Comparative Evaluation of performance of FDI based and Non FDI based Non-Life Insurance companies

Faniza Joshi\textsuperscript{1} & Dr. Harpreet Kaur Kohli\textsuperscript{2}
\textsuperscript{1} Research Scholar, Punjabi University, Patiala.
\textsuperscript{2} Assistant Professor, Department of Distance Education, Punjabi University, Patiala.

Received: July 08, 2018

Abstract: The study is an attempt to compare the financial performance of FDI based and non FDI based Non-Life Insurance companies in India. As the Indian insurance sector has, of late, been witnessing a spate of mergers and acquisitions (M&As) with many joint venture partners expressing their intent to look for new foreign partners. The annual data from 2004-2016 of the variables is considered for the study. The outcome of this study suggests in most of the aspects, FDI companies perform better than Non-FDI companies.

Keywords: Foreign Direct Investments, CAGR.

Introduction: Globalization is a new buzzword that has come to dominate the world since nineties, driven by two main factors i.e. the technological advancements and liberalization of trade and capital market. All these forces are responsible for world’s financial Integration. It is necessary to define the term “integration” more precisely. It means convergence of the prices of assets across the nations. World economy is integrating itself expeditiously. The beginning of this century has seen metamorphosis of every sphere of development, from countries just beginning to modernize, to the OECD (organization for economic cooperation and development) rich country club, the world is awash with opportunities for development. While the monetary levels of an economy are controlled by central bankers and fiscal affairs are controlled by the politicians, but the jumpstart growth of these groups cannot be accomplished without outside help. Hence, the need of foreign Investments (FDI) arises.

Insurance plays a critical role in supporting the economic activity. Sound Insurance Mechanism is necessarily required for sustainability and growth of national economy. As there is a mass consumption of insurance coverage, there are complexities in the contracts. Hence Sophistication in Product designing is required to ensure the policyholders interest. These companies also act as significant institutional investors. India is an attractive market for global insurers because of its favorable demography, low insurance penetration and the increasing life expectancy of individuals. Hence, it creates a lucrative opportunity for foreign players to unleash their potential in the country. India is preferred FDI destination due to its demographic dividend.

Review of Literature: Barajas et al. (2000) examined the impact of liberalization and foreign investment in Columbia’s financial sector and also compares the performances of FDI and domestic firms. The study covered 32 banks (21 Domestic and 11 FDI banks) comprising the panel data of average lending interest rate, average deposit interest rate, intermediation spread, average required reserves, non financial costs etc. The time period for the study covered was from 1985-1998. The empirical evidences showed that financial liberalization in general had a beneficial impact on banks as it increases competition, lowering intermediation costs and improving loan quality. But overall comparative study indicated that the domestic banks are more efficient than FDI banks but loan quality of FDI banks is better.

Konings (2000) studied the effect of direct foreign investments on domestic firms of emerging economies of 2,321 firms in Bulgaria covered the time period 1993-97, 3,844 firms in Romania covered the time period 1994-97 and 262 firms of Poland covered the time period 1993-1997. The data comprised of sectoral spillovers, regional spillovers, sales growth, employment growth, capital growth and material growth. The study also compared the results of domestic firms and foreign firms. The results indicated that there is no statistically significant effect of foreign ownership on performance. Results also shows that privatized firms do not performed better than the state owned enterprises. There is also statistically significant negative spillover effect of foreign firms on domestic ones. Results for Romania are reported similar to Bulgaria but in its foreign firms outperforms domestic ones and in Poland there is a statistically significant effect of foreign ownership on firm’s productivity performance, foreign firms outperforms domestic and there is no statistically significant effect of spillover.
Claessens (2001) investigated the effects of foreign entry on domestic banking market covering 7,900 banks for the observation of 80 countries of the time period, 1988-1995. The study focused on the variables i.e. net interest margin, overhead, taxes paid and profitability. The empirical estimations revealed that developed foreign banks tend to have higher interest margins, profitability and tax payments than domestic banks in developing countries while opposite is true for countries.

Douma et al. (2006) focused on the impact of foreign and domestic ownership on firm’s performance of emerging markets. The study comprised of the sample of 1,005 firms for the period 1999-2000. The study was based on the variables i.e. performance variables (ROA, Q ratio), Explanatory variables (Ownership variables) and control variables (Sales and age). The results showed that there is a significant performance difference of multinational enterprises or their subsidiaries and domestic firms. They attribute these differences to firm specific advantage and difference in agency costs among foreign and domestic firms owing to ownership concentration differences. The Findings highlighted the fact that the impact of foreign investors on firm’s performance is not clear cut. The study shows that domestic corporations positively influence the firm performance.

