COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE AMONG SELECTED INSURANCE COMPANIES IN INDIA

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ABSTRACT

Insurance companies are a cornerstone of financial inclusion and economic resilience in India. They provide a financial safety net for individuals, families, and businesses by offering protection against life, health, property, and income risks. The Indian insurance sector plays a vital role in mobilizing savings, providing financial protection, and contributing to economic development. In recent years, financial performance has become a key indicator of the operational efficiency and strategic effectiveness of insurance firms. This study undertakes a comparative analysis of the financial performance of two major insurance companies in India: HDFC Life Insurance Company Ltd, representing the private sector, and Life Insurance Corporation of India Ltd (LIC), representing the public sector. The analysis is based on key financial ratios including Current Ratio, Net Profit Margin, and Return on Assets over a five-year period from 2019-20 to 2023-24. The study aims to evaluate the liquidity, profitability, and asset efficiency of the selected companies and compare their financial standing. The findings reveal that there is a significant difference in the current ratio between the two companies, suggesting varied liquidity management practices, while there is no significant difference in their net profit margin and return on assets, indicating comparable profitability and operational efficiency. The study provides valuable insights for investors, policymakers, and financial analysts regarding the performance and financial health of insurance firms in India.

Keywords : Insurance Companies, Financial Performance, Current Ratio, Net Profit Margin, Return on Assets, HDFC Life, LIC, Comparative Analysis, Indian Insurance Sector

1. Introduction

The insurance sector in India has undergone a significant transformation over the past few decades, evolving from a tightly regulated industry to a more liberalized and competitive one. Historically, the Indian insurance market was monopolized by state-owned companies—Life Insurance Corporation of India (LIC) for life insurance and General Insurance Corporation (GIC) for non-life or general insurance. However, with the liberalization of the Indian economy in the 1990s and the enactment of the Insurance Regulatory and Development Authority Act in 1999, the sector was opened up to private players, including foreign insurers through joint ventures, which marked a new era of innovation, competition, and growth. The Insurance Regulatory and Development Authority of India (IRDAI) plays a crucial role in overseeing the operations of the insurance industry. It is responsible for protecting policyholders' interests, regulating insurance companies, and promoting the development of the insurance market in a transparent and fair manner.

2. Literature Review

Sharma (2022) analyzed the impact of digital transformation on the financial performance of Indian insurance companies post-COVID-19. The study considered key performance indicators such as premium growth rate, claim settlement ratio, and operational efficiency. It was found that companies that adopted digital solutions—such as online policy issuance, chatbot-assisted customer service, and digital claim processing—witnessed a remarkable improvement in premium income and customer retention. For example, SBI General and ICICI Lombard experienced a substantial increase in gross premium underwritten, which was attributed to their investment in digital platforms. The research concluded that embracing digitalization plays a pivotal role in enhancing financial performance and competitiveness in the current insurance landscape.

Desai and Raval (2022) conducted a performance evaluation of selected Indian life insurance companies using profitability ratios and growth indicators from 2016 to 2021. The study involved LIC, Max Life, and HDFC Life. Their findings suggested that HDFC Life consistently maintained a higher net profit margin and return on capital employed (ROCE), driven by its strategic distribution partnerships and efficient cost management. In contrast, LIC, though dominant in terms of market share, showed lower profitability due to its legacy cost structures and larger agent-based sales force. The researchers emphasized the need for traditional insurers to optimize operational models to enhance profitability.

Bansal (2023) explored the relationship between solvency margin and overall financial performance in the Indian general insurance sector. Using panel data regression analysis for ten general insurance companies over the period 2017–2022, the study found a strong positive correlation between solvency margin and profitability. Insurers with higher solvency margins, such as ICICI Lombard and Tata AIG, also had better underwriting performance and lower combined ratios. The author argued that a sound solvency position is crucial not only for regulatory compliance but also for maintaining investor and policyholder confidence, which indirectly influences revenue and profitability.

Reddy and Iyer (2023) investigated the effect of macroeconomic factors—such as GDP growth, inflation, and interest rates—on the financial performance of Indian insurance companies. The study applied econometric modeling techniques and included a dataset covering both life and general insurers from 2015 to 2022. The results indicated that GDP growth positively influences premium income and net profits, while high inflation and interest rate volatility negatively affect investment income. The authors concluded that insurance companies must adopt proactive investment strategies and product innovation to counter macroeconomic uncertainties and maintain financial stability.

Chopra (2024) conducted an empirical study on the performance evaluation of Indian insurance companies listed on the NSE using DuPont Analysis. The research covered firms such as ICICI Prudential, SBI Life, and Star Health Insurance over the period 2018–2023. The findings demonstrated that ICICI Prudential had the most consistent performance in terms of ROE due to its efficient asset utilization and low equity multiplier. The DuPont analysis revealed that operational efficiency and profit margins played a more significant role in determining return on equity than leverage. Chopra emphasized the importance of strategic financial planning and cost control for improving financial performance in the Indian insurance market.

