

# Financial Performance of SBI Life Insurance Company and Shriram Life Insurance Company: A Comparative Study

Dr. Kingshuk Adhikari  
Assistant Professor, Department of Commerce  
Assam University Silchar

Ankita Ghosh  
Research Scholar, Department of Commerce  
Assam University Silchar

## ABSTRACT

One of the significant changes that the life insurance companies in India have experienced in the current millennium is the introduction of financial sector reforms coupled with liberalization and globalization which have practically made the market condition precarious. With the liberalization of the economy, more and more insurance companies have entered into the market and thereby eroding the market share of all the companies in operation. The Insurance Regulatory and Development Authority (IRDA) was set up as a regulatory and monitoring body to overview the tasks of the insurance companies. Since then there has been a galloping inflow of private companies in the Indian Insurance industry and thus infused tremendous competition in this sector. This has posed a challenges for each and every life insurance companies, irrespective of their size, to survive in the market as well as to maintain a sound financial position. The paper makes an attempt to compare the financial performance of SBI Life Insurance Company and Shriram Life Insurance Company from 2008-2009 to 2013-2014 on the basis of certain parameters relating to profitability, solvency and liquidity.

**Keywords:** Profitability, Liquidity, Solvency, Average Net Premium

## Introduction

Insurance is the backbone in managing the risk of the country. The insurance providers offer diversity of products, protection from risk thereby ensuring financial security (Bawa and Chatta, 2013). It provides long term funds not only for infrastructure development but also for strengthening the risk taking ability of a country. Liberalization and privatization of the Indian economy led to the emergence of several private players in the Indian economy specially in life insurance industry (Dey, et.al., 2015). This rise in the private Life Insurance companies led to increase in the number of life insurance policies, thus contributing to the growth of the economy at large (Rajsekhar and Kumari, 2014). To survive in such competitive environment, the life

insurance companies need to focus more on their profitability to ensure a smooth growth. In this context, need for expanding the market share and maintaining a sound financial position are extremely important for the survival and growth of life insurance companies. The present paper makes an attempt to compare the financial performance of SBI Life Insurance Company and Shriram Life Insurance Company during 2008-2009 to 2013-2014.

### **Review of Literature**

Saleena (2014) revealed that Life Insurance Corporation of India had performed better than private sector life insurance companies and was better than others and liquid ratio of all private companies was not satisfactory. Jena (2014) studied the financial stability and financial performance of life insurance companies and found that private companies had unsatisfactory liquid, current and absolute liquid ratios. Sharma and Chowhan (2013) revealed that solvency position of private life insurance companies was much better than public sector life insurance companies. Derbali (2014) described the determinants of profitability of life insurance companies which stated that size, age and growth of the insurance companies were important determinant for their profitability. Ghimire (2014) studied the financial health and performance of life insurance industry of Nepal with some ratios and found that except return on equity ratio all the ratios were in improving direction. Akotey, et al. (2013) found that life insurers had been incurring underwriting losses and it further showed that gross premium and total assets had a negative effect on investment income but gross premium had positive relationship with sales profitability. Boadi, et al. (2013) concluded that leverage and liquidity had positive relationship with profitability. Ismail (2013) stated that size, reinsurance and solvency margin were significant determinants in financial performance.

### **Objectives of the Study**

The main objective of the study is to compare the financial performance of SBI Life Insurance Company and Shriram Life Insurance Company during 2008-2009 to 2013-2014. However, specific objectives of the study are as follows:

1. To compare the profitability of SBI Life Insurance Company and Shriram Life Insurance Company.
2. To compare the liquidity of SBI Life Insurance Company and Shriram Life Insurance Company.
3. To compare the solvency of SBI Life Insurance Company and Shriram Life Insurance Company.

### **Data Source and Methodology**

In order to conduct the study, relevant secondary data have been procured from the Hand Book of Indian Insurance Statistics, IRDA. The study covers a period of six years i.e., from 2008-2009 to 2013-2014. Two life insurance companies, viz., SBI Life Insurance Company and Shriram Life Insurance Company have been

selected out of 23 number of life insurance companies operating in India by using Stratified Random Sampling method.