Whalley & Xin (2010) investigated China’s FDI and non FDI’s economy and sustainability of future Chinese growth. The study examined the contribution of FDI to China’s economic growth for the period 1995-2004. The study investigated two types of enterprises i.e. Foreign invested enterprises (FIE) and non foreign invested enterprises (non FIE) that forms two individual different sub economies. The study covered; export, GDP, Labour and productivity and capital stock determinants. The results indicated that FIE contribute 40% of china’s economic growth in 2003-04 and without this inward FDI, China’s overall GDP growth rate could have been 3.4% points lower. Hence, China’s economic growth depends upon FDI, GDP and export growth.

Safiuddin (2013) in his doctoral thesis investigated the impact of FDI on the growth of pharmaceutical sector in India with special reference to post liberalization scenario covering 236 companies (18 FDI and 152 non FDI) for the period 2001-2010 collected the data on FDI, forex earning, sales, total exports, R&D expenses, Profits, Assets, capital employed and net worth concluded that the profitability performance of FDI based companies is better than non FDI based companies and same with the liquidity, efficiency and other variables position. The Impact of FDI on the growth of companies is statistically significant.

Patil (2014) in her doctoral thesis studied the performance evaluation of Indian FDI and non FDI banks covering 49 banks for the time period 2000-01 to 2011-12. The study focused on the two aspects i.e. Productivity and profitability of the banks which includes variables i.e. Net profit, income, total business, profit per employee and business per employee. The results of the study were not clear cut as it’s a mixed result to conclude the overall performance of Indian FDI and non FDI banks. The productivity of the banks is improving significantly than profitability. Foreign capital infusion brought new banking technologies and resulted in improved and overall performance of FDI banks.

Evidences can be found in most of the studies that FDI based companies perform better than the non-FDI based companies.

OBJECTIVES OF THE STUDY

1. Comparative analysis of Capital adequacy of FDI based and non FDI based Non Life Insurance companies
2. Comparative analysis of Asset Quality of FDI based and non FDI based non Life Insurance companies
3. Comparative analysis of Reinsurance and Actuarial practices of FDI based and non FDI based non Life Insurance companies

RESEARCH METHODOLOGY

In the present study, the time frame of annual Data has been considered from 2004-2016 of 18 FDI based Non-Life insurance companies and 5 Non FDI based Non-Life Insurance companies. The financial Data is collected from their annual Reports and IRDA annual reports. For the purpose to examine the performance of insurance companies, several authorities have suggested some of the analytical tools. For the purposes of the assessment of the insurance sector under the financial sector assessment program (FSAP), the IMF uses the CARAMEL framework. This framework, also recommended by the World Bank and the US agency for international development, has been used by the authorities in the selected countries and for the academic researches. From the model capital adequacy, asset quality, reinsurance and actuarial issues has been taken for the purpose of the study. The selection indicators are based on the analytical significance, availability of data for compilation and its relevance for the study.
RESULTS AND FINDINGS

Objective 1: Comparative analysis of Capital adequacy of FDI based and non FDI based Non Life Insurance companies

The results of table 1 indicates that, the net premium to capital of non FDI based insurance companies is higher than FDI based insurance companies; i.e. mean value of 183.69(of non FDI based companies) as 40.33(of FDI based insurance companies). Over the period of time it has increased for both FDI as well as non FDI based insurance companies. This shows that over the period of time most of the companies have expanded their business by raising its capital and earning more and more premium. Among companies, National Insurance co. Ltd outperforms other companies with the mean value of 56.67, followed by the New India Assurance co. Ltd., United India Insurance and Oriental Insurance respectively. Whereas; the lowest rank companies are HDFC ERGO and ICICI Lombard general insurance company.

Consistency in the Ratio: Most of the companies are consistent in their performance, in this indicator. The top ranking companies like national insurance, New India Assurance, united india insurance and oriental insurance are all consistent with C.V value of 1% or less than that.

Statistical Evaluation of capital adequacy Indicator

H0; There is no statistical significant difference in net premium to capital of FDI based and Non FDI based non life insurance companies.

H1; There is a statistical significant difference in net premium to capital of FDI based and Non FDI based non life insurance companies.

