

A Comparative Study of Claim Analysis of Selected Pubic Sector and Selected Private Sector Non-Life Insurance Companies of India

Dr. Harish M.Chandarana

Associate Professor,
Shri H.N.Doshi Arts & R.N.Doshi Commerce College,
Wankaner

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ABSTRACT

The insurance sector in India is passing through a period of structural changes under the combined impact of financial sector reforms in general and insurance sector in particular. The market for insurance services previously was monopolized while the market place was regulated and insurance companies were expected receive assured spread over their cost of funds and systematic demand for their products. This phase in Indian insurance business was the result of sheltered markets and administered prices for various insurance products. It is said that a resilient and well regulated insurance industry can significantly contribute to economic growth and efficient resource allocation through risk transfer and savings mobilization. In addition, it can enhance wealth management avenues in the country. All these contributions of the sector can only be achieved when the sector is organized and competitive. The competitive insurance markets are in the national interest because they generally offer business houses and individuals' greater choice and better value than alternative approaches. In recent times restrictive markets have been made competitive through a combination of liberalization and deregulation.

Key words : Claim; Financial Performance

Introduction

The historical perspective of the general insurance companies reveal that the rapid expansion of insurance companies since nationalization had given rise to a number of problems related to the image, operational efficiency, productivity, and the quality of portfolio of the system as a whole and

there have been persistent complaints about deterioration in customer service . Close on the heels of the success of the privatization initiatives in the banking sector, insurance sector reforms were initiated following the report of Malhotra Committee -1993. The reforms were aimed at creating more efficient and

competitive financial system suitable for the requirement of the economy. The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of the government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting entry restrictions for private players, and allowing foreign players to enter the market with some limits 26% on direct foreign ownership.

The insurance industry has been maintaining its constant growth rate of 15% to 16% over the last few years. As a result, the insurance penetration rose to 4.6 % in the year 2009-10 for life segment and remained stagnant at nearly 0.6% in the case of non-life insurance IRDA 2009-10. One of the reasons for low penetration in general insurance has been lack of concerted efforts to effectively tap the retail segment.

Study Units

This Research study for four General Insurance Companies of Public Sectors (1) National Insurance Company(2) The New India Assurance Company(3)United India Insurance

Company Limited (4) The Oriental Fire & General Insurance Co. Ltd.and four Private Sectors non-life Insurance companies having highest business as on 31st March, 2005 (1) Bajaj Allianz General Insurance (2) Tata AIG Insurance company(3) ICICI Lombard GIC Ltd(4) IFFCO-TOKIO General Insurances selected.

Data Collection

The study is based mainly on secondary data, collected from annual reports of the general insurance companies in India. Data were also collected from the Handbook on Indian Insurance Statistics, Insurance Handbook published by IRDA and various journals, magazines and websites.

Period of Study

The study period is to be converted 7 years; from 2005-06 to 2011-12

Tools & Techniques

For the present study, Ratio-Analysis in percentage as an Accounting tools and F-Test ONE WAY ANOVA is used as tools of Statistics.

Claim Analysis

Claim ratio is an important indicator of pricing (premium) policy of

non-life insurer. As non-life insurance is purely base on uncertainty risk. Therefore it is essential for non-life insurer to observe the pricing policy year after year.

Claim Analysis

$$\text{Claim Analysis} = \frac{\text{Net Claim}}{100} \times \text{Net Premium}$$

Table 1: Ratio of Net Claim and Net Premium of Selected Non-Life Insurance Companies of India (Period from 2005-06 to 2011-12) (In Percentage)

Year	NIACL	OFGIL	NICL	UIACL	Bajaj	TATA	IFFCO	ICICI
2005-06	88.13	87.64	102.43	93.09	69.92	56.08	70.54	73.77
2006-07	80.34	87.66	86.51	94.23	66.26	54.27	72.79	76.30
2007-08	86.82	90.47	94.04	92.75	66.81	54.41	78.90	78.37
2008-09	97.77	99.69	99.16	64.65	71.91	60.54	83.44	85.35
2009-10	81.81	90.79	85.05	86.74	73.59	67.21	79.45	86.77
2010-11	121.65	94.22	97.04	94.36	79.14	74.74	87.26	95.61
2011-12	108.62	91.01	87.50	88.50	77.09	79.67	92.57	101.46

Ratio = Net Claim / Net Premium *100

➤ **Analysis for calculated ratio for selected public sector non-life insurance companies**

As it is evident from the analysis of the claim ratio for all business of selected public sector insurer, it is showing overall fluctuating trend for NIACL during research period ranging between 80.34 percentages (2006-07) to

