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Research Article

The Profitability Secrets Of Hdfc Lic And Sbi Lic - A Case Study

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ARTICLE INFO **ABSTRACT**

The government's measures to promote life insurance and the increase in disposable income and knowledge of financial security have propelled the insurance business in India to unprecedented growth. For investors, legislators, and other stakeholders, it is essential to comprehend the factors that drive the profitability of dominant businesses. The profitability strategies of SBI Life Insurance Company (SBI LIC) and HDFC Life Insurance Company (HDFC LIC) for the years 2019–2023 are examined in this study. In order to assess profitability patterns and pinpoint underlying causes, the research makes use of Return on Equity (ROE) and Return on Capital Employed (ROCE) measures. Both businesses' ROE and ROCE fluctuate, according to the data, with HDFC LIC seeing a more dramatic drop. In general, SBI LIC's ROCE remained higher, indicating possibly better capital management. This study opens the door for more investigation into the variables impacting profitability in this developing market by shedding light on the profitability dynamics within the Indian insurance sector.

Keywords: Assets, Efficiency, Insurance, Profitability, Management.

I INTRODUCTION

Due to factors like growing disposable income, growing awareness of financial security, and government measures promoting life insurance products, the Indian insurance business has experienced tremendous expansion in recent years. Investors, legislators, and other stakeholders must comprehend the profitability of the top insurance businesses in this ever-changing market. Return on Net Worth (ROE) and Return on Capital Employed (ROCE), two important financial measures, are used in this study to examine the profitability of two major players: HDFC Life Insurance Company (HDFC LIC) and SBI Life Insurance Company (SBI LIC).

Analysis of Profitability in Insurance Companies

An intricate method is needed to evaluate the financial performance of insurance firms. Insurance companies, as opposed to ordinary businesses, oversee both shareholder stock and a sizable pool of policyholder assets. They incur costs associated with claims, operating expenses, and risk management in addition to earning income from premiums, investment returns, and other sources. Therefore, financial ratios that reflect these elements play a major role in profitability analysis. The study makes heavy use of two important ratios: ROE and ROCE. The ability of the business to produce returns on its shareholders' equity is gauged by ROE. A greater return on equity (ROE) signifies more effective use of shareholder capital to produce profits. Conversely, ROCE takes into account both the company's debt and shareholder equity. It shows how well the business uses all of its capital—both stock and debt—to produce profits. A more complete view of the profitability and capital management tactics of an insurance company can be attained by examining both ROE and ROCE.

