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### **Impact of Demonetization on Private Life Insurance Companies in India**

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#### **ABSTRACT**

Life insurance is one of the necessary paraphernalia for every human beings in the world. Insurance gives the financial support and a tax benefit for all. Demonetization is necessary for destroying the black money market. And it helps in the economic development of that country. The impact of the demonetization at the various sectors is highly positive reaction in India on 8<sup>th</sup> November 2016. Insurance sector in the demonetization impact was very moderate at the time of demolishing Rs.500 and Rs.1000. But now it slowly gets back in the growing stage. This paper is designed at considerate the impact of the demonetization of selected private life insurance companies in India. These companies are newly started private life insurers. Whoever the accomplishment of demonetization has a major impact on Life insurance products. The study covers financial changes and growth of the Life insurance sector before and after demonetization. This paper analyzes the performance of selected life insurance companies before and after the demonetization in respect of premium collection, number of offices newly started, Equity share capital and solvency ratio. From this analysis some negative impact of demonetization on life insurers.

**KEYWORDS:** Life insurance, Demonetization, Premium, Equity share capital and solvency ratio.

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## **INTRODUCTION**

The agreement between the policyholder and the insurer termed as life insurance. The policyholder pays the insurance premium for that if any injured arrived means the insurer has agreed to pay the sum of money to that insured party or any death or other event like illness of the policyholder or policy maturity. The foremost importance of the insurance is:

- Protection of the insured person
- Liquidity when we necessitate it
- Tax benefit
- Money when we desire it

Insurance is an important for the any personal financial purpose. When we select the type of insurance policy which can take and the amount coverage of the policy all are depends upon the personal financial and family environment, and must be evaluated carefully. There are 24 life insurance companies in India. In that 23 belongs to private sector and the one and only Life insurance corporation of India (LIC) was public sector life insurance company. Public trust with LIC because LIC is the number one market leader in an Indian financial institution. LIC also invest their money with various government securities.

In the financial year 2003 share of public sector life insurance company (LIC) was 98% and private sector was only 2%, but now a day it is a booming sector 70.31% of public sector and 29.69 for private sector life insurance companies. Market share of major companies in terms of first year insurance premium collected was increased up to the level which helps with the economic development.

The following are the various types of life insurance:

- a) Term life insurance
  1. Increasing or Decreasing term insurance
  2. Convertible term insurance
  3. Level term insurance
  4. Renewable term insurance
- b) Endowment insurance
  1. Joint life endowment insurance
  2. Money back
  3. Marriage endowment insurance
- c) Permanent or whole life insurance
  1. Ordinary life insurance

2. Limited payment

- d) Children's life insurance
- e) Unit linked life insurance

***Demonetization***

Demonetization means demolish the existing circulation money instead of this action the government introduce new money with respect of currency note or coins. Demonetization is necessary for destroying the black money market. And it helps in the economic development of that country. The impact of the demonetization at the various sectors is highly positive reaction in India on 8<sup>th</sup> November 2016. Insurance sector in the demonetization impact was very moderate at the time of demolishing Rs.500 and Rs.1000. But now it slowly gets back in the growing stage.

***Statement of the problem***

The purpose of having the life insurance is for financial support at the time of any unexpected injury or death of the personnel. Life insurance covers the tax benefits which any other financial instruments do not cover. The claim which we received at the time of death are normally income tax free for the receiver. The importance of studying or knowing the life insurance companies to the common man is essential for their life.

Whoever the accomplishment of demonetization and GST has a major impact on Life insurance products. The study covers financial changes and growth of the Life insurance sector before and after demonetization.

***Objective of the study***

To analyze the performance of selected life insurance companies before and after the demonetization in respect of premium collection, No.of offices newly started, Equity share capital and solvency ratio.

***Scope of the study***

The present study is undertaken to discuss the impact of demonetization before and after of life insurance companies in India. It aims to analyze individual performance of selected life insurance companies in India. The study is analysis for periods of two years 2015-2016 and 2016-2017.

## **MATERIALS AND METHODS**

### ***Methodology***

The study is empirical in nature and executed using the data published by IRDA. The research study is solely based on secondary data. The financial data related to selected life insurance companies in India were collected from 2015-2016 and 2016-2017.

