International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-05, Issue-11, Feb 2020

A Study of Profitability and Trend Analysis of National Insurance Company Limited

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ABSTRACT - National Insurance Company Limited is one of the oldest insurance companies in India .With the introduction of Universal Health Coverage; it becomes important for public insurance companies to work accordingly. According to WHO, the goal of Universal Health Coverage is to ensure that all people obtain health services without suffering financial hardships. Government ruled entity in health insurance like National Insurance Company Limited is not showing very glorious future in order to meet the emerging trends of growth in insurance business in India.

Solvency margin of these public insurance companies had fallen below the prescribed 1.5 times as per the Finance Minister in Budget 2017-18.Therefore, merger of three general insurance companies i.e. National Insurance Companies Ltd., United India Company Limited and Oriental Insurance Company Ltd.has been proposed in the budget this year.

This paper shows the profitability trends of National Insurance Company Ltd.so that a brief idea can be drawn regarding future growth possibilities of the company. This paper also focuses on the causes of the decline in profitability and growth of the company. Certain recommendations and suggestions of improvement regarding public insurance companies have also been discussed.

KEYWORDS: Solvency margin, Universal Health Coverage, Merger, Trend and profitability ratios

I. NATIONAL INSURANCE COMPANY LIMITED

HISTORICAL BACKGROUND

National Insurance Company Ltd.is one of the oldest non-life general insurance company of India. Its tagline itself says “Trusted Since 1906”.The company headquartered at Kolkata was established in 1906 and nationalized in 1972.It also serves in Nepal.The company was established out of principles of Swaraj(Self Government).After being nationalized in 1972,the company was merged with 11 Indian insurance companies and 21 foreign companies for consolidated into one. It is one of the largest general insurance companies which are owned by Government of India.

PRESENT SCENARIO

National Insurance Company Limited was the first to introduce product customization as per the needs of the customers. At present, with nearly 14000 skilled workforces and nearly 1750 offices in India, National Insurance Company Limited (NICL) are India’s 2nd largest non-life insurer if measured by Gross Direct Written Premium (GDWP). National Insurance has A.M. Best financial strength rating of B++ (Good) and issuer credit rating of "bbb+". This reflects the Company’s strong risk adjusted capitalization, consistent investment performance and strong presence in India's insurance market. However its credit rating position was even better in 2015 with “AAA” by CRISIL with nearly 17000 skilled work forces and around 2000 offices in India. Present CEO of NICL is Ms. Tajinder Mukherjee

VARIOUS POLICIES OFFERED BY NATIONAL INSURANCE COMPANY LIMITED (NICL)

NICL offers different non –life insurance products which mainly covers health and motor insurance policies. Apart from these, it also offers Personal Insurance, Travel Insurance, Commercial Risk Insurance, Rural Insurance and Industrial Risk Insurance in India.

A) National Health Insurance: National Parivar Mediclaim Policy, National Parivar Mediclaim plus Policy, National Mediclaim Policy, National Varistha Medicalim Policy for senior citizens which is even renewable up to the age of 90 years, Janta Accident Policy etc are some of the major insurance policies offered by NICL.
B) Motor Insurance Policies by National Insurance Company mainly includes Private car insurance and two wheeler insurance.
C) Overseas Mediclaim Policy and travel insurance is also included n the policy list of NICL.

 DOI : 10.35291/2454-9150.2020.0078

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OBJECTIVES OF THE STUDY

- To study the trend of profitability and solvency ratios of National Insurance Company Limited from financial year 2010-11 to 2017-18.
- To provide suggestions in order to improve the performance of public sector insurance companies

LIMITATIONS OF THE STUDY

- The study is only limited to the National Insurance Company Limited only.
- The study covers a period of 8 years only from 2010-11 to 2017-18.
- The study is based on secondary data so it has inherent limitations.

II. LITERATURE REVIEW

M.Venkatesh (2013) in his paper titled *"Trend Analysis in Insurance Sector in India"* suggests that insurance sector in India is showing an increasing growth rate. India is also improving it density percentages from year to year and hoping that that India can improve in insurance sector.

J. Kalaisigamani and A. Sangameshwaran (2013) opine that since the country's economic reforms ,Indian Health insurance or medical insurance sector has been growing,. The reason why mediclaim insurance, has grown is that it provides good medical care from reliable health care institutions. Health insurance is new in Indian context and is slowly attracting the consumers.

