International Journal of Social Sciences Arts and Humanities Vol.1 No.3. 2014. Pp. 29-39

Full Length Research Paper

Performance Evaluation of Bancassurance-- A Study on SBI Life Insurance Company

T.Hymavathi Kumari* *and Beana Ceilina Dorthy*

** * Ph.D. Scholar, Amet University, Chennai.*
**Department of Commerce and Management Studies, Amet University, Chennai*

**Corresponding Author: T.Hymavathi Kumari*

Abstract
Indian economy experienced a major structural change within the industrial sector as a result of the major drive for industrial diversification in the mid-fifties. The pace of transition of the Indian economy from an agricultural economy to an industrial one was quite slow since 1951. This underlines a major structural shift in the Indian economy especially in service sectors and less to the performance of the agricultural sector. Among various service sector activities banking and insurance plays a vital role. The banking sector is a very important sector of the Indian economy. There are many factors to examine when looking at insurance companies. Poor fundamentals not only indicate a poor investment opportunity, but also hinder growth. Nothing is worse than insurance customers discovering that their insurance company might not have the financial stability to pay out if it is faced with a large proportion of claims. Hence performance analysis is essential especially in case of insurance companies. SBI Life Insurance Company is a giant in the insurance industry especially in Bancassurance. Hence, a study on performance evaluation of SBI Life Insurance Company has been felt essential in this regard.

Keywords: *Insurance, Bancassurance, Insurance Penetration, Insurance Density*

Introduction
After having seen various dimensions of insurance business, it is pertinent to note the concept of liberalization followed by its influence on insurance sector in India. Liberalization is understood as an environment that allows the companies to operate in a flexible manner subject to the moral and ethical values in the relevant field. In other words, liberalization is a condition that helps the business enterprises to operate in such a way that the product expectations are met without harming the stakeholders. It does not mean that the enterprises will have unfettered freedom to operate in whatever way that is profitable to them.

Concept of Insurance:
Insurance business has a positive correlation with economic development in an economy. As an economy develops over the years, the insurance business starts making inroads into the various sectors of economic activity in the country. The term 'insurance' can be defined in both financial and legal terms. The financial definition focuses on an arrangement that redistributes the cost of unexpected losses. It is the collection of small premium payments from all the suspected and distribute it to those suffering actual losses. The legal definition focuses on the contractual arrangement whereby one party agrees to compensate the loss of other party. Thus the financial definition provides for the funding of the losses whereas the legal definition provides for the legally enforceable contract that spells out the legal rights, duties and obligations of all the parties to contract.

Need for the study
SBI Life Insurance Company a predominant player in banc assurance is positive about the channel bringing about a transformation in the way insurance has been sold so far. The company is banking heavily on banc assurance and plans to explore the potential of State Bank of India's 9000 plus branches spread across the country and also its 4000 plus associate banks. It has completed ten years of its voyage of business and has expanding its tentacles in various nook and corners of the country by utilizing its vast customer base. It has acquired an appreciable business in all its dimensions. Having considered a decadal voyage of SBI Life Insurance Company Limited and its successive position among all other banc assurance institutions, it is felt necessary to study an evaluation of its performance in this attempt.

Data Collection and Methodology

The present study is less or more based on secondary data and analyze these to make an evaluation of the material. The study covers a period of 10 years from 2001-02 to 2010-11. The secondary data have been collected from the relevant annual reports of SBI Life Insurance Company Limited, Handbook of IRDA (various issues), statistical year book of LIC, Yogakshem and various news bulletins of the LIC.

The performance of insurance companies can be measured by a number of indicators. However, in present study, CARAMEL parameters are used to study the financial performance of insurance companies. For measuring the performance of insurance companies on the basis of CARAMEL parameters, the present study employs ratio analysis with the following methodology:

A. The description of CARAMEL acronym and ratios calculated to test each acronym are:

• **Capital Adequacy:** Capital Adequacy can be viewed as the key indicator of an insurer's financial soundness. Capital is seen as a cushion to protect insured and promote the stability and efficiency of financial system, For the purpose of calculation of capital adequacy of companies under study, two ratios have been used, prescribed by IMF and World Bank (IMF, 2005). First is the ratio of Net Premium to Capital and second ratio is Capital to Total Assets.

• **Asset Quality:** Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. The primary factor effecting overall asset quality is the quality of the real estate investment and the credit administration program. Ratio of equities to total assets and ratio of Real Estate + Unquoted Equities + Debtors to Total Assets has been used, prescribed by IMF and World Bank. For the purpose of the study the first ratio is used.

