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E: ISSN NO.: 2455-0817 Remarking An Analisation

Analysis of Parameters of Financial Evaluation of Private Sector Life Insurance Company with Special Reference to HDFC Life

Abstract

One of the financial segment's most important industry is the Insurance, which adds to the country's economic development through its ability to accumulate and provide enormous resources. The insurance industry in India was focused on the two main public sector performers, i.e. LIC (India's Life Insurance Corporation) and GIC (India's General Insurance Corporation). The sector has the state monopoly. The most significant objective of nationalizing the insurance industry was to boost insurance reach and boost the networks or channel the enormous funds adding to the economy's growth and development programmes. There was a need to reform the insurance industry. In almost every developing country the significance of the insurance is rising due to the increasing share of the insurance sector in the entire financial system. This research paper focuses on the parameters through which the life insurance company evaluates its performance, financial health and earns healthy profits. There are many indicators of performance of the insurance company and it can be some financial ratios which tells about the operational efficiency of the company. Hence, the research paper tries to bring those financial ratios into light and also attempts to know how and how well the insurance company actually works, what are its sources of income and how this income is apportioned into the expenses of many kind. The paper is considering only one private sector life insurance company i.e., HDFC Life Insurance Company and the data for 5 years from the financial year 2014-15 to 2018-19 has been taken for the study.

Keywords: HDFC Life, life insurance, operational efficiency, financial soundness, financial ratios.

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Introduction

In the modern age of industrialization, the human and his property faces so many types of risks like a man himself has a fear of uncertain death, health issues, illness, unemployment, breach, dishonesty, accidents, losses in business etc. and his property is wide open to the certain types of risks arising from acts of God such as floods, fire, earthquakes, sea perils, wind storm etc. The losses that the individual suffers due to these uncertainties needed to be pre planned and calculated in a manner which minimizes them to the greatest extent. But, the question arises here, who is going to assume and bear this financial burden? Insurance is one of the best answers which is going to help and support the individual at the time of his grief, when there is no other remedy available and no other one is co-operative. With the quick pace of the growth of the industrial revolution, the human life is exposed to the risks and uncertainties as mentioned above and so, Insurance is that effective tool which helps in minimizing those risks and uncertainties by shifting the losses resulting from them to the large number of people, exposed to the same kind of the risks. Insurance is a contract between two parties i.e., insurer (insurance company) and insured person, whereby, insurer promises and undertakes to indemnify the insured at the time of the occurrence of the event, in consideration of some money called premium.

Life Insurance

Life insurance is the most widespread form of insurance all over the world and it has occupied the top position also because life is something which is considered unique in the universe and cannot be measured in terms of money. It is a contingent contract between insurer and the insured person, to compensate at the time of the happening of an event of premature death or on the expiry of the stipulated time period (whichever is earlier) or guarantees to make payment of a certain sum of money on attaining a certain age in exchange of a consideration as a premium. When the insured person dies, all the money insured in the life insurance policy is being paid to his legal representative or beneficiary nominated in the policy. Life insurance basically is a protection which is taken by a person for his family so that they may live honorably who will be left alone after him or after his death. It gives a sense of security to that person and even to his family by accessing and spreading awareness about personal hygiene, sanitation, family planning etc. It also provides an opportunity of the good investments. The persons who hold the life insurance policies also get the income tax advantages. In addition, life insurance also contributes to the independence of the women like guarantying educational plans and marriages. In short, life insurance is that social device which encourages savings and investments, removes fear of the uncertain future, provides protection, construct self-respect and create socio-economic development of the country at the same time.

Global Scenario of Indian Insurance

During 2018, the India's share in the global insurance market was 19.2%. Globally, the share of the life insurance business in terms of total premium was about 54.30%. India is ranked 10th among 88 countries in life insurance business with 73.85% share which is very high (Data published by Swiss Re). The share of India was 2.61% in the global life insurance during 2018. However, during 2018, the life insurance premium in India increases by 7.7%. Their impact of insurance on the economic development has been growing due to ageing societies, widening income disparity and globalization. The growing links between the insurance and other financial sectors also emphasize the possible role of insurance companies in economic growth.

