Research Methodology

This paper is based on descriptive research and covers analytical aspect.

4.1. Review of Literature

- Krishna Kant Mishra (2015) in his research carried out a comparative study of public and private life insurance companies in India. It was concluded that survival depends upon their performance in profitability, productivity, efficiency and service quality.
- Seema Sharma and Dr. Sujit Sikidar (2014) in their research measured the performance of public sector insurance units. They concluded that the four public sector non-life insurers in India has performed quite satisfactorily in the post de-tariff regime.

4.2. Objectives

- To study the performance of public sector and private sector non-life insurance companies in India during the period of study.

- Based on analysis, to justify, which one is performing well; public sector or private sector?

4.3. Sample Design

Present study is based on convenient sampling method. All private sector and public sector non-life insurance companies (excluding Specialized Insurers and Standalone Health Insurers) as on 31st March 2015 in India constitute the sample of the study.

4.4. Hypotheses

H_0: There is no significant difference in the gross direct premium of private and public sector non-life insurance companies.

H_0: There is no significant difference in the incurred claim ratio of private and public sector non-life insurance companies.

H_0: There is no significant difference in the net profit/loss of private and public sector non-life insurance companies.

H_0: There is no significant difference in the equity share capital of private and public sector non-life insurance companies.

H_0: There is no significant difference in the grievances resolved of private and public sector non-life insurance companies.

4.5. Period of the Study

Present study covers the period of five consecutive years starting from 2010-11 to 2014-15.

4.6. Method of Data Collection

The study is based on secondary data collected from annual reports published by IRDA.

4.7. Tools and Techniques

- Accounting tools: ratio analysis, trend percentage.
- Statistical tools: mean, t-test at 5% level of significance on 8 degrees of freedom.

4.8. Limitations of the Study

- The entire study is based on secondary data. So the rationality of data inevitably affects the study.
- The study covers few parameters which limits the thorough critical analysis.
- Tools and techniques used for the study may have their own limitations which also apply to the study.
- Researcher is an external evaluator. Hence, the insight view of insurance sector is beyond the limitation of researcher.

5. Results and Discussions

Table – 1 : Gross Direct Premium

(Rs. crore)

Insurer	2010-11	2011-12	2012-13	2013-14	2014-15	Mean	$t_{(cal)}$	$t_{(tab)}$
Private	17424.63	22315.03	27950.70	32010.30	35089.96	26958.12	-2.06	2.31
% Trend	100.00	128.07	160.41	183.71	201.38	154.71		
Public	26417.21	32263.46	37071.80	40980.06	45016.62	36349.83		
% Trend	100.00	122.13	140.33	155.13	170.41	137.60		

(Source: Compiled from annual reports of IRDA)

Table – 1 shows trend of gross direct premium of insurance companies over a period of study. Considering 2010-11 as base year gross direct premium registered increasing trend during the study period in both private and public sector non-life insurance companies. As compared to public sector, average premium was high in private sector. T statistic shows $t_{(cal)} < t_{(tab)}$. So the null hypothesis stands still that there is no significant difference in gross direct premium of private and public sector non-life insurance companies.

Table – 2 : Incurred Claim Ratio

(%)

Insurer	2010-11	2011-12	2012-13	2013-14	2014-15	Mean	$t_{(cal)}$	$t_{(tab)}$
Private	86.71	88.26	80.00	79.58	79.69	82.85	-1.58	2.31
Public	97.03	89.27	84.79	84.15	83.91	87.83		

(Source: Compiled from annual reports of IRDA)

Table – 2 shows incurred claim ratio of private and public sector non-life insurance companies. In private sector as compared to 2010-11 it increased in 2011-12 thereafter it declined in 2012-13, 2013-14 respectively and finally slightly increased in 2014-15. In public sector it continuously declined throughout the study period. As compared to private sector, the ratio remained high in public sector during study period and the average ratio, too. T statistic shows $t_{(cal)} < t_{(tab)}$. So the null hypothesis is accepted and alternative hypothesis is rejected.