• **Retention Ratio:** IMF prescribes two ratios in this standard viz. ratio of Net Premium to Gross Premium and ratio of Net Technical Reserves/ Average of Net Claims paid in last three years.

Management efficiency: The ratio reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness. The indicator prescribed is Operating Expenses to Gross Premiums.

• **Earnings and Profitability:** IMF prescribes five sub dimensions to this standard to limelight the earnings and profitability of the insurance companies. The standard is two tiers, covering both operational and non-operational efficiency of the insurance companies.

- **Claims Analysis:** The standard is an important indicator of whether their pricing policy is correct or not. It reflects the quantum of claims in the premiums earned. The ratio prescribed for this analysis is Net Claims Incurred to Net Premium.
- **Expense Analysis:** Expense analysis indicates the expenditure incurred by the management while carrying on insurance business, greater the expenditure, lesser will be the profit margin. The ratio prescribed for this purpose is Management Expenses to Net Premium Earned.
- **Combined Ratio Analysis:** Combined ratio is blend of claims and expense ratio. The ratio explains the probability of profitability in insurance operations. The ratio for this standard is Claim Ratio plus Expense Ratio to Net Premiums.
- **Investment Income Analysis:** Investment income ratio quantifies the income earned on investments. The ratio prescribed is Investment Income to Net Premiums.
- **ROE Analysis:** Return on Equity is the measure of return to shareholders and the ratio is Profits to Equity.

• **Liquidity (Liquidity Analysis):** Liquidity crises may turn to be serious in the concerns, where obligations are of short duration nature, similarly for non life insurers, the ratio is an important standard and is current assets to current liabilities.

What is bank assurance?

Bancassurance in its simplest form is "the distribution of insurance products through a bank's distribution channels". In concrete terms Bancassurance, which is also known as Allfinanz describes a package of financial services that can fulfill both banking and insurance needs at the same time. "Bancassurance" in French and "All Finanz" (Universal Banking) in German refers to a tie up arrangement of banks with insurance companies for selling the insurance products in life and non life segments as corporate agents for fee based income. Bancassurance as a concept first began in India when the insurance industry opened up to private participation in December 1999.

Need for bancassurance in india

Researches and present day statistics speak about the need of a well equipped financial structure for a country that helps it to grow economically. No when we talk of statistics, we have to check out the *Insurance density* and *Insurance penetration*. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. ***Insurance Penetration***: insurance penetration is measured as the percentage of insurance premium to GDP ***Insurance Density***: insurance density is calculated as the ratio of premium to population (per capita premium). One would clearly observe that the average density is much lesser in comparison to that of developing countries leave aside developed nations.

Table 1.1 International comparison of insurance density

Countries	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Developed Countries										
US	1602.0	1662.6	1657.5	1692.5	1753.2	1789.5	1922.0	1900.6	1602.6	1498.3
UK	2567.9	2679.4	2617.1	3190.4	3287.1	5139.6	5730.5	5582.1	3527.6	3025.7
France	1268.2	1349.5	1767.9	2150.2	2474.6	2922.5	2728.3	2791.9	2979.8	3251.9
Germany	674.3	736.7	930.4	1021.3	1042.1	1136.1	1234.1	1346.5	1359.7	1390.5
South Korea	763.4	821.9	873.6	1006.8	1210.6	1480.0	1656.6	1347.7	1180.6	1080.7
Japan	2806.4	2783.9	3002.9	3044.0	2956.3	2829.3	2583.9	2869.5	3138.7	3865.8
Developing Countries										
Brazil	10.8	27.2	35.8	45.9	56.8	72.5	95.3	115.4	127.9	139.4
Russia	33.2	23.1	33.9	24.8	6.3	4.0	6.1	5.4	4.50	4.30
Malaysia	129.5	118.7	139.8	167.3	188.0	189.2	221.5	225.9	206.9	198.2
India	9.1	11.7	12.9	15.7	18.30	33.2	40.4	41.2	47.7	52.2
China	12.2	19.2	25.1	27.3	30.5	34.1	44.2	71.7	81.1	93.6
South Africa	377.2	360.5	476.5	545.5	558.3	695.6	719.0	707.0	574.2	498.2
Australia	1040.3	1010.4	1129.3	1285.1	1366.7	1389.0	1674.1	2038.0	1524.8	1328.6

Insurance density is measured as ratio of premium (in US Dollar) to total population