Consumers understand the objective of health insurance and it's offering to cover the ever rising medical expenses.

Subir Sen (2012) in his paper titled "*Growth of Indian Insurance Industry and Determinants of*

Solvency" concludes that Solvency of a life insurer is associated with the returns received from total investible funds and the interest rate. The non-life insurers' solvency is affected by the interest rate.

Insurance company heading diploma in insurance services and its title, is ***"**Recent*

*Trends in insurance sector'**.*** In this literature it was found that with the development of human life style, the insurance facilities has created a new opportunities for insurance business and welfare.

Dr.Suresh Chandra Jain and Priya Jain (2015) in their study on "*A Comparative study on private and public health insurer"* comes up with the main reason to open the health insurance market for private player was its lower penetration and slow development. Alone public insurers were not sufficient to increase the penetration since they were in a monopoly situation. Now a layer of competition has been set among the player of the market with the entry of private players who are aggressive, prompt and up to date in using technology. In order to follow the private sector players, public players have made several changes in their strategies and processes to sustain the competition, coming from private players. Yet still the public players are leading the market but at the cost of decreasing market share.

Randalle P.Ellis,Moneer Alam,Indrani Gupta in their paper *"Health Insurance in India Prognosis and Prospectus"* suggested that with a series of recommendations including improvements in delivery of health care and its financing, efficient functioning of the ESIS and the CGHS is required in order to amend the Mediclaim system to cover the huge potential of the market ,alterations in the exclusion clause, enhanced competition and the possible privatization of health insurance within a strict regulatory regime.

III. METHODOLOGY

The major concern of public insurance companies is mounting pressure on their business because of advent of more innovative products of insurance offered by private insurance companies. In this backdrop the objective of present study is to analyze the trend of profitability and solvency ratios of National Insurance Company Limited from financial year 2010-11 to 20017-18 and to provide suggestions in order to improve the performance of public sector insurance companies. Today, trend analysis refers to the science of studying and analyzing changes in social patterns, including fashion, technology, and consumer behavior. Trend Analysis is the practice of collecting information and attempting to spot a pattern, or *trend*, in some fields of study, the term "trend analysis" Solvency and profitability ratios are being used to analyze the Company's overall performance. So the study is analytical in nature .The study is based on secondary data available from NICL website, public reports published by IRDA and NICL, websites of other insurance companies and other published materials.

IV. COMPARISON AND INTERPRETATION OF DATA

In the below table ,we have taken 9 years to compare, how it can increase or decrease in trend percentage.2010-11 has been taken as base year. The reason to take 2010-11 as base year as this shows the trend of profitability over last decade.

Formula of trend percentage: $\frac{\text{Present Year}}{\text{Base Year}} \times 100$

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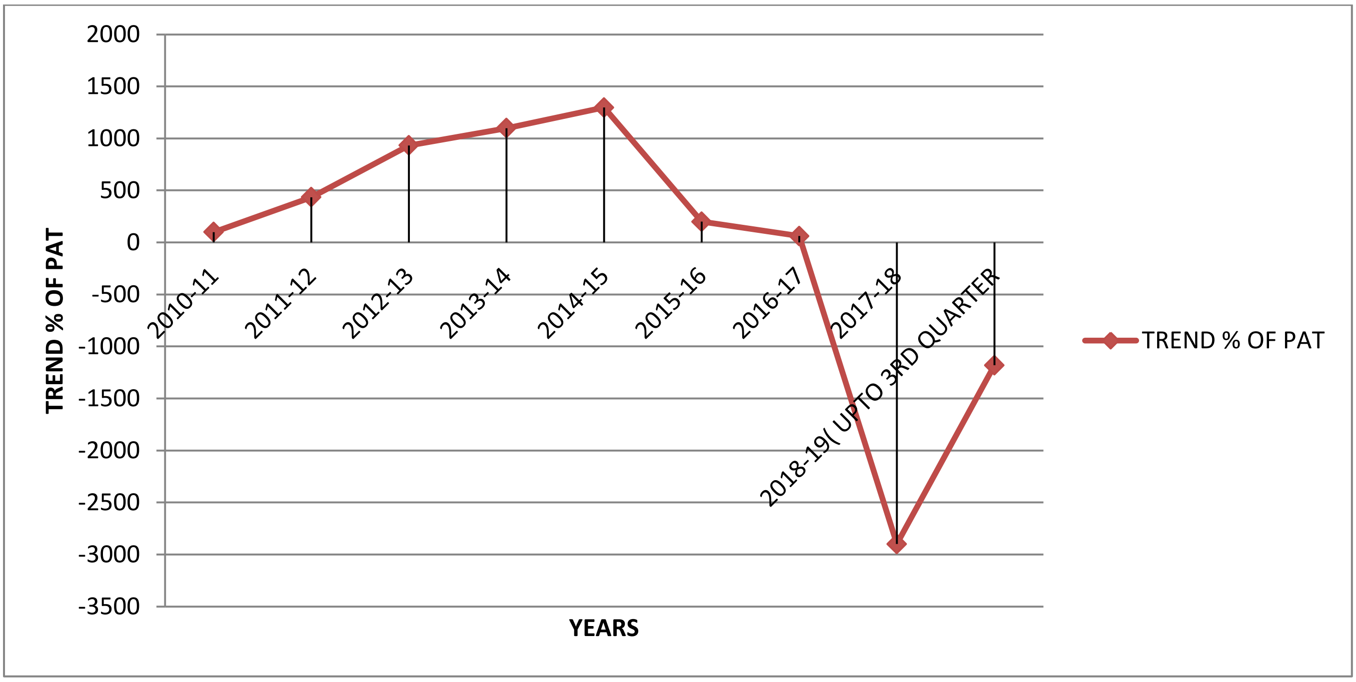
TREND ANALYSIS OF PROFIT AFTER TAX OF NATIONAL INSURANCE COMPANY LIMITED (NICL)

