Drishtikon: A Management Journal
15 (1) 2024, 65-74
http://www.publishingindia.com/drishtikon/

Value Creation Models in Indian Life Insurance: A Comparative Study of Selected Companies

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Abstract

The purpose of this research is to investigate the types of revenue creation models that life insurance firms in India generally employ, as well as how effective they are at accurately evaluating the financial performance of these companies. SBI Life and ICICI Prudential Life Insurance are the two life insurance providers that we have selected for this. To achieve the goals of the study, a variety of statistical and financial methods are employed in conjunction with secondary sources to gather data pertaining to the five-year period between 2018 and 2023. To analyze their performance, one must include financial, intellectual, human, social, and relationship capital. In all four of the models utilized in this analysis, SBI Life Insurance outperforms ICICI Prudential Life Insurance in terms of performance.

Keywords: *Value Creation Models, Insurance, SBI Life, ICICI Prudential, Financial Capital, Intellectual Capital, Human Capital, Social and Relationship Capital*

INTRODUCTION

Value creation is the process of transferring something valuable in exchange for something more valuable. The biggest obstacle facing management of an insurance company, like any other business, is comprehending the elements that make up the value creation process

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and knowing how to influence and control these elements to increase the firm's long-term worth. By enhancing value, businesses can increase customer retention and attract new clients without increasing the cost of their products or services. The value creation model illustrates this vicious cycle and how a system develops by adding value to the surroundings that give it existence rights. The value creation model is a useful tool for defining your identity and qualifications that set you apart from the competition, but it can only be applied when it makes sense in the environment in which you work. Insurance companies offer risk management through insurance contracts, with insurers guaranteeing payment for uncertain future events, and policyholders paying a premium for protection.

The insurance sector is centered on risk management, analyzing policies and performing actuarial analysis to understand outcomes. Premiums are adjusted or benefits revaluated based on variances in data and projections. Life insurance companies offer lump sum death benefits, term life, and permanent policies, with cash accumulation components. They also offer long-term disability policies. Property and casualty companies insure against non-physical accidents, including lawsuits, personal asset damage, and car crashes. India's insurance market consists of 58 insurance companies: 26 are life insurers, 26 are non-life insurers, 5 are health insurers, and 1 is a reinsurer. Life Insurance Corporation (LIC) is the only life insurer in the public sector. The non-life insurance market is served by six public sector insurers. General Insurance Corporation of India (GIC Re) is the only national re-insurer in addition to these. Individual and corporate agents, brokers, surveyors, and third-party administrators who handle health insurance claims are among the other players in the Indian insurance sector. The life insurance industry in India evolved after the IRDA was established in 2000, abolishing LICI's monopoly. The Malhotra Committee suggested co-existence between public and private companies. However, IRDA's regulations on solvency margin and investment rules have led to rapid growth of private life insurance companies.

LITERATURE REVIEW

In this section, an attempt has been made to review the studies conducted in this field by scholars and researchers. The summarized findings of the existing relevant literature are presented below.

Upadhyaya and Badlani (2011) conducted a study on customer satisfaction in the life insurance industry in India. They collected data from 206 customers from ten companies. The study found that despite high satisfaction levels, there is still room for improvement in service quality and management to maximize customer satisfaction. The study highlights the importance of technology in achieving customer satisfaction. Charumathi (2012) analyzed the profitability of Life Insurers in India, revealing that size positively influences profitability, while leverage, premium, growth, and equity capital negatively impact it over a three-year period. The study by Namasivayam, Rajendran and Eswaran (2012) found that socio-economic factors like age, gender, occupation, family nature, and income levels significantly influence policyholders' preferences, while educational level, caste, and marital status do not. Gour and Gupta (2012) analyzed the solvency ratio of Indian Life Insurance from 2009-10 to 2011-12, finding ICICI as the best among selected companies. They found that solvency depends on returns from total investible funds and interest rate.

