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Comparative financial performance analysis of public sector general insurance companies in Himachal Pradesh

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Abstract
The main purpose of insurance as a risk management tool is to protect against the possibility of a contingent loss. It is described as the exchange of a premium for the risk of a prospective loss being transferred from one organization to another. Insurance covers circumstances where a loss may or may not happen. It is inapplicable when the loss is anticipated to occur. The Industrial Revolution in the West and the ensuing expansion of maritime trade and industry in the 17th century are both responsible for the introduction of general insurance in India. It was left behind by the British occupation in India. Through their offices in India, British and other foreign insurance companies conducted this business. It protects against losses brought on by unforeseen circumstances including accidents, illness, fire, and theft. General insurance, in contrast to life insurance, serves as protection against unforeseen events rather than providing any financial return. General insurance policy may be termed as a contract of indemnity as the insurer normally makes good the actual amount of the loss suffered. Research Question raised after reviewing of literature: is there any difference among expected and actual Gross Direct Premium of selected Public Sector general insurance companies. Research has been to know the trend of Gross Direct Premium of selected Public Sector general insurance companies. Scope of the present study is Public Sector general insurance companies: The New India Assurance Company Limited (NIACL), The Oriental Insurance Company Limited (OICL), The United India Insurance Company Limited (UIICL) and the National Insurance Company (NICL) Limited have been selected for the present study. As for as the analysis and interpretation is concerned the trend, chi-square and under the time series analysis Least square method has been applied for the present paper.

Keywords: Public Sector general insurance companies. General insurance companies, NIACL, OICL, UIICL, NICL

Introduction
Concept of Insurance
The main purpose of insurance as a risk management tool is to protect against the possibility of a contingent loss. It is described as the exchange of a premium for the risk of a prospective loss being transferred from one organization to another. Insurance applies to situations where a loss may or may not occur. It cannot apply to situations where the loss is expected to happen. An entity wanting to transfer the risk (such as an individual, corporation, association of any kind, or the like) becomes an "Insured" party, whereas an insurer is a business that sells insurance services. In both law and economics, insurance is a type of risk management that is mostly used to protect against the risk of a potential loss. An insurance policy can be conceived of as a guaranteed and known little loss that averts a larger, perhaps catastrophic loss. Insurance is defined as the equitable transfer of the risk of a loss from one entity to another in exchange for a premium. India's history with insurance can be dated to the Vedas. The Rig Veda has the Sanskrit term "Yoga Kshema," which translates to "wellbeing" and is the name of the corporate headquarters of Life Insurance Corporation of India. The Aryans engaged in some kind of "Community Insurance" approximately 1000 BC. An important mechanism for fostering social cohesion was the joint family system that was common in India. The best way to determine a company's financial strengths and weaknesses is through financial performance. A judgment of how effectively a company may use a resource from its main business model and produce profits. This is a broad assessment of a company's overall financial health over a certain time period that can be used to distinguish between similar companies in aggregated industries or sectors. The only company in India doing general insurance business prior to 2000 was General Insurance Corporation. It had four subsidiaries: The Oriental Insurance Company Limited; the New India Assurance Company Limited; the New India Assurance Company Limited.

The Industrial Revolution in the West, which led to an increase in maritime trade and commerce in the 17th century, is responsible for the introduction of general insurance in India. It was left behind by the British occupation in India. Through their offices in India, British and other foreign insurance companies conducted this business. It protects against losses brought on by unforeseen circumstances including accidents, illness, fire, and theft. General insurance, in contrast to life insurance, serves as protection against unforeseen events rather than providing any financial return. Since the insurer typically pays for the exact amount of the damage incurred, general insurance policies may be thought of as contracts of indemnity. Property insurance, liability insurance, and other types of insurance are all considered general insurance. Property insurances officially include fire and marine insurances. Vehicle theft loss, fidelity, and equipment loss insurance are all included in liability insurance. The strictest type of liability insurance is called fidelity insurance, and it covers the insured's losses when he is responsible for paying a third party. The loss of the asset, which is covered by insurance, cannot be predicted with precision. As a result, the premium is determined by the asset's worth and the likelihood of such a loss. Some insurance coverage’s, such as auto insurance and public liability insurance, are now required by certain Acts of Parliament. The National Insurance Company Limited and The United India Insurance Company Limited GIC subordinates were transformed into independent insurance firms in 2000. GIC underwent a transformation into a national re-insurer at the same time. The four subsidiaries of GIC were delinked by a law that the Parliament enacted in July 2000. In 1999, the insurance market had been opened to private participants. In April 2000, the Insurance Regulatory and Development Authority were established as a result. Following the sector's opening to private participants, a large number of private enterprises entered the general insurance business. General insurance businesses in the public sector faced a challenge. To estimate their comparative analysis of the financial performance of public sector general insurance firms in Himachal Pradesh, four public sector general insurance businesses have been chosen for the current study. In this essay, the financial performance of public general insurance companies in Himachal Pradesh is compared and analyzed.