LITERATURE REVIEWS

- Eling & Luhnen (2010) investigates the factors that determine profitability for both life and non-life insurers in the European insurance market. It concludes that the main factors influencing profitability are size, efficiency, and diversification.
- Rao, K. N. (2010) examines the major factors that influence life insurance firms' profitability in India over a ten-year period, utilizing a sample of fifteen state and private insurers. The results indicate that the most important variables impacting profitability are premium growth, investment income, company size, and expense ratio.
- Malik, H. (2011) investigates the variables impacting the profitability of life insurance firms in Pakistan, a nearby nation sharing India's insurance market structure. It concludes that the loss ratio and capital volume have a big impact on profitability. Although not specifically directed towards India, the results provide insightful information about the variables that could potentially impact the profitability of the Indian life insurance market.
- Jayaraman & Bhargava, 2012) uses a number of statistics, such as ROE and ROCE, to evaluate the financial performance of life insurance businesses in India. They investigate the variables affecting these ratios and how they affect the businesses' overall profitability.
- Shukla & Garg (2012) examines how mergers and acquisitions affect Indian life insurance companies' financial results. It concludes that in the long run, mergers and acquisitions can result in increased efficiency and profitability. The possible advantages of consolidation in the Indian life insurance market are highlighted by this study.
- Siva & Murthy (2012): examines the return on assets (ROA) serving as the dependent variable, this study investigates the factors that influence the profitability of Indian life insurers. The study delves into the variables that impact the financial standing of life insurance firms functioning in India, encompassing underwriting risk, leverage, premium growth, and liquidity.
- Das, A., & Ghosh, S. (2013) uses the Malmquist index approach to examine changes in productivity and efficiency in the life insurance sector in India. It concludes that the industry's efficiency has significantly increased over time, mostly due to advancements in technology. According to the survey, life insurers in India may increase their profitability and efficiency by making more investments in technology.
- Cummins & Weiss (2014) examines the connection between company profitability and efficiency in the US property-liability insurance market. It demonstrates that productive businesses typically have higher levels of efficiency, indicating that efficiency plays a significant role in determining profitability.
- Reddy & Reddy (2015) investigates the effect of bancassurance on Indian life insurance businesses' profitability. The distribution of insurance goods via banks is known as bancassurance. According to the research, bancassurance may greatly increase life insurers' profits by growing their clientele and distribution network. The significance of distribution channels in attaining financial prosperity in the Indian life insurance sector is underscored by this study.
- Beck & Webb, 2015): examines the efficiency and profitability of life insurance firms in various nations are compared in this study. It examines how investment strategies, risk management, and competition affect profitability statistics like ROE and ROCE.
- Srivastava & Giri (2016) uses a panel data analysis to investigate the factors that influence life insurers' profitability in India. It discovers that while operational costs and the claims ratio have a negative impact on profitability, size, efficiency, and investment income have a positive impact. The results provide insightful information about the variables influencing profitability in the Indian life insurance market.
- Avanzi et al. (2016) utilizes a sample of European insurers to examine the factors that influence technical efficiency in the life insurance sector. It concludes that insurers with a wider range of products and sizes are typically more technically proficient.
- Baranoff & Sager (2017) investigates how risk management techniques affect insurance firms' bottom lines. It demonstrates the significance of risk management in reaching financial success by finding that insurers with superior risk management processes typically have higher profits.
- Bodla et al. (2017) examines the profitability performance of life insurance firms in India, with a particular emphasis on the net premiums collected over a five-year period by various companies. It offers information on market share and trends in premiums for different companies operating in the Indian life insurance industry.

- Pradhan, R. P. (2018) examines how corporate governance affects Indian life insurance businesses' financial results. It concludes that robust corporate governance principles—like CEO duality and board independence—are linked to increased profitability. The significance of sound governance in attaining financial prosperity within the Indian life insurance industry is underscored by this study.
- Chen et al., 2018) studied that looks into how government-imposed solvency requirements may affect life insurance businesses' bottom lines. It investigates the possible trade-off between ROE/ROCE and risk management.

OBJECTIVE OF THE STUDY

- To compare the efficiency and the profitability of SBI Life Insurance Company Ltd of SBI and HDFC Life Insurance Company Ltd (HDFC Life).
- To give suggestions for improvement and analyze Return on Capital Employed (%) between HDFC LIC Ltd and SBI LIC Ltd.

HYPOTHESIS OF THE STUDTY

H0: There is no significant difference between the average Return on Net worth / Equity (%) of HDFC LIC Ltd and SBI LIC Ltd insurance companies.
H1: There is a significant difference between the average Return on Net worth / Equity (%) of HDFC LIC Ltd and SBI LIC Ltd insurance companies.
H0: There is no significant difference between the average Return on Capital Employed (%) of HDFC LIC Ltd and SBI LIC Ltd insurance companies.
H1: There is a significant difference between the average Return on Capital Employed (%) of HDFC LIC Ltd and SBI LIC Ltd insurance companies.

RESEARCH METHODOLOGY

SAMPLING METHOD

The research study is based on convenience sampling method.