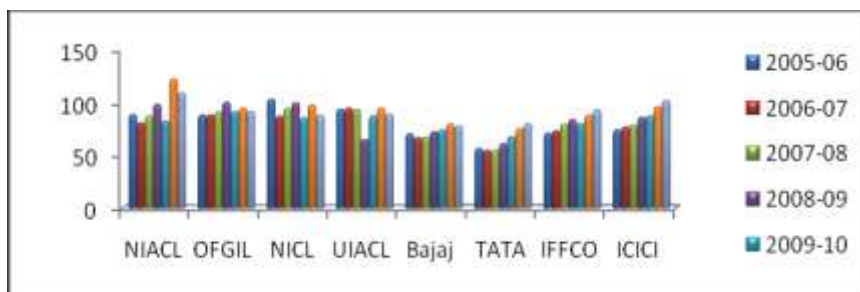
121.65 percentages (2010-11). As NIACL maintains below 100 percentages during research period excepting last two years of research period. OFGIL fluctuate between 87.64 percentages (2005-06) to 99.69 percentage (2008-09) that means

company maintains below 100 percentages during research period. NACL shows 102.43 percentages (2005-06) and thereafter it maintains below 100 percentages up to last year of research period. UIACL also shows fluctuation trend in claim ratio for all business ranging between 64.65 Percentages (2008-09) to 94.36 percentages (2010-11) company maintain claim ratio for all business below 100 percentage during the research period.

From the analysis of the claim ratio for all business of selected private sector insurer, it is showing overall fluctuating trend for Bajaj ranging 66.26 percentage (2006-07) to 79.14 percentage (2010-11) during research period which indicate that company is focusing on premium pricing in combination of all business during

research period. TATA is also showing increasing fluctuation trend during research period ranging between 54.27 % (2006-07) to 79.67 % (2011-12) which indicate improper premium policy of the company during research period. IFFCO shows fluctuation during research period in the claim ratio ranging between 70.54 % (2005-06) to 92.57% (2011-12) which is due to improper claim management of the company. ICICI also shows fluctuation in claim ratio for all business during research period ranging 73.77% (2005-06) to 101.46% (2011-12) which is also improper claim management during research period. All the private sector insurer showing below 100 percent level in the claim ratio of all business during research period excepting for ICICI who goes up to 100 percent once during the last year of research period.

Graph : 1 Graphs for Ratio of Net Claim paid and Net Premium earned of Selected Non-Life Insurance Companies of India



By observation of the graph of selected Public sector and private sector non-life insurance company it shows overall fluctuation during the research period for the claim Management all Business of all the research units of public sector insurer show below 100 % during research period excepting NIACL shows above 100 percent level during last two year of research period as well as NACL shows above 100 percent level during the first year of research period which indicates proper claim management of the selected non-life insurer of public sector during research period for ALL Business. ALL the selected private sector non-life insurer shows below 100 percent level during the

research period excepting ICICI who goes up above 100 percent during the last year of research period which indicate proper premium policy in combination of all business during research period for selected private sector non-life insurer.

Statistical Analysis

H₀ :All the selected Public Sector and Selected Private Sector Non-Life Insurance Companies of India have equal Claim ratio with respect to Net Claim and Net Premium

H₁ : All the selected Public Sector and Selected Private Sector Non-Life Insurance Companies of India have unequal Claim ratio with respect to Net Claim and Net Premium

Table 2 : “F”-Test One Way ANOVA for Ratio of Net Claim and Net Premium of Selected Public Sector and Selected Private Sector Non-Life Insurance Companies of India

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F _c	F _t
B.S.S.	5855.931	7	836.5615	9.479801	2.207436
W.S.S.	4235.843	48	88.24674		
T.S.S.	10091.77	55			

From the “F” test one way ANOVA Table as calculated above it shows that Calculated value of $F_c = 9.479801$ while tabular value of $F_t = 2.207436$ which show that calculated value F_c is greater than tabular value F_t . $F_c > F_t$ Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that Claim management for all business norms as per Net Claim to Net Premium is different for selected public sector and private sector non-life insurance companies.

Conclusion

The analysis of ratios, graph and statistical analysis for claim ratio clearly indicates that both selected public sector and selected private sector insurers show above 100 percent for two to three times during research period. Premium pricing is based on claim management of the insurer. As claim is pure uncertain while premium can be defined on the past experience but risk and uncertainty is the prime condition for any business so that while defining pricing policy it is necessary to

follow scientifically analytical attitude towards claim management.

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