Source: Source: Compiled from the Annual Reports of IRDA various issues

Table 1.2 International comparison of insurance Penetration

Countries	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Developed Countries										
US	4.40	4.60	4.38	4.22	4.14	4.00	4.20	4.10	3.50	3.10
UK	10.73	10.19	8.62	8.92	8.90	13.10	12.60	12.80	10.00	9.20
France	5.73	5.61	5.99	6.38	7.08	7.90	7.30	6.20	7.20	8.40
Germany	3.00	3.06	3.17	3.11	3.06	3.10	3.10	3.00	3.30	3.50
South Korea	8.69	8.23	6.77	6.75	7.27	7.90	8.20	8.00	6.50	6.20
Japan	8.85	8.64	8.61	8.26	8.32	8.30	7.50	7.60	7.80	8.10
Developing Countries										
Brazil	0.36	1.05	1.28	1.36	1.33	1.30	1.40	1.40	1.60	1.62
Russia	1.55	0.96	1.12	0.61	0.12	0.10	0.10	0.00	0.00	0.00
Malaysia	3.38	2.94	3.29	3.52	3.60	3.20	3.10	2.80	2.90	3.10
India	2.15	2.59	2.26	2.53	2.53	4.10	4.00	4.00	4.60	4.90
China	1.34	2.03	2.30	2.21	1.78	1.70	1.80	2.20	2.30	2.60
South Africa	15.19	15.92	12.96	11.43	10.84	13.00	12.50	12.50	10.00	9.10
Australia	5.70	5.02	4.42	4.17	3.51	3.80	3.80	4.40	3.40	3.10

Insurance penetration is measured as ratio (in per cent) of premium (in US Dollars) to GDP (in USD)

Source: Compiled from the Annual Reports of IRDA various issues

Status of bancassurance in india

As per IRDA, the major driver of Bancassurance has been the private sector companies both in the bank as well as in the insurance gamut. Cooperative banks and regional rural banks are seen by private insurance companies as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations. *Certain Facts from IRDA Annual Report of 2010-11* a) Among the various corporate channels, the share of banks in total new business (Life Insurance) underwritten increased from 10.60 per cent in 2009-10 to 13.30 per cent in 2010-11. The figures are for individual life policies. b) During the year 2010-11, bancassurance contributed 11.51 per cent of the total group business of the private insurers. The same was 8.67 per cent during the previous financial year. This fact is for group insurance policies.

Table 1.3 Channel wise new business performance of Life Insurers in individual policies segment

Insurer	Individual Agents	Corporate Agents		Brokers	Direct Selling	Total Individual New Business	Referrals
		Banks	Others*				
Private	46.89	33.21	8.70	4.77	6.43	100.00	2.34
LIC#	97.45	1.81	0.59	0.04	0.11	100.00	0.23
Total	78.95	13.3	3.56	1.77	2.42	100.00	1.01

Source: Annual Report 2010-11 IRDA ((In % terms) for 2010-11)

Insurer	Individual Agents	Corporate Agents		Brokers	Direct Selling	Total Individual New Business	Referrals
		Banks	Others *				
Private	0.96	11.51	2.91	2.36	82.26	100.00	0.04
LIC#	6.84	0.88	0.18	0.01	92.09	100.00	0.00
Total	5.63	3.08	0.74	0.49	90.06	100.00	0.09

Source: Annual Report 2010-11 IRDA ((In % terms) for 2010-11)

Table 1.4 Channel wise Life Insurance businesses over the years

Particulars	Remarks	Unit	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Channel Wise-New Business (Amount of Premium) - Individual plus Group												
Individual agents	FY	Crore						54611	67611	56884	68906	68094
Corporate agents-Banks	FY	Crore						3690	6822	7307	9288	12391
Corporate agents-Others	FY	Crore						1829	3503	3511	3912	3277
Brokers	FY	Crore						363	573	857	1476	3685
Direct Selling	FY	Crore						13847	15174	18340	28262	40886
Total	FY	Crore						75597	93683	86900	109845	126333
Referrals	FY	Crore						1258	2347	2731	2610	875
Channel Wise-New Business (No. of lives covered) - Individual plus Group												
Individual agents	FY	In Lac						423.29	499.89	462.66	540.33	450.17
Corporate agents-Banks	FY	In Lac						29.06	34.62	41.43	32.66	65.88
Corporate agents-Others	FY	In Lac						17.53	32.74	33.35	103.59	7.24
Brokers	FY	In Lac						7.51	9.48	9.50	53.66	51.69
Direct Selling	FY	In Lac						174.97	277.23	490.92	608.64	648.40
Total	FY	In Lac						660.15	853.96	1037.85	1338.88	1313.39
Referrals	FY	In Lac						7.79	13.52	19.57	12.86	8.68

Source: Annual Reports of IRDA from 2001-02 to 2010-11

The above table clearly shows the growing importance of Bancassurance as a channel for sale of life policies. It has been increasing steadily as indicated by total premium collected in the individual segment as well as the total number of lives covered.

