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A Study on Financial Position of the New India Assurance Company Ltd

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Abstract:

General insurance, also referred as non-life constitutes a sector within the insurance industry. It specializes in delivering financial safeguarding and coverage against an extensive array of perils and unforeseen circumstances, excluding those associated with life.Various products offered by these non-life insurance companies constitute fire, marine, and other including health, motor, rural, household, personal accident etc. Unlike one public company in life insurance, LIC of India, general insurance sector has four public limited companies. Among the four, The New India Assurance Company Limited has been the market leader not only for the public but also among the private sector. The paper makes an attempt to understand the performance of NIACL during the period 2010-11 to 2021-22. A few ratios viz gross premium growth rate, claims ratio, combined ratio, profitability ratio, liquidity ratio along with solvency ratio are considered for the study. It has been observed that the company has been consistently performing thus stabilizing its position.

Keywords: *Net Earned Premium, underwriting performance, investment performance, solvency ratio*

I. Introduction:

Uncertainty is inevitable in everyone's life. Future cannot be predicted and certain unwanted events may occur at any phase of our life. Occurrence of these events cannot be avoided but they can be met with proper planning. The risk associated with occurrence of such events can be mitigate with the help of insurance. According to Dictionary of Business and Finance, "Insurance is a form of contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good for a loss, damage, or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain events." Insurance business can be categorised into two types -life insurance and non-life insurance.

The insurance sector in India underwent significant structural changes due to the combined

impact of financial sector reforms, specifically within the insurance domain. Previously, insurance services were monopolized, and the market was closely regulated. Insurance companies were guaranteed a spread over their cost of funds, and there was a systematic demand for their products. This phase in the Indian insurance industry emerged from sheltered markets and regulated prices for various insurance offerings. It was recognized that a well-regulated and resilient insurance industry had the potential to make substantial contributions to economic growth and efficient resource allocation through risk transfer and savings mobilization. Furthermore, it had the capacity to expand avenues for wealth management within the country. However, these positive contributions from the sector could only be fully realized through the organization and competitiveness of the industry.

The reforms within the Indian Insurance Sector brought about significant changes in terms of competition, the business environment, management strategies, service quality, and technological advancements. The era of liberalization, globalization, and privatization ushered in new possibilities within the insurance industry, creating a highly competitive landscape. In the post-liberalization period, the Indian insurance industry underwent a noticeable shift from a sellers' market to a buyers' market (Rohit & Manjit, 2009). Additionally, the industry was anticipated to become more professional (Shenbagaraman, 2001), with reduced entry barriers and an increasing sophistication of customers leading to an oligopolistic insurance market.

The restructured insurance industry introduced a wide array of customer-friendly products and novel delivery channels, including bancassurance, corporate agents, brokers, and direct sales through the internet. This period of reforms witnessed a greater integration of computerization and information technology. As this transformational phase progressed, it became imperative to assess the compatibility of these reforms in relation to the growth and performance of the insurance industry in India.

Indian insurance sector comprises of both public and private sectors. Currently, there are 33 general insurance companies registered in India.

The New India Assurance Company Limited is one among the four public sector general insurance companies. It was established by Sir Dorab Tata from the house of TATA's and incorporated on 23rd July 1919. It was nationalized in 1973. It has been a market leader in India's non-life insurance for more than 50 years. With a network spanning over 1,900 offices across India and a presence in 25 nations, the company possesses an authorized capital of INR 1,000 crore (equivalent to USD 122 million) and a paid-up capital of INR 824 crore (equivalent to USD 100 million). It has earned the distinction of being honored with the "Preferred Workplace Award" for the fiscal year 2022-23 in the BFSI sector. Furthermore, it has been bestowed with the accolade of "General Insurance Company of the Year" for the fiscal year 2022-23 within the BFSI domain. Adding to its achievements, the company has also received the "ETascent Stars of the Industry

Award" for its Excellence & Leadership in BFSI during the fiscal year 2022-23. It has also been rated AAA/Stable by CRISIL since 2014, which indicates that the Company has the highest degree of financial Strength to meet its policyholder's obligations.

