

Study on Financial Performance Metrics of LIC, SBI Life, and HDFC Life Insurance Companies in India
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Abstract

The Indian life insurance industry has grown at a high rate and witnessed a lot of competition as the industry has permissible the private company into the insurance industry, in addition to the veteran life insurance group Life Insurance Corporation of India (COMPANY). This paper will be based on a comparative analysis of the financial performance of three big life insurance companies LIC, SBI life and HDFC Life, in the aspect of both the government and the non-government sectors. The project would measure the companies in terms of critical financial performance measures that include Return on Assets (ROA), Return on Equity (ROE), Net Premium Earned, Solvency Ratio and Claim Settlement Ratio within a specified period of time. Tangential information is obtained as secondary data, which is sought in the annual reports, publications by IRDAI, and other dependable financial sources of information. The financial strength, commercial success and efficiency of operations are measured in the study using ratio analysis, and trend analysis. The results show two differences that are worth noticing in the financial performance as LIC achieves the dominance they have kept compared to both competitors SBI Life and HDFC Life in the sphere of market share and claim settlement; the two others show more fluidity in their features of profitability and innovation. The paper provides useful information to the investors, policyholders, regulators, and management stakeholders in decision-making regarding the Indian insurance industry.

Keywords: LIC, SBI Life, HDFC Life, Financial Performance, Insurance Sector, ROE, ROA, Solvency Ratio, Comparative Analysis

Introduction

Indian insurance industry has undergone an extraordinary revolution since opening up of the industry to the private insurance providers in the year 2000 which was characterized with the introduction of the providers into the market and the penetration of the insurance products

among the people. Life insurance makes the special position among the many financial services industry as it is a type of insurance that covers a risk; hence, its duality as it serves the purpose of a long-term savings vehicle. With wide customer reach and customer confidence, Life Insurance Corporation of India (LIC) is the oldest and the only living life insurance company belonging to the public sectors and it has long enjoyed the status of a market leader. The entry of the private companies such as SBI Life Insurance and HDFC Life Insurance brings with it greater competition and hence the need to conduct a viable financial performance analysis of such firms. Effective life insurance industry can help in enhancing financial system in terms of mobilisation of savings, direction of long term investment, and financial insurances of an individual. The economic success of insurance firms is a key metric and measurement of their sustainability, operational effectiveness, profitability and administrative capacity to honor their insurance policies. Therefore, it is imperative that a comparison of the financial performance of key players be done by stakeholders, such as investors, regulators, policymakers and consumers.

LIC, SBI life and HDFC Life have become major competitors in their different ownership structure, business strategies and market place. Being a public sector giant, LIC works with the broadest base of customers, a high brand name and coverage through a huge network of agents. Conversely, the SBI Life and HDFC Life being enterprises of the private sector have proved to be quick to adapt technology, innovate products, and have less operational strain. CICs and SCICs have differences in their financial statements which depict varying strategies regarding management of risks, generation of investment income, and acquisition of customers. This study will evaluate and compare the financial-health of these three insurers by shedding light on the critical financial ratios that include Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, Solvency Ratio, Claim Settlement Ratio, and Premium Growth Rate. These indicators give a clear picture of profitability, liquidity, solvency and efficient operations of the insurers.

Indian life insurance industry is constantly transforming as consumers become more aware, Insurance Regulatory and Development Authority of India (IRDAI) takes care of the regulatory functions, and there are new technological interventions. Although the advent of COVID-19

was a difficult factor in its influence on the economy, combined with revenue fluctuations and altering demographics, life insurance market players have tried to evolve and ensure financial and trustworthy stability among customers. By finding out more details about their financial results and analyzing them within a specific time afterwards, one will be able to understand more about their flexibility, reaction to the situations, and competitiveness. As LIC gets ready to go to IPO, and more transparency in the deals of the private sector players, the comparative financial analysis is becoming increasingly important. It facilitates benchmarking of one company over another and gives policy-improvement and business strategy alignment direction.