Review of related research

Singh (1985) [1] has conducted a study among sample of general insurance policy holders. The study reveals that out of the 40 respondents surveyed, 81 present have taken insurance due to self-awareness, 46 percent have taken insurance owing to the influence of insurance officers, 16 percent have purchased due to pressure of their bank and 13.5 percent have purchased due to influence of their friend circle. Out of the total respondents, 92.5 percent have motor policy, 47.5 percent have personal accident policy, 27.5 percent have householder’s package policy, 15 percent have traders combined policy and 22.5 percent have fire insurance policy. As many as 25 percent of the respondents have been changing their company. It has been observed that respondents are unhappy due to delay in receiving policies. The respondents want that insurance companies should expedite settlement of claims and issuance of documents. Arora S. (1988), [2] in her dissertation study, she looked closely at the role performed by the GIC in providing financing to industry and investigated quantitative analysis of the investment policy of the GIC. According to the study, GIC's investment strategy developed in accordance with the insurance Act of 1938's provisions and the government's periodic guidelines in order to maximize investment returns, ensure fund safety and liquidity, and be consistent with the priorities and objectives of the country. Additionally, it took part in the underwriting of new offerings and invested in company securities. Over the years, the GIC has had a significant role in promotion. It has taken been interest in the area of rural insurance, foreign business development and development of human resource. Townsend R.M. (1994), this paper asks: How effective or ineffective are the institutions that could protect villagers' residents from unpredictable rains, human and crop diseases, and sharp economic fluctuations? The potential risk-bearing institutions he assesses include: dividing a farmer's land holdings into different, spatially separated plots and crops; storing grain; borrowing from village lenders; and giving and receiving in familial networks. Data from three low-income, high-risk communities in the semi-arid tropics of southern India, which are largely agrarian economies with high risk, is used by him to evaluate the comprehensive insurance model. A number of key elements of the economies of actual villages are incorporated into his model. The findings imply that small farmers and landless people are more susceptible to atypical shocks. The general equilibrium paradigm presented in this research solves the issue of studying risk-sharing markets or institutions one at a time. In particular, the general equilibrium model automatically forces the researcher to concentrate on outcomes, namely, consumption and labour supply, allowing for a comprehensive evaluation of all actual institutions. Malhotra RN (1994) [3] in his committee, researchers looked into how insurance companies operate. The committee examined the structural changes made to the insurance industry; it highlighted the organization of the Indian insurance market; and it discussed the history of GIC's success, particularly as of the time the committee's report was due. The committee presented several suggestions. The private sector should be allowed to enter the insurance industry in a controlled manner, was one of the key proposals. A new entrant shall have a minimum paid-up capital of Rs. 100 crore. The committee made a detailed suggestion that foreign insurance companies should be forced to float Indian companies and should ideally enter the market through joint ventures with Indian partners. Additionally, it was advised that steps be taken to create a statutory autonomous board that would function as a powerful and efficient regulatory authority along the lines of SEBI. He suggested that the government buy the entire equity in each of the four subsidiaries it proposed to entirely reject from GIC. John Jennings (1994) [4], Indian insurance marketing presents fresh chances, according to his report. Recent government incentives in India suggest that the country's restricted insurance business may soon be opened up. Private domestic and foreign insurers would soon be permitted to compete with the state-controlled sector, according to suggestions made by a cabinet committee led by R.N. Malhotra. With the government owning shares of both the General Insurance Company (GIC) of India and the Life Insurance Corporation of India, the Malhotra report advocates for restricted deregulation of the insurance industry. Additionally, the paper suggests that four GIC subsidiaries—The National Insurance Co. of West Bengal, United India Insurance of Madras, and Oriental Insurance of New Delhi—be converted into independent businesses, with the GIC focusing its operations primarily on reinsurance. For international investors, India's demographics, culture, and deregulated, liberalized insurance market will present a fantastic opportunity. Charles E Hyde (1996) [5] examined the link between indemnity price and anticipated output price in a study on crop insurance. Contracts for crop insurance often require that the price at which indemnification takes place be less than the anticipated output price. This constraint is initially examined under the assumption that there are only risk-averse farmers and that yield and price uncertainty. Awasthi H.K (2005) [6] has asserted that insurance companies had to create an atmosphere of trust so that insurer is not perceived as profiteering, unresponsive, non-cooperative and thriving at the cost of consumers ignorance of procedure. The author has pointed out that delays in the settlement of claims on account of non-availability misplacement of records, non-receipt of surveyors report due to non-greasing of his palm etc. are common ground for harassing the claimant, who has to run after the company's office for months. Ultimately being tired, he has to knock the doors of the Insurance Ombudsman or the consumer forum for relief. With regard to the cases decided by the National Commission from the year 1998 to 2000, a large majority of cases (79.35%) involve grievances pertaining to services in which the insurance service accounts for the largest share of 36.99 percent of the cases. It shows that the in-house claim settlement system of insurance companies is not consumer friendly, transparent and quick. Indrani Gupta and Trividi, Mayur (2006) [7] analyzed the health insurance which has been currently discussed in a variety of forums to explore the possibilities of wider coverage for citizens of the country. They also highlighted some of the recent initiatives for health coverage, central initiatives as well as state initiatives for health insurance. They suggested the necessary to plan the spread of health insurance on a national scale, so that all the initiatives currently in place in a disjointed fashion can actually become part of the same system.