The MAN Whitney test shows that net premium to capital of non-FDI based non life insurance industry is better as compared to the FDI based non Life Insurance industry. Z-value shows that there is significant difference between FDI and Non-FDI based Life insurance companies at 0.05 level of significance (Z= -4.32). Therefore, Null Hypothesis rejected.

Objective 2: Comparative analysis of Asset Quality of FDI based and non FDI based Non Life Insurance companies

The results of table 2 depicts that; the capital to total assets of FDI based non Life insurance sector is better as compared to the non-FDI based non Life insurance sector with the mean value of 4.02 (FDI based companies) as compared to 2.28(non-FDI based companies). But analysis also depicts that it has decreased from 6.29(in 2004-05) to 1.75(in 2016-17) of FDI based companies; whereas among non FDI based companies it has increased to 9.28(in 2016-17) from 0.80(in 2004-05). Among companies highest value for this indicator is earned by national insurance co. Ltd.; with the mean value of 2.28, followed by Tata AIG and Royal sundaram with the mean value of 0.81 and 0.78 each. The lowest rank is scored by The New India Assurance co. Ltd. i.e. 0.0092, followed by united India insurance co. and The Oriental Insurance company.

Consistency in the Ratio: Most of the companies shows the consistency in this indicator; it can be noticed that the top performing companies like TATA AIG, royal sundaram are consistent throughout this period; C.V value 0.002 each. Whereas, united India, New India Assurance co. Ltd, oriental insurance co. Ltd. are the non FDI based insurance companies which also remains consistent throughout the period.

Statistical Evaluation of Asset quality Indicator

H0; There is no statistical significant difference in equities to total asset of FDI based and Non FDI based non life insurance companies.

H1; There is a statistical significant difference in equities to total asset of FDI based and Non FDI based non life insurance companies.
MAN Whitney Results for Asset Quality determinant.

<table>
<thead>
<tr>
<th>Dependent Var.</th>
<th>Independent Var.</th>
<th>N</th>
<th>Mean</th>
<th>Sums of Ranks</th>
<th>Z</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities to total assets</td>
<td>FDI</td>
<td>14</td>
<td>16.50</td>
<td>231</td>
<td>-3.16</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>Non-FDI</td>
<td>12</td>
<td>10.00</td>
<td>120</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS

The MAN Whitney test shows that equities to share capital of FDI based non life insurance industry is better as compared to the non FDI based non Life Insurance industry. Z-value shows that there is significant difference between FDI and Non-FDI based Life insurance companies at 0.05 level of significance (Z= -3.16). Therefore, Null Hypothesis rejected.

**Objective 2:** Comparative analysis of Reinsurance and Actuarial Issues of FDI based and non FDI based Non Life Insurance companies

It is observed from table 3 that FDI based non Life insurance companies performs better in this indicator than the non FDI based non Life insurance companies. Over the period of time, it has increased to 4.93(in 2016-17) from 1.83(in 2004-05), whereas the growth in non FDI based insurance sector also increases to 4.66(in 2016-17) from 4.66(in 2004-05). If we compare each and every company separately, than non FDI based Non life insurance companies performs better.

**Consistency in Ratio:** This ratio in the results indicates that most of the Non FDI based insurance companies are consistent. The most consistent company is National Insurance with the ratio of 0.089 followed by other big giants like Oriental insurance, New india insurance and united insurance. Among FDI based companies, the most consistent company is considered to be TATA AIG and Royal Sundaram.

**Statistical Evaluation of Reinsurance and Actuarial Issues**

H₃; There is no statistical significant difference in Risk Retention Ratio of FDI based and Non FDI based non life insurance companies.

H₃. There is a statistical significant difference in Risk Retention of FDI based and Non FDI based non life insurance companies.

MAN Whitney Results for Reinsurance and Actuarial Issues.

<table>
<thead>
<tr>
<th>Dependent Var.</th>
<th>Independent Var.</th>
<th>N</th>
<th>Mean</th>
<th>Sums of Ranks</th>
<th>Z</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities to total assets</td>
<td>FDI</td>
<td>14</td>
<td>16.43</td>
<td>230</td>
<td>-2.109</td>
<td>.035</td>
</tr>
<tr>
<td></td>
<td>Non-FDI</td>
<td>12</td>
<td>10.08</td>
<td>121</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS

The MAN Whitney test shows that the Risk retention Ratio of FDI based non life insurance industry is better as compared to the non FDI based non Life Insurance industry. But, Z-value shows that there is no significant difference between FDI and Non-FDI based Life insurance companies at 0.05 level of significance (Z= -2.109). Therefore, Null Hypothesis accepted.