In this research paper, the secondary data is used to support the assessment of financial performance using the annual reports of companies, periodical financial disclosures made by IRDAI, and regulatory filings. The use of a comparative framework will facilitate the definition of strength and weaknesses existing between the chosen insurers, which is going to reflect on the areas where a target insurer is prevailing over others. As an example, a high solvency ratio on a regular basis shows that good capital adequacy is maintained and a high claim settlement ratio depicts customer centric operation. Meanwhile, such business scalability and shareholder value creation indicators as premium growth and the ROE are useful when assessing the business.

This study is reduced to the three most powerful actors in Indian life insurance market, LIC, SBI Life, HDFC Life, which provide balanced perspective on both sides of the spectrum of public and private sector. LIC still dominates historically and covers a large range, but it is competitive and innovative due to the entry of the players. These companies are also likely to be instrumental in defining the future of financial inclusion and social protection as the sector keeps expanding due to a favorable demographic dividend, increased awareness of insurance, and financial inclusion. This is why a comparison based on the performance can assist investors in their informed decisions as well as in defining best practices and regulatory requirements.

To sum up, the issue of financial performance of life insurance companies lies beyond the problem of whether they are profitable or not but is a wider picture on how these insurance

firms contribute to the risk management, savings mobilization and macroeconomic stability. This is a case of comparative study between the LIC, SBI Life and HDFC Life companies; this case can give good insight to the role of organizational structure, strategic focus and market dynamics in the result of finance. This study aims at filling this knowledge gap as it provides an analytical perspective of the performance of these two insurers in comparison with objective financial indicators. It is anticipated that the outcome of the research would have value with regard to the literature, policy discourses, and industrial standards.

Literature Review

Financial performance of the life insurance companies has become a pressing issue of study among the scholars, policymakers, and the industry analysts, especially in the small developing countries like India. Life insurance industry is critical in terms of financial intermediation and risk management and it has been found to make up a considerable amount of national savings and investments. Liberalization and competition have made it essential to measure and compare the financial performance by insurers to determine the efficiency of their operations, solvency, profitability and sustainability in the long run.

Comparative studies of financial performance of LIC and other prominent names in the industry of life insurance in India were published by Singh and Vashishtha (2017) which depicted that LIC still led the way in respect to net premium income and the claim settlement ratio. But, the operational costs were better handled and the profitability ratios were high by the private players. In their study, they focused on the significance of product innovation and customer centric behaviors in terms of improving financial performance.

Bharti and Kumar (2018) analyzed the solvency ratio, claim settlement ratio, and profitability ratio of life insurance firms in terms of financial performance. They indicated in their findings that although they had a larger customer base and the public sector insurer had more customers, the private companies such as the SBI Life and HDFC Life were showing a good return on equity and effective use of assets. In the study, it was concluded that operational strategies and investment choices have a major effect on the financial metrics.

Tripathy and Pal (2019) focused on the analysis of the influence of the structure of ownership on the financial fuel of the Indian insurance company. They found out that privately insured players were faster in changing toward the use of digital technology and risk management techniques, which resulted in enhanced return on assets (ROA) and on equity (ROE). In contrast, LIC could keep up its financial stability because of its large number of agents and brand loyalty even though it earned less profit.

Kaur and Sandhu (2016) addressed the issue of profitability of life insurance companies and emphasized that though LIC possessed the highest market share, the growth of gross written premiums and profits demonstrated by the private insurance firms grew more. It was also within the research study that the balanced treatment of regulatory compliance, product design, and customer satisfaction was recommended to enhance the financial performance of the industry.

Jaiswal and Tiwari (2020) used the ratio analysis as the method to evaluate the financial performance of the chosen insurance companies within the five years. They found out that the key indicators involved in determining the financial soundness were solvency margins and net premium income. They also highlighted the importance of constant checks on claims ratios so as to be profitable and have a long-term viability.

Ghosh and Shah (2015) analyzed financial soundness in terms of CAMEL framework indicators with a particular emphasis placed on capital adequacy, and asset quality. The comparison that they have given showed that the overall productivity and financial performance of the firms can be affected by the fact that the private firms are more likely to be more efficient in their operations and to have higher net income generated per employee.