TABLE: 1

S.NO.	YEAR	PROFIT BEFORE TAX(in Millions)	PROFIT AFTER TAX(in Millions)	Trend Percentage of Profit After Tax (PAT) (IN PERCENT)
1.	2010-11	75397	74887	100
2.	2011-12	331061	325213	434.27
3.	2012-13	858498	697846	931.86
4.	2013-14	1007792	822887	1098.83
5.	2014-15	1196739	970932	1296.52
6.	2015-16	150499	149229	199.27
7.	2016-17	49203	45837	61.20
8.	2017-18	-2182504	-2170766	-2898.70
9.	2018-19(up to 3rd quarter)	-884246	-884246	-1180.76

***DATA TAKEN FROM PUBLIC DISCLOSURES OF NICL**

GRAPH 1:



INTERPRETATION:

From the above graph we can understand that Profit after Tax (PAT) is increasing till 2014-15 but it starts declining from 1296.52% in 2014-15 to 199.27% in 2015-16 and indicating a sudden dip in the year 2017-18.Profit after Tax is that amount of money that a company has left after paying its operating expenses, taxes and other current bills. A higher after tax profit margin indicates that a company runs efficiently and it is a measure of how competent a company is with regards to converting its revenue into profits. Decreasing trend of PAT of National Insurance Company Limited is indicating that the company is not making profits out of its revenue and it has no control over its cost.

TABLE SHOWING DIFFERENT PROFITABILITY RATIOS OF NATIONAL INSURANCE COMPANY LIMITED (NICL)

TABLE 2:

S.NO.	YEAR	SOLVENCY RATIOS	NET RETENTION RATIO (PERCENT)	OPERATING PROFIT RATIO (PERCENT)	RETURN ON NET WORTH RATIO (PERCENT)	LIQUID ASSET TO LIABILITIES RATIO
1.	2010-11	1.34	86.30	1.91	0.77	21.59
2.	2011-12	1.37	89.74	20.86	23.31	-28.31
3.	2012-13	1.50	81.97	36.88	-104.13	0

