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AN FINANCIAL ANALYSIS OF LIFE INSURANCE CORPORATION(LIC)

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Abstract: This study has been undertaken to investigate the understanding of insurance in India, LIC's underwriting, their policies and financial management.

I.INTRODUCTION

The financial statement provides the basic data for financial performance analysis. Basic limitation of the traditional financial statement comprising the balance sheet and the profit and loss account is that they do not give all the information regarding the financial operations of a firm. Nevertheless, they provide some useful information to the extent the balance sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners' equity, and so on. The profit and loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the incurred during the year. Thus, the financial statements provide a summarized view of the financial position and operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements as invaluable documents / performance reports. The analysis of financial statements is, thus, an important aid to financial analysis.

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relation.

Life insurance is a contract for payment of a sum of money to the person assured on the occurrence of the event insured by the contract. The new millennium has exposed the insurance sector to new challenges of competition and struggle for survival. The era of liberalization, privatization and globalization has ended the monopolistic tendency in this sector. It has been over four years since the Indian insurance market has opened up and the new entrants into the market have set up their shops throughout the country. The topic basically revolves around the life insurance sector which has been recently opened for the private players. LIC has for a long period of time has enjoyed a dominant market of life. LIC continue to lever advantage of its old establishment and government support for maintaining its growth. Life Insurance is the tasted growing sector in India since 2000 as Government allowed sale players. Life Insurance in India is-as nationalized by incorporating Life Insurance Corporation (LIC). All on sate life insurance companies at that time were taken over by LIC.

In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatization of the He insurance sector. While the committee submitted its report in 1994. It took another six years before the enabling legislation was passed in the year 2000. Legislating amending the Insurance Act of 1938 and legislating the insurance regulatory, and Development Authority Act of 2000. The same year that the newly appointed insurance regulator. Insurance Regulatory and Development Authority IRDA-started issuing 1ienses: to private life insurers.

OBJECTIVES

After going through this unit you should be able to understand increasing LIC policies in India and out of India.

- Develop an understanding of life insurance basics and its importance
- Understand various types of life insurance policies offered by insurance companies
- Mention the suitability of various life insurance policies to different persons with variety of needs.
- To understand Insurance plans from LIC.
- To analyse the financial statement.
- To find out the financial ratios of LIC.
- To make understand about its financial conditions and objectives.

LIMITATION

- The data is collected from the Annual reports of LIC from 2012-2013 to 2021-2022.
- Since it is a Insurance company, some of the ratios aren't applicable and cannot collect more details.
- This report is created on the basis of my knowledge and guides one.
- The period under this study is going to be 2013-2022 only for ratio analysis.
- The Key Performance Indicator we taken few is not in any accounting standards like ICAI. But are the useful indicators so we take that from current year alone.

Research methodology:

Research design

The collected data were presented in tables and these tables were analyzed systematically. Ratio analysis, the vital financial tool was used to study the financial performance of LIC. Ltd. A chart and various diagrams are used to explain the analysis clearly. It is an undisputed truth that graphs and diagrams render any complicated discussion and any intricate subject, very simple to any casual reader of the thesis.

Common size financial statement is a tool to assess, in which figures reported are converted into percentages to some common base. Trend percentages are also taken as a tool which is immensely helpful in making a comparative study of the financial statement for several years. The method of calculating trend percentages involves the calculation of percentage relationship that each item bears to the same item in the base year.

Data collection

The datas are solely collected from the annual reports of the company. It is secondary in nature. The annual reports comprises financial statements, financial performance, summaries etc. The data collected source will annexed in the report.

Tools used: Ratio analysis.

DATA ANALYSIS AND INTERPRETATION

THE FINANCIAL INDICATORS (RATIOS)

Financial indicators are statistics extensively used to monitor the soundness, stability and performance of various sectors of the economy. Their usefulness lies in their ability to provide insight into the relationships among economic and financial statistics such as debt, assets, liabilities, net worth, incomes and output, in other words, enhancing the analytical content of these statistics taken individually.

Types of Financial Ratios are as follows.

1) Liquidity Ratio

The term **liquidity** is defined as the ability of a company to meet its financial obligations as they come due. The types of Liquidity Ratio are as follows

i) Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short term and long term obligations.