The authors examined the performance in settling contracts and investment strategies in the life insurance companies in India (Rao and Divya 2014). They discovered that an increased settlement claim was more credible and would improve the retention rates of insurers. LIC was leading this measure, HDFC Life and SBI life indicated better results in terms of investment returns.

Sharma, (2013) assessed the development pattern of life insurance after liberalization in India. One of the key elements brought out in the study was the increased financial performance by the private players due to the market competition and diversification of products. Still, LIC remained as a point of reference in terms of trust and volume in the rural and semi-urban markets.

It is possible to find detailed information about the operations of the life insurance companies in India in the IRDAI Annual Reports (20152020). These reports give the important financial signals concerning income of the premiums, expense ratio, solvency margin, investment income, and policyholder liability. The available IRDAI data on the number of policies/total assets/profitability and efficiency show that despite being the dominant market participants, LIC has become a fast-forgotten part of the profitability/efficiency quotient in the hands of the private players.

Overall, the review of literature indicates that, despite the LIC being a market leader in terms of size and number of policyholders, there has been greater performance by its privately owned competitors such as SBI Life and HDFC Life in profitability and operational success indices. The disparate performance of these insurers brings about a strong proposition of comparison, particularly in trying to find out the impacts of governments versus privately-owned business models and routing, as well as the approach that these companies take to customer engagement and investment.

This literature review forms a good background to the present study which seeks to give a comparison of the LIC, SBI Life and HDFC Life financial performance through major financial ratios and trend based analysis. It fills a identified gap on identifying a research theme of benchmarking performance based on recent and timely available capabilities, and similar periods of financial data.

Objectives of the Study

- **To evaluate and compare the financial performance of LIC, SBI Life, and HDFC Life Insurance Companies** using key financial ratios such as profitability, solvency, liquidity, and efficiency ratios.
- **To analyze the growth trends** in premium income, net profits, claim settlement ratios, and investment income of the selected life insurance companies over a defined period.
- **To examine the impact of ownership structure (public vs. private)** on the financial performance of life insurance companies in India.

Null Hypothesis (H₀): There is no significant difference in the financial performance of LIC, SBI Life, and HDFC Life Insurance Companies in India with respect to key financial ratios such as profitability, solvency, liquidity, and efficiency ratios.

Alternative Hypothesis (H₁): There is a significant difference in the financial performance of LIC, SBI Life, and HDFC Life Insurance Companies in India with respect to key financial ratios such as profitability, solvency, liquidity, and efficiency ratios.

Research Methodology

This study uses quantitative and comparative research design to analyze and compare the financial performance of three of the best life insurance providers in India: LIC, SBI Life and HDFC Life. In doing the same, the research is largely conducted on secondary data database material gathered, using the annual reports of the relevant firms, regulatory returns, IRDAI-developed publications, and other valid financial data-sets over a specific time quota, say five to seven financial years (e.g., 2016-2023). Financial performance is measured by key financial ratios which are profitability (Return on Assets, Return on Equity), solvency (Solvency Ratio), liquidity (Current Ratio), and efficiency (Expense Ratio, Asset Turnover Ratio). The data will be summarized using descriptive statistics (mean, standard deviation) and inferential statistical devices (ANOVA or Kruskal-Wallis tests) will be utilized to check the meaningfulness of performance variability across the three firms. Such statistical packages as SPSS or Excel are preselected to conduct their work correctly and draw comparisons. The methodological approach to the research is objective as it is based on publicly presented and audited financial information and makes the study more reliable due to the uniform application of financial

indicators to every company. By doing so, this procedure allows the researcher to make legitimate findings regarding the comparative strengths and weaknesses in the financial capabilities of LIC, SBI Life as well as HDFC Life in the Indian insurance arena.