### ***Sampling design***

The sample Life insurance companies are selected on the basis of convenient sampling method. A sample of six life insurance companies has been selected on the basis of availability of data and also these six life insurance companies are the newly started life insurance companies in India. The following life insurance companies have been selected for the study:

**Table No. 1: “Selected private life insurance companies in India”**

<b>S.No</b>	<b>Insurers</b>	<b>Foreign Partners</b>	<b>Regn. No.</b>	<b>Date of Registration</b>	<b>Year of Operation</b>
1	Canara HSBC OBC Life Insurance Company Limited.	HSBC Insurance (Asia Pacific) Holdings Limited. UK	136	08.05.2008	2008-09
2	Aegon Life Insurance Company Limited.	Aegon India Holdings BV, Netherlands	138	27.06.2008	2008-09
3	DHFL Pramerica Life Insurance Company Limited.	Prudential International Insurance Holdings Limited. USA	140	27.06.2008	2008-09
4	Star Union Dai-ichi Life Insurance Company Limited.	Dai-ichi Life Insurance Company Limited. Japan	142	26.12.2008	2008-09
5	India First Life Insurance Company Limited.	Legal & General Middle East Limited.	143	05.11.2009	2009-10
6	Edelweiss Tokio Life Insurance Company Limited.	Tokio Marine & Nichido Fire Insurance Company Limited. Japan	147	10.05.2011	2011-12

Source: IRDAI

## **ANALYSIS**

### ***First year premium of selected life insurance companies***

First year premium (including single premium) is the one of the most important parameters of judgment of any insurance company’s business growth. The following table No. 2 shows the first year premium of selected life insurance companies in India during the period 2015-16 and 2016-17.

**Table No. 2: “First year premium of selected life insurers”**

(in ` Crores)

S.No	Insurer	2015-16	2016-17
1	Canara HSBC OBC Life Insurance Company Limited.	859.18	982.97
2	Aegon Life Insurance Company Limited.	136.33	99.57
3	DHFL Pramerica Life Insurance Company Limited.	727.02	873.93
4	Star Union Dai-ichi Life Insurance Company Limited.	557.88	700.11
5	India First Life Insurance Company Limited.	1670.85	1670.85
6	Edelweiss Tokio Life Insurance Company Limited.	183.59	227.99

Source: IRDAI

### ***ANOVA of life insurance companies***

**Null Hypothesis:** There is no significant difference between before demonetization and after demonetization.

**Table No. 3: “Anova: Single Factor”**

Groups	Count	Sum	Average	Variance
2015-16	6	4134.85	689.14	314502.38
2016-17	6	4555.42	759.23	323025.82

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	14739.92	1	14739.92	0.046	0.83	4.96
Within Groups	3187641.04	10	318764.10			
Total	3202380.96	11				

Source: Computed

### ***Result***

From the above Table No. 3: ANOVA one way analysis, it reveals that the observed value of F (0.046) is less than the critical value of F (4.96) at the 5% level of significance (0.05). It is clear that the calculated value of ‘P’ is greater than the table value. So the null hypothesis is accepted. It shows that there is no significant difference between the first year premium of life insurance in before demonetization and after demonetization.

### ***No. of offices of selected life insurance companies***

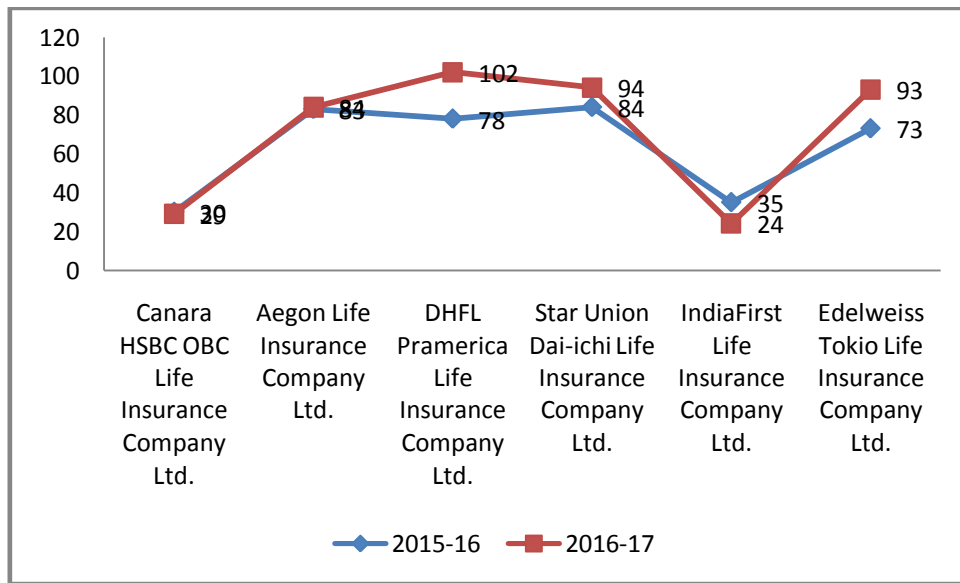
With the opening of the insurance market, after the demonetization in the year 2016, the private life insurance companies started expanding themselves by opening new offices in the different areas of the country. The following table No. 4 gives the information regarding the number of offices newly started of selected life insurance companies in India during the period 2015-16 and 2016-17.

