MEASURING THE IMPACT OF EXTERNAL VARIABLES ON THE FINANCIAL PERFORMANCE IN INDIA VIS-À-VIS SELECTED INSURANCE COMPANIES

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Abstract

In India of Life Insurance and Non-Life Insurance were evolved together and with Definitions of Insurance with Nature, Functions, Principles of Insurance, and Types of Insurance. The research also presents the Legal Dimensions of Insurance, Nationalization of Life Insurance Business; report of Malhotra Committee resulted as IRDA with the Regulatory Framework of Insurance Sector in India. This paper analysis the role of the external variables on the "financial performance" of selected 3 life insurance companies in India by taking a sample of LIC, HDFC Life and SBI life. The data gathered with 300 respondents were analysed using the multiple regression method with SPSS 19 software and the results are presented in the paper.

Keywords : Financial Performance, LIC, SBI Life, HDFC life, Insurance Sector, India

Introduction

At one time, certain insurance companies would deny coverage to their clients. The decision was influenced by their selection of the underwriting company or their assessment of what constitutes good and poor risk. The IRDA was established to regulate the market and reduce any forms of biassed activities. In India, the banking sector operates under the regulations set forth by the Reserve Bank of India (RBI). It prohibits bankers from acting unpredictably with their clients. Banking institutions have the authority to extend loans and apply interest rates as determined by the Reserve Bank of India. It eliminates the possibility of a monopoly taking control, which benefits the public. Financial institutions such as banks and insurance corporations will be effective in our democracy only when market procedures benefit the majority rather than a small number of individuals. On the same lines as industrial practise, IRDA plays an important role in ensuring and encouraging the methodical expansion of the insurance business in order to benefit the common people who invest in policies to seek safety. Safeguarding the interests of policyholders is essential for fostering their trust in the system. Promote a culture of integrity and equity within the marketplace. Address various forms of conflicts and facilitate the prompt resolution of claims. Establish clear standards and remain vigilant to identify potential scams or fraudulent activities. The growth of the Indian economy is fostering an environment that welcomes new insurance providers into the market. To sustain an equitable rate of development, IRDA must maintain quality standards. It will also help to the overall improvement of a country's financial capabilities. Not only the IRDA but other external forces to make an

impact on the financial performance of the Life Insurance companies. It includes Government regulation, Employee competence and capacity, Distribution channel, Insurance Products, Market Interest rate, Size of Company, Expenses on Management, Enterprise financial positions and expenditure, Management Expenditure, Interest Rate, Size of insurance company, Leverage, Gross written premium, Claim, Reinsurance, Sales Profitability, Investment Income, Underwriting Profit, Proportion of assets and liabilities with banks these are the ones used in the paper with detailed study.

Literature Review

Septina, F. (2022) took a sample of There are 25 life insurance companies in Indonesia that are registered with the Financial Services Authority (OJK) and have made their financial reports available for the period from 2016 to 2020. The method of data analysis employs panel regression analysis, utilising estimation techniques such as the Chow Test, the Hausman Test, the Lagrange Multiplier Test, and moderated regression analysis. The findings indicate that leverage adversely impacts the performance of life insurance companies, while product diversification plays a crucial role in enhancing the relationship between leverage and the performance of these companies. The size of a firm plays a crucial role in positively influencing the performance of life insurance companies, whereas the dummy period variable does not appear to have a meaningful impact. Companies, regardless of their leverage levels, need to recognise both the potential and existing market risks and adapt their policies accordingly. Both creditors and investors can leverage information to facilitate funding and investment, particularly in relation to the connection between leverage utilisation and the product diversification strategy of life insurance companies. Ultimately, the regulatory authorities overseeing the insurance sector act as guardians for life insurance companies, ensuring they effectively serve their customers.