Life insurance industry in the country is expected to grow by 12-15 per cent annually for the next three to five years. The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance. Life insurance is vital to the modern economy to function efficiently because these are the key contributor to long term economic growth and improved living standard. Life insurance is seen as a global set of financial transactions and as a subject of national activities carried out by life insurance companies contributes to national product and to the national income in many ways. It has a bearing on savings and investments and on the allocation of economic resources. Insurance institutions employ people, promote training, pay taxes and more generally make the national economic life richer.

Insurance Penetration and Density in India

Insurance penetration and density is a measure which reflects the level of development in the insurance sector in the country. Insurance penetration is always measured in the form of percentage of insurance premium to GDP while insurance density is calculated as the ratio of premium to population (per capita premium).

Life Insurance Business (Penetration & Density in India)

Year	Density (USD)	Penetration (%)
2014	44.00	2.60
2015	43.20	2.72
2016	46.50	2.72
2017	55.00	2.76
2018	55.00	2.74

Source: IRDAI Annual Report

The above table shows the insurance penetration and density of life insurance business in India. The life insurance business penetration has gone up from 2.60% in 2014 to 2.74 in 2018. There was a little increase in 2015 reaching 2.72%, remained same in the 2016 and increases to 2.76% in 2017 and then reduced to 2.74% in 2018. The life insurance business's density has gone up from USD 44 in 2014 to USD 55 in the year 2018.

Literature Review

Rathnavathi K (2019), "Analysis of Financial Performance of Selected Private Life Insurance Companies" concluded that Indian private life insurance companies are performing satisfactorily and financially sound but the researcher observed some weaknesses which were due to excessive attention on innovative products and marketing to increase premium without proper risk management. The researcher intends to analyse the financial performance and soundness of private life insurance companies in the light of CARAMEL parameters.

C.V.Suganthamani (2018), "A Study on the Operational Efficiency of Life Insurance Corporation of India during the Post LPG era" concluded that LIC continues to be the leading life insurer even after decades of liberalisation and LIC proves its efficiency and is benefitted from the liberalisation.

Supriyaa (2018), "Evaluation of financial performance of life insurers in India" concluded that apart from the business volume fluctuations, private insurers are seen grabbing visibly more market share. The public sector life insurance companies should focus on capital adequacy and reinsurance and actuarial issues while private life insurers must focus on underwriting processes, liquidity position improvements as it is lacking behind.

Kingshuk Adhikari (2018), "Financial Performance of Private Sector Life Insurance Companies in India: A Comparative Study" concluded that there is satisfactory profitability performance by Kotak mahendra followed by ICICI prudential and IDBI federal. Highest current ratio is of IDBI federal followed by kotak and icici and the ratio of shareholders fund to total assets is highest in case of the IDBI followed by kotak and icici prudential.

Research Objectives

1. To study the indicators that are being used for measuring the performance of the HDFC life insurance company.
2. To analyse the parameters of operational efficiency of the HDFC life insurance company.

Research Methodology

The present research paper is purely based on the secondary data carrying for the purpose of analysing the indicators and parameters of the operational efficiency of the HDFC Life Insurance Company. The requisite data has been collected from various research articles, research papers, thesis, journals, IRDA website, website of Life Insurance Council, website of HDFC Life insurance company and through various other websites.

HDFC Life Insurance Company Limited

HDFC Life Insurance Company Limited which was formerly named as the HDFC Standard Life Insurance Company Limited is a joint venture between HDFC Ltd (Housing Development Finance Corporation Limited, an India's leading housing finance institution) and Standard Life Aberdeen (Global Investment Company). These are the two promoters who holds 51.5% and 24.7% respectively in the HDFC life insurance business. The company has a strong brand awareness and has a brand tagline “Sar UthaKe Kiyo”. It was established in October 2000 and is considered the leading company who provides the long term life insurance solutions to the people of India. It has around 412 branches across the country. It offers the various types of products to individuals as well as to the groups according to the needs of the customers such as protection, savings, investment, pension, health etc. The vision of the company is to provide all with the most obvious choice and offer the best value for money which makes it the most trusted company. The company has insured the lives of around 5.1 crore people from which it has collected the total premium of Rs. 29,186 crore as of 31st March, 2019.