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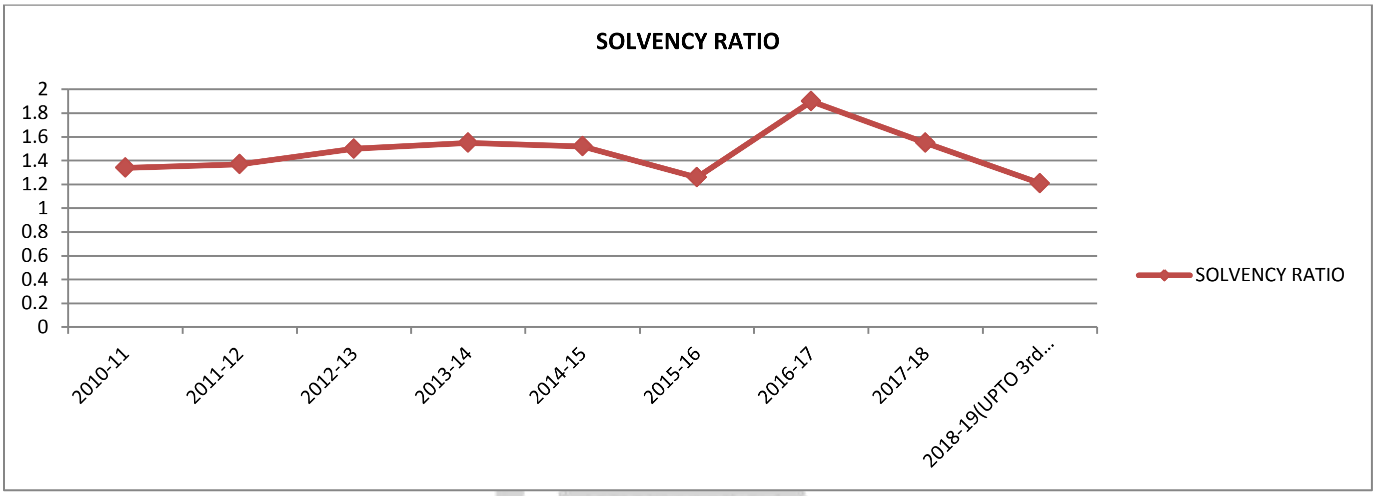
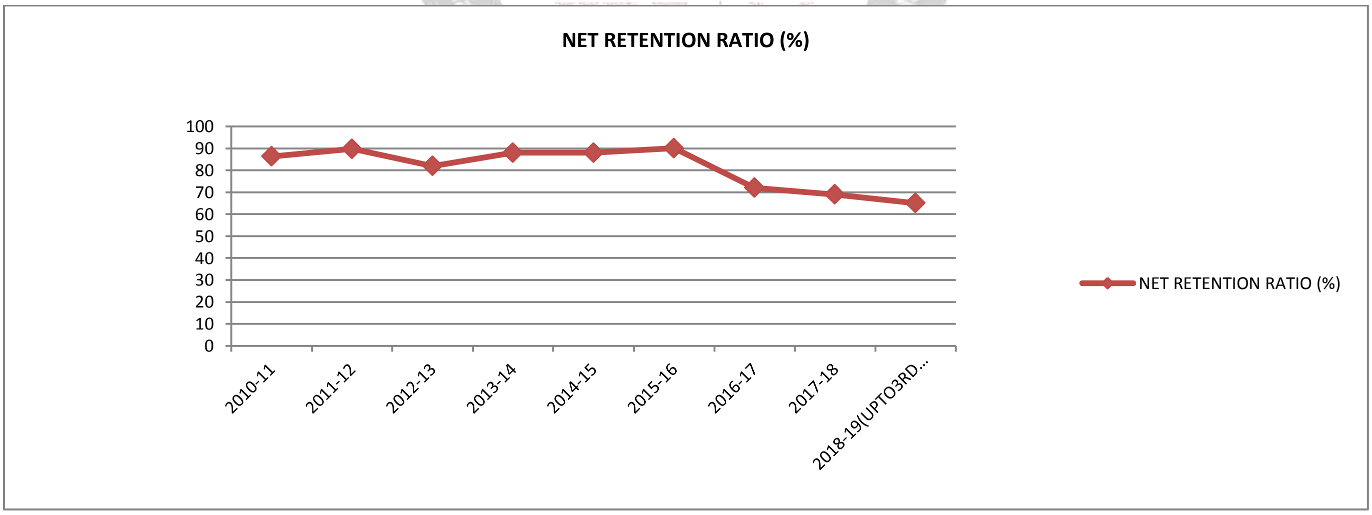
4.	2013-14	1.55	88	12.89	10.52	0.19
5.	2014-15	1.52	88	6.42	25.59	0.17
6.	2015-16	1.26	90.07	1.35	3.84	0.20
7.	2016-17	1.90	72	-6.50	1.21	0.25
8.	2017-18	1.55	69	-25	-123	0.15
9.	2018-19(UPTO3RD QUARTER)	1.21	65	-30	-101	0.11

GRAPH 2.1:



INTERPRETATION: As it is explained that solvency ratio depicts the ability of a company to pay off its debt. As IRDA has given an ideal range of solvency ratio of 150% or 1.50 we can say that in the year 2010-11 and in 2011-12,solvency ratio is not up to the mark. But it is showing an increasing trend till 2014-15.After 2014-15, solvency ratio is decreasing depicting that the National Insurance Company Limited in 2015-16 was not in a situation to pay off its debt liabilities. Though this ratio is showing its peak in 2016-17 but even after that it is showing a declining trend till now.