Banjo, K. A., & Oyetade, J. A. (2022) revealed that The life insurance sector has experienced either stagnation or decline over time, largely due to ineffective management of its liabilities and assets. This research aims to enhance the financial performance of the Nigerian life insurance sector through effective management of assets and liabilities. This study focused on ten life insurance companies that have been operating from 2009 to 2020 in order to achieve its research objectives. The study employed a panel data regression model to examine its hypotheses. This study reveals that the challenges faced by the life insurance industry in terms of financial performance are largely due to inadequate management of assets and liabilities. This study suggests that the management of insurance firms should consider employing professional accountants to enhance asset and liability management. It is advised that the premiums received by life insurance companies, classified as assets, be directed towards more productive investments that can yield maximum profit. Additionally, assets that are underperforming or outdated ought to be converted into cash and reinvested appropriately. Furthermore, liabilities, especially claims payable, should be given priority in management practices.

Kajiwala, R., & Rawat, B. (2021) revealed that ndia, as a developing nation, relies heavily on long-term investments to foster its growth and development. The insurance industry in India has emerged as a compelling opportunity for foreign investors, leading to a significant increase in cross-border mergers and acquisitions. The cap on Foreign Direct Investment (FDI) has seen an increase, moving from 26% to 49%, and now reaching 74%. Despite previous efforts, the needs of the sector remain unmet, leading to renewed calls for 100% foreign direct investment in the insurance industry. This study explores how foreign direct investment influences the financial performance of life insurance companies. The financial performance of life insurance companies, both those based on foreign direct investment (FDI) and those not, is analysed through the CARAMEL model. This model encompasses various critical factors, including Capital Adequacy, Asset Quality, Reinsurance and Actuarial Issues, Management Soundness, Earnings and Profitability, and Liquidity. The dependent variables in this study are analysed alongside the type of company, which is categorised as either FDI-based or non-FDI-based, serving as the independent variable. This research relies on

secondary data, utilising the Mann-Whitney test and ANOVA test for its analysis. The findings indicate that foreign direct investment (FDI) plays a crucial role in shaping the performance of life insurance companies. Specifically, those companies that are based on FDI tend to excel compared to their non-FDI counterparts, particularly in areas such as capital adequacy, management effectiveness, and overall earnings and profitability.

Tarsono, O., Ardheta, P. A., & Amriyani, R. (2020) Investigated and assessed how Net Premium Growth, Claim Ratio, and Risk Based Capital impact the Financial Performance of Line Insurance Companies. The participants in this study consisted of insurance companies that were listed on the Indonesia Stock Exchange during the period from 2014 to 2018. This study utilised a sample of 17 life insurance companies. This study utilises Eviews 11 as its statistical tool. The growth of net premiums and the claims ratio do not have a substantial impact on financial performance. The implementation of Risk Based Capital appears to adversely impact the financial performance of life insurance, particularly in terms of Return on Assets (ROA). The three ratios of Net Premium Growth, Claim Ratio, and Risk Based Capital collectively influence the financial performance of life insurance companies, as indicated by ROA. This research suggests that life insurance companies should strive to ensure that their premium growth remains consistently above the typical threshold of 23% each year.

Sambasivam, Y., & Ayele, A. G. (2013) revelled that "Profitability stands as a crucial objective within the realm of financial management, as one of its primary aims is to enhance the wealth of the owner. This study explored how various characteristics of a firm—such as its age, size, capital volume, leverage ratio, liquidity ratio, growth, and asset tangibility—impact profitability, as measured by Return on Assets. Profitability serves as the dependent variable, influenced by several independent variables including the age of the company, its size, the volume of capital, leverage, liquidity ratio, growth, and the tangibility of assets. This study examines a sample comprising nine insurance companies over a span of nine years, specifically from 2003 to 2011. The analysis is based on secondary data gathered from the financial statements, including the balance sheet and profit/loss account, of various insurance companies, as well as financial publications from the National Bank of Ethiopia. The regression results indicate that growth, leverage, capital volume, size, and liquidity are key determinants of profitability. Notably, growth, size, and capital volume show a positive relationship with profitability. Conversely, there is a significant negative relationship between liquidity ratio and leverage ratio with profitability. The age of companies and the tangibility of their assets do not show a significant relationship with profitability."

