

Financial Performance Of Oriental Insurance Company Ltd

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Abstract

Insurance is been an vital part of the Indian Financial system, after 17 years of Liberalization of Insurance Industry in India, it has taken a new trajectory as many life insurers have managed to list themselves in the Indian bourses. The Indian Insurance is growing faster since 2000, as it has been liberalized after more than 50 years, where private life insurers have entered the insurance sector with innovative practices leading to more business as it clearly needs a lot of finance that can now be mobilized through the cleaner equity capital from a longer perspective. The Oriental Insurance Company actions adds to transparency, governance, accountability after liberalization of sector and also to improve the focus towards profitability of the Indian Insurance Industry. This study attempts to measure the financial performance of oriental insurance company ltd.

Keywords: Life Insurers, Financial system, Profit after tax, Net premium, Net Claim, Investment Income, financial performance

Introduction

Insurance is the backbone in managing the risk of the country. The insurance providers offer diversity of products to business, providing protection from risk thereby ensuring financial security. It helps individual and organization to minimize the consequences of risk which impart significant cause on the growth and development of insurance industry. Indian insurance industry is facing major challenges in reaching out willing customers, providing them services, acquiring and retaining players, product and distribution innovation etc. Apart from addressing the challenges of customers, improving the performance to achieve profitable growth is another big challenge faced by Indian life insurers. To sustain the profitable growth, private companies are struggling in spreading awareness about need of insurance, developing brand strength, meeting regulatory demands, establishing wide network of distribution channels and setting infrastructure. Oriental insurance sector anticipate different segments of customers with different needs thereby raising the importance of new and competitive dynamics.

To emerge as winners they reconsider strategies which help them to have a sustainable and profitable business.

Growth of Life Insurance Industry

At the time of opening of the insurance sector in India there was no cut throat competition in the market. Till 2021, there was only one life insurance company operating in India i.e. Life Insurance Corporation (LIC) in the public sector. Indian government allowed privatization in insurance industry in 1999 setting up Insurance Regulatory Development Authority (IRDA) to regulate and develop insurance industry. IRDA issued licenses and has opened life insurance market to private companies. As a result, insurance sector in India has grown at a rapid rate after liberalization in 1999 and private players have been allowed to enter in life insurance market in India. The Indian Life insurance industry expanded tremendously from 2000 onwards in terms of premium income, new business policies, number of offices, agents, products, riders etc. Insurance industry in India is moving through a phase of high growth which is led by players who tries to change the dynamics of market through modernization and improvement. Presently in 2012-13 there are 23 private life insurers and 1 public life insurers operating in India. According to McKinsey study 2007, it was estimated that India is likely to emerge as the fifth largest market in the world by 2025.

Profile - OICL

The Oriental Insurance Company Ltd. was incorporated at Mumbai on 12th September 1947. The Company was a wholly owned subsidiary of The Oriental Government Security Life Assurance Company Ltd and was formed to carry out General Insurance business. The Company was a subsidiary of Life Insurance Corporation of India from 1956 to 1973 (till the General Insurance Business was nationalized in the country). In 2003 all shares of our Company held by the General Insurance Corporation of India were transferred to the Central Government.

The Company is a pioneer in laying down systems for smooth and orderly conduct of the business. The strength of the Company lies in its highly trained and motivated work force that covers various disciplines and has vast expertise. Oriental specializes in devising special covers for large projects like power plants, petrochemical, steel and chemical plants. The Company has developed various types of insurance covers to cater to the needs of both the urban and rural population of India. The Company has a technically qualified and competent team of professionals to render the best customer service.

Oriental Insurance made a modest beginning with a first year premium of Rs.99, 946 in 1950. The goal of the Company was “Service to clients” and achievement thereof was helped by the strong traditions built up overtime.

ORIENTAL with its Head Office at New Delhi has 29 Regional Offices and nearly 1800+ operating offices in various cities of the country. The Company has overseas operations in Nepal, Kuwait and Dubai and has a total strength of around 13500 employees. From less than a lakh at its inception, the gross premium went up to Rs.58 crores in 1973 and at the end of the year 2018-19 the premium figure stood at Rs.13199 crores.

Research Methodology

The study is based upon secondary data which has been collected from annual reports of IRDA. Besides, a few websites have been consulted. The study covers the time period of 5 financial years i.e. 2006-07 to 2019-20. For determining the financial performance, financial ratios like current ratio, solvency ratio, return on asset ratio and leverage ratio is calculated for Oriental Insurance taking into consideration liquidity, solvency, profitability and leverage of the company.

Source of data

For purpose of this study, secondary source of data were used. The secondary source of data were collected from all relevant documents such as books, journal articles, published and unpublished research papers, reports of financial statement, and performance measures of insurance company through the Annual Report of Oriental Insurance.