3. Research Methodology

Research Objectives

1. To analyse the financial performance of selected insurance companies of India
2. To compare the financial performance of selected insurance companies of India

Sample Size

Below mentioned 2 insurance companies have been analysed in this study

1. HDFC Life Insurance Company Ltd
2. Life Insurance Corporation of India Ltd

4. Data Analysis

4.1 Current Ratio

Company	**2023-24**	**2022-23**	**2021-22**	**2020-21**	**2019-20**
HDFC Life Insurance Company Ltd	0.91	0.86	0.84	0.76	0.87
Life Insurance Corporation of India Ltd	2.92	3.14	2.68	2.16	2.17

HDFC Life Insurance Company Ltd has shown a consistently low current ratio over the five-year period. The ratio has ranged between 0.76 in 2020-21 and 0.91 in 2023-24, indicating that the company has more current liabilities than current assets in each of these years. Although there has been a gradual improvement in the ratio from 0.76 to 0.91, it still remains below 1, raising concerns about the company's ability to cover its short-term obligations without relying on external financing or long-term assets. However, it is important to consider that life insurance companies typically maintain substantial long-term investments and receive a steady stream of premium income, which may mitigate some liquidity concerns despite a lower current ratio. The slight improvement in HDFC Life's current ratio over the years suggests an effort toward better liquidity management. The rise from 0.76 in 2020-21 to 0.91 in 2023-24 could be attributed to better alignment of current assets with liabilities or strategic allocation of more funds toward liquid assets. However, the company still needs to enhance its short-term financial flexibility to avoid potential liquidity stress in adverse market conditions. It's also possible that HDFC Life operates with confidence in its predictable cash flows, allowing it to manage lower liquidity buffers without compromising solvency.

On the other hand, Life Insurance Corporation of India (LIC) has maintained a very strong current ratio throughout the same period, ranging from 2.16 in 2020-21 to 3.14 in 2022-23. The ratio for 2023-24 stood at 2.92, which, while slightly lower than the previous year, still indicates a robust capacity to meet short-term obligations. LIC's current ratio has consistently remained well above the standard benchmark of 1, suggesting a conservative approach to liquidity management and a strong cushion of current assets relative to liabilities. LIC's high current ratio reflects its extensive resource base, massive market share, and the scale of its operations. The stability and strength of its balance sheet allow it to comfortably cover short-term liabilities and retain surplus liquid assets. The slight decline in the current ratio from 3.14 in 2022-23 to 2.92 in 2023-24 is not alarming, as it still indicates more than adequate liquidity.

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
HDFC Life Insurance Company Ltd	5	4.24	0.848	0.00307
Life Insurance Corporation of India Ltd	5	13.07	2.614	0.19448

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	7.79689	1	7.79689	78.93586	0.0000	5.317655
Within Groups	0.7902	8	0.098775			
Total	8.58709	9				

H0 = There is no significant difference in current ratio between selected insurance companies of India.

INTERPRETATION

From above table for 1 and 8 degree of freedom

Fcal is 78.93 and Ftab is 5.317

P-value is 0.0000

Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05

So, null hypothesis is rejected and it is concluded that there is significant difference in current ratio between selected insurance companies of India.

4.2 Net Profit Margin

Company	2023-24	2022-23	2021-22	2020-21	2019-20
HDFC Life Insurance Company Ltd	1.54	1.94	1.84	1.9	4.41
Life Insurance Corporation of India Ltd	4.82	4.65	0.56	0.42	0.44

For HDFC Life Insurance Company Ltd, the net profit margin shows a declining trend over the five-year period. In 2019-20, the company reported a relatively high margin of 4.41%, but this figure dropped sharply in the following years. Between 2020-21 and 2022-23, the margin fluctuated modestly between 1.84% and 1.94%, reflecting relative stability but at a lower level. By 2023-24, the margin declined further to 1.54%, suggesting a continued decrease in profitability relative to total revenue. This downward trend may be indicative of rising expenses, increasing claims, or reduced investment returns. Despite strong market presence, HDFC Life appears to be under pressure in terms of operational efficiency and cost containment. One possible reason for HDFC Life's declining margin could be the competitive pricing strategy adopted to expand its market share, which may have resulted in thinner profit margins. Additionally, the rising costs of acquiring new customers, maintaining agency networks, and digital transformation investments could be contributing factors. The notable drop from 4.41% in 2019-20 to 1.54% in 2023-24 may also reflect changing market dynamics or regulatory adjustments impacting the bottom line. While the company remains profitable, the trend suggests the need for improved cost management and enhanced revenue diversification to restore margin levels.

In contrast, Life Insurance Corporation of India (LIC) shows a remarkable improvement in its net profit margin over the same period. Between 2019-20 and 2020-21, LIC reported very modest margins of 0.44% and 0.42%, reflecting the traditional nature of its operations and possibly a high level of policyholder bonuses and claim payouts. However, starting in 2021-22, there was a significant turnaround, with the margin rising sharply to 0.56%, and then to 4.65% in 2022-23, and further to 4.82% in 2023-24. This upward trend suggests a major improvement in LIC's profitability and operational efficiency in recent years. The surge in LIC's net profit margin could be attributed to several factors, including better investment performance, improved underwriting practices, operational restructuring, and possibly the effects of its initial public offering (IPO), which might have driven stronger financial discipline. The consistent rise in margins indicates that LIC has been successful in enhancing its profitability while maintaining its large-scale operations. It also reflects the organization's ability to adapt to the evolving insurance market in India and leverage its extensive distribution network more effectively.