Indicators of Measuring the Performance of the HDFC Life

Measuring the performance of any life insurance company is really very big task because it is an entity which is indulged in performing so many functions. We measure the performance of the company to know how well it is working, how well it is achieving its objectives in a said period, how well it is doing in comparison with the previous years, is company able to maintain the set levels of profitability, is company able to satisfy its customers, is company able to grab opportunities and innovate products to conquer the market. There are many questions which are to be answered when we think of the performance measurement. Hence, there are always some indicators through which the performance of the company or the life insurance company can be measured.

1. Market Share & Ranking: Market share of an insurance company refers to the share of the insurance market in a specified location. HDFC Life considers to be the market leader and continues to have the healthy growth.The company also ranks amongst top three private players.

year	Individual WRP		Group		Total New Business	
	%	R	%	R	%	R
2016	14.7	3	18.3	1	15.8	3
2017	12.7	3	24.3	1	17.2	2
2018	13.3	3	28.5	1	19.1	1
2019	12.5	3	28.4	1	20.7	1

Source: Compiled from Annual report of HDFC Life

2. Return on Equity (ROE) & Return on Invested Capital: These ratios are the measures that tells about how efficiently the invested capital and the capital obtained through equity are being used in the business and what are the returns available to the stakeholders. HDFC Life continues to deliver the long term and sustainable ROE and ROIC. ROE is calculated by using the profit after tax, average of share capital, share premium and accumulated profits/losses. ROIC is calculated by using the profit after tax and average share capital which includes share premium also.

Year	ROE	ROIC
FY 2016	28.7%	37.9%
FY 2017	25.7%	41.0%
FY 2018	26.0%	49.1%

Source: Compiled from Annual Report of HDFC Life

3. Assets Under Management (AUM): Asset under management refers to the total market value of the investments that an insurance company manages on behalf of its clients. It basically monitors the growth of the funds and it fluctuates continuouslywhich indicates the inflow and outflow of the specific fund and prices of the underlying asset. If AUM fluctuate more, the more liquid is the fund.

Year	AUM (in Crs)	Debt-Equity Mix	Growth (%)
2016	74,247	61:39	11%
2017	91,742	59:41	24%
2018	1,06,603	61:39	16%
2019	1,25,552	62:39	18%

Source: Compiled from Annual Report of HDFC Life

4. Embedded Value (EV): The embedded value of a life insurance company is a common measure of valuation which comprises of the present value of the future profits and adding the adjusted net asset value to it. It is a measure through which the insurance companies can be valued.

New Business Margins (NBW): New business margin is a construct used to ascertain the profitability of the insurance business in a particular year.

Year	EV (in Crs)	NBM (%)	EVOP (%)
2016	10,233	19.9%	20.7%
2017	12,471	22.0%	21.7%
2018	15,216	23.2%	21.5%
2019	18,301	24.6%	20.1%

Source: Compiled from Annual Report of HDFC Life

5. Profit after Tax: Profit after tax (PAT) is the total amount which remains in the hands of the taxpayer after all the necessary tax deductions have been made. PAT works like a barometer for the company which gives an idea of how much profit the company has exactly earned. In other words, profit after tax is a measure that tells about the company's profitability when all the expenses have been deducted.

In Crs	FY 2017	FY 2018	Growth	FY 2019	Growth
Revenue A/c	152	176	16%	227	29%
P & L A/c	22	18	-19%	13	-26%
Total PAT	174	193	11%	240	24%

Source: Compiled from Annual Report of HDFC Life

6. Revenue: Revenue in insurance refers to the amount of money that an insurance company earns from its normal business activities. The business activities include the sale of goods and services to its customers. In simple words, the revenue is the amount of sale that a company does and it earns premium as consideration in exchange of the policies sold.

In Crs	FY 2016	FY 2017	Growth	FY 2018	Growth	FY 2019	Growth
Total Premium	16,313	19,445	19%	23,564	21%	29,186	24%
First Year Regular Individual Premium	3,296	3,573	8%	4,622	29%	4,720	2%
Renewal premium	9,825	10,749	9%	12,130	13%	14,109	16%
Group Premium	2,830	4,495	59%	5,491	22%	7,432	35%
Single Premium	361	628	74%	1,322	110%	2,925	121%

Source: Compiled from Annual Report of HDFC Life

7. Reinsurance Ceded: Reinsurance means shifting of risk from one insurance company to another insurance company. In the reinsurance, some portion of risk insured by the primary insurance company is shifted or passed on to another insurance company. It is a means of reducing the risk exposure which is commonly used by the insurance companies. In HDFC Life, because of the increase in the protection business both across individual and group over the last few years has also increased the reinsurance ceded. It has increased from Rs. 171crs in FY 2017 to Rs. 193crs in FY 2018 while in FY 2019; reinsurance ceded has been increased to Rs. 262crs.