Data Processing Methods

Editing and sorting of the secondary data were done to determine the completeness of the data manually. All the secondary data processing was done manually and electronically and analyzed through help of SPSS version 20.0.

Objective of the study

- ✓ To analyze the financial performance of Oriental Insurance
- ✓ To measure the productivity using the output maximization model

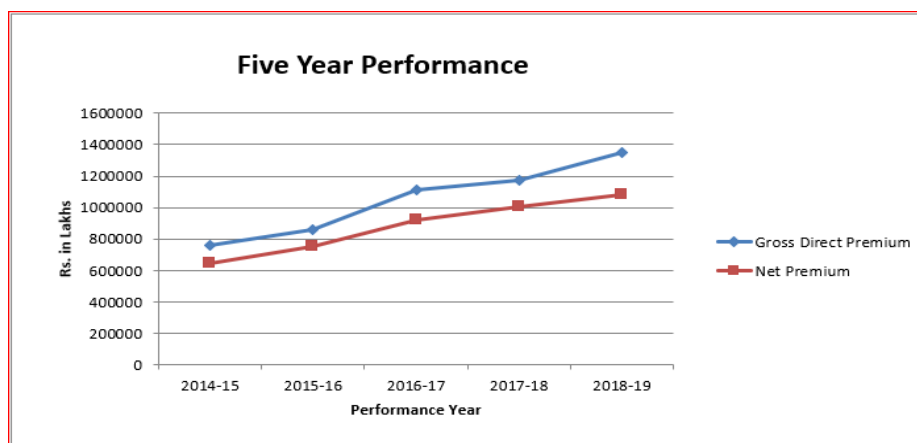
Analysis and Interpretation

FINANCIAL PERFORMANCE

The Financial Results for the FY 2018-19 reflect that our Company has registered a positive Growth Rate of 15% on gross basis and underwritten Global Premium of Rs. 13484.75 crores as against Rs. 11736.84 crores in the year 2017-18. Our net premium was Rs. 10845.39 crores in the year 2018-19 in comparison to Rs. 10028.23 crores in the year 2017-18, registering a growth of 8%.

CHART –I

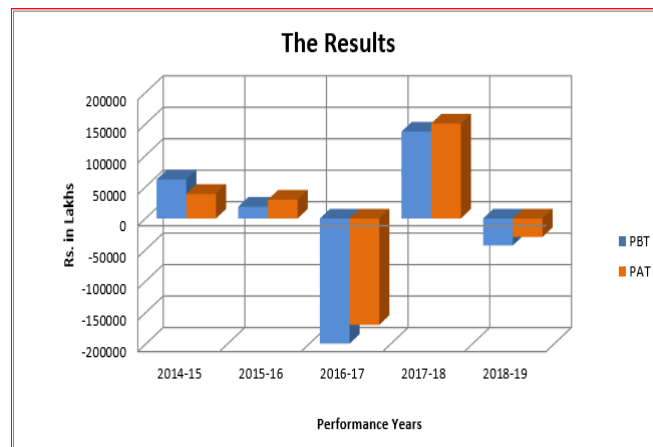
Five Years Financial Performance



The Operating Deficit, after taking into account the Policyholder’s income, amounted to Rs. 1217.40 crores in the FY 2018-19, as compared to a surplus of Rs. 1147.64 crores in 2017-18, mainly on account of the increase in Management Expenses and Incurred Claims.

This year, we recorded a loss before tax of Rs. 428.99 crores as compared to a profit of Rs. 1382.28 crores in the last year as all the liabilities were accounted as per best actuarial estimates in the FY 2018-19 and the Company had no carryover of previous liabilities. We ended up with a loss after tax of Rs. 293.66 crores in the FY 2018-19 as compared to a profit of Rs. 1509.89 crores in the year 2017-18.