Padhi Bidyadhar (2013) and Bawa and Chattha (2013) conducted studies on private insurance companies' performance from 2001 to 2012. They found satisfactory overall performance and recommended continued growth to penetrate the market. Life insurance profitability was positively influenced by liquidity and size, negatively by capital, but not by solvency or insurance leverage. The study by Rai and Medha (2013) and Bawa and Chattha (2013) found that Indian customers value public sector status for security and stability. They also found that profitability of Indian life insurers is positively influenced by liquidity and size, and negatively by capital. Dey, Adhikari and Bardhan (2015) studied the impact of firm-specific factors on the financial performance of life insurance companies in India. They found no significant positive relationship between tangibility and liquidity with financial performance. Mohd. Arif (2015) studied the Indian life insurance industry trends and patterns, suggesting insurers should offer customized products to serve untapped markets effectively. Sumit Bodla et al. (2017) found that ICICI Prudential had the highest average net premium for the last five years, followed by HDFC Standard and SBI Life. They also found a decline in CAGR of underwriting income in most private sector companies.

The aforementioned studies focused on the factors that influence insurance companies' financial performance, but no study has explicitly addressed the value creation models that life insurance companies employ.

In order to fill this knowledge gap, we conducted the proposed study, which will analyze the value creation models that life insurance companies in India use.

STUDY OBJECTIVES

The following objectives are set for the study:

- To understand value creation models in relation to the life insurance industry.
- To know the makeup of value creation models used in selected life insurance companies.
- To know outputs and outcomes of SBI life and ICICI prudential life insurance companies.
- To present the summary of findings and offer the suggestion in light of the study.

RESEARCH METHODOLOGY

The present study is empirical and quantitative in nature. SBI Life Insurance and ICICI Prudential Life Insurance are the two life insurance firms that we chose for this study. The five-year span from 2018 to 2023 was covered. Trustworthy secondary sources, such as the official websites of SBI, ICICI, IRDAI, RBI, LIC, and others, are the source of pertinent data. Additionally, books, research projects, journals, and other publications are used for collecting the supporting data. We analyzed the gathered data using statistical and financial tools to uncover the insights concealed within the dataset.

PROFILE OF LIFE INSURANCE COMPANIES SELECTED

SBI Life Insurance, a trusted life insurance company in India, was established in October 2000 and registered with the Insurance Regulatory and Development Authority of India in March 2001. Serving millions of families, it offers Protection, Pension, Savings, and Health solutions. SBI Life prioritizes customer-first efficiency and ethical service, enhancing digital experiences for customers, distributors, and employees. SBI Life is a leading insurance company in India, with 996 offices, 22,015 employees, and a large agent network. The company is committed to providing a healthy work environment and promoting a culture of giving back. In 2022-23, it reached over 1.1 lakh direct beneficiaries through CSR interventions. SBI Life is listed on the BSE and NSE with an authorized capital of Rs. 20.0 billion and paid-up capital of Rs. 10.0 billion.

ICICI Prudential Life Insurance, established in 2001, is a joint venture between ICICI Bank Limited and Prudential Corporation Holdings Limited. With assets under management of around Rs. 1 billion, the company has grown significantly since its inception. In 2010, it reached Rs. 500 billion in AUM, and in 2015, it crossed Rs. 1 trillion. In 2016, it became the first insurance company listed in the Indian stock market, with a market capitalization of Rs. 50 billion. In 2020, it crossed Rs. 2 trillion in AUM, and in 2022, it reached Rs. 2.5 trillion.

DATA ANALYSIS AND INTERPRETATION

Financial capital, intellectual capital, human capital, and social and relationship capital are the four revenue creation models that were used to analyze the data gathered about two selected life insurance companies. The performance of companies in these four models is presented below.

Financial Capital

Financial resources include shareholder equity and internal accruals. We optimally deploy our financial capital to grow the wealth of our stakeholders and secure our customers' future in the event of any unforeseen circumstances. The Financial Capital represents the amount of capital employed in the business to support operations and business strategy to generate shareholder value.