Scope for Bancassurance in India

Significantly, Indian economy has recorded an average growth of over 8.5 per cent for the last four years, with macroeconomic and financial stability (RBI, 2006) and indications are that it may grow at even better rate in the near future provided there is good monsoon. Experience reveals that at the initial growing stage of the economy the primary financial needs are met by the banking system and thereafter as the economy moves on to higher pedestal, the need for the other non-banking financial products including insurance, derivatives, *etc.,* were strongly felt. Moreover, as India has already more than 200 million middle class population coupled with vast banking network with largest depositors base, there is greater scope for use of bancassurance. It is worth being noted that, Swiss Re (2002) in its study on Asia pointed out that bancassurance penetration is expected to tangibly increase in Asia over next 5 years and this has been greatly proved.

SBI Life Insurance Company

The purpose of this analysis is to provide a back drop to the field study meant to know the quality of service and performance since its inception. The analysis is divided into two sections. In section-I, Number of SBI life insurance offices, number of corporate agents, number of individual agents, life insurance premium growth, income from investments have been analyzed. In section-II analysis has been made under CARAMEL parameters.

SECTION-I

SBI Life Insurance Company Business Performance during the study period:

A. **Number of offices:**

The SBI life insurance Company as a private sector company intends to reach as many customers as possible located in any place in the country for which a branch network is essential. The following table gives the details of total number of offices by their respective status. During the post liberalization period, the total number of offices gradually increased from 01 in 2000-01 to 629 in 2010-11. No doubt that it is a proposition that lead to economy. In 2006-07 the number of branch offices increased about 200 percent and this is a remarkable evident. All these are ultimately meant to reduce costs and to retain the volume of business in terms of premium.

Table 1.5 Number of SBI offices

Sl.No.	Year	No. of Offices	% Growth	Industry Total	% of SBI over Industry
1	2000-01	1	0	2199	0.05
2	2001-02	5	400	2306	0.22
3	2002-03	10	100	2445	0.41
4	2003-04	19	90	2612	0.73
5	2004-05	31	63.16	3001	1.03
6	2005-06	46	48.39	3865	1.19
7	2006-07	138	200	5373	2.57
8	2007-08	200	44.93	8913	2.24
9	2008-09	489	144.5	11815	4.14
10	2009-10	494	1.02	12018	4.11
11	2010-11	629	27.33	11546	3.93

Source: Compiled from SBI Life Annual Reports

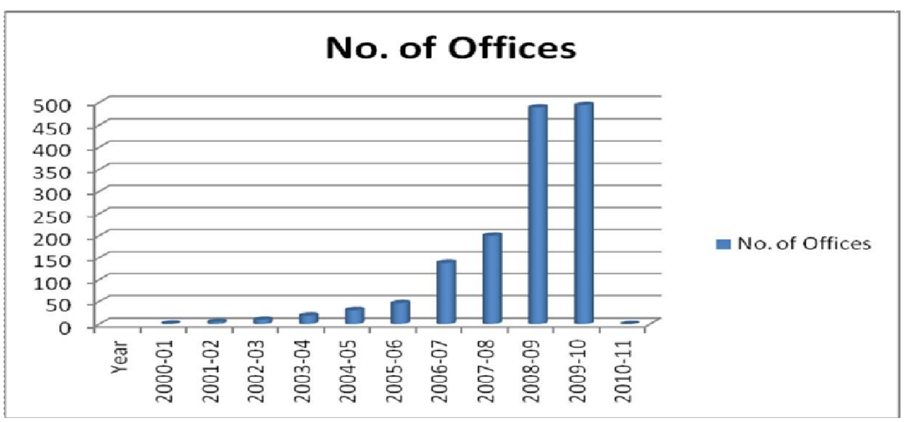

Chart 1.1 Number of SBI Life Insurance offices

B. **Number of Individual Agents:** Individual agents are the major source for getting new business in life insurance industry. The number of corporate agents during the year 2002-03 is 6 and immediately in the next year it was increased to 172 and it has increased in a decreased trend and it has increased year by year. The following table shows the increased number of corporate agents during the study period.