8. Income from Investments: Income from investments is an income generated from the interest, dividends, capital gains from the sale of a security and any kind of profit which comes from the investment. In HDFC Life, the company has generated the investment income of Rs. 11,367crs in the FY 2017 and decreased in the FY 2018 to Rs. 8,875crs because of the lower market gains in the unit linked section. In FY 2019, the investment income has increased to Rs. 9,436crs.

9. Other Income: Other income basically consists the income that comes from the policy reinstatement fees, interest on revival of the policies, interest on policy loans, income on unclaimed amount, interest on income tax refund etc.,. The HDFC Life has showed a steady growth in the other incomes as during FY 2017, they were Rs 104crs and increased considerably to Rs. 125crs in FY 2018 and again increased to Rs. 196crs in FY 2019.

10. Profitability: The overall profit after tax of the HDFC Life insurance company has increased by 24% from Rs. 892crs in FY 2017 to Rs. 1,109crs in FY 2018 and further shown the percentage growth of 15% to Rs 1,277crs in the FY 2019. The company had total accumulated profits of Rs. 2,394crs as on the 31st march, 2018 and during FY 2019 as on 31st March, the accumulated profits were Rs, 3,274crs.

11.
Capital & Solvency Ratio: In simpler words, the capital and solvency ratio is the measurement of the size of the capital of the insurance company to its liabilities and how much it possess as the assets. It's a barometer to measure the capability of meeting the short and long term obligation of the business. The HDFC Life has not infused any capital in the past 8 years which represents its strong capital base because of which the company is well managing the business cycles. The company is considered to be the self-sufficient and has earned healthy profits to fund the growth opportunities. The net worth of the HDFC life has witnessed an increase of 24% during the year 2018 and increased by 19% as on 31st March, 2019.

Net Worth	FY 2016	FY 2017	FY 2018	FY 2019
In Crs	3,159	3,839	4,749	5,656

Source: Compiled from Annual Report of HDFC Life

Parameters of Financial Evaluation of the Life Insurance Company with Reference to HDFC Life

To measure the financial performance of any entity, company or organisation, one of the kind of assessment which the company adopts is financial ratio. Financial ratios helps in evaluating the performance of the company itself as well as the performance of the company within the industry. They are the means/ways to understand the fundamentals of the company. Hence, there are the set of ratios which helps the insurance companies to make its financial evaluation. These ratios are so necessary to calculate because they focuses on the ability of the insurer to efficiently strategize and convert the competitive strengths into the growth opportunities and earn healthy and sustainable profits.

Persistency Ratio: It refers to the ratio which helps the insurance company to understand how long the customers are persistent in reviewing their policies year after year. This ratio is a yard stick to gauge the trust & level of satisfaction of the customers on the long term products and services which are offered by the insurance company. Persistency ratio is calculated at different intervals such as 13th month, 25th month, 37th month and 61st month. Higher the ratio means higher the level of satisfaction and trust among the customers in terms of the product portfolio, post sales service, product utility, customer loyalty etc of the insurance company. The ratio can be calculated by the no. of policy as well as the premium collection.

On the basis of number of policy

Persistency Ratio = No. of policyholders paying the premium/ Netactive policyholders x 100

On the basis of premium collected

Persistency Ratio = Premium in respect of renewal business/ Premium expected as per renewal register x 100

Persistency Ratio of HDFC Life of the 61st Month

Year	PR Ratio
2015	37.14%
2016	50%
2017	59%
2018	51%
2019	52%

Source: Compiled from Annual report of HDFC Life of respective years

Policy Lapse Ratio: The policy lapse ratio is a ratio that measures the number of policies that have not been renewed by the customers of the company once issued by the insurance company. This ratio is an indicator that reveals the inefficiency of the company to retain its customers. Lapse ratio is expressed in terms of the percentage. The gap between the policy persistency ratio and the ideal ratio of 100% is known as the policy lapse ratio.

