International Journal of Current Advanced Research
ISSN: O: 2319-6475, ISSN: P: 2319-6505, Impact Factor: 6.614
Available Online at www.journalijcar.org
Volume 8; Issue 05 (A); May 2019; Page No.18530-18532
DOI: http://dx.doi.org/10.24327/ijcar.2019.18532.3544

Research Article

A STUDY ON PROFITABILITY ANALYSIS OF INSURANCE COMPANY

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A R T I C L E I N F O

Article History:
Received 6th February, 2019
Received in revised form 15th March, 2019
Accepted 12th April, 2019
Published online 28th May, 2019

Key words:
profitability

A B S T R A C T

The main objective of this study was to find out the profitability of insurance company. The profitability of a life insurance company is critically dependent on its operating and financial activities. Operating activities consist of insurance operations such as selling new policies and providing services to existing policies. Financial activities consist of investing the premiums of policies in viable opportunities. The profits from operating activities can be calculated as the difference between premium income and the total cost of operations, whereas the profit from financial activities is calculated as the difference between actual returns on investment and the returns credited to the policies. Success in the life insurance industry depends on the insurer's ability to control costs and on various intangibles, such as clientele and business-risk preferences, marketing skills, reputation, and perceived quality of services.

INTRODUCTION

management can earn profit by making use of all the available resources in the market. Harward and Upton say, "Profitability is the ability of a given investment to earn a return from its use." However, the term 'profitability' is not synonymous to the term 'Efficiency'. Profitability is an index of efficiency and is regarded as a measure of efficiency and management guide to greater efficiency. Though, profitability is an important indicator for measuring the efficiency, the extent of profitability cannot be taken as a final proof of efficiency. Sometimes satisfactory profits can mark inefficiency and also, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply reveals a satisfactory balance between the values received and value given. The change in operational efficiency is merely one of the factors on which profitability of an enterprise largely depends.

Statement of the Problem

The state of profitability in insurance sector was a matter of concern. A close scrutiny of the companies' annual financial statements revealed that solvency and liquidity ratios were low which pointed to poor financial health in the sector. Profitability was a key financial performance measure and yet there was no absolute consensus on the tools of measuring it. Previous empirical studies concerning the subject matter had employed Gross Profit Margin, Net Profit Margin, and Earnings before interest tax and depreciation, Return on Assets (ROA) and Return on Equity (ROE) as preferred proxies for evaluating financial performance. . Based on the research problem of the study the following research questions (RQ) are formulated,

RQ1. How to measure the profitability of the insurance company?

RQ2. How to analysing the growth of the insurance company?

Objectives

The Objectives are Geared Towards the Following

1. To analyse the growth of the company
2. To compare the profitability ratio of the company

Literature Review

Sambasivam and Ayele (2013) in Ethiopia used a smaller sample of 9 insurance companies. In determining profitability, the study identified seven factors as regresses namely: volume of capital, growth rate, company age, company size, leverage ratio, liquidity ratio, and tangibility of assets. The results that were derived from the regression indicate a positive and significant relationship between ROA – firm size, ROA – firm growth, and ROA – volume of capital. Meanwhile, there is a significant negative relationship between ROA and leverage ratio and, ROA and liquidity ratio (2 explanatory variables), while a negative yet insignificant relationships between ROA and company age, and ROA and tangibility of assets, (2 explanatory variables) respectively, were observed.

Amal *et al* (2012) investigated various factors that affect financial performance of twenty five insurance companies in Jordan during the period 2002-03 to 2007-08. The result

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showed that variables such as leverage ratio, liquidity, size of company, and management competence have a positive statistical effect on the financial performance of insurance companies. However, age of the company was found to have no influence on their performance that encourages new entrances into insurance industry. The researcher suggested that insurance companies should have high consideration of increasing assets and well qualified employees in the top managerial positions that leads to a better financial performance.

Hifazmalik (2011) investigated the determinants of profitability in insurance companies of Pakistan. Specifically, the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio and loss ratio) on profitability proxies by ROA. The findings show that there is no relationship between profitability and age of the company and there is significantly positive association between size of the company and profitability. The result also shows that the volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio showed negative but significant relationship with profitability.

Adams & Buckle, (2000) A factor determining financial performance of the insurance companies is the underwriting risk, which reflects the adequacy, or otherwise, of insurers' underwriting performance. Sound underwriting guidelines are pivotal to an insurer's financial performance. It depends on the risk appetite of the insurers. It is usually measured as the ratio of benefits incurred to net premium.