Table 1.6 Number of Individual and Corporate Agents

Sl No.	Year	No. of Corporate Agents	%Growth	Industry Total	% of SBI over Industry	No. of Ind. Agents	% Growth	Industry Total	% of SBI over Industry
1	2000-01	0				0			
2	2001-02	0		275		719	0	476902	0.15
3	2002-03	6		757	0.79	2218	208.48	1038802	0.21
4	2003-04	172	2766.67	2436	7.06	24690	1013.17	1556817	1.59
5	2004-05	10	-94.19	819	1.22	2165	-91.23	481250	0.45
6	2005-06	8	-20	216	3.7	8128	275.43	1423839	0.57
7	2006-07	27	237.5	656	4.12	25356	211.96	1993199	1.27
8	2007-08	23	-14.81	2415	0.95	40643	60.29	2520492	1.61
9	2008-09	94	308.7	2506	3.75	68993	69.75	2937435	2.35
10	2009-10	127	35.11	2930	4.33	65532	-5.02	2978283	2.2
11	2010-11	100	-21.25	2165	4.61	79628	21.51	2639392	-0.11

Source: *Compiled from SBI Life Annual Reports*

C. First year Premium of SBI Life:

The first year premium, which is a measure of new business secured, underwritten by the life insurers. Premium growth indicates the positive performance of the company. A significant improvement observed in terms of first year premium income.

Table 1.7 First Year Premium Income: Rs. In (Crore)

Sl.No.	Year	First Yr. Premium	%Growth	Industry Total	% of SBI over Industry
1	2000-01	0		9707.43	0.00
2	2001-02	14.69	0.00	19857.3	0.07
3	2002-03	71.88	389.31	16942.5	0.42
4	2003-04	207.05	188.05	19788.3	1.05
5	2004-05	484.85	134.17	26217.6	1.85
6	2005-06	827.82	70.74	38785.5	2.13
7	2006-07	2563.84	209.71	75649.2	3.39
8	2007-08	4792.82	86.94	93712.5	5.11
9	2008-09	5386.64	12.39	87331.1	6.17
10	2009-10	7040.74	30.71	109894	6.41
11	2010-11	7572.39	7.55	126381	5.99

Source: *Compiled from SBI Life Annual Reports*

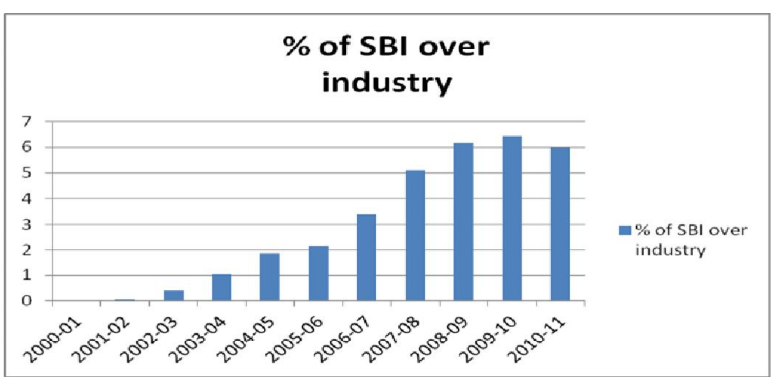

Chart:1.2 First year premium

D. Premium Income:

As stated earlier, premium is the major source of income to the insurance companies. Profits will also flow from this major item of income. Hence, it is not only the index of efficiency and effectiveness of the insurance companies; but it is also an indication of the extent of market share held by itThis indicates that the SBI is increasing slowly its grip over the market with the entry of the private operators.

Gross Premium:Table 1.8 Premium Income: Rs. In (Crore)

Sl.No.	Year	Gross Premium	%Growth	Industry Total	% of SBI over Industry
1	2000-01	0		34898.5	0.00
2	2001-02	14.69		50094.5	0.03
3	2002-03	72.39	392.78	55747.6	0.13
4	2003-04	225.67	211.74	66653.8	0.34
5	2004-05	601.18	166.40	82854.8	0.73
6	2005-06	1075.32	78.87	105876	1.02
7	2006-07	2928.49	172.34	156065	1.88
8	2007-08	5622.14	91.98	201351	2.79
9	2008-09	7212.1	28.28	221785	3.25
10	2009-10	10104	40.10	265450	3.81
11	2010-11	12911.64	27.78	291605	4.42

Source: *Compiled from SBI Life Annual Reports*

E. Income from Investments:

Earlier it is observed that one of the sources of income is earnings from investments for the insurance organizations. Profit on sale or purchase of investments is also considered under this head by the LI companies. The total income from investments registered a steep increase during the study period both from the shareholders investments and policyholder's investments. The reason is that the financial markets are on a growth trajectory in the LPG regime. The total income from investment of shareholders increased from Rs.168 lakhs during 2001-02 to Rs.22989 lakhs during 2010-11 registering a growth by 77.73 percent. Similarly, policyholder's income from investments also increased during the study period. All these analyses indicate that the investment income is based upon various factors like the guidelines of the IRDA, the investment portfolio, and stock market conditions.