Table 1: Inputs and Outputs of Financial Capital Model of Selected Companies

YEAR	INPUTS (Net Worth Rs. in b/n)		OUTPUTS (Profit After Tax Rs. in m/n)	
	SBI	ICICI	SBI	ICICI
2018-19	13.27	11.41	75.76	70.46
2019-20	14.22	10.69	87.43	72.19
2020-21	14.56	9.60	104.00	91.19
2021-22	15.06	7.54	116.21	91.63
2022-23	17.21	8.11	130.16	100.92

Source: Collected data is analysed and summarized by the author.

Table 1 shows the net worth of selected life insurance in India from 2018-19 to 2022-23. SBI's net worth was 75.76 bn at the start, increasing to 130.16 billion by the end of 2022-23, while ICICI PRUDENTIAL's net worth was 100.92 bn. It also shows profit after tax for selected life insurance in India from 2018-19 to 2022-23. SBI's profit after tax was 13.27bn, increased to 17.21bn by 2022-23. ICICI PRUDENTIAL's profit after tax was 11.41, increased to 8.11 by 2022-23.

Intellectual Capital

Intellectual Capital represents technical excellence and digital readiness which enables to gain competitive advantage. The underwriting expertise of people represents technical excellence. Digital technologies facilitate enhanced operational efficiency, superior customer service and a quick response time. Intellectual capital comprises collective knowledge and expertise to offer innovative products with distinct customer value propositions. This enables us to stay ahead of the curve in today's dynamic world.

Table 2: Inputs and Outputs of Intellectual Capital Model of Selected Companies

YEAR	INPUTS (Investment in Technology Rs. in M/n)		OUTPUTS (Solvency Ratio in Percentage)	
	SBI	ICICI	SBI	ICICI
2018-19	810	1238.8	213	215
2019-20	631	1175.5	195	194
2020-21	520	1138.7	215	217
2021-22	446.2	1293	205	204
2022-23	342.5	1927	215	208

Source: Collected data is analysed and summarized by the author.

The study reveals that the technology spend for SBI life insurance in 2018-19 increased from 810Mn to 1238.8m in 2022-23, while ICICI PRUDENTIAL life insurance's spend increased from 342.5m in 2018-19 to 1927m in 2022-23. It also displays the solvency ratios of selected life insurance in India from 2018-19 to 2022-23. SBI's ratio was 213% at the start, increasing to 215% by the end of the study, while ICICI PRUDENTIAL's ratio was 208.9%.

Human Capital

Human Capital represents employees who enable to operate the business smoothly, serve customers and achieve business objectives. Company tries to attract the best talent, provide them with multi-faceted development opportunities, support them in maintaining a healthy work-life balance and recognise their achievements through targeted performance-based rewards.

Table 3: Inputs and Outputs of Human Capital Model of Selected Companies

YEAR	INPUTS (Workforce Strength)		OUTPUTS (Revenue Earned Per Employee Rs. in m/n)	
	SBI	ICICI	SBI	ICICI
2018-19	14961	14099	20	7.2
2019-20	16759	14630	14.87	8.7
2020-21	17464	14413	11.81	9
2021-22	18815	15530	13.75	5.2
2022-23	20787	17825	34	5

Source: Collected data is analysed and summarized by the author.

Table 3 shows workforce strength of SBI and ICICI PRUDENTIAL life insurance in India from 2018-19 to 2022-23. SBI's strength increased from 14961 to 20787, while ICICI PRUDENTIAL's increased from 14099 to 17825. Both insurance companies experienced significant growth. It also shows revenue generated per employee for SBI and ICICI PRUDENTIAL life insurance in India from 2018-19 to 2022-23. SBI's revenue increased from 20 Mn to 34 Mn, while ICICI PRUDENTIAL's increased from 7.2 Mn to 5 Mn.