METHODOLOGY

The term research refers to the systematic approach concerning generalization consisting of collection of data / facts, analysing the data, and reaching certain conclusions for theoretical formulation**.** The research design is purely and simply the frame work plan for a study that guides the collection and analysis of data. The function of the researcher is to ensure that requires the data collected are accurate and economic. Descriptive type of study in carried out. The study has quantitative data which been collected from secondary sources. Secondary data were gathered from audited financial statement of Insurance Company. It includes the balance sheet, annual report, manuals and websites of insurance company. Toanalysis the profitability of the Insurance Company. The following statistical tools are used suitable bar diagram. The tools used for analysis are:

1. Compound Annual Growth Rate
2. Correlation

Compound annual growth rate analysis is used to measure the growth of the insurance company. Correlation analysis is used to investigate the relationship between company's profitability ratios.

RESULT AND DISCUSSION

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

Table 1 Compound Annual Growth Rate

Year	Begin of the yr	End o the yr	N	Cagr
2013	10961959	-	-	-
2013-2014	-	11645276	1	6.23353
2014-2015	-	12032030	2	4.767207
2015-2016	-	12022149	3	3.125162
2016-2017	-	12378969	4	3.085855
2017-2018	-	13249107	5	3.862719

Compound annual growth rate is used to measure the company's growth and development. From the above table shows the compound annual growth rate is 6.23 for the year of 2013-2014. Then it has been decreased for the last four years. So it shows the compound annual growth rate of the company for the last four years are not satisfactory. But 2017-2018 compound annual growth rates were slightly increased.

Correlation Analysis

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel. A negative correlation indicates the extent to which one variable increases as the other decreases.

Table 2 correlations

		gross profit margin	net profit margin	ebitda	return on asset	return on equity
Gross profit margin	Pearson Correlation	1	-.574	-.617	.632	-.385
	Sig. (2-tailed)		.312	.268	.253	.615
	N	5	5	5	5	4
Net profit margin	Pearson Correlation	-.574	1	.939*	-.702	.974*
	Sig. (2-tailed)	.312		.018	.186	.026
	N	5	5	5	5	4
Ebitda	Pearson Correlation	-.617	.939*	1	-.484	.879
	Sig. (2-tailed)	.268	.018		.408	.121
	N	5	5	5	5	4
Return on asset	Pearson Correlation	.632	-.702	-.484	1	-.735
	Sig. (2-tailed)	.253	.186	.408		.265
	N	5	5	5	5	4
Return on equity	Pearson Correlation	-.385	.974*	.879	-.735	1
	Sig. (2-tailed)	.615	.026	.121	.265	
	N	4	4	4	4	4

*. Correlation is significant at the 0.05 level (2-tailed).

The above table shows correlation between gross profit margin and net profit margin is medium negative relationship. EBITDA and gross profit margin is medium and highest negative correlation. Return on asset and gross profit margin is positively medium correlation. Return on equity and gross profit margin is low negative correlation. EBITDA and net profit margin is highly positive correlation. Return on asset and net profit margin is medium and highest negative correlation. Return on equity and net profit margin is highly positive correlation. Return on asset and EBITDA is low negative correlation. Return on equity and EBITDA is highly positive correlation. Return on asset and return on equity is medium and negative correlation.

Findings

Compound Annual Growth rate

The company's growth and development in the last year is lower than the previous years.

Correlation Analysis

In correlation analysis, positively correlated ratios are return on asset and gross profit margin, EBITDA and net profit margin, return on equity and net profit margin, return on equity and EBITDA. Negatively correlated ratios are gross profit margin and earnings before interest tax and depreciation, return on equity and gross profit margin, and return on asset and earnings before interest tax and depreciation.

SUMMARY AND CONCLUSION

The management profitability is one of the most important financial decisions of a business. Insurance is a tool by which fatalities of a small number are compensated out of funds collected from plenteous. Insurance is a safeguard against uncertain events that may occur in the future. Company image is the highly important criteria that consumer consider before taking up a life insurance. This is mainly because people expect safety and secure for their money which they invest, followed by the factor premium which we pay to the insurer and then bonus and interest paid by the company, service etc. the future growth of the insurance sector will depend on how effectively the insurers are able to come up with product designs suitable to our context and hoe effectively they are able to change the perception of the Indian consumers and make them aware of insurable risks and It brings into the more profitability. The future growth of insurance also depends on how service oriented insurers are going to be. On the demand side, the rise in income will trigger the growth of the physical and financial asset.

However, servicing of the large domestic market in India is a real challenge. Some of these challenges pertain to the demand conditions, competition in the sector, product innovation, delivery and distribution systems, use of technologies and regulations.

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How to cite this article:

Sivapriya Sellathurai and Hemavathy Ramasubbian (2019) 'A Study on Profitability Analysis of Insurance Company', *International Journal of Current Advanced Research,* 08(05), pp. 18530-18532.
DOI: http://dx.doi.org/10.24327/ijcar.2019.18532.3544

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