Policy Lapse Ratio = No. of policies not renewed/ No. of policies expected to be renewed x 100

Policy Lapse ratio of HDFC Life

Year	PolicyLapse Ratio
2015	62.86%
2016	50%
2017	41%
2018	49%
2019	48%

Source: Annual report of HDFC Life, Calculated on the basis of persistency ratio

Premium Growth Ratio

This ratio is an indicator of the growth of business in terms of premium written by the insurance company.

Premium Growth Ratio = Gross Premium Written (current year) – Gross Premium Written (previous year) / Gross Premium Written (previous year) x 100

Premium Income Growth Ratio (New Business)

Particulars	2015	2016	2017	2018	2019
Participating Life-Individual & Group	-30.44%	58.11%	30.20%	9.51%	-34.47%
Non-Participating Life-Individual & Group	46.58%	22.47%	49.71%	52.96%	57.13%
Non-Participating- Life Group Variable	44.99%	-51.11%	189.61%	0.74%	97.67%
Unit Linked Fund-Individual Life	53.91%	8.39%	11.31%	50.02%	4.59%
Unit Linked Fund-Group Life	74.73%	85.57%	-2.78%	9.26%	-34.50%

Source: Compiled from Annual report of HDFC Life of respective years

Risk Retention Ratio

This ratio indicates the dependence of the insurance company on the reinsurers. Reinsurance is process of spreading risk from one insurance company to another insurance company.

Risk Retention Ratio = Net premium written/ Gross premium written x 100

Retention Ratio of HDFC Life as on 31st March

Year	2015	2016	2017	2018	2019
% (Ratio)	99.55%	99.18%	99.12%	99.18%	99.10%

Source: Compiled from Annual report of HDFC Life of respective years

Exposure Ratio

The exposure ratio is the ratio which essentially assesses the place of the insurance company in the insurance market. It indicates the healthy growth the insurer across the segments and leadership in the market. This ratio is calculated in comparison to the Gross Direct Premium.

Market Share = GDP of particular company/ Total GDP of the market x 100

Average GDP Share = Total GDP of the market/ No. of players x 100

Market Share (%) of HDFC Life

Years	2015	2016	2017	2018	2019
Individual Weighted Retail Premium	14.8 %	14.7 %	12.7 %	13.3 %	12.5%
Group New Business	17.8 %	18.3 %	24.3 %	28.5 %	28.4%
Total New Business	15.8 %	15.8 %	17.2 %	19.1 %	20.7%

Source: Compiled from Life Insurance Council

Commission Expense Ratio

This ratio provides information about how much is the outflow of the company as commission taken out of the premium written during a particular period. It indicates the expenses of the company towards the commission paid by the company. It is very necessary for the insurance company to keep a regular check on this ratio because it has direct impacts on the premiums paid by the insured people. If the insured has to pay the high premium that means the commission expense ratio is high, that is why he got the lower discount offers. So, a lower commission ratio is better.

Commission Expense Ratio of HDFC Life as on 31st March

Year	2015	2016	2017	2018	2019
% (Ratio)	4.20 %	4.30%	4.07%	4.56%	3.83%

Source: Compiled from Annual report of HDFC Life of respective years

Combined Ratio

Combined ratio is a reflection of the total outflow of the insurance company in terms of the operating expenses, losses on account of the net premium earned, commission paid, incurred claims etc. If the company has the lower combined ratio, it indicates that the company is incurring losses and expenses lesser than what it earns out of the premium collected during that period. Likewise, if the combined ratio is high, that means that the company's outflows are more than the premium earned which is an indicator of not having the good financial condition. However, a high ratio does not always mean a loss making company.

Combined Ratio = Loss ratio + Expense ratio

Combined Ratio of HDFC Life

Year	2015	2016	2017	2018	2019
%	14.4%	15.9%	16.7%	18.0%	17.0%

Source: Compiled from Life Insurance Council

Incurred Claims Ratio

This ratio is an important and basically an accounting mechanism of distributing the claims ratio to the particular year. Incurred claims ratio is a reflection of the insurer's ability to pay claims. The objective behind calculating this ratio is to allocate the claims to a particular year so that it get matched to the premium received during that year. The aim is to try not to mis match the assets and liabilities.

Incurred Claims = Claims paid during the year+ Claims outstanding at the end of the year – Claims outstanding at the beginning of the year.

Gross Premium: Total amount of premium earned from the policies sold.