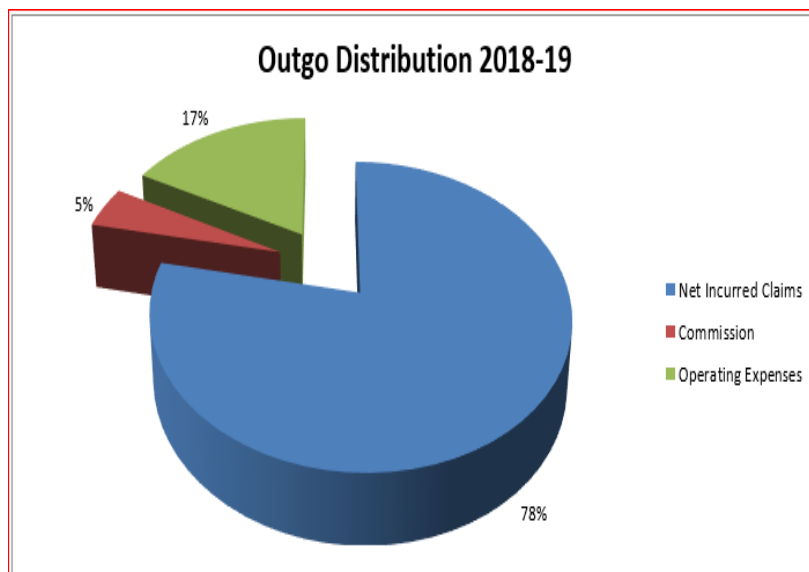
CHART –II



The Operating Expenses during the year 2018-19 amounted to Rs. 2465.52 crores as compared to Rs. 2692.99 crores in the year 2017-18 thus resulting in a decrease of Rs. 227.47 crores.

CHART –III

Outgo distribution

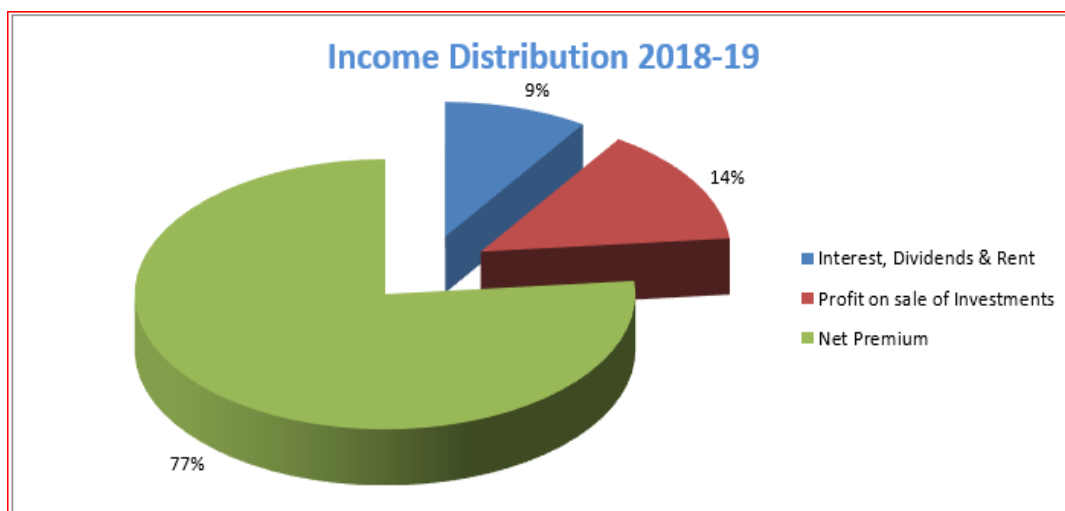


financial performance of oriental insurance company ltd

Profit on Sale of Investments was Rs. 2002.33 crores in the year 2018-19, as compared to Rs. 2007.57 crores in the year 2017-18 whereas Income from Interest, Dividend & Rent was recorded as Rs. 1317.14 crores during the current year in comparison to previous year's figure of Rs. 1315.26 crores.

CHART –IV

Income Distribution



Our Foreign Operations of Nepal, Dubai, Kuwait & Qatar registered a Gross Premium of Rs. 285.43 crores and a net deficit of Rs. 13.37 crores in 2018-19 as against a Gross Premium of Rs. 284.83 crores and a net surplus of Rs. 1.62 crores in the year 2017-18. The Solvency margin as on 31.3.2019 stood at 1.57.

The world renowned rating agency, AM BEST has also maintained our rating at “B++” (very good). We continue being consistently given the highest rating by CRISIL and ICRA also.

FINANCIAL PERFORMANCE OF THE COMPANY

	Fire		Marine		Miscellaneous		Total	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Gross Direct Premium: In India	99060	92300	32938	29374	1187934	1023527	1319932	1145201
Outside India	7673	7363	1990	2090	18880	19030	28543	28483
Gross Direct Premium Total	106732	99663	34928	31464	1206815	1042557	1348475	1173684
Net Premium	61952	58439	19781	21707	1002806	922677	1084539	1002823