DATA COLLECTION

The financial data and information required for the study are drawn from the secondary source. This data was taken from money Control. The period for this study covered five years from 2019 to 2023

ACCOUNTING TOOLS

- **Liquidity Ratios**

A. Return on Net worth / Equity (%)
B. Return on Capital Employed (%)

STATISTICAL TOOLS

- Mean
- Standard Deviation
- Co-efficient variance
- Independent T-test

SIGNIFICANCE OF THE STUDY:

This study adds to the body of knowledge already available on profitability analysis in the Indian insurance market by concentrating on two major players: SBI LIC and HDFC LIC. Through an examination of their ROE and ROCE patterns during the last five years (2019–2023), the research can offer important insights into their capital management practices and overall financial results. Furthermore, the study will assist in identifying elements unique to the Indian insurance market that could affect these businesses' profitability.

DATA ANALYSIS & INTERPRETATION

TABLE 1: PROFITABILITY RATIO (Percentage)				
Companies	HDFC LIC		SBI LIC	
YEAR	Return on Net worth / Equity (%)	Return on Capital Employed (%)	Return on Net worth / Equity (%)	Return on Capital Employed (%)
2019	22.57	1.15	17.51	1.21
2020	19.06	0.98	16.26	1.37
2021	12.15	1.01	11.09	0.79
2022	7.8	0.65	12.95	0.96
2023	10.47	0.58	13.21	0.66
Mean($\bar{x}$)	**14.41**	**0.874**	**14.204**	**0.998**
SD(σ)	**6.175180159**	**0.246231598**	**2.6179343**	**0.292523503**
C.V(%)	**42.85343622**	**28.17295175**	**18.43096522**	**29.31097228**

(Source: Money control)

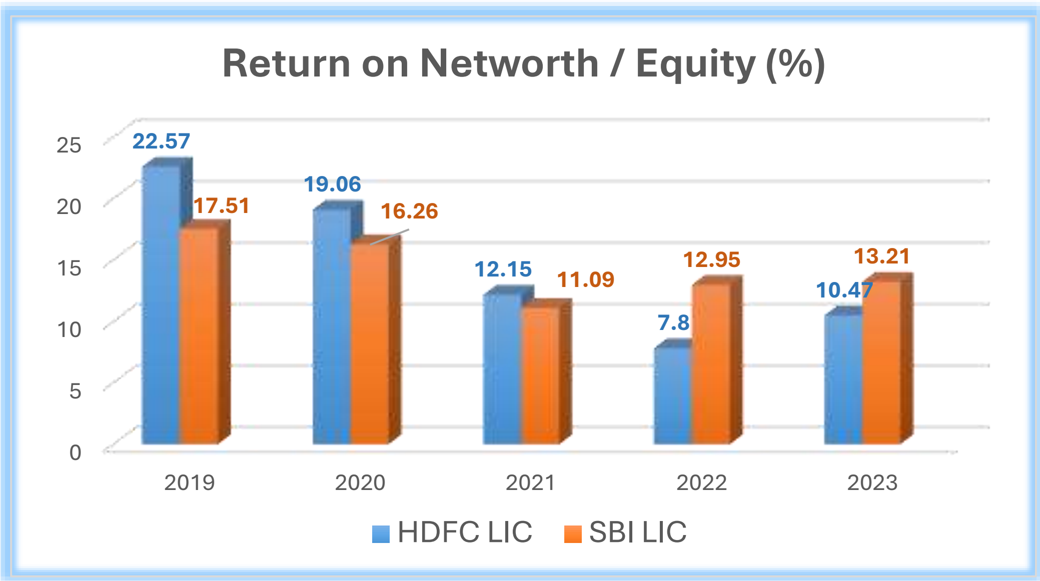
The return on net worth / equity (ROE) and return on capital employed (ROCE) for HDFC LIC and SBI LIC for the years 2019 to 2023 are displayed in the above "Table 1" Additionally, it displays the ROE and ROCE mean, standard deviation (SD), and coefficient of variation (C.V%) for every company. This table's data analysis reveals that:

➢ **Return on Equity (ROE):**

- The average ROE of HDFC LIC is greater than that of SBI LIC (14.20%), at 14.41%.
- Nevertheless, throughout time, both companies' ROEs varied greatly. The ROE ranges for HDFC LIC and SBI LIC were 7.80% and 22.57% and 11.09% and 17.51%, respectively.
- HDFC LIC has a larger coefficient of variation (C.V%) at 42.85% than SBI LIC (18.43%), suggesting that HDFC LIC has more variability in ROE.