In view of the above review of the literature following research question has been developed:

Research Methodology

Research Questions

Is there any difference among expected and actual Gross Direct Premium of selected Public Sector general insurance companies.

Research Objectives

To know the trend of Gross Direct Premium of selected Public Sector general insurance companies

Hypothesis of the study: H0

There is no significant difference between actual and expected gross direct premium in selected public sector general insurance companies.

Scope of the study

The New India Assurance Company Limited (NIACL), The Oriental Insurance Company Limited (OICL), The United India Insurance Company Limited (UIICL) and the National Insurance Company (NICL) Limited have been selected for the present study.

Methodological procedure adopted

Trend is the art of gathering information and trying to spot a pattern or trend in the information. Trend analysis is widely used to the upcoming events. It is highly helpful in making comparative study of the changes in a variable or groups of variable over interval of time to make conclusion regarding the variation in the data. For this purpose, base year taken and the amount of variable relating to the base year is taken equal to hundred. Amount of variable for future is based on the bases of selected base year. This technique depicts the direction in which a concern is going on and on this basis a forecast for the upcoming years can be made. GDP is one of the important parameter for evaluating financial performance of an organization. GDP is the indicator of financial efficiency of an organization. GDP of an insurance company includes net premium income, income from investment and miscellaneous incomes. The amount which is received by insurance company for the service given to the customers is called premium. It is the main income of the insurance company without which no insurance business can stand. It is the indication of operational efficiency of the management how efficiency the management has utilized the available resources of the business enterprises. The higher income of premium shows that the management is more efficient or vice - versa. The profitability of the company is influence by the premium income. Premium is the amount, which is received by the insurance company for the services provided to the customers. It is the main income of the insurance company without which no insurance business can exist. It is the sign of operational efficiency of the management as to how efficiently the management has used the available resources of the business enterprises. The higher income of premium indicates that the management is more efficient or vice-versa. Thereafter, every company tries to enhance its premium income. In the present study gross direct premium is fire insurance, marine insurance and miscellaneous insurance.

Tools for data analysis

As for as the analysis and interpretation is concerned the trend, chi-square and under the time series analysis Least square method has been applied for the present paper.

Analysis and Discussions

Trend analysis of gross direct premium of public sector general insurance companies in Himachal Pradesh

For the trend analysis of gross direct premium in public sector general insurance companies under study year 2011-12 has been selected as the base year and the index number for the base year has been taken equal to 100. Index numbers for the remaining years have been calculated on the basis of base year 2011-12. Increase in gross direct premium index mean increase in gross direct premium resulting increase in profitability or vice-versa of a business enterprise. The trend of gross direct premium from 2011-12 to 2020-21 of selected public sector general insurance companies have been shown in Table 1.