In order to select these two private sector life insurance companies out of twenty three (23) private sector life insurance companies, total net premium of all the companies have been calculated from IRDA report for the period of six years from 2008-2009 to 2013-2014 and their ranks have been determined based on average net premium during the period of study.

Thus, average net premium has been considered to be a determinant of the size of companies and accordingly SBI Life Insurance Company from large size and Shriram Life Insurance from small size companies have been selected for comparing the financial performance of these two companies. However, for analyzing the data a number of financial ratios and statistical tools, such as, mean and standard deviation have been used.

**Table 1: Details of Sample Insurance Companies**

Insurers	Foreign Partners	Registration No.	Year of Registration	Year of Entry in Indian Market
SBI Life Insurance Co.	BNP Paribas, France	111	2001	2001-2002
Shriram Life Insurance Co.	Sanlam. South Africa	128	2005	2005-2006

*Source: Annual Reports of the respective insurance companies*

The Government of India has opened the door for the private players into the life insurance industry since 2000. So many private insurance companies have entered into the sector. SBI life insurance co. entered the Indian market from 2000-2001 while Shriram Life Insurance Co. started its operation from 2005-2006.

### Scope of the Study

The scope of the study is based merely on analyzing the financial performance of two private sector life insurance companies for a period of 6 years i.e., from 2008-2009 to 2013-2014. To fulfil the objectives of the study, financial ratios relating to profitability, solvency and liquidity have been used.

### Limitations of the Study

1. The data has been taken for a period of six years only i.e., from 2008-2009 to 2013-2014 for analysis and interpretation.
2. The study is based on very few parameters relating to profitability, solvency and liquidity and as such interpretation relating to financial performance of the two companies selected for the study is subject to select parameters only.

## Result and Discussion

Table 2 depicts the mean and standard deviation (SD) of Return on Assets (ROA) of the two life insurance companies. Among them, Shriram Life Insurance has higher mean while SBI Life Insurance has lower mean. This is due to the reason that SBI Life Insurance has stagnant return for three consecutive years. It shows negative return in the first year only and then it shows positive return in the remaining years. Shriram Life Insurance shows a growth in the ROA since 2010 and hence has higher mean than SBI Life Insurance.

**Table 2: Return on Assets of select Life Insurance Companies**

Year	SBI Life Insurance	Shriram Life Insurance
2008-2009	-0.002	0.012
2009-2010	0.009	-0.012
2010-2011	0.009	0.008
2011-2012	0.012	0.027
2012-2013	0.012	0.040
2013-2014	0.012	0.041
Mean	0.009	0.019
SD	0.005	0.020

*Source:* Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

In terms of standard deviation (SD) for Return on Assets (ROA), the value is lower in case of SBI Life Insurance which implies that there is minimum dispersion of the values of ROA during the study period from the mean return. So the consistency of the data has been found in case of SBI Life Insurance. Shriram Life Insurance has higher SD which means that the value of this company is more scattered in comparison to SBI Life Insurance during the six years of the study. Thus the values of standard deviation of ROA of the two life insurance companies suggest that volatility is more in case of Shriram Life Insurance while consistency has been more pronounced in case of SBI Life Insurance.

Table 3 reveals the mean and standard deviation of Current Assets to Current Liabilities of the two life insurance companies selected for the study for a period of six years. Since the ratio depicts the liquidity position of a company, SBI Life Insurance has been found to be more liquid as compared to Shriram Life Insurance as the mean value has been found to be higher in SBI Life Insurance. The liquidity position of SBI Life Insurance has been found to be growing over the study period.

**Table 3: Current Ratio of select Life Insurance Companies**

Year	SBI Life Insurance	Shriram Life Insurance
2008-2009	0.399	0.938
2009-2010	0.448	0.666
2010-2011	0.465	1.053
2011-2012	2.415	1.448
2012-2013	2.399	1.360
2013-2014	2.504	1.318
Mean	1.438	1.130
SD	1.097	0.299

*Source:* Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

In case of standard deviation, the value has been found to be higher in case of SBI Life Insurance which shows that the values have been scattered unevenly over the years of study. So more volatility can be found in case of SBI Life Insurance. However, the values are more concentrated in case of Shriram Life Insurance as compared to SBI Life Insurance.