Net Premium: Gross Premium- premium on reinsurance ceded+ premium on reinsurance accepted.

Incurred Claims Ratio: Incurred Claims/ Net Premium x 100

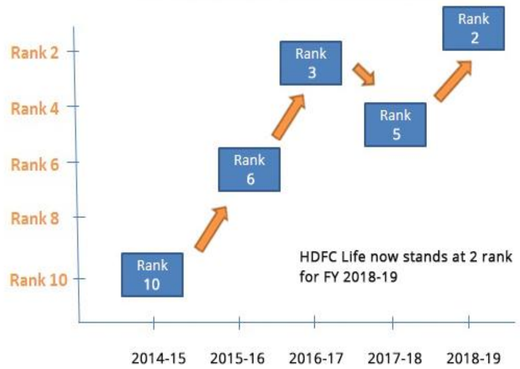
Claim Settlement Ratio

This ratio is so very important to gauge from the point of view of the insured person while purchasing the policies because it indicates how many claims an insurer has settled against the number of claims received during the particular year. Higher the ratio, higher are the chances for the claims to get settled fast. Claim settlement is also very important for the insurance company also because it is a measure of the insurance company's reputation.

Claim Settlement Ratio = Total Claims Settled/ Total Claims Received x 100

Claim Settlement Ratio of HDFC Life as on 31st March

Year	2015	2016	2017	2018	2019
% (Ratio)	90.50 %	95.02 %	96.62 %	97.80 %	99.04 %



Source: www.comparepolicy.com

Claim Duration Ratio

It seeks to access the company to find out the internal efficiency of the company in the claims settlement. It tells the company about the speed of the claim settlement process. If the claims get settled fast, they are called the short tailed claims. While the claims that take longer time to get settled are known as the long tailed claims.

Claim Duration for Claim Settlement in No. of Days

Years	Average time taken for claim settlement
2019	4
2018	5
2017	5
2016	8
2015	10

Source: Compiled from Annual report of HDFC Life of respective years

Investment Yield Ratio

It is a ratio that measures the average return on the invested assets of the company before and after the capital gains and losses. It includes income from interests, rents, other incomes and it also includes both realised and unrealised capital gains.

Investment Yield Ratio = Interest Income, rent & other income/ Average total investments

Investment Yield Ratio of HDFC Life for the Year Ended

Particulars	2015	2016	2017	2018	2019
Without Unrealised Gains/ Losses					
Shareholder's Fund	10.59 %	6.99 %	8.01 %	8.16%	9.12 %
Policyholder's Fund					
Non-Linked					
Participating	13.22 %	6.05 %	9.28 %	8.94%	7.42 %
Non-Participating	9.66 %	8.88 %	9.14 %	8.44%	8.41 %
Linked					
Non-Participating	11.12 %	11.23%	10.42%	9.36%	6.61 %
With Unrealised Gains/ Losses					
Shareholder's Fund	15.54 %	4.91 %	12.74%	5.77%	7.51 %
Policyholder's Fund					
Non-Linked					
Participating	19.80 %	6.12 %	13.15%	5.74%	9.50 %
Non-Participating	14.87 %	8.34 %	11.39%	5.75%	9.59 %
Linked					
Non-Participating	28.31 %	-0.85 %	17.41%	8.47%	7.50 %

Source: Compiled from the Annual Report of HDFC Life of respective years

Liquidity Ratio

Liquid ratio indicates the insurer's capability to meet out its short term obligations. For any company, liquidity is the condition in which the company is ready to pay as soon as possible i.e., within one year. Maintaining liquidity in the company is so very important because of the uncertain events or threats may emerge any time. The company may have severe effects on its reputation and creditworthiness if it fails to maintain the sufficient liquidity position. It may also lose its customers confidence. Hence, an insurance company should pay keen attention on the high degree of liquidity. \

Liquidity Ratio: Current Assets/ Current Liabilities

Acid Test Ratio: Liquid Assets / Current Liabilities

Liquidity Ratios of HDFC Life for the Financial Year

Year	2015	2016	2017	2018	2019
Current Ratio	0.71	0.65	0.62	0.04	0.04
Quick Ratio	0.71	0.65	0.62	0.04	0.04

Source: www.moneycontrol.com

Solvency Ratio

According to the IRDAI, the life insurance company is required to maintain the solvency ratio of 150% in order to minimise the risk of the bankruptcy. This ratio defines the financial soundness of the insurance company that makes it possible to identify its capability to settle all claims as and when due. Therefore, solvency ratio is a good indicator of the financial ability to meet its short as well as long term liabilities. Higher ratio reflects the creditworthiness of the insurer and lower ratio reflects the chances of insurer becoming insolvent.