Table – 3 : Net Profit/Loss

(Rs. crore)

Insurer	2010-11	2011-12	2012-13	2013-14	2014-15	Mean	$t_{(cal)}$	$t_{(tab)}$
Private	-857.43	-1120.19	679.11	1539.14	1643.51	376.83	-1.80	2.31
Public	-161.51	1144.71	2602.72	2899.76	3093.99	1915.93		

(Source: Compiled from annual reports of IRDA)

Table – 3 shows resulting from increased claims, private sector incurred loss in initial two years of study. Afterwards, it started earning profit. In public sector, it was loss in initial year. Thereafter, it began to earn profit. Inter firm comparison revels that public sector earned profit more than double of private sector. The average profit of public sector was much more than private sector. T statistic shows $t_{(cal)} < t_{(tab)}$. So, there is no significant difference in net profit of private and public sector non-life insurance companies. The null hypothesis is accepted.

Table – 4 : Equity Share Capital

(Rs. crore)

Insurer	2010-11	2011-12	2012-13	2013-14	2014-15	Mean	$t_{(cal)}$	$t_{(tab)}$
Private	3955.70	4860.68	5974.70	6226.37	6972.45	5597.98	9.40	2.31
Public	550.00	550.00	600.00	600.00	650.00	590.00		

(Source: Compiled from annual reports of IRDA)

Table – 4 shows that in private sector equity share capital continued to increase gradually. It reveals more investments in private sector while in public sector equity share capital shows stability and slight increase in 2011-12 and 2014-15. Average equity share capital in private sector is more than that of public sector. T statistic shows $t_{(cal)} > t_{(tab)}$. It is clear that there is a vast difference in equity share capital of selected units. So the null hypothesis is rejected and alternative hypothesis is accepted.

Table – 5 : Status of Grievances

Insurer	Private			Public		
	Reported	Resolved	% Resolved	Reported	Resolved	% Resolved
2010-11	2559.00	2301.00	89.92	3271.00	2100.00	64.20
2011-12	80497.00	80450.00	99.94	12658.00	11110.00	87.77
2012-13	60358.00	60230.00	99.79	20164.00	19057.00	94.51
2013-14	42658.00	42523.00	99.68	18645.00	18006.00	96.57
2014-15	39192.00	37715.00	96.23	16453.00	16062.00	97.62
Mean	45052.80	44643.80	97.11	14238.20	13267.00	88.14
$t_{(cal)}$	2.35					
$t_{(tab)}$	2.31					

(Source: Compiled from annual reports of IRDA)

Table – 5 shows status of grievance during the study period. Grievances were quite high in 2011-12 as compared to 2010-11 in both the insurer. Thereafter, it gradually decreased in both the insurer during the study period. Inter firm comparison shows that private sector reported more grievances than public sector. Moreover, percentage of grievance resolved was also high in private sector as compared to public sector. T statistic shows there is a significant difference in grievances resolved as the $t_{(cal)} > t_{(tab)}$. So the null hypothesis is rejected and alternative hypothesis is accepted.

6. Conclusion

After IRDA and reforms in insurance sector, public sector insurers are facing tough competition in terms of market share, products, services and customer satisfaction. Still public sector insurers need to be more competitive. To get competitive advantage, public sector insurers need to increase market share by providing variety of qualitative products at lower costs, services to customer. Keeping in view above analysis public sector insurers are lacking behind in terms of claim settlement, equity share capital and above all quick grievances resolution. Moreover, public sector non-life insurers are less in numbers as compared to private sector non-life insurers in India. But as per the statistics, it is no wonder that still people have faith in public sector insurers as it shows more profitable business in terms of gross premium and net profit/loss as compared to private sector insurers. Private sector insurers need to maximize profitability with novel services and reduced cost and expenses. It should try to reach to rural areas to make aware about the advantages of products and services. Not only for big industries but customer focused plans should be launched. Both private and public insurers should organize proper training programs for employees and agents. It should provide incentives not for the sake of job performance but for the insurance industry as a whole.

7. References

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