The current study focuses on analysing the solvency position of New India Assurance Company Ltd with respect to the norms set by the Insurance Solvency International Limited

II. Review of Literature:

1. **P. Muthulakshmi and A Muthumoni (March 2023),** have analysed the financial performance of public sector non-life insurance companies and the determinants for the performance. The study was conducted for the financial years 2009-10 to 2021-22. Common determinants of net profit after tax of public sector non-life insurance companies are claims incurred and net premium earned are considered for the study. It was concluded that New India Assurance Company Ltd performed better followed United India Insurance Company Limited.
2. **Saumitra Sawant & Aparna Ger (March 2023),** made an attempt to understanding how New India Assurance Company Limited outperformed other Government insurance companies. The paper focussed on identifying the factors that helped in making NIA the market leader. It was found that the company has consistently dominated the market in terms of premium, reserves, net worth, network and public.
3. **Pal et al.(2017),** examined the potential for growth within the non-life insurance market and delved into the prevailing underwriting cycle utilized in India's non-life insurance sector. Additionally, the study also presented a comprehensive analysis of the underwriting performance across the entire non-life insurance industry from 2000–2001 to 2014–2015, encompassing the period following liberalization. The paper offered a detailed portrayal of the anticipated landscape of the non-life insurance industry in India over the upcoming decade. Furthermore, it emphasised on identifying an underwriting cycle pattern within the performances of non-life insurance enterprises over the past 15 years, encompassing both publicly and privately sector general insurance companies.
4. **Singhal (2018),** analysed that insurance companies generate their profit margins from two primary sources: the underwriting premiums collected from various policies and investments made in accordance with regulatory guidelines. An underwriting loss arises when an insurance company's premium income falls short of its claim pay-outs. The determination of insurance premiums primarily hinges on the costs associated with issuing and maintaining policies, along with the projected expenses of claim settlements.
5. **Joy Chakraborty(June 2016),** has assessed the performance of the four GIC's during the period 2008-09 to 2014-15 against the backdrop of US financial crisis of 2007-08. The study

also aimed at evaluating the impact of global financial crisis on the non-life insurance companies. Ratio-based CARAMELS model was used to evaluate financial soundness of these companies. The study has also seen the ripple effects of the US financial crisis in the form of four major public-sector general insurers' negative RoE ratios between the financial years 2008–09 and 2010–11. It was observed that the United India General Insurance Company has been the best among the four public sector general insurance companies. It was concluded that though liquidity ratios were encouraging, a detailed study of the higher operating expenses, NPA’s and claims cost was required.

6. **Dr. Sanjib Kumar Pakira, (Nov 2015),** compared the growth of select private and public sector non-life insurance companies during 2001-02 to 2013-14. Variables like Gross Direct Premium Income, No of Policies Issued, Incurred Claims Ratio, Change in Reserve for Unexpired Risk, Commission, Expenses of Management, Equity Share Capital of Non-Life Insurers and Net Profit After Tax have been used to measure the growth performance. The study concluded that the growth performance of public sector was far better compared to that of private sector. The study has not taken into consideration the marketing strategies adopted by both the sectors which have a major role tin generating profitability this contributing to the growth.
7. **Bashir Ahmad Joo,(June 2013),** studied the solvency position of the 12 general insurance companies during the 2004-05 to 2008-09. The solvency ratios of the companies were compared with the Index of Performance set by Insurance Solvency International Limited. Only New India Assurance Company and United India were able to meet the standards. It was further concluded that the public sector companies had an upper hand over the private sector as they had built-in reserves during post liberalisation period.

III. Objectives of the Study:

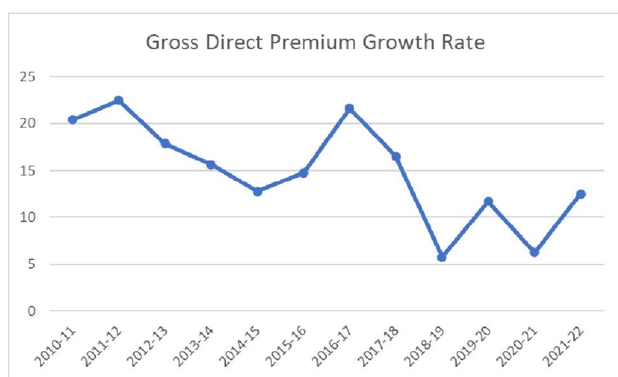
1. To analyse the financial efficiency of New India Assurance Company Limited.
2. To study the impact of few select variables on the solvency of NIACL.