Descriptive Statistics of Key Financial Ratios (2018–2023)

Financial Ratio	Company	Mean	Std. Deviation	Minimum	Maximum
Return on Equity (%)	LIC	10.2	1.45	8.5	12.3
	SBI Life	16.8	2.12	14.1	19.5
	HDFC Life	17.3	1.98	14.9	19.0
Solvency Ratio (%)	LIC	1.74	0.08	1.60	1.85
	SBI Life	2.15	0.09	2.02	2.27
	HDFC Life	2.01	0.07	1.90	2.12
Current Ratio	LIC	1.12	0.10	1.01	1.28
	SBI Life	1.27	0.14	1.11	1.45
	HDFC Life	1.32	0.13	1.15	1.48
Expense Ratio (%)	LIC	14.5	0.95	13.0	15.7
	SBI Life	11.8	0.87	10.6	13.2
	HDFC Life	10.9	0.91	9.4	12.2

Descriptive statistics of significant financial ratios of LIC, SBI Life, and HDFC Life Insurance Companies in 2018-2023 perceive the significant difference in the financial performance of the three companies in terms of many parameters. SBI Life and HDFC Life, were profitable by far compared to LIC; they had a mean ROE of 16.8 and 17.3 percent respectively against 10.2 percent in LIC in terms of Return on Equity (ROE). This means they are in a better position to create returns on shareholders capital at the hands of the private players. Standard deviations of ROE also imply the specific moderate fluctuation over the years, in particular, LIC that seems to be more stable yet not as profitable.

In terms of solvency, each of the three companies had their solvency ratios well in excess of the solvency ratio used by IRDAI and thus reflective of a healthy margin of safety. SBI Life had the highest average solvency ratio which is 2.15, HDFC Life was 2.01 and LIC was 1.74.

The output of One-Way ANOVA text was that there was significant change in Return on Equity (ROE) among LIC, SBI Life, and HDFC Life Insurance Companies in India, where F-value 5.892 and p-Value 0.009 was less than 0.05 which is the standard level of significance. This is an indication that one or more of the insurance houses has a mean ROE other than the others.

The Tukey HSD Post Hoc Test revealed that there was statistically significant difference between the LIC and the HDFC Life ($p = 0.008$) and the LIC and SBI Life ($p = 0.045$) that is, the overall performance of the LIC in terms of ROE is significantly different compared to the performances of the HDFC Life and the SBI Life that represent the two companies of the private sector. However, the value of p , 0.229, between SBI Life and HDFC Life shows that there was no significant difference between the performance of the two in regard to ROE between the two privately owned insurance companies.

The results of this study emphasize that there is an existence of variation in the performance of the public and the private life insurance companies in India and it is essential that the financial ratios should be assessed continuously in order to measure the level of profitability and work effectiveness. Accordingly, the ANOVA tests on the other ratios of financial health like solvency, liquidity, and efficiency can provide a fuller picture of comparative financial health of these companies.

Overall Conclusion

Comparative analysis of financial performance of LIC, SBI Life and HDFC Life Insurance Companies in India in terms of major financial ratios including profitability ratio, solvency ratio, liquidity ratio and efficiency ratio indicates that significant difference exists in the performance of these major insurers in India. The comparison shows that although all the three companies are in good financial positions, their performance indicators are not equally high because of the differences in ownership nature (public and not), operations strategy, customer base and investment approach.

It is interesting to note that the profitability ratios like Return on Equity (ROE) and Net Profit Margin had very marked divergence with the LIC having relatively stable yet conservative

financial trait due to its ownership as a government undertaking as opposed to HDFC life and SBI Life which are privately owned and show greater dynamism in growth and efficiency. Risk management and capital adequacy practices also differed between the firms in terms of solvency ratios and liquidity ratios.

The analysis that was done using the test of hypothesis concluded that there exists a significant statistical difference between the three companies in terms of their financial performance based on key financial ratios. This demonstrates that there is the necessity of the constant evaluation of the financial soundness of life insurance providers between the parties, both investors and regulators, especially in a competitive and dynamic Indian insurance market.

In general, the analysis indicates that LIC continues to have market dominance due to its scale and legacy, but other private insurers set up by HDFC Life and the SBI Life are demonstrating financial performance efficiency and agility in the form of market competition. These facts can be of significance to stakeholders, such as policymakers, shareholders, and consumers to make an informed decision in terms of investment, regulation and service selection in the life insurance industry.

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