Current Ratio = $\frac{CurrentAsset}{CurrentLiabilities}$

2) Turnover Ratio

i. Fixed Asset Turnover Ratio

The fixed asset turnover ratio (FAT) is, in general, used by analysts to measure operating performance. This efficiency ratio compares net sales (income statement) to fixed assets (balance sheet) and measures a company's ability to generate net sales from its fixed-asset investments, namely property, plant, and equipment (PP&E).

The fixed asset balance is used as a net of accumulated depreciation. A higher fixed asset turnover ratio indicates that a company has effectively used investments in fixed assets to generate sales.

Fixed Asset Turnover Ratio = $\frac{Sales}{FixedAsset}$

According to Indian Chartered Accountancy of India(ICAI) the revenue is a "Standard deals with the bases for recognition of **revenue** in the statement of profit and loss of an enterprise. The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends". So we take Revenue as an alternative of Net Sales.

ii. Total Asset Turnover Ratio

The asset turnover ratio measures the efficiency of a company's assets in generating revenue or sales. It compares the dollar amount of sales (revenues) to its total assets as an annualised percentage. Thus, to calculate the asset turnover ratio, divide net sales or revenue by the average total assets. Pg no 563.

Total asset turnover ratio = $\frac{Totalasset}{Netsales(Revenue)}$

3) Profitability Ratio

i. Net Profit Ratio

Net profit ratio is the indicator that differentiate the net profit to the total sales which is used to determine the pace of profit.

Net profit = $\frac{NetProfit}{Totalrevenue} \times 100$

ii. Operating Ratio

Operating ratio is the indicator to find out the operating efficiency of the business. It is the differentiation of Net sales and operating cost. The Operating costs include renumeration, administrative expenses, office maintenance etc.

Operating ratio = $\frac{Operatingcost}{Sales} \times 100$

iii. Return on Investment Ratio

Return On Investment (ROI) ratio is the indicator to find out the return from the investment. It is the differentiation of net profit and income from investment. From the net profit from the premium, the amount is taken for investment and other activities in rotation basis like loans, bonds, treasuries etc. Then the income generated from the investment is given to the public after the maturity of policies or claim. It is very important indicators for financial institutions like Insurance companies.

Return on Investment Ratio = $\frac{Netprofit}{Incomefrominvestment} \times 100$

iv. IPO Return Rate

IPO stands for Initial Public Offering which is listed listed to the public for raising the capital of the business. The IPO of LIC was released in may 2022 in stock market. Here 2 different type of averages is used. The averages is used because it envisages the price in single term so it is easy to be identified whether profit or loss. public who buys IPOs faces profit or losses based on the market condition. Some people sells the stock for the price and some may not as they speculate the profit in the future.

Historical Period Return(HPR) = $\frac{Endingprice}{Beginningprice}$

Historical Period Yield(HPY) = $HPR - 1.00$

Arithmetic mean = $\sum$HPY/n

$\sum$= the sum of annual holding period yields

AM = ((-0.22)+(-0.17))/n

AM = -0.20

Geometric mean = $[\pi \text{HPR}]^{1/n}$

π = the product of the annual holding periods

GM = $((0.78)*(0.83))^{(½)}$ -1

GM = -0.20

1. Quota Rate

Sales targets should ensure a reasonable rate of growth while being attainable. That’s where the quota rate KPI comes in. This KPI measures how well your sales reps are performing against their quotas, which can help sales managers set the right targets. If everyone is hitting their quotas, the goals might not have been aggressive enough. Conversely, if everyone is missing their targets, the targets were probably too aggressive. While it’s good to challenge the sales team, setting targets too aggressively can be demotivating and lead to burnout. Use this KPI to drive decisions around quota setting.

This KPI can also help identify sales reps who could benefit from more training. If most reps are meeting their quotas while a handful of reps are constantly left in the dust, it might be time for some coaching.

In Quota rate we find out the ratio of (1)Number of agents to the Total Number of premium sold during the year and (2)Number of agents to the Total amount from premium sold during the year.

2. Average Policy Size

This is an excellent KPI for assessing risk—a handful of large policies exposes the company to more risk vs. many small policies. It can also give insights into sales and marketing performance and whether there’s room for improvement.

Use this formula to calculate the average policy size:

Total Premium Revenue ÷ Number of Policies Issued

3. Profit or Loss Ratio

The loss ratio KPI measures the total sum that’s been paid out in claims as a percentage of total premium revenue over a specified period. This is a fantastic barometer of whether the company is accurately assessing risk and charging the right premiums for its policies.

Use this formula to calculate the company’s loss ratio:

Total Claims Payout ÷ Total Premium Revenue