IV. Research:

The data required for the study has been collected form secondary sources like audited financial reports of the company, research articles and journals. The data collected has been analysed through descriptive statistics and regression analysis. The study is conducted for the period 2010-11 to 2021-22.

V. Data Analysis:

1. **Gross Premium Growth Rate-** This indicates the growth in business undertaken by the insurers. Gross premiums represent the total amount of money collected from policyholders for insurance coverage before deducting any expenses or claims.The gross premium growth



rate measures the rate at which an insurance company's gross premiums increase over a specific period of time. It can be calculated as

$$\text{Gross Premium Growth Rate} = \frac{GPW_T - GPW_{T-1}}{GPW_{T-1}} * 100$$

GPW – Gross Premium Written ; T – Current Year; T-1 – Previous Year

The graph below depicts the Gross Premium Growth Rate of NIACL during 2010-11 to 2021-22. The company has seen a higher rate during 2012-13 and 2016-17 compared to other years. But the rate has decreased from 2018-19. Though there was an increase next years, the rate was low. This reason can be the emergence of COVID-19.

2. **Net Earned Premium (NEP):** It is the portion of premiums earned by an insurancecompany that corresponds to the actual coverage period of the policies. It represents the portion of the total premium income that the insurer recognizes as revenue based on the time that the insurance coverage has been provided to the policyholders.

   Mathematically, Net Earned Premium = Gross Earned Premium - Unearned Premium

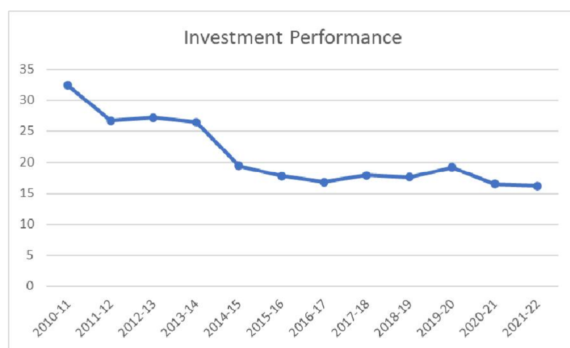
   The calculation of Net Earned Premium takes into account the effect of policy cancellations, changes in coverage, and other adjustments that may impact the actual coverage period. It provides a more accurate representation of the insurer's revenue based on the insurance coverage actually provided during a specific period.

   Most of the financial ratios of an insurance company are computed using the Net Earned Premium as the base.

   The following ratios are considered to understand the financial efficiency and solvency of NIACL.

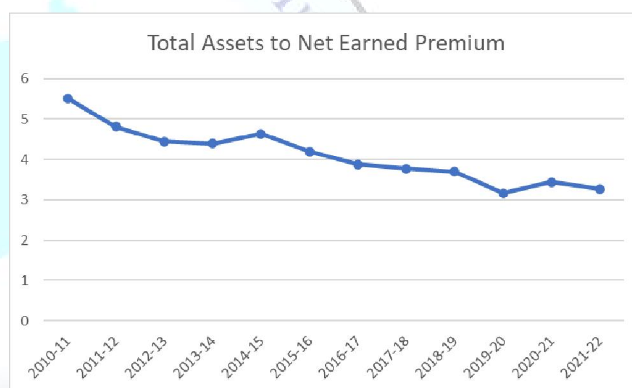
3. **Total Assets to Net Earned Premium:** This ratio provides insight into the efficiency of an insurance company's asset utilization in relation to its earned premium. It can be used to evaluate how effectively the company is deploying its assets to generate revenue from its insurance operations. This ratio can be significantly used for understanding the efficiency of asset utilisation, risk capability and the investment strategies of the company. This is an important measure that reflects the company size

   A higher ratio might indicate that the company has a relatively higher level of assets compared to its premium income. It also reflects an investment-heavy strategy, where the company holds substantial assets in investment vehicles to generate income.