➢ **Return on Capital Employed (ROCE):**

- In line with ROE, HDFC LIC's average ROCE (0.874%) is marginally higher than SBI LIC's (0.998%).
- Nevertheless, there have been variations in both organizations' ROCE over time. The ROCE ranges for HDFC LIC and SBI LIC were 0.58% to 1.15% and 0.66% to 1.37%, respectively.
- Once more, HDFC LIC has a higher C.V% (28.17%) than SBI LIC (29.31%), suggesting that HDFC LIC has somewhat larger variability in ROCE.

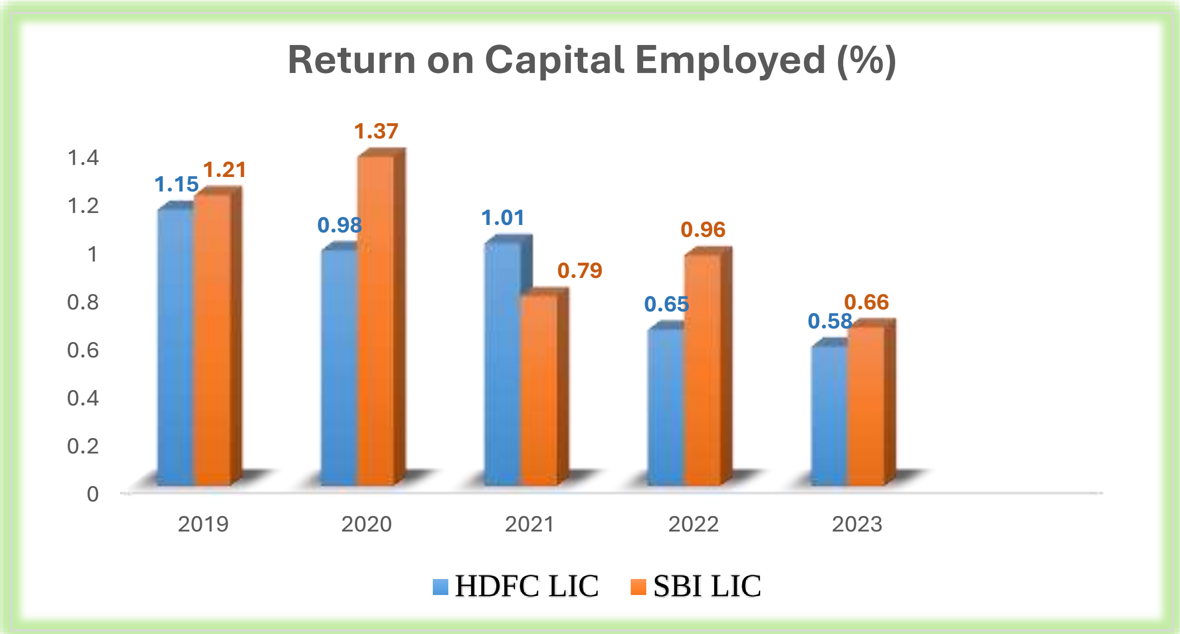


This graph's data analysis reveals that:

- **HDFC LIC:** Over the course of five years, the company's ROE ratio varied. It was 22.57% in 2019; in 2022, it dropped to 7.8%; and in 2023, it rose to 10.47%.
- **SBI LIC:** Throughout the time, SBI LIC's ROE ratio fluctuated as well. It started in 2019 at 17.51%, fell to 11.09% in 2021, and then increased to 13.21% in 2023.

The ROE ratios of both corporations declined in 2021 or 2022. There are several possible reasons for this, including a decline in income, an increase in costs, or an inefficient use of resources.