Table 1.9 Income from Investments of Shareholders and Policyholders Rs. In (Lakhs)

S. No.	Year	Income from Inv.SH	%growth	Income from Inv.PH	%Growth
1	2000-01	0	0	0	
2	2001-02	168	0	1489	100
3	2002-03	1416	742.86	9821	84.84
4	2003-04	1075	-24.08	26439	62.85
5	2004-05	1152	7.16	66235	60.08
6	2005-06	4802	316.84	125030	47.02
7	2006-07	4807	0.1	318858	60.79
8	2007-08	15453	221.47	621672	48.71
9	2008-09	16195	4.8	566996	-9.64
10	2009-10	22989	41.95	1605438	64.68
11	2010-11	40860	77.73	1592753	90.04

Source: *Compiled from SBI Life Annual Reports*

SECTION-II

1. Capital Adequacy Analysis Capital Adequacy is viewed as the key indicator of an insurer's financial soundness and prudential standards recognize the importance of adequate capitalization with solvency as key focus area of insurance supervision.

For the capital adequacy analysis of the insurers two capital adequacy ratios have been used in present study i.e. Net Premium to Capital and Capital to Total Assets ratio. The former reflects the risk arising from underwriting operations and the latter reflects assets risk. Net premium is a convenient proxy for the quantum of retained indemnity risk, that is, risk the insurer retains after reinsurance, being the risks that must be covered by own capital. Due to absence of international norm, capital is defined as total equity capital.
The healthy growth in net premium is considered to be risky unless supported by optimal balanced capital, to act as cushion to bear shocks. Empirical results have shown that good growth of premium volume is one of the casual factors in insurer insolvency (Kim *et al.,* 1995). Being too obsessed with growth can lead to self-destruction as other important objectives might be neglected. This is especially true during an economic downturn, such as the South Asian Financial Crisis. The following table highlights the capital adequacy ratio of the selected organization i.e. SBI life insurance corporation.

Table 1.10 Capital Adequacy Ratio analysis of SBI Life Insurance Company (Rs. In '000)

Year	Net Premium	Capital	Ratio	Capital	Total Assets	Ratio
2001-02	146,900.00	1,250,000.00	0.12	1,250,000.00	1,392,500.00	0.9
2002-03	723,854.00	1,250,000.00	0.58	1,250,000.00	2,019,502.00	0.62
2003-04	2,255,248.00	1,750,000.00	1.29	1,750,000.00	4,149,272.00	0.42
2004-05	5,992,990.00	3,500,000.00	1.71	3,500,000.00	10,479,107.00	0.33
2005-06	10,730,924.00	4,250,000.00	2.52	4,250,000.00	20,652,587.00	0.21
2006-07	29,234,387.00	5,000,000.00	5.85	5,000,000.00	46,033,191.00	0.11
2007-08	56,112,047.00	10,000,000.00	5.61	10,000,000.00	100,098,760.00	0.1
2008-09	72,023,885.00	10,000,000.00	7.2	10,000,000.00	140,031,320.00	0.07
2009-10	100,804,813.00	10,000,000.00	10.08	10,000,000.00	281,431,231.00	0.04
2010-11	128,755,224.00	10,000,000.00	12.88	10,000,000.00	395,258,108.00	0.03

Source: - *Compiled from the Annual Reports of SBI LI Co.*

Total Assets= Total application of funds-Debit balance in profit and loss account.
This indicates that the business was supported by the fair amount of capital for all the public insurers, in case of SBI life insurance company the net premium to capital ratio is 0.12 in the year 2001-02 and it is increasing year by year. It indicates that the company supported by fair amount of capital. The ratio of capital to total assets indicates the proportion of capital in the total assets portfolio of the companies, growth in the assets of the business and how efficiently the capital has been invested to create assets. The company under study have quite satisfactory ratio.