The figure below shows the ratio of total assets to net earned premium from 2010-11 to 2021-22. This shows a declining ratio indicating that the company's efficiently utilising its assets to generate premium income. It can be observed that NIACL has been more effective in generating revenue from its existing assets. It is a sign of operational improvement and better asset management.

4. **Investment Income to Net Earned Premium:** This ratio measures the relationship between an insurance company's investment income and its net earned premium. It helps to understand how effectively the investment portfolio of the insurance company is contributing to its overall earnings from the insurance operations. A higher ratio implies that the investment income is contributing significantly to thecompany's overall earnings from its insurance operations.However, it also depicts the company is unable to generate premium income.

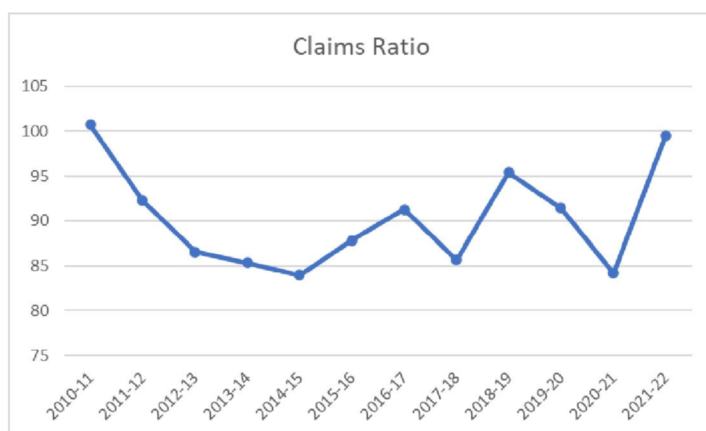


The adjacent figure depicts the investment performance of NIACL during the period of the study. The declining line indicates that the investment income generated by the NIACL's investment portfolio is becoming less significant relative to its net earned premium. This means that the revenue generated from their premium is more than the investment income.

5. **Claims Ratio:** Also called as loss ratio, measures the company's loss experience as a proportion of premium income earned during the year. The loss ratio is a reflection on the nature of risk underwritten and the adequacy or inadequacy of pricing of risks. It can be calculated as

Claims Ratio = (Claims Incurred / Net Earned Premium) × 100

A lower claims ratio suggests that the company collecting more premium income than it is paying out in claims. A higher claims ratio might indicate that the company is experiencing a higher frequency or severity of claims, which could be a sign of poor risk assessment or unfavourable market conditions.

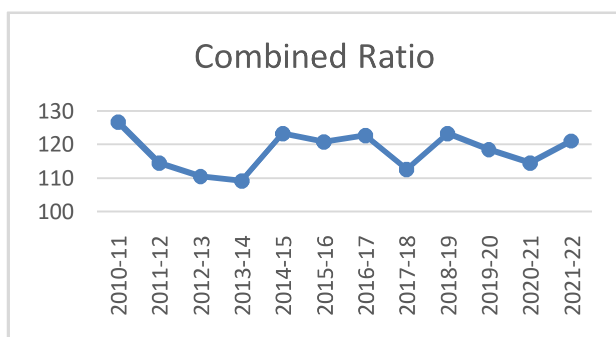


The adjacent graph shows the trend of claims ratio of NIACL for the period 2010-11 to 2021-22. The graph depicts a fluctuating claims ratio indicating that there were both rise and fall in the ratio. This trend can be attributed to the changes in the company's underwriting performance, claims management, and also external market conditions. This trend would however require a continuous monitoring to ensure that NIACL maintains sound underwriting practices and responds effectively to changing market dynamics.

6. **Underwriting profitability:** It is one of the most important measures used in the insurance industry to assess the financial performance of an insurance company's underwriting operations. This ratio focuses on the company's ability to generate profits from its main insurance business, specifically from underwriting policies and assuming the risks associated with those policies.