Table 1: Indices of gross direct premium income of public sector general insurance companies of Himachal Pradesh (Rs.in lakhs)

YEAR	NIACL		UIICL		OICL		NICL	
	Gross Direct Premium	Indices of Gross Direct Premium	Gross Direct Premium	Indices of Gross Direct Premium	Gross Direct Premium	Indices of Gross Direct Premium	Gross Direct Premium	Indices of Gross Direct Premium
2011-12	4797.82	100	2480.56	100	3219.54	100	5302.08	100
2012-13	6124.32	127.65	3091.31	124.62	3656.02	113.56	6142.94	115.86
2013-14	5364.61	111.81	3481.55	140.35	4055.91	125.98	6816.73	128.57
2014-15	6921.23	144.26	3508.27	141.43	4409.63	136.96	5971.73	112.63
2015-16	7200.79	150.08	3011.94	121.42	4782.41	148.54	5302.79	100.01
2016-17	8945.6	186.45	4075.23	164.29	5670.21	176.12	5816.05	109.69
2017-18	9380.92	195.52	4335.28	174.77	5641.82	175.24	6075.37	114.58
2018-19	10734.4	223.73	4004.38	161.43	5519.22	171.43	6715.07	126.65
2019-20	10093.91	210.39	5951.49	239.93	5115.66	158.89	6346.59	119.70
2020-21	10477.08	218.37	6423.03	258.93	4717.02	146.51	6615.75	124.78
Mean	8004.068	166.83	4036.304	162.72	4678.74	145.32	6110.51	115.25

Source: Annual report of public sector general insurance companies in Himachal Pradesh for the financial year 2011-12 to 2020-21

It is evident from the table 1, that the indices of gross direct premium in New India Assurance Company Limited witnessed a mixed trend during the period under study. It was 100 in the year 2011-12 which increased to 223.73 during the year 2018-19 which decreased to 210.39 in the year 2019-20 and then again it slightly increased to 218.37 in the year 2020-21.The indices of gross direct premium in United India Insurance Company Limited witnessed a increasing trend with small fluctuation during the period under study. It was 100 in 2011-12. Thereafter it has increased to 258.93 in 2020-21. The indices of gross direct premium in Oriental Insurance Company Limited witnessed increasing trend formerly and then decreased during the later four years. It was 100 in the year 2011-12 which increased up to 176.12 in the year 2016-17, while 146.51 in the year 2020-21. The indices of gross direct premium in National Insurance Company Limited show the fluctuations in trend during the period under study. It was 100 in the year 2011-12 and it increased for the latter two years which increased up to 128.57 in the year 2013-14. Thereafter declines continuously for the later three year and dropped down to 109.69 in the year 2016-17.Then again increased and raised up to highest level 126.65 in the year 2018-19. While during the year 2019-20, it decreased to 119.70, at least it increased slightly and became 124.78 in the year 2020-21.

Time series analysis of gross direct premium

A time series is a collection of data collected over a period of time (days, months, or years).According to Speigel "A time series is a set of observations taken at specified times, usually at equal intervals". Least Square method can be used to fit a straight-line trend. This is the best method of trend fitting in a time series and is most used in practice. A straight-line trend can be expressed by the following equation:

Yc= a+bx

Where,
Yc shows the computed trend value, A is the intercept
B shows the slope of the trend value
X variable in time series analysis shows the time

Any change in Y variable depends on change in X variable. To determine constants a and b the following two normal equations are solved:

Y= Na+Bx
XY=aX+b

The statement of null hypothesis and alternative hypothesis are given as under:
H0 = There is no significant difference between actual and Expected gross direct premium in selected public sector general insurance companies.
H1 = There is significant difference between actual and Expected gross direct premium and computed gross direct premium in selected public sector general insurance companies.
To test the hypothesis, Table 2(a), 2(b), 2(c) and 2(d) shows the computed value of gross direct premium through least square method during the period of study.