GRAPH 2.2:



INTERPRETATION: In case of Insurance sector, net retention or customer retention ratio depicts the company's ability to retain its customers. As it is shown in the line diagram that retention ratio is at its peak in the year 2015-16 which means that in this year National Insurance Company Limited was competent enough to retain its customers and renew their policies. From that year only, this ratio is showing a decreasing trend means that neither the company is retaining its old customers nor creating new ones.

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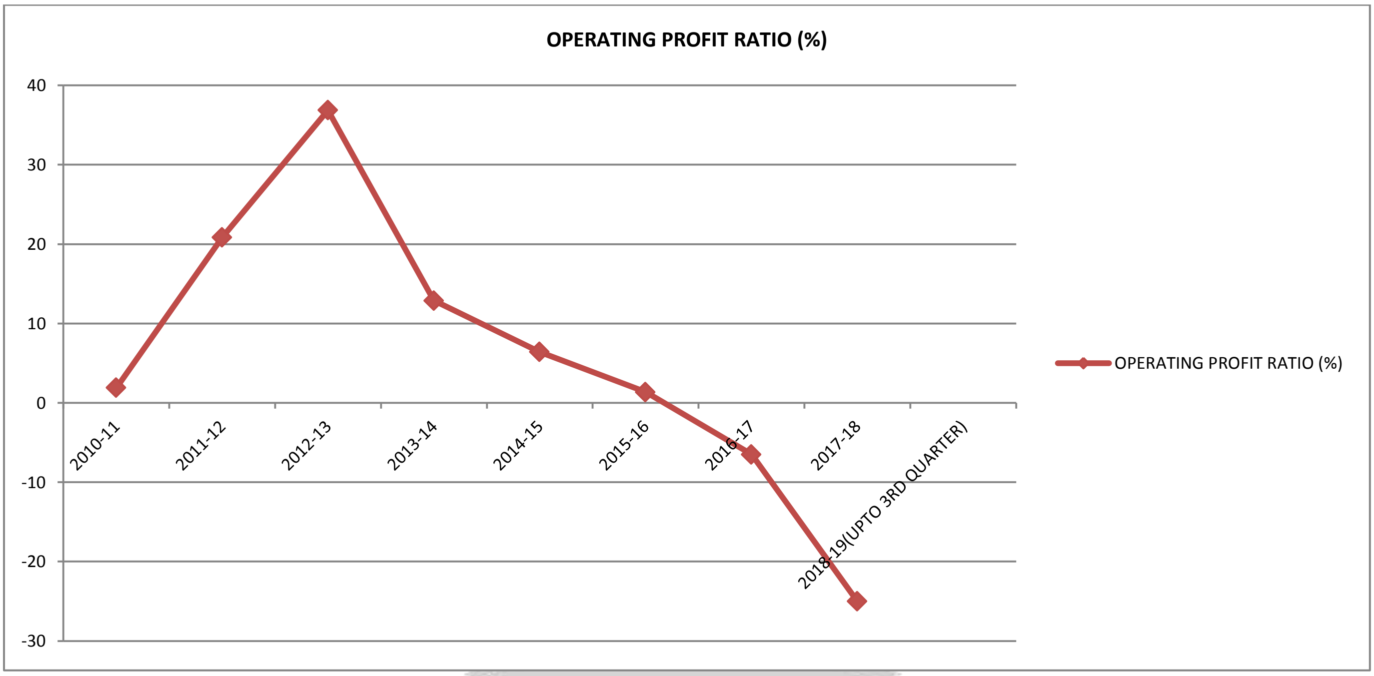
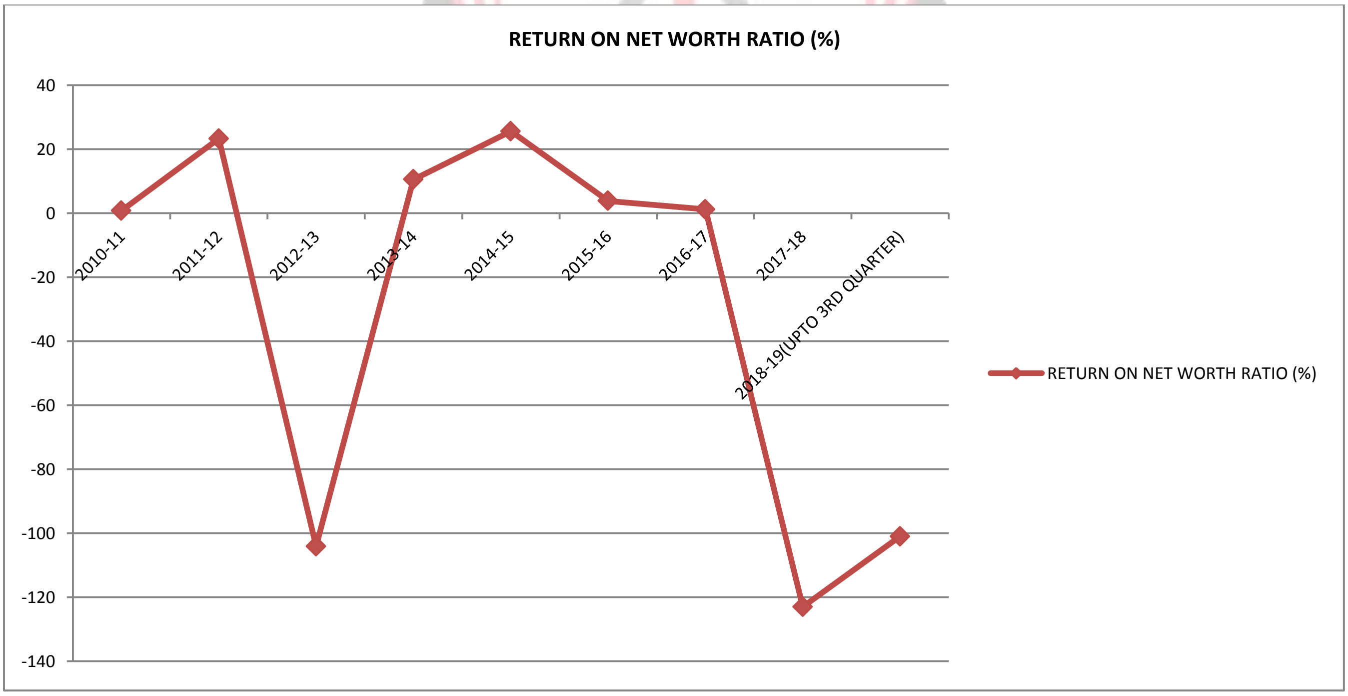
ISSN : 2454-9150 Vol-05, Issue-11, Feb 2020