2. Asset Quality Analysis

Asset quality is one of the most critical areas in determining the overall financial health of an insurance company. In this analysis an attempt is made to explore the structure of assets and focus on the existence of potentially impaired assets as well as on the degree of credit control, an insurance company exercises. The indicator, equities/total assets, reveals the degree of insurer's exposure to the stock market risk and fluctuations of the economy.

Table 1.11 Asset Quality of SBI Life Insurance Company

Year	Equities	Total Assets	Ratio
2001-02	1,250,000.00	1,392,500.00	0.90
2002-03	1,172,967.00	2,019,502.00	0.58
2003-04	1,517,442.00	4,149,272.00	0.37
2004-05	3,160,967.00	10,479,107.00	0.30
2005-06	3,985,522.00	20,652,587.00	0.19
2006-07	4,609,837.00	46,033,191.00	0.10
2007-08	10,067,721.00	100,098,760.00	0.10
2008-09	9,784,210.00	140,031,320.00	0.07

2009-10	12,652,296.00	281,431,231.00	0.04
2010-11	16,297,016.00	395,258,108.00	0.04

Source: *Compiled from SBI Life Annual Reports*

The analysis of the asset quality ratio signals the fluctuating trend in the assets base of the company in comparison to the equities. The decreasing ratio was as a result of earlier robust growth in the investments, fixed assets and advances and later increase in the short term assets base of the company.

3. Risk retention Ratio

Risk retention ratio reflects the overall underwriting strategy of the insurer and depicts what proportion of risk is passed onto the reinsurers. Overall, insurer's capital and reinsurance cover need to be capable of covering a plausible severe risk scenario.

Table 1.12 Ratio of Net Premium to Gross Premium

Year	Net Premium	Gross Premium	Net Retention Ratio
2001-02	146,900.00	146,900.00	1.00
2002-03	723,854.00	723,854.00	1.00
2003-04	2,255,248.00	2,256,659.00	1.00
2004-05	5,992,990.00	6,011,845.00	1.00
2005-06	10,730,924.00	10,753,219.00	1.00
2006-07	29,234,387.00	29,284,856.00	1.00
2007-08	56,112,047.00	56,221,372.00	1.00
2008-09	72,023,885.00	72,121,032.00	1.00
2009-10	100,804,813.00	101,040,265.00	1.00
2010-11	128,755,224.00	129,116,429.00	1.00

Source: *Compiled from SBI Life Annual Reports*

The analysis of risk retention ratio clearly indicates that the risk retention capacity of the selected organization is constant.

Management Soundness Analysis

Sound management is crucial for financial stability of insurers. It is very difficult; however, to find any direct quantitative measure of management soundness, the indicator is operating expenses by gross premiums and personnel expenses to Gross premiums. Gross premiums are used because they are a reflection of the overall volume of business activity. The analysis reflects the efficiency in operations, which ultimately indicates the management efficiency and soundness. The analysis of the management soundness is presented in the following table.

Table 1.13 Ratio of Operating Expenses to Gross Premium (Rs. In '000)

Year	Operating Exp.	Gross Premium	Op.Exp/Gross Pre.
2000-01			
2001-02			
2002-03	233,000	723,854	0.32
2003-04	573,485	2,256,659	0.25
2004-05	1,245,613	6,011,845	0.21
2005-06	1,900,340	10,753,219	0.18
2006-07	3,223,895	29,284,856	0.11
2007-08	4,869,627	56,221,372	0.09
2008-09	6,205,029	72,121,032	0.09
2009-10	7,529,812	101,040,265	0.07
2010-11	8,834,570	129,116,429	0.69

Source: *Compiled from SBI Life Annual Reports*

The ratio of operating expenses to gross premium preferred to be low one, yet it has not been subject to any strict action and IRDA seem to wait for some time to allow the sector to establish the network.

5. Earnings and Profitability Analysis

The ratios in this section include claim ratio (also known as loss ratio), expense ratio, combined ratio, investment income ratio and return on equity. It is important to note on technical detail; while the loss ratio has earned net premium into the denominator (on accrual basis, net claims are directly related to the denominator), the expense ratio is commonly defined with written net premium in the denominator (again, the expenses other than claims are directly related to the denominator). The combined ratio, defined as the sum of the loss ratio and expense ratio, is a basic, commonly used measure of profitability. Another indicator, investment income/net premium, focuses on the second major revenue source-investment income. Return on equity then indicates the overall level of profitability. The five ratios comprising the indicator "Earnings and Profitability"