Fekadu, G. W. (2015) revealed that "The function of corporate governance within financial institutions contrasts with that of non-financial institutions, primarily due to the restricted discretionary power of the board of directors. This limitation is particularly evident in regulated financial systems, where these institutions must operate in accordance with established legislative and prescriptive procedures, policies, rules, and regulations. This study aimed to explore how corporate governance influences the performance of the closely regulated insurance industry in Ethiopia. This research utilised an explanatory design, analysing econometric panel data from 10 insurance companies over the period from 2007 to 2014. The size of the board, its independence, and diversity appear to have a negative and statistically insignificant impact on the performance of insurance companies. Conversely, the size and independence of the audit committee, along with the frequency of board meetings, show a positive yet insignificant effect on the performance of insurance companies in Ethiopia. In conclusion, it appears that the various corporate governance mechanisms do not have a significant impact on the performance of insurance companies, as assessed by return on assets. This vividly affirms that the role of board of directors in closely regulated financial sector is dismal and insignificant for they have limited discretionary power to exercise as board of directors. Thus it would be recommendable if the regulatory body could relax its prescriptive and stringent policies and devolve its power to board of directors without endangering the viability of

insurance companies".

Aktar, S. (2015) revealed that "Performance is understood as the execution of an action or an individual's capability. Strong performance is closely linked to enhancing the efficiency and effectiveness of employees. This research adopts a qualitative approach. This study seeks to explore and analyse the demographic and work-related factors that impact employees' performance in an insurance company located in Bangladesh. In pursuit of this objective, a thorough examination was conducted involving 17 agencies of Metlife Alico. A total of 100 male and female employees provided valid responses out of 120 individuals surveyed. The data were analysed using SPSS software, and a correlation analysis was conducted to explore the relationships between predictor variables and work performance. The findings of the study were interpreted using the chi-square test. This study presents a model designed to elucidate the connections between demographic and work-related factors and the performance of employees in the workplace. The findings indicated a notable and substantial impact of rewards and promotions, as well as work-related factors such as the work environment, on employees' performance in their roles".

Sharma, A., Jadi, D. M., & Ward, D. (2018) revealed that "The financial performance of insurance companies is reflected in the variations of their rating grades. An insurer can experience a rating transition, which serves as an indicator of its current financial health. We utilise Rating Transition Matrices (RTM) to examine these transitions. In this context, the quality of credit may experience improvement, stability, or decline, which is indicated by a rating upgrade or downgrade. Our research delves into the trends in ratings and aims to predict the transitions in ratings for insurers in the UK. We offer an examination of how the global financial crisis has impacted the financial performance of insurance companies in the UK, as evidenced by changes in their ratings. Our analysis reveals a notable extent of changes in ratings, as evidenced by the variations observed in the rating matrices. Our findings suggest that insurers with higher rating grades demonstrate a consistent level of stability over time. A surprising yet intriguing discovery reveals that insurers with high rating grades remain vulnerable to fluctuations in their ratings. General insurers tend to receive more ratings and show greater fluctuations in their rating grades throughout the studied period. Through the application of comparative rating transition matrices, we observe a greater diversity in rating movements following the financial crisis. Our findings indicate that general insurers exhibit a rating outlook that is less stable in comparison to both life and general insurers".

Chen, X., Yao, T., & Yu, T. (2007) revealed that "Active equity mutual funds that are managed by insurance companies tend to lag behind their peer funds by more than 1% annually. Evidence does not support the notion that insurance funds engage in less risky investments. Rather, these funds tend to exhibit lower risk-adjusted returns, and their fund flows show reduced sensitivity to performance, particularly during periods of underperformance. In the realm of insurance funds, it has been observed that those heavily invested in advertising—whether directly created by insurers or leveraging the brand names of parent companies—tend to underperform. Additionally, funds managed by individuals who also oversee significant non-mutual-fund assets are similarly prone to this trend. Our findings suggest that the attempts by insurers to cross-sell mutual funds may exacerbate agency issues, ultimately undermining the performance of these funds".