GRAPH2.3



INTERPRETATION: It is evident from above table and graph that in the year 2012-13, operating profit of NICL is at its peak .After 2012-13, it is showing a rapid decrease .Profit is even turning into losses in subsequent years. Though it is not a sole metric which can be considered to know the financial status of a company but if observed with other solvency and retention ratios, it can be said that financial health of NICL is not very promising.

GRAPH 2.4:



INTERPRETATION: This ratio states the return that shareholders could receive from their investments in a particular company. It is basically used to analyze investor's return. Positive net worth ratio depicts that a company is well organized at generating returns from its investments. While interpretation, a decreasing net worth ratio it can be said that company is making poor decision making and its equity management efficiency is not very well designed. This issue can be easily seen in above graph which is declining rapidly.Generally, minimum 15% of return on net worth indicates better valuation and profitable stock. Only in the year 2011-12 and in 2014-15, net worth ratio is 23.31% and 25.59% respectively.

GRAPH 2.5:

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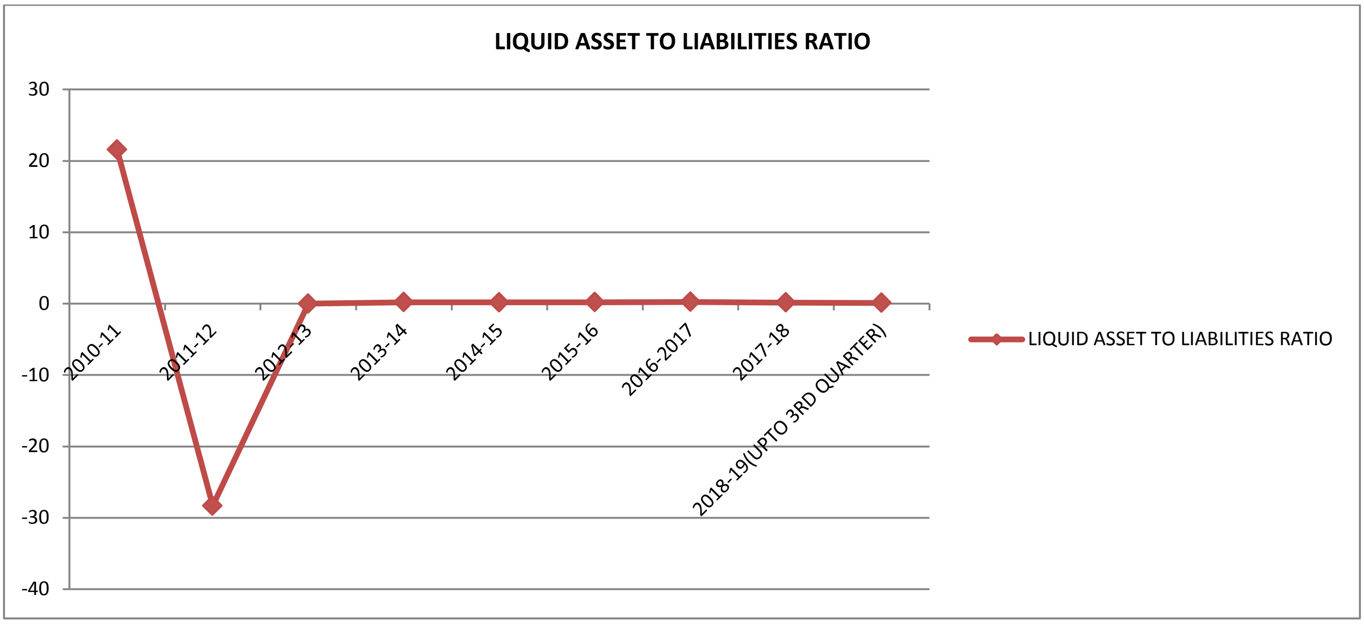

INTERPRETATION: As is it obvious that a company must have more total assets than total liabilities to be solvent and more liquid assets than liquid liabilities to be liquid. In 2010-11, liquidity situation is favorable (21.59) but in subsequent years and in present scenario, NICL is showing a liquidity crunch. An ideal Liquid asset to liabilities ratios is 1.But from the above table and graph it is observed that this ratio is less than 1 in subsequent years.

V. CONCLUSION AND SUGGESTIONS

From the above analysis, it can be concluded that according to profitability trend analysis, the National Insurance Company Limited (NICL) is facing losses i.e. declining Profit after Tax trend (Table 1).As far as other solvency and liquidity ratios are concerned, NICL is also facing liquidity shortage and solvency margin is also falling below the prescribed 1.5 times. It is also evident from the net retention ratio that customers of NICL are also not satisfied and they are not renewing the policies.

That is why the government has proposed to merge three public sector general insurance companies-National Insurance Company, United India Insurance Company and Oriental Insurance Company into a single entity. It is so because profitability of most general insurance companies has been under pressure as trend of increasing underwriting losses and higher claims can be witnessed. According to K Sanath Kumar, former Chairman and MD of National Insurance Company Limited, the merger, if done 'properly 'could bring about better synergies. According to ICRA, once merger takes effect it will bring better economies of scale and operational efficiency. However, the proposed consolidation will decide fate of thousands of employees, agents and policy holders.

Major points to be kept in mind while taking general insurance from the point of view of prospective customers are:

- Inquiring about the insurance agent who is offering the product. She/he must be a licensed agent and must understand your requirements.
- Proper examination of the profile of the companies offering non- life insurance policies must be done either from any financial expert or from public disclosures and annual reports of the companies. The ratios mentioned in this paper can be considered while taking any policy.
- Choice of right amount of sum insured is crucial in case of general insurance especially health insurance. According to Economic Times for selecting a Sum Insured we need to keep the today's costs in mind. If we are the one who is living in a small city then our aim of cover should at least be ranging from Rs.3 to 5 lakh whereas if we live in a metropolitan than our cover should not fall anywhere less than Rs. 5 – 10 lakh. Also, we can move from one insurer to another through porting.
- Buying the policy through a reputated insurance agent with an ability to faster claim settlement.
- A prospective buyer must not hide any information from the insurer and principle of utmost good faith must be followed between them.

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