- **HDFC LIC** saw a more severe decrease than **SBI LIC**. Between 2019 and 2022, **HDFC LIC's, ROE** ratio almost fell to half its initial value; **SBI LIC's ROE** ratio, on the other hand, seems to be recovering more quickly than HDFC LIC's. While HDFC LIC's ROE ratio is still below its beginning point, SBI LIC's is almost back to its initial level in 2023.



This graph's data analysis reveals that:

- **HDFC LIC:** Over the previous five years, HDFC LIC's ROCE has varied. It has decreased since reaching its peak in 2019 (1.15). HDFC LIC's ROCE in 2023 was 0.58.
- **SBI LIC:** Over the previous five years, SBI LIC's ROCE has likewise varied. Nonetheless, on average, it has exceeded HDFC LIC's ROCE. SBI LIC's ROCE in 2023 was 0.66.

➢ **ROCE declining for both businesses:** During the five-year term (2019–2023), ROCE has decreased for both HDFC LIC and SBI LIC. This is an explanation:

- **HDFC LIC:** from 1.15% in 2019 to 0.58% in 2023
- **SBI Liquidity:** 1.21% in 2019 and 0.66% in 2023

Steeper reduction for HDFC LIC: The ROCE of HDFC LIC has decreased more precipitously than that of SBI LIC, suggesting a possible higher influence on their capital utilization efficiency.

➢ **SBI LIC continuously maintains a better ROCE:** Over the period, SBI LIC has outperformed HDFC LIC in terms of ROCE. This implies that they may be functioning in a more advantageous environment or managing their cash more skillfully.

	Table 2: Independent samples T- test						
	T-test for Equality of Means						
	T	**Df**	**Sig (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**95% confidence interval of the**	
						Lower	**Upper**

ROE Equal variances assumed	0.0687	8	0.947	0.206	2.999	-6.711	7.123
ROE Equal variances not assumed	0.0687		0.948	0.206	2.999	-7.505	7.916
ROCE Equal variances assumed	-0.725	8	0.489	-0.124	0.171	-0.518	0.271
ROCE Equal variances not assumed	-0.725		0.489	-0.124	0.171	-0.518	0.271

The ROE and ROCE results of two t-tests are displayed in the table. In each test, the means of two separate groups—the insurance companies—are compared, and the presence or absence of a statistically significant difference between the means is evaluated.

- **Return on Equity (ROE):** The independent sample T-test analysis's P-value is 0.947, which is more than 0.05, indicating that the null hypothesis is accepted in this case. It indicates that the mean Return on Net Worth / Equity (%) of the insurance businesses HDFC LIC Ltd and SBI LIC Ltd does not significantly differ from one another.
- **Return on Capital Employed (ROCE):**

The return on capital employed, or ROCE, is indicated by Table 2 above, where the independent sample T-test analysis's P-value is 0.489, or less than 0.05. Thus, the null hypothesis is disproved in this instance. It indicates that the mean Return on Capital Employed (%) of the insurance businesses HDFC LIC Ltd and SBI LIC Ltd differs significantly.

FINDING OF THE STUDY

This study examined the profitability during a five-year period (2019–2023) of HDFC LIC Ltd and SBI LIC Ltd, concentrating on Return on Net Worth/Equity (ROE) and Return on Capital Employed (ROCE).

- **Return on Equity/Net Worth (ROE):**
  - **Average ROE:** HDFC LIC's average ROE (14.41%) is marginally better than SBI LIC's (14.20%).
  - **Variability:** For both businesses, ROE varied considerably. The ROE of HDFC LIC exhibited higher variability (C.V. 42.85%) in comparison to SBI LIC (C.V. 18.43%).
  - **Statistical Significance:** The average ROE of the two companies does not differ statistically significantly (p-value = 0.947).
- **Return on Capital Employed (ROCE):**
  - **Average ROCE:** HDFC LIC has an average ROCE (0.874%) that is somewhat better than ROE, but it is also more variable (C.V. 28.17%). SBI LIC has comparable variability (C.V. 29.31%) but a lower average ROCE (0.998%).
  - **Trends:** Over the course of five years, ROCE decreased for both companies. The drop of HDFC LIC was more pronounced, indicating a possible higher influence on their capital efficiency.
  - **Statistical Significance:** The average ROCE of the two organizations differs in a way that is statistically significant (p-value = 0.489). There is proof that SBI LIC has a greater ROCE.