Table 2(a): Trend of gross direct premium in new India assurance company limited (Taking 2016-17 as the year of origin), (Rs.in lakhs)

Year	Gross Direct Premium Actual (O)	Gross Direct Premium Computed (E)	Deviation (O-E)
2011-12	47.97	69.79	-21.82
2012-13	61.24	71.84	-10.6
2013-14	53.64	73.89	-20.25
2014-15	69.21	75.95	-6.74
2015-16	72.00	78.00	-6.00
2016-17	89.45	80.05	9.4
2017-18	93.80	82.1	11.7
2018-19	107.34	84.15	23.19
2019-20	100.93	86.2	14.73
2020-21	104.77	88.25	16.52

Computed value of Chi Square (X^2) at 5%level of significance = 29.76
Table value of Chi Square(X^2) at 5%level of significance (D.F=9) = 16.92
Equation of straight line trend of Gross Direct Premium Yc = 80.04+2.05(X)

Table 2(b): Trend of gross direct premium in united India insurance company limited (Taking 2016-17 as the year of origin), (Rs.in lakhs)

Year	Gross Direct Premium Actual (O)	Gross Direct Premium Computed (E)	Deviation(O-E)
2011-12	24.80	34.11	-9.31
2012-13	30.91	35.36	-4.45
2013-14	34.81	36.61	-1.8
2014-15	35.08	37.86	-2.78
2015-16	30.11	39.11	-9.00
2016-17	40.75	40.36	0.39
2017-18	43.35	41.61	1.74
2018-19	40.04	42.86	-2.82
2019-20	59.51	44.11	15.4
2020-21	64.23	45.36	18.87

Computed value of Chi Square (X^2) at 5% level of significance=18.95
Table value of Chi Square (X^2) at 5% level of significance (D.F. = 9) = 16.92
Equation of straight line trend of gross direct premium Yc = 40.36+1.25(X)

Table 2(c): Trend of gross direct premium in oriental insurance company limited (Taking 2016-17 as the year of origin), (Rs.in lakhs)

Year	Gross Direct Premium Actual(O)	Gross Direct Premium Computed(E)	Deviation (O-E)
2011-12	32.19	50.08	-17.89
2012-13	36.56	49.42	-12.86
2013-2014	40.55	48.76	--8.21
2014-15	44.09	48.10	-4.01
2015-16	47.82	47.44	0.05
2016-17	56.70	46.78	9.92
2017-18	56.41	46.12	10.29
2018-19	55.19	45.46	9.73
2019-20	51.15	44.80	6.35
2020-21	47.17	44.14	3.03

Computed value of Chi Square (X^2) at 5% level of significance=19.04
Table value of Chi Square (X^2) at 5% level of significance (D.F. = 9) = 16.92
Equation of straight line trend of Gross Direct Premium Yc = 46.78+(-0.66) (X)

Table 2(d): Trend of gross direct premium in national insurance company limited (Taking 2016-17 as the year of origin), (Rs.in lakhs)

Year	Gross Direct Premium Actual(O)	Gross Direct Premium Computed(E)	Deviation(O-E)
2011-12	53.02	75.1	-22.08
2012-13	61.42	72.3	-10.88
2013-14	68.16	69.5	-1.34
2014-15	59.71	66.7	-6.99
2015-16	53.02	63.9	-10.88
2016-17	58.16	61.1	-2.94
2017-18	60.75	58.3	2.45
2018-19	67.15	55.5	11.65
2019-20	63.46	52.7	10.76
2020-21	66.15	49.9	16.25

Computed value of Chi Square (X^2) at 5% level of significance = 20.92
Table value of Chi Square(X^2) at 5% level of significance (D.F. = 9) = 16.92
Hence, the equation of the straight line trend of Gross Direct Premium Yc = 61.1+ (-2.80) (X)

Conclusion of the study

On the basis of above analysis it can be summarized that gross direct premium indices has fluctuated trend for UIICL, NIACL and NICL. While OICL has progressive trend initially and followed by declining trend for the later four years. The highest mean of indices of GDP recorded in NIACL followed by UIICL, OICL and NICL.

It is clear from the above tables that computed value of chi square in all the four public sector general insurance companies (NIACL 29.76, UIICL 18.95, OICL 19.04 and NICL 20.92) is greater than the table value of chi square (16.92) at 5% level of significance (D.F. = 9). Hence, null hypothesis has been rejected and an alternative hypothesis has been accepted. Therefore, it can be concluded that there has been significant difference between actual gross direct and computed gross direct premium in selected public sector general insurance companies during the period of study.

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