Kiragu, R. W. (2016) revealed that "There is a clear necessity for insurance companies in Kenya to enhance their performance across both life and non-life segments, with innovation recognised as a vital approach to achieving this improvement. This study aimed to explore how innovation impacts the performance of insurance companies in Kenya. The research utilised a descriptive cross-sectional design. The study utilised a census survey, focussing on the entire population of 49 insurance companies that were operational in Kenya as of December 31, 2014. We gathered primary data through the use of structured questionnaires. The analysis of data was conducted utilising the SPSS statistical package program, version 22, to perform both descriptive

and inferential statistics. The findings of the study indicate that product innovation has a positive and significant impact on organisational performance (β=57271.822, t=2.423, p<0.05), while process innovation also shows a positive and significant effect on organisational performance (β=91651.229, t=2.485, p<0.05). The analysis did not reveal any substantial connection between market innovation and performance, as indicated by the results (β=20108.084, t=0.196, p>0.05). The findings indicated that process innovation emerged as the most significant form of innovation within Kenya's insurance sector. Furthermore, the survey revealed that of the three types of innovation examined, process innovation demonstrated the most significant relationship with organisational performance, indicated by a coefficient value of 0.584, a significance level of 0.01, and a p value of 0.001. The research suggests that the leadership of insurance companies in Kenya should prioritise process innovation to enhance overall performance. Future studies could benefit from employing a longitudinal research design, incorporating multiple informants, expanding the scope of the investigation, and utilising both objective and subjective measures to evaluate performance. This will provide valuable understanding of the connection between the variables being examined".

Soekarno, S., & Azhari, D. A. (2010) revealed that "The insurance industry functions as a service sector that holds considerable importance in the economic landscape of Indonesia. The growth of the insurance industry in Indonesia, encompassing both general and life insurance, has accelerated significantly. The general insurance industry is primarily composed of two key types of entities: local private companies and joint venture companies. Recently, the application of statistical techniques and financial ratio models to evaluate financial institutions, such as insurance companies, has emerged as a suitable approach for predicting industry performance. This study seeks to differentiate between Joint Venture General Insurance Companies that demonstrate strong performance and those that are performing at a lower level, employing Discriminant Analysis as the primary method of evaluation. Additionally, the findings indicate that Discriminant Analysis can effectively differentiate between Joint Venture General Insurance Companies that demonstrate strong performance and those that do not perform as well. Six key ratios namely RBC, Technical Reserve to Investment Ratio, Debt Ratio, Return on Equity, Loss Ratio, and Expense Ratio—play a crucial role in assessing the performance of joint venture general insurance companies. Furthermore, the findings indicate that business professionals should pay attention to these six ratios in order to enhance their company's performance.".

Research Methodology

The methodology followed for the research is presented as under:

Sample Framework: The sample companies selected for the study includes "Life Insurance Corporation of India (LIC), SBI Life Insurance Company and HDFC Standard Life Insurance Company". The period of study i.e. the data taken for the research work is of seven years from 2014 to 2021.

Collection of data : The data is gathered through both primary and secondary sources.

Primary data is typically gathered through observation and surveys. Conducting surveys by engaging directly with respondents through questionnaires and personal interviews facilitates the collection of primary data. The secondary data is available from various sources such as Journals, Articles, Annual Reports issued by the selected companies, Newspapers and other published books will also be taken into consideration etc. There will be 100 samples from each company total 300 samples will be collected through primary data questionnaire.

Secondary data refers to information that has already been gathered and analysed by others. To put it differently, secondary data refers to information that is already available, having been gathered for a different objective.

Examination of data: The analysis of data will involve the application of statistical tools alongside financial techniques. To analyse and interpret data, a range of techniques, including

statistical and financial models, will be employed. To evaluate hypotheses, different significance tests are employed. such as F test, Tools, Ratio Analysis, ANOVA were conducted.

