
Abstract

Insurance is primarily a social device adopted by civilised society to reduce the uncertainty towards unforeseen contingencies. Since 1818, the life insurance industry crossed many milestones and has contributed significant impact in the insurance market as well as in the country's growth. Life Insurance is one of the fast-growing sectors in India, growing at the rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development. Insurance sector is strengthening the risk-taking ability of the country.

The Indian Life Insurance industry has matured significantly after globalisation and has witnessed intense competition, a significant expansion of customer base, number of product and operational innovations. There has been an increased use of technology, financial engineering & actuarial science in private sector life insurance business in last decade. However, it has been observed that private players are facing slow growth, rising costs, deteriorating distribution structure and stalled reforms. The Regulator, IRDA, is tightening and standardising rules of the business to protect the interest of policyholders. Therefore, it is a big challenge for private players to sustain their growth in a continuously changing environment with various laws prevailing in India and competition with a giant dominant public player, i.e. Life Insurance Corporation of India. For the improvement in growth of the business, it is very pertinent to analyse past, modelling for future with assessing of risks exposed by insurers from time to time. It will enable in making financial decisions more confidently.

The review of literature provides a strong base to understand the life insurance business thoroughly. It has taken into consideration exhaustive reading, scrutiny, collection and retrieval of literature in the field of life insurance. Constructive analysis of the compiled information in the rigorous literature review contributes to the present corpus of knowledge in terms of proposed improvement in financial management practices of the private life insurance companies in India. The primary objective of the research study is to identify, understand and analyse various financial management practices adopted and followed by selected private sector life insurance companies to improve their performance and financial soundness. Analysis of Financial Management practices of

life insurance companies based on their operational efficiency, financial soundness, risk management and most important the way management of funds towards the settlement of policyholders' liabilities and meeting the expectations of shareholders' is executed by evaluating their investment pattern and the yield on investment.

The whole research work has been segregated into seven chapters covering the parameters of research described above for all selected companies for the period from 2007-08 to 2016-17. Procurement, allocation and control of financial resources have emerged as the key factors to maximise the income of the business and wealth of shareholders, which has been the prime focus of the research.

The first chapter of the study begins with the overview of the life insurance industry from inception to modernisation with evolution, growth and regulatory updates followed by research methodology and a brief profile of selected companies.

The second chapter consists of an extensive literature review in order to find out the gap in research.

Chapter three deals with an analysis of operating efficiency of selected private life insurance companies in India. This chapter has been divided into two parts: the first part emphasised mainly on the growth of significant parameters of business operation using descriptive statistics and mean comparison analysis, whereas the second part focused on operating efficiency taking into consideration all 23 private life insurance companies using DEA. However, detailed analysis has been carried out for 8 selected companies.

Life insurers procure funds mainly from the premium collection. Part one of this chapter revealed that private sector companies have been found to have attained maturity and operating efficiency by controlling operating expense, claim and commission paid to increase premium income and investment income. Part two of this chapter revealed scope for improvement in both technical efficiency as well as scale efficiency in order to increase the premium income.

Chapter four analyses the financial soundness of selected life insurers using financial soundness indicators in the form of CAMEL framework and evaluated factors contributing to financial soundness. Moreover, factors contributing to the financial soundness is evaluated using Principal Component Analysis (PCA): a data dimensionality reduction technique. The result of PCA revealed four components with a linear combination of eleven components. It has influenced significantly to the financial soundness of the private life insurance companies in India. This analysis helps

to control financial resources in order to understand financial management practices with regards to increase premium income.

Chapter five is concerned with the allocation of resources and maximisation of wealth of shareholders. It has analysed and understood financial management practices as regards investment pattern and the yield on investment by using descriptive statistics and mean comparison analysis. It revealed no significant difference among selected companies because of stringent regulatory norms issued by IRDA in protection of policyholders. Carrying value of investment i.e., AUM has also been analysed fund wise with the help of year-on-year growth, average, CAGR and CV. Moreover, the present study has devised a new formula to measure the short-term wealth of shareholders per rupee of investment. The financial management practices with respect to shareholders wealth has been assessed and evaluated with the help of descriptive statistics, correlation, and multiple regression. It is worthwhile to note that an increase in the amount of capital significantly reduces the wealth of shareholders. However, an increase in reserves & surpluses and MV AUM significantly increase the wealth of shareholders. Effective management of AUM is the backbone of the insurers finance that leads to increase in the wealth of shareholders.

Chapter six explores risk management practices as regards various risk exposures in the context of regulatory risk management prescriptions. In order to control the resources, each selected company has their own enterprise risk management framework with different strategies to avoid the risk. Moreover, risk management practices have been examined with the help of conservation ratio, persistency ratio, claim ratio and retention ratio. It reveals that all selected companies have managed to successfully sustain their business by handling their underwriting and actuarial risk. This analysis helps to control financial resources in order to understand financial management practices with regards to increase premium income.

Chapter seven summarises major findings on financial management practices followed by selected private sector life insurance companies in India. Based on findings meaningful recommendations are offered to insurers, policyholders, investors, regulators, and other users for better understanding of the financial management practices of private life insurance companies in India. This chapter has also presented summative statements, conclusion, and SWOT analysis of companies, followed by future scope for the study.