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
HDFC Life Insurance Company Ltd	5	11.63	2.326	1.38188
Life Insurance Corporation of India Ltd	5	10.89	2.178	5.45502

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.05476	1	0.05476	0.016019	0.902407	5.317655
Within Groups	27.3476	8	3.41845			
Total	27.40236	9				

H0 = There is no significant difference in net profit margin between selected insurance companies of India.

INTERPRETATION

From above table for 1 and 8 degree of freedom

Fcal is 0.016 and Ftab is 5.317

P-value is 0.9024

Thus, Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that there is no significant difference in net profit margin between selected insurance companies of India.

4.3 Return on Assets

Company	2023-24	2022-23	2021-22	2020-21	2019-20
HDFC Life Insurance Company Ltd	0.51	0.54	0.57	0.75	0.98
Life Insurance Corporation of India Ltd	0.76	0.79	0.09	0.07	0.08

For HDFC Life Insurance, the data reveals a steady decline in ROA over the five-year period. The company reported a relatively healthy ROA of 0.98% in 2019-20, suggesting strong asset utilization during that year. However, in subsequent years, the ROA progressively dropped to 0.75% in 2020-21, 0.57% in 2021-22, 0.54% in 2022-23, and finally 0.51% in 2023-24. This downward trend implies that despite having a growing or stable asset base, HDFC Life's ability to generate proportionate returns from its assets has been weakening. Several factors could explain this declining ROA for HDFC Life. First, the company may have expanded its asset base (through investments or premium inflows) at a rate faster than its net profits increased, diluting the return per unit of asset. Second, persistent operational costs, higher policy payouts, and intensified market competition may have impacted profitability. Third, declining investment yields, particularly during periods of economic volatility or regulatory shifts, may have further reduced returns on the asset base.

The steady erosion of ROA is a signal that the company may need to optimize its asset allocation strategy and enhance profitability through improved underwriting or cost controls. In contrast, LIC's ROA presents a reversal trend, showcasing a significant improvement over the period. Between 2019-20 and 2020-21, LIC reported very low ROAs of 0.08% and 0.07% respectively, indicating very modest returns on its massive asset base. This low figure is not unusual for a large public sector insurer like LIC, which often operates with social obligations and long-term investment horizons. However, from 2021-22 onward, there is a notable shift, with ROA rising to 0.09%, then jumping to 0.79% in 2022-23, and maintaining a solid 0.76% in 2023-24.

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
HDFC Life Insurance Company Ltd	5	3.35	0.67	0.03875
Life Insurance Corporation of India Ltd	5	1.79	0.358	0.14507

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.24336	1	0.24336	2.647808	0.142344	5.317655
Within Groups	0.73528	8	0.09191			
Total	0.97864	9				

H0 = There is no significant difference in return on asset between selected insurance companies of India.

INTERPRETATION

From above table for 1 and 8 degree of freedom

Fcal is 2.647 and Ftab is 5.317

P-value is 0.1423

Thus, Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that there is no significant difference in return on asset between selected insurance companies of India.

5. Conclusion

Based on the detailed interpretation of the financial ratios—Current Ratio, Net Profit Margin, and Return on Assets—of HDFC Life Insurance Company Ltd and Life Insurance Corporation of India Ltd (LIC) over the five-year period from 2019-20 to 2023-24, it is evident that the financial performance of these selected insurance companies demonstrates distinct trends and characteristics. In terms of the current ratio, LIC has consistently maintained significantly higher values compared to HDFC Life, indicating a stronger liquidity position and a greater ability to meet short-term obligations. HDFC Life's current ratio remained below 1 throughout the period, suggesting a tighter liquidity buffer. LIC, on the other hand, showcased ratios well above 2, reflecting conservative liquidity management. The statistical analysis further confirms that there is a significant difference in the current ratio between the two companies, highlighting varying liquidity strategies and operational structures. When evaluating the net profit margin, both companies exhibit different patterns. HDFC Life experienced a gradual decline in profitability over the years, moving from a high of 4.41% in 2019-20 to 1.54% in 2023-24. In contrast, LIC showed a remarkable improvement, especially after 2021-22, where its margin increased from 0.56% to 4.82% by 2023-24. Despite these trends, statistical findings indicate that there is no significant difference in the net profit margin between the two insurers. This suggests that while their individual trajectories vary, their overall profitability relative to revenue remains comparable when assessed statistically. Regarding the return on assets, HDFC Life demonstrated a consistent decline, indicating reduced efficiency in asset utilization over time. LIC, however, moved from a historically low ROA to significantly improved levels, surpassing HDFC Life in the latter years of the study. Nevertheless, the statistical outcome reveals that there is no significant difference in return on assets between the selected companies. This implies that, despite divergent performance trends, both insurers ultimately exhibit similar effectiveness in converting their assets into net income.

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