Table 1.14 Ratios showing Earnings and Profitability

Year	Claims Ratio	Exp. Ratio	Combined Ratio	Investment Income Ratio	ROE
2000-01					
2001-02					
2002-03	0.04	0.35	0.39	0.07	(0.06)
2003-04	0.10	0.30	0.40	0.05	(0.11)
2004-05	0.08	0.25	0.33	0.07	0.04
2005-06	0.08	0.24	0.32	0.12	0.01
2006-07	0.05	0.18	0.23	0.08	0.01
2007-08	0.06	0.17	0.23	0.09	0.03
2008-09	0.06	0.16	0.22	(0.24)	0.03
2009-10	0.08	0.13	0.21	0.59	0.22
2010-11	0.23	0.12	0.35	0.23	0.22

Source: *Compiled from SBI Life Annual Reports*

The above table presents a detailed analysis of earnings and profitability of SBI Life Insurance Company. The first ratio in the category of earnings and profitability is the ratio of net claims incurred to net premiums. The net incurred claims ratio or loss ratio indicates the extent to which the 'net premium' is to be applied to meet this obligation and is a measure of the risk retained by the insurer. This enables an assessment of profitability of underwriting operations and reinsurance arrangements.

Combined ratio, is a measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. Combined ratio analysis of the SBI life reveals that premiums earned is drained away in the form of claims and expenses.

The investment income ratio of the selected undertaking i.e. SBI Life, the ratio indicates that there has been fluctuating in the investment income which can mainly be attributed to the global melt down and consequently higher volatility in the Indian financial market(IRDA 2008-09), the crises led to the deterioration in profitability due to loss on investments. The impact is clearly seen in the context of decrease in the investment income ratio. This scenario also hints towards poor financial risk management on the part of companies. In fact, the decreasing PAT has been attributed to the decrease in ratio, whereas year 2009-10 and 2010-11 has witnessed highest ratio and the ratio represent wave like trend with ups and downs.

6. Liquidity: Liquidity is usually a less pressing problem for insurance companies at least as compared to banks. However, the ratio is prescribed to be maintained more than 100 percent, Hampton, (1993). Moreover the liquidity problem may call upon capital restructuring and infusion of more capital to heighten the liability graph. Table presents the liquidity position of the SBI Life as follows:

Table 1.15 Ratio of Current Assets to Current LiabilitiesLiquidity Ratio (Rs. In Lakhs)

Year	Current Assets	Current Liabilities	Current Ratio
2001-02	2,953.00	565	5.23
2002-03	2,911.00	1,209.00	2.41
2003-04	7,653.00	4,772.00	1.6
2004-05	10,892.00	11,947.00	0.91
2005-06	21,718.00	22,683.00	0.96
2006-07	29,878.00	39,247.00	0.76
2007-08	28,433.00	46,801.00	0.61
2008-09	40,534.00	101,687.00	0.4
2009-10	64,387.00	143,657.00	0.45
2010-11	79,821.00	171,841.00	0.46

Source: *Compiled from SBI Life Annual Reports*

Since the insurance contract lasts usually for a year, it is as such imperative on part of insurers to maintain the ratio at 100 percent to meet the short term liabilities. The analysis reveals that the SBI life insurance company need to make enough provisioning in the liquid assets to have a better liquidity position. Otherwise, the situation may require capital restructuring, consequently which may require more fund inflow.

Conclusion

It is learnt from the above discussion that bancassurance in many countries has developed its form gradually where banks at first do not carry risks and distribute insurance products for a fee and product development is left to insurance company. But gradually banks have assumed risks regarding distribution assuming full responsibility. But the proper implementation of bancassurance is still facing some problems such as, poor manpower management, lack of sales culture within the banks, detachment of branch manager, insufficient product promotion, managerial database expertise, inadequate incentives, negative attitude towards insurance etc.

In order to get the full benefit of it the following steps should be taken:

i) Service delivery mechanism should be strengthened.
ii) Knowledge of target customer needs should be developed.
iii) Extensive and high quality training should be ensured.
iv) Strategies consistent with the banks vision should be developed.
v) Bank's data base system should be made flexible to cope with the change.

So observing the progress of different countries including India (particularly with reference to SBI) bancassurance is gaining world-wide acceptance gradually. The time has come to position for the new millennium of insurance product distribution through the strategic partnership of banks and insurance companies. Banks, insurance companies and traditional fund management houses are converging towards a model of global retail financial institution offering a wide array of products creating a one stop-shop where mortgages, savings, pensions and insurance products will be available.

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