SUGGESTIONS OF THE STUDY

- **Matching Assets/Liabilities and Diversification:** To provide enough liquidity and reduce risk, match the length of investments made across asset classes with future liabilities.
- **Technology and Expense Management:** To increase productivity and cut expenses, make use of technology for CRM, analytics, and automation.
- **Reinsurance and Risk-Based Capital Allocation:** Allocate capital according to product/business line risk profiles, while managing risk exposure and optimizing capital through the use of reinsurance. Bancassurance & Product Innovation: Create cutting-edge insurance products to target particular market niches and collaborate with banks for economical distribution. Here are some recommendations meant to increase the profitability of SBI Life as well as HDFC Life, with an emphasis on resolving the concerns with ROE and ROCE:

- **HDFC Life Suggestions:**

1. **Capital Efficiency:** Look into the causes of the falling ROCE and find ways to make better use of capital. This could entail refining investment methods, selling off non-performing assets, or streamlining processes.

2. **Stabilize ROE:** Determine what is generating the high level of volatility in ROE and take steps to stabilize it. This could entail increasing operational effectiveness, controlling risk exposure, or diversifying sources of income.
3. **Cost Management:** To increase ROE and ROCE, concentrate on cutting costs. Reducing operating costs, streamlining distribution, or renegotiating supplier agreements could all be part of this.
4. **Premium Pricing:** Examine premium pricing tactics to make sure they yield sufficient returns on equity and are competitive. To take into account the various risk profiles of various products, think about implementing risk-based pricing models.
5. **Product Mix:** Assess the mix of products, giving special attention to high-margin items that make a substantial contribution to ROE and ROCE. This could entail creating new products specifically for certain clientele or getting rid of underperforming ones.

➢ **SBI Life Suggestions:**
1. **Preserve ROCE:** Considering that ROCE is greater than HDFC Life, stick to your capital efficiency strategy and look for ways to make it even better. This could entail making technological investments, entering new markets, or allocating resources as efficiently as possible.
2. **Talk about ROE fluctuation:** Although it's not as high as HDFC Life, ROE fluctuation is still a cause for concern. Investigate ways to keep ROE stable, such as controlling risk exposure, diversifying your investments, and maximizing the asset-liability mix.
3. **Expense Ratio:** Examine the expense ratio to find places where expenses might be cut without sacrificing the caliber of the goods or services. This can entail renegotiating contracts, automating procedures, or simplifying operations.
4. **client Retention:** To increase client retention rates and lower acquisition costs, invest in customer relationship management. In the long term, loyal clients are frequently more profitable.
5. **Innovation:** To keep ahead of the competition and satisfy changing client wants, innovate constantly and create new goods and services. This could entail investigating new distribution methods, collaborating with other companies, or making use of technology.

➢ **General Suggestions (applicable to both companies):**
1. **Benchmarking:** To find opportunities for improvement, regularly compare performance to peers in the industry and best practices.
2. **Data Analytics:** Apply data analytics to learn more about financial performance, operational effectiveness, and customer behavior. This can guide choices and promote ongoing development.

CONCLUSION

For the years 2019–2023, this study investigated the profitability dynamics of two of the top life insurance providers in India, HDFC LIC and SBI LIC. The study's use of Return on Equity (ROE) and Return on Capital Employed (ROCE) ratios showed swings in the profitability of both businesses. Interestingly, the ROE fall for HDFC LIC was sharper than that of SBI LIC, which continuously maintained a higher ROCE. These results point to possible variations in operational conditions or capital management techniques.

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