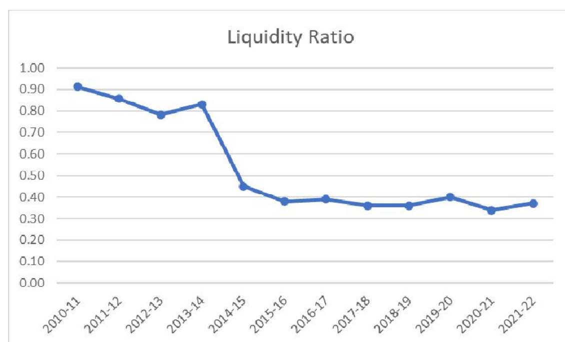
The adjacent graph depicts the underwriting profitability of NIACL during the study period. It can be observed that the profits increased upto 2015-16 but fluctuated later. Some of these fluctuations can be attributed to pandemic.

7. **Combined Ratio:** The combined ratio is one of the important ratios used in the insurance industry to evaluate the profitability of an insurance company's underwriting operations. It helps in assesses whether an insurance company is making an underwriting profit or incurring an underwriting loss The combined ratio considers both the company's loss and expense ratios. It is the ratio of losses ie incurred claims and incurred expenses to the Net Earned Premium. A combined ratio of less than 100 indicates that the company is making profits while it can be understood as a loss when the ratio is more than 100.



The combined ratio of NIACL for the study period is depicted in the adjacent graph. It can be observed that though the ratio fell during 2013-14 and 2017-18, it increased again. Few other ratios are considered for the study

8. **Liquidity Ratio:** This is the ratio of liquid assets to current liabilities. This ratio is a more conservative measure of liquidity compared to current ratio. It focusses on the company's immediate liquidity position, which is particularly important in situations where rapid payment of bills or liabilities is required. A liquid ratio of 1(one) and above is considered to be ideal as it has enough quick assets to meet its short term liabilities.

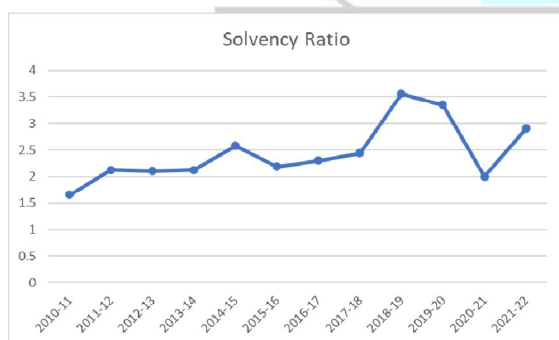


The adjacent graph depicts the liquidity ratios of NIACL for the period 2010-11 to 2021-22. The liquidity ratio was never above 1 for the company which means that it did not have enough funds to meet its short term requirements. However, understanding that the company has a solid financial foundation, it implies that it has access to alternate sources of short term funds to manage its liquidity.

9. **Profit Margin:** The profit margin, for an insurance company implies the overall profitability that it has gained from both underwriting and investment activities. This provides a comprehensive view of the company's ability to generate profits from its core insurance operations as well as its investment income.

   The graph depicts that there were lot of fluctuations in the profits of NIACL during the study period.

10. **Solvency Ratio:** The solvency ratio is used to evaluate the ability of an insurance company to meet its long-term financial obligations, especially those related to its policy holders. It can be regarded as an indicator of the insurer's financial stability strength. Insurance regulatory authorities commonly mandate that insurance companies uphold a minimum solvency ratio as a safeguard to protect the interests of policyholders.

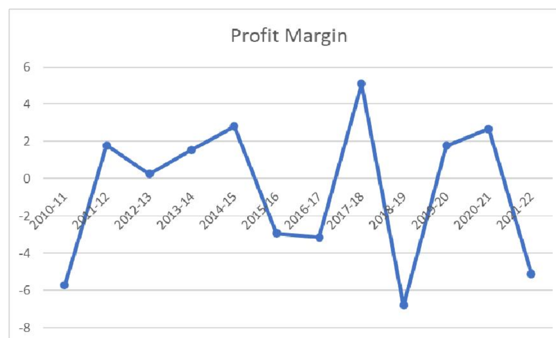


The solvency ratio of NIACL is shown in the adjacent graph for the period 2010-11 to 2021-22. It can be observed that the ratio has always been above 1.5 indicating that the company had enough funds to meet its obligations.

Null Hypothesis(H_0): There is no significant impact of Company size, Claims ratio, Combined ratio, Underwriting ratio, Investment performance, Liquidity ratio and Profit margin on Solvency.