Data Analysis

As the part of the data analysis the Impact on the performance of Insurance companies is measured and for this purpose the suggested impacts are analysed using statistical technique multiple regression to measure the major ratios that are significantly used by the respondents and the results are presented as under:

Table 1 : Multiple Regression Analysis for the Impact on the Performance of Insurance Companies

Descriptive Statistics				
Variable	**SPSS code**	**Mean**	**SD**	**N**
"Impact on the performance of Insurance companies"	Ext_forces_DV	3.7933	1.250	300
Government regulation	ExtForce_1	4.2733	.94954	300
Employee competence and capacity	ExtForce_2	4.1400	.81401	300
Distribution channel	ExtForce_3	4.2867	.79997	300
Insurance Products	ExtForce_4	3.9167	1.0986	300
Market Interest rate	ExtForce_5	4.3833	.76047	300
Size of Company	ExtForce_6	3.8000	1.0850	300
Expenses on Management	ExtForce_7	4.1367	.99732	300
Enterprise financial positions and expenditure	ExtForce_8	3.6533	.89955	300
Management Expenditure	ExtForce_9	3.1867	1.0273	300
Interest Rate	ExtForce_10	3.1867	1.0434	300
Size of insurance company	ExtForce_11	2.9333	1.0193	300
Leverage	ExtForce_12	3.0033	1.1317	300
Gross written premium	ExtForce_13	2.9100	1.0641	300
Claim	ExtForce_14	3.0033	.98653	300
Reinsurance	ExtForce_15	4.5233	.50029	300
Sales Profitability	ExtForce_16	4.4333	.62197	300
Investment Income	ExtForce_17	4.4067	.61852	300
Underwriting Profit	ExtForce_18	4.4733	.65630	300
Proportion of assets and liabilities with banks	ExtForce_19	4.3200	.57040	300

Model Summary									
Mod	R	R^2	Adj.R^2	SE	Change Statistics				
					R^2	F e	df1	df2	Sig.
6	.595[f]	.354	.341	1.01453	.013	6.064	1	293	.014
a. Pre.: (C), ExtForce_2									
f. Pre.: (C), ExtForce_2, ExtForce_19, ExtForce_5, ExtForce_17, ExtForce_8, ExtForce_12									

ANOVA[a]						
M		SS	df	MS	F	Sig.
6	Reg.	165.610	6	27.602	26.817	.000[g]
	Res.	301.576	293	1.029		
	Total	467.187	299			

Coefficients[a]											
Mod		Unst. Co.		St. Co.	t	Sig.	r			CS	
		B	SE	B			o-order	Part.	P.	Tol	VIF
6	(C)	2.773	.681		4.073	.000					
	ExtForce_2	.702	.078	.457	8.981	.000	.469	.465	.422	.851	1.175
	ExtForce_19	-.503	.105	-.229	-4.784	.000	-.226	-.269	-.225	.959	1.043
	ExtForce_5	.348	.087	.211	3.993	.000	.267	.227	.187	.786	1.273
	ExtForce_17	-.400	.102	-.198	-3.935	.000	-.038	-.224	-.185	.869	1.151
	ExtForce_8	.258	.071	.186	3.656	.000	.132	.209	.172	.855	1.170
	ExtForce_12	-.138	.056	-.125	-2.462	.014	.000	-.142	-.116	.854	1.171
a. DV: Ext_forces_DV											

The summary of regression result revealed:

Adjusted R^2 value (The Accuracy of the Model) = .341

ANOVA F value (the Model Fitness Index) = 26.817

Sig. in ANOVA (Model fitness for Future) = .000g

Constant = Ext_forces_DV

Variable Selected= ExtForce_2, ExtForce_19, ExtForce_5, ExtForce_17, ExtForce_8, ExtForce_12

Conclusion

The results with the value of adjusted R square 34.1% reveals that for the dependent variable Ext_forces_DV, 6 independent variables ExtForce_2, ExtForce_19, ExtForce_5, ExtForce_17, ExtForce_8, ExtForce_12 is showing the satisfaction of the respondents for "impact of various external forces on the performance of Insurance companies used to measure performance of Life Insurance Companies in India. The above stated that the model is found fit with the Value of ANOVA 26.817 which is Significant ($p<0.05$)". Employee competence and capacity (ExtForce_2), Market Interest rate (ExtForce_5), Enterprise financial positions and expenditure (ExtForce_8), Leverage (ExtForce_12), Investment Income (ExtForce_17) and Proportion of assets and liabilities with banks (ExtForce_19) are measured the impact of

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