Ratio of Net to Gross	58.04%	58.64%	56.63%	68.99%	83.09%	88.50%	80.43%	85.44%
Profit on Sale of Investments (Policy Holders')	14669	13999	5024	5474	142229	162263	161922	181736
	-23.68%	-23.96%	-25.40%	-25.22%	-14.18%	-17.58%	-14.93%	-18.12%
Int./Div./ Rent (Policy Holders')	9649	9172	3305	3586	93558	106307	106512	119065
	-15.57%	-15.70%	-16.70%	-16.52%	-9.33%	-11.52%	-9.82%	-11.87%
Commission and other income (Net Income(+)/ Net Outgo (-))	-8571	-9588	-2050	-2137	-55508	-51725	-66129	-63450
	(- 13.83%)	(- 16.41%)	(- 10.36%)	(- 9.84%)	(-5.54%)	(- 5.61%)	(-6.10%)	(- 6.33%)
NPA (Provision (-)/ Write back(+))	-635	72	-218	28	-6159	829	-7012	929
	(-1.02%)	-0.12%	(- 1.10%)	-0.13%	(-0.61%)	-0.09%	(-0.65%)	-0.09%
Diminution in value of shares (-)/ written back (+)	-43	13	-14	5	-418	150	-475	168
	(-0.07%)	-0.02%	(- 0.07%)	-0.02%	(-0.04%)	-0.02%	(-0.04%)	-0.02%
Increase (-)/ Decrease (+) in unexpired risks reserve	-1757	599	1058	1308	-23689	-41930	-24388	-40023
	(-2.84%)	-1.02%	-5.34%	-6.03%	(-2.36%)	(- 4.54%)	(-2.25%)	(- 3.99%)
Net Incurred claims	-67716	-50957	-13890	-16091	-1043202	-755074	-1124808	-822122
	(- 109.30%)	(- 87.20%)	(- 70.22%)	(- 74.13%)	(- 104.03%)	(- 81.84%)	(- 103.71%)	(- 81.98%)
Expenses of Management	-22176	-20402	-3215	-2953	-219473	-237588	-244864	-260943
	(- 35.80%)	(- 34.91%)	(- 16.25%)	(- 13.60%)	(- 21.89%)	(- 25.75%)	(- 22.58%)	(- 26.02%)
Amortization expenses	-240	-192	-82	-75	-2331	-2226	-2653	-2493
	(-0.39%)	(- 0.32%)	(- 0.41%)	(- 0.35%)	(-0.23%)	(- 0.24%)	(-0.24%)	(- 0.25%)
Investment Written off	-70	-105	-24	-41	-680	-1219	-774	-1365
	(-0.11%)	(- 0.18%)	(- 0.12%)	(- 0.19%)	(-0.06%)	(- 0.13%)	(-0.07%)	(- 0.13%)

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Premium Deficiency	-3610	0	0	439	0	0	-3610	439
	(-5.83%)			-0.02%			(-0.33%)	-0.04%
Net Operating Profit / (Loss)	-18548	1050	9675	11250	-112867	102464	-121740	114764
	(-29.94%)	-1.80%	-48.91%	-51.83%	(-11.25%)	-11.10%	(-11.22%)	-11.44%
Interest, Dividends & Rent (Shareholders')							25201	12462
Profit on sale of Investments (Shareholders')							38310	19021
Other Income/ Outgo							10492	-6527
CSR Expenditure							-722	-669
Prior period Income / Expenses							5560	-823
Profit (+) / Loss (-) before Tax							-42899	138228
IT deducted at source and Provision for Tax							0	-24800
Provision for Tax for earlier years							13533	37561
Net Profit/ Loss after Tax							-29366	150989
Transfer to General Reserve / Contingency Reserve							-29366	150989
Provision for Dividend							0	0
Corporate Dividend Tax							0	0

Sources: <https://orientalinsurance.org.in/financials>

CONCLUSION

Oriental insurance company are an essential component of a nation as it plays a crucial role in ensuring overall financial and economic stability. The future profitability of insurance industry holds immense importance for maintaining financial stability of the overall financial sector. It has thus become imperative to determine the factors that influence the financial performance of these firms. While such studies did not get precedence in the past, over the last few years, the number of studies conducted in this regard has been increasing. However, the derived results vary as per the change in countries. This implies that, one model of determining financial performance cannot be replicated in all circumstances. Despite the scenario, the studies that help determine factors that have financial performance of Oriental insurance company is minimal.

The study concludes that the most influencing factors for the financial performance in Indian life insurance companies are firm size and long-term investment. Along the same line, overinvestment in long-term investments should be critically considered as it can have adverse effect on future

profitability of Oriental insurance company. Oriental insurance company should increase their size only after careful examination over financial performance as it can result in diseconomies of scale and reduce the firm's profitability. Further, it also concludes that the financial performance decreases moderately with the increase in short term debt and operational years in Oriental insurance company. Thus, in order to optimize profit, the companies should focus on the management of their total asset, long-term investment, current assets and current liabilities. The future research studies may focus on using panel data analysis including other factors such as loss ratio, operating margin, premium growth, and tangibility as independent variables.

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