Solvency Ratio = Net assets/ Net premium underwritten x 100

Solvency Ratio of HDFC Life for the Financial Year

Year Quarters	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
30th June	192%	208%	204%	198%	197 %
30th September	204%	204%	209%	201%	193 %
31st November	187%	195%	195%	191%	191 %
31st March	196%	198%	192%	192%	188 %

Source: Compiled from Annual Report of IRDAI of respective years

Efficiency is the measure through which the level of performance of the company is known. It is a process of using the lesser input and producing the more of output. The efficiency involves the management, managing the time, energy and resources of the company in the well synchronised and sophisticated manner. From the following parameters/ratios mentioned above, the researcher tried to gauge the operational efficiency of the HDFC Life Insurance Company. There are many ways of computing the operational efficiency of the insurance company but ratios are considered easy, traditional, comparable and understandable.

Interpretation of the Ratios

Persistency Ratio

The persistency ratio of 61st month of each of the financial year from 2015-2019 has been considered and the ratio reveals that from the year 2015, it has been increasing continuously from 37.14% in FY 2015 to 52% in FY 2019. The ratio was highest in FY 2017 with 59% and it declined in the FY 2018 to 51% and then increased to 52% in the FY 2019. Hence, it is concluded that the persistency ratio is increasing since 2015 but in the fluctuating pattern.

Policy Lapse Ratio

The policy lapse ratio is calculated as the difference between the persistency ratio and the ideal ratio of 100%. The calculated ratio indicates that the ratio of lapse policies has been in the decreasing trend. These includes the policies which were failed to get renewed during the particular period. In the FY 2015, the ratio was 62.86% which was highest among all the years taken for the study and it just decreased continuously till the FY 2019 to 48%. The ratio continuously decreased to 50% in the FY 2016, to 41% in FY 2017. But, it increased in the FY 2018 to 49%. The study reflects the efficiency of the HDFC Life in retaining its customers during the period under the study.

Premium Growth Ratio

The premium growth ratios have found to be fluctuating during the years of the study. The premium growth under the head participating life- individual and group the was negative in the FY 2015 as well as in FY 2019.

Risk Retention Ratio

The retention ratio is almost same during the period of the study. There is slight changes or fluctuations in the ratios from 99.55% in FY 2015 to 99.10% in FY 2019. The ratio was same during the FY 2016 and 2018 as 99.18% and was 99.125 in the FY 2017.

Exposure Ratio

Exposure ratio tells about the place of the HDFC Life in the market. The company has gained healthy growth over these years. Under the Individual weighted retail premium, the market share of the company has decreased from 14.8% in FY 2015 to 12.5% in FY 2019. In the Group new business, the market share has increased tremendously from 17.8% market share in FY 2015 to 28.4% in FY 2019. While in the total new business, the market share of the company increased from 15.8% in FY 2015 to 20.7% in the FY 2019.

Commission Ratio

The commission ratio is fluctuating with the small changes in the digits. As it is good to have the lower commission ratio because it is an expense to the insurance company. So, it has decreased from 4.20% in FY 2015 to 3.83% in FY 2019. In between, it was 4.30% in FY 2016, 4.07% in 2017 and 4.56% in the FY 2018. The commission ratio was highest in the FY 2018.

Combined Ratio

The combined ratio consists of the summation of all the expenses of the company like operating expense, commission expense, incurred claims etc., it has been in the increasing trend. The combined expense ratio was 14.4% in the FY 2015 and has increased to 18.0% in the FY 2018 which was seen highest among all the years during the study. In between, the ratio was 15.9% in the FY 2016, 16.7% in 2017 but in FY 2019, the ratio has decreased to 17.0%.

Claim Settlement Ratio

Claim settlement ratio is the ratio of total claims settled and total claims received during the particular year. This is the ratio which is very important from the point of view of the insurer as well as insured because it is the first thing that a rational potential buyer of a policy will be keen to know. HDFC Life has shown the significant success and maintained an increasing trend in settlement of its claims, evident from the ratios as in FY 2015, the company had settled over 90.50% of its claims. It has increased to 95.02% in FY 2016, to 96.62% in FY 2017 and further increased from 97.80% in FY 2018 to 99.04% in FY 2019.