Alternate Hypothesis(H_1): There is significant impact of Company size, Claims ratio, Combined

ratio, Underwriting ratio, Investment performance, Liquidity ratio and Profit margin on Solvency. Regression analysis has been carried out on the data of NIACL for the study period. Solvency ratio was considered be the dependent variable, while Company Size, Claims ratio, Underwriting ratio, Combined Ratio, Investment Performance, Liquidity ratio and Profit margin are considered as independent variables.



Independent Variables	Calculation
Firm Size	Total Assets to Net Premium Earned
Profit Margin	Total Income to Total Outgo
Investment Performance	Investment Income to Net Premium Earned
Liquidity Ratio	Liquid Assets to Current Liabilities
Combined Ratio	Loss ratio + expense Ratio
Claims Ratio	Net Claims incurred to Net Premium Earned
Underwriting Profitability	Profits from operations, excluding investment and other incomes

Multiple regression model was used to understand the impact of above mentioned independent variables on the solvency of NIACL. Following results were obtained

Regression Statistics	
Multiple R	0.7608
R Square	0.5789
Adjusted R Square	-0.1581
Standard Error	0.6069
Observations	12

The above table shows the results of the correlation between the variables considered for the study. Multiple R measures the strength and direction of linear relationship between the dependent variable solvency and the independent variables considered for the study. A value of 0.7608 indicates a relatively strong relation between the dependent and independent variables considered for the study. The standard error is used to study the average deviation between observed and predicted values of the dependent variable. A lower standard error of 0.6069 indicates that the model's prediction are closer to actuals. However a negative adjusted R-square value indicates that the model has to be refined further.

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	2.0252	0.2893	0.7855	0.6349
Residual	4	1.4733	0.3683		
Total	11	3.4985			

The ANOVA table helps to understand the overall significance of the model that has been fit. The F-statistic of 0.7855 is relatively low and the p-value of 0.6349 is relatively high . Form this it can be understood that the model fit is not significant statistically. This indicates that the model cannot explain a substantial amount of variance in the dependent variable ie solvency.

Summary of Multiple Regression				
	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	-4.5666	12.1508	-0.3758	0.7261
Firm Size	-0.6204	1.0293	-0.6027	0.5792
Investment Performance	0.0393	0.1722	0.2280	0.8308
Liquidity Ratio	0.0028	0.0470	0.0597	0.9553
Profit Margin	-0.0049	0.0892	-0.0549	0.9588
Combined Ratio	0.0601	0.0916	0.6566	0.5473
Claims Ratio	0.0290	0.1139	0.2548	0.8114
Underwriting Profitability	5.6797	13.4066	0.4237	0.6936

Solvency = -4.566 - 0.6204(Firm Size) + 0.0393(Investment Performance) + 0.0028 (Liquidity) - 0.0049 (Profit Margin) + 0.0601 (combined Ratio) + 0.029 (Claims Ratio) + 5. 6797 (Underwriting Profitability)

The above equation could be framed from the results obtained. However, the impact of each independent variable can be understood as follows:

1. The p-value of firm size is 0.5792 which is high. It can be inferred that the firm size does not have significant impact on solvency ratio.
2. The p-values of all the other independent variables like investment performance, liquidity ratio, profit margin, combined ratio, claims ratio, underwriting profitability also show a relatively smaller t-values and high p-values. These indicate that none of these variables can explain the dependent variable, solvency ratio.
3. The high values of p indicate that there is no sufficient evidence to disprove the hypothesis framed.

4. The model can further be improved by adding more variables.

Thus, there is no enough evidence to reject the null hypothesis framed.

VI. Findings:

The above study indicates that the New India Assurance of Company Limited has been the market leader for more than 50 years since its inception in 1913. The company has been consistent over the study period. The company had a maintained a good gross premium growth rate thus stabilising its position in the market. It had enough funds to meet both short term and long-term liabilities. The company has also maintained the required solvency ratios for the period 2010-11 to 2021-22.

The independent variables considered had were not enough to explain their impact on the solvency ratio. So, it can be concluded that considering more variables and increasing the sample size may help understand the impact better.

The study can further be extended to other insurance companies, both life and non-life. The study can also include public and private sector insurance companies.

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