Social and Relationship Capital

Social and Relationship Capital represents the quality of relationship with customers, business partners, the community and other stakeholders. They help to enhance reputation, grow business and remain commercially and socially viable. Companies have to build long-standing relationships with customers, business partners, shareholders, regulators and employees. As a responsible corporate citizen, they commit to playing an active role in uplifting the communities around them.

Table 4: Inputs and Outputs of Social and Relationship Capital Model of Selected Companies

YEAR	INPUTS (Spending on CSR Rs. in Millions)		OUTPUTS (Claims Settlement Ratio)	
	SBI	ICICI	SBI	ICICI
2018-19	190	226.9	97.82	98.6
2019-20	221.70	171.6	97.04	97.8
2020-21	260	109.8	96	97.9
2021-22	267.28	68.2	97.05	97.8
2022-23	226.2	39.6	98.39	98.7

Source: Collected data is analysed and summarized by the author.

Table 4 shows CSR spends of SBI and ICICI PRUDENTIAL life insurance in India from 2018-19 to 2022-23. SBI's CSR spend was 190m, increasing to 226.2m in 2022-23, while ICICI Prudential's increased to 39.6m. The claim settlement ratio of SBI and ICICI Prudential life insurance in India from 2018-19 to 2022-23 was 97.82% and 98.6% respectively, with an increase from 97.82% in 2018-19 to 98.39% in 2022-23, respectively.

FINDINGS AND SUGGESTIONS

Several intriguing statistics and data regarding the performance of selected life insurance companies were discovered through the aforementioned investigation. The abridged version of them is provided below.

The study reveals that ICICI Prudential life's net worth was 70.46 billion in 2018-19, while SBI's net worth was 75.76 billion. By 2022-23, ICICI Prudential life had the lowest ratio at 100.26, while SBI Life had the highest at 130.16.

The study reveals that ICICI Prudential Life had the lowest profit after tax (PAT) in 2018-19, with a total of 11.41 billion, while SBI Life had the highest at 13.27 billion, reaching 17.21 billion by 2022-23.

The study reveals that SBI Life's expenditure on intellectual capital for technology was the lowest at 810 million in 2018-19, followed by ICICI Prudential Life at 1238.8 million and SBI Life at 342.5 million in 2022-23.

The study reveals that SBI Life has the lowest solvency ratio at 213% in 2018-19, followed by ICICI Prudential Life at 215%. By 2022-23, both companies have the lowest solvency ratio at 208.9%, while SBI Life has the highest profit after tax.

The study reveals that SBI Life had the highest workforce strength at 114961 employees in 2018-19, followed by ICICI Prudential Life at 14099 and SBI Life at 20787 at the end of 2022-23.

The study reveals that ICICI Prudential Life's revenue per employee was 7.2m in 2018-19, while SBI Life's was 20m. By 2022-23, ICICI Prudential Life had 5m revenue, while SBI Life had 34m.

The study reveals that SBI Life had the lowest CSR contribution of 190 million in 2018-19, followed by ICICI Prudential Life with the highest expenditure of 226.9 million, and SBI Life with the lowest expenditure of 39.6 million.

The study reveals that ICICI Prudential Life has the highest claim settlement ratio at 98.6% in 2018-19, while SBI Life has the lowest at 97.82%. By 2022-23, ICICI Prudential Life has the lowest at 98.7%.

CONCLUSION

Undoubtedly life insurance companies of India is marching towards a remarkable success accomplishing its goal it has made notable growth in this field. But to improve its business performance so as to show substantial growth, following important suggestions have been forwarded to improve the short term as well as long term solvency financial position of the sample life insurance companies. The insurance company has to concentrate on the rural areas in order to increase its business in order to increase the growth rate the insurance companies has to introduce many new products. As per analysing the trends in net worth of selected life insurance companies I have find the ICICI PRUDENTIAL Life Insurance Company has the lowest net worth of 70.46 compared to SBI Life Insurance companies so I will suggest increasing the net worth of the company for upcoming year. So in the human capital the revenue generated per employees very low in ICICI Prudential Life Insurance Company that is 5m so I will suggest working on this.

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