Claim Duration Ratio

It tells about the average time taken for settlement of the claims. The study reflects that HDFC Life insurance company is working hard to settle its claims as soon as possible and the company is successful too. The study says that the company was taking almost 10 days in 2015 in settlement of the claims but the average days have been decreasing in further years from 8 days in FY 2016 to 5 days in FY 2018. The shortest tailed claim was in the FY 2019 as the company has taken the average time of 4 days in settling the claims.

Investment Yield Ratio

It indicates the income from investments with and without the capital gains and losses. In the FY 2015, the income on shareholder's fund was 10.59% without the unrealized gains and losses. 6.99%, 8.01%, 8.16% and 9.12% corresponding to the FY 2016, 2017, 2018 and 2019. The investment yield with unrealized capital gains and losses, the income on shareholder's funds was 15.54%, 4.91%, 12.74%, 5.77% and 7.51% corresponding to the FY 2015, 2016, 2017, 2018 and 2019 respectively. From the table it is clearly evident that the HDFC Life has fluctuating investment yields with and without the unrealized capital gains and losses.

Current Ratio

This ratio measures the capability of the company to convert its current assets in cash as soon as possible. It tells about the liquidity position of the company which reflects that the company can meet out its short term liabilities as and when they get due. From the table, it is shown that the current ratio of the HDFC Life was 0.71% in 2015 and it was similar in two years at 0.04% in the FY 2018 and FY 2019. In the FY 2016, the current ratio was 0.65% and the FY 2017 has 0.62% current ratio. It is clearly evident that the company has same current as well as liquid ratio in the following financial years.

Solvency Ratio

The solvency ratio indicates the financial condition of the company. The data gathered from the annual reports reveals the solvency ratios of 5 years in the quarterly basis. The data shows the highest solvency ratio at 204% of HDFC Life in the second quarter i.e., 30th September. However, it is constantly fluctuating. In the FY 2016, the solvency ratio was

208% in the first quarter which is highest and then it decreases to 204% in the second quarter. Coming to the FY 2017, the lowest solvency ratio of 192% is shown in the last quarter i.e., 31st March and highest of 209% in the second quarter. The FY 2018 has the ratio of 198% in the first quarter and it increased to 201% in the second quarter. However, it again decreased to 191% and 192% in third and last quarter of the year. The FY 2019 has seen the lesser fluctuations in the ratios as in the first quarter, it was 197%, it was 193% in the second quarter and it further decreases from 191% in third quarter to 188% in the last quarter of the year.

Conclusion & Findings

Insurance is the social and effective tool that helps the insured in minimizing the risks and uncertainties by shifting the losses resulting from those risks and uncertainties to the large number of people who are exposed to the same kind of the risks. Insurance has conquered an important place in this modern era because it can possibly insure anything against any peril. Life insurance is considered the most widespread form of insurance all over the world and it has occupied the top position also because life is something which is considered unique in the universe and cannot be measured in terms of money. The market of life insurance is becoming healthier because of the regulations of IRDA. HDFC Life is the first ever private life insurance company in India entering into the insurance sector. The company has provided its customers with a wide choices of the life insurance products and that too these are invented in accordance with the needs of the customers. Hence, the HDFC Life has been taken for the study and data is collected for the 5 financial year from 2014-15 to 2018-19.

Though, the data shows more or less of the changes and fluctuations in the ratios of the HDFC Life insurance company, it is observed that the company still stands performing well in the insurance sector. These fluctuations might be due to the market changes, prices of the products in the industry, opportunities, threats and many reasons like this. The HDFC Life insurance company has been successful in gaining the good market share and also ranked highest. It has also innovated products according to the needs of the customers so that they may get the highest satisfaction. The study concludes that the HDFC Life insurance company is in the good financial position, performing well in the market, working in accordance with the rules and norms provided by IRDA, Insurance Acts etc. To sum up, the company is found efficient in terms of revenue, profit and cost. The performance of the company has been consistently improving during the years of study and the earning capacity of the HDFC Life is also satisfactory. The company has proved itself a successful insurance company.

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