**CONCLUSION**

The study deals with the comparison of performance of Non FDI based and FDI based Non life insurance sector. Where, CARAMEL models is considered. Out of which capital adequacy, asset quality, reinsurance and actuarial practices are the variables which are taken for the study. Each and every variable is calculated on the basis of mentioned ratios given by IMF. Further for the test of significance, Man Whitney test has been used as due to the non parametric nature of the data The overall results indicate that FDI based non Life insurance sector performs well as compare to the life insurance sector. Among companies, National Insurance company performs better which is a non FDI based company followed by Bajaj Allianz. Whereas, companies like Reliance General insurance and cholamandalam are the lowest performers in this segment.

**REFERENCES**

37. Peter J. Buckley, C. W., & Clegg, J. The impact of foreign ownership, local ownership and industry characteristics on spillover benefits from foreign direct investment in China. International Business Reviews, 6 (2), 142-158.


ANNEXURE
Table 2: Asset Quality Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-FDI Non Life Insurance Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance General Insurance Co. Ltd.</td>
<td>0.738541</td>
<td>0.684096</td>
<td>0.593484</td>
<td>0.574277</td>
<td>0.535441</td>
<td>0.11341</td>
<td>0.105241</td>
<td>0.107488</td>
<td>0.069578</td>
<td>0.070243</td>
<td>0.06677</td>
<td>0.111267</td>
<td>0.262652</td>
<td>0.229539</td>
<td>1%</td>
</tr>
<tr>
<td>United India Insurance Co. Ltd.</td>
<td>0.021252</td>
<td>0.031874</td>
<td>0.022084</td>
<td>0.02183</td>
<td>0.027476</td>
<td>0.01678</td>
<td>0.016713</td>
<td>0.017743</td>
<td>0.017724</td>
<td>0.011354</td>
<td>0.019109</td>
<td>0.015562</td>
<td>0.013706</td>
<td>0.017635</td>
<td>0.008305</td>
</tr>
<tr>
<td>The New India Assurance Co. Ltd.</td>
<td>0.001195</td>
<td>0.008147</td>
<td>0.001792</td>
<td>0.001772</td>
<td>0.005323</td>
<td>0.009289</td>
<td>0.008891</td>
<td>0.008891</td>
<td>0.009289</td>
<td>0.008891</td>
<td>0.008891</td>
<td>0.009289</td>
<td>0.008891</td>
<td>0.009289</td>
<td>0.008891</td>
</tr>
<tr>
<td>The Oriental General Insurance Co. Ltd.</td>
<td>0.935009</td>
<td>0.895971</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
</tr>
<tr>
<td>National Insurance Co. Ltd.</td>
<td>0.935009</td>
<td>0.895971</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
<td>0.935009</td>
</tr>
<tr>
<td>Total</td>
<td>0.098506</td>
<td>0.068968</td>
<td>0.045888</td>
<td>0.023775</td>
<td>0.023775</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
<td>0.018186</td>
</tr>
</tbody>
</table>

Table 3: Reinsurance and Actuarial Issues Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-FDI Non Life Insurance Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Reliance Ltd. | 1.627781 | 1.337471 | 0.267751 | 0.492299 | 1.230709 | 0.70887 | 0.78149 | 0.679157 | 0.676024 | 0.720851 | 0.687299 | 0.729201 | 0.70286 | 0.687299 | 0.730903 | 1%
| United India | 0.096383 | 0.049557 | 0.073337 | 0.172589 | 0.747843 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0.723622 | 0%
| The New India | 0.015237 | 0.060063 | 0.022362 | 0.041444 | 0.766981 | 0.781085 | 0.795283 | 0.970201 | 1.00017 | 1.00017 | 1.00017 | 1.00017 | 1.00017 | 1.00017 | 1.00017 | 0%
| The Oriental | 0.850563 | 0.277921 | 0.819023 | 0.594695 | 0.778701 | 0.809505 | 0.971502 | 0.859683 | 0.859683 | 0.859683 | 0.859683 | 0.859683 | 0.859683 | 0.859683 | 0.859683 | 0%
| National | 0.052836 | 0.278417 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0.723555 | 0%
| Total | 0.293501 | 0.340188 | 0.264069 | 0.365875 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0.558079 | 0%

Note:
1. Retention Ratio

IJRAR- International Journal of Research and Analytical Reviews

Research Paper