Table 4 shows the mean and standard deviation for Equity Ratio i.e., Shareholders Fund to Total Assets of the select companies. During the study period, mean has been found higher in case of Shriram Life Insurance as compared to SBI Life Insurance. This ratio shows that Shriram Life Insurance has better long term solvency in comparison to SBI Life Insurance.

**Table 4: Equity ratio of select Life Insurance Companies**

Year	SBI Life Insurance	Shriram Life Insurance
2008-2009	0.067	0.182
2009-2010	0.043	0.088
2010-2011	0.040	0.094
2011-2012	0.045	0.118
2012-2013	0.054	0.158
2013-2014	0.055	0.194
Mean	0.050	0.139
SD	0.010	0.045

*Source:* Hand Book of Indian Insurance Statistics, IRDA, 2013-2014

The value of Standard Deviation is more in case of Shriram Life Insurance which implies that the values of different years are dispersed from its mean value and so the volatility is more. SBI Life Insurance shows consistency since the value of standard deviation of equity ratio for this company is lower as compared to Shriram Life Insurance.

### Summary and Conclusion

1. In terms of profitability, the performance of Shriram Life Insurance is better than SBI Life Insurance as revealed by Return on Assets (ROA) of the two life insurance companies during the period of study. However, the volatility in profitability is more in case of Shriram Life Insurance Company during the study period.
2. The ratio of Current Assets to Current Liabilities is higher in case of SBI Life Insurance as compared to Shriram Life Insurance. But the volatility in the performance of SBI Life Insurance during the period of study in terms of current ratio cannot be ignored.
3. The ratio of Shareholders Fund to Total Assets is more in case of Shriram Life Insurance as compared to SBI Life Insurance. But the inconsistency in the performance of Shriram Life Insurance during the period of study in terms of Equity ratio cannot be overlooked.

### References

- Akotey. J.O, Sackey. F.G, Amoah. L and Manso, R.F (2013). A study on the financial performance of life insurance companies in Ghana. *The Journal of Risk Finance*. 14(3). 286-302
- Bawa. S.K, Chattha. S (2013). A study on financial performance of life insurers in Indian insurance industry. *Pacific Business Review International*. 6(5). 44-52
- Boadi. K.E, Antwi. S, Lartey. V.C (2013). A study on determinants of profitability of insurance firms in Ghana. *International Journal of Business and Social Research*. 3(3). 43-50
- Derbali. A (2014). A study on determinants of performance of profitability of insurance companies in Tunisia: The case of life insurance. *International Journal of Innovation and Applied Studies*. 6(1). 90-96
- Dey, N.B. Adhikari, K & Bardhan, M.R (2015). Factors determining financial performance of life insurance companies of India- An empirical study. *EPRA International Journal of Economic and Business Review*. 3(8). 42-43
- Ghimire. R (2014). A study on financial performance of Nepalese life insurance companies by CARMEL parameters. *Journal of Business Management*. 1-16
- Ismail. Muhaizam (2013). Determinants of financial performance: A case of general Takaful and insurance companies in Malaysia. *International Review of Business Research Paper*. 9(6). 111-130

- Jena. A.B (2014). A study on financial performance of selected Indian life insurance companies. *International Journal of Computer Science and Management Studies*. 14(7). 9-21
- Rajsekhar. D ,Kumari. H.T (2014). A study on life insurance industry in India: An overview. *Global Journal of Commerce and Management perspective*. 3(2). 50-59
- Saleena T. A (2014). Performance evaluation of life insurance sector: A comparative study of private & public sector. *Sai Om Journal of Commerce and Management*. 1(12). 1-7
- Sharma. V, Chowhan. S.S (2013). A comparative study of public and private life insurance. *The Indian Journal of Applied Research*. 3(1). 93-94