**Table No. 4: “No.of offices”**

S.No	Insurer	2015-16	2016-17
1	Canara HSBC OBC Life Insurance Company Limited.	30	29
2	Aegon Life Insurance Company Limited.	83	84
3	DHFL Pramerica Life Insurance Company Limited.	78	102
4	Star Union Dai-ichi Life Insurance Company Limited.	84	94
5	India First Life Insurance Company Limited.	35	24
6	Edelweiss Tokio Life Insurance Company Limited.	73	93

Source: IRDAI

**Chart No. 1: “No.of offices”**



Source: Computed

### **Result**

From the table No. 4 shows after demonetization Aegon Life Insurance Company Limited started with 01 new offices, DHFL Pramerica Life Insurance Company Limited started with 24 new offices, Star Union Dai-ichi Life Insurance Company Limited started with 10 new offices, Edelweiss Tokio Life Insurance Company Limited started with 20 new offices in the year 2017. While Canara HSBC OBC Life Insurance Company Limited reduced by 01 old office and India First Life Insurance Company Limited reduced by 11 old offices in the year 2017 after demonetization.

### **Equity share capital of selected life insurance companies**

The equity share capital gives a company access to capital and investors a slice of ownership in a company with the potential to realize gains based on the future performance of the company. The following table No. 5 gives the information related to equity share capital of selected life insurance companies in India during the period 2015-16 and 2016-17.

**Table No. 5: “Equity share capital”**

(in ` Crores)

S.No	Insurer	2015-16	2016-17
1	Canara HSBC OBC Life Insurance Company Limited.	950.00	950.00
2	Aegon Life Insurance Company Limited.	1359.44	1429.85
3	DHFL Pramerica Life Insurance Company Limited.	374.06	374.06
4	Star Union Dai-ichi Life Insurance Company Limited.	250.00	258.96
5	India First Life Insurance Company Limited.	625.00	625.00
6	Edelweiss Tokio Life Insurance Company Limited.	261.59	261.59

Source: IRDAI

***t-test of life insurance companies***

**Null Hypothesis:** There is no significant relationship between before demonetization and after demonetization.

**Table No. 6: “t-Test: Paired Two Sample for Means”**

	2015-16	2016-17
Mean	636.68	649.91
Variance	195974.2	215741.7
Observations	6	6
Pearson Correlation	0.99	
Hypothesized Mean Difference	0.05	
Df	5	
t Stat	-1.15	
P(T<=t) one-tail	0.15	
t Critical one-tail	2.01	
P(T<=t) two-tail	0.30	
t Critical two-tail	2.57	

Source: Computed

***Result***

From the above table No. 6: t-Test: Paired Two Sample for Means analysis, it reveals that the observed value of T (-1.15) is less than the critical value of T one tail (2.01) and critical value of T tow tail (2.57) at the 5% level of significance (0.05). It is clear that the calculated value of ‘P’ is greater than the table value. So the null hypothesis is accepted. It shows that there is no significant difference between the Equity share capital of life insurance in before demonetization and after demonetization.

***Solvency ratio of selected life insurance companies***

Solvency ratio is an explanation metric used to measure company ability to meet its debt and other obligations. The solvency ratio indicates whether a company’s cash flow is sufficient to meet its short-term and long-term liabilities. The lower company solvency ratio and the greater the probability that it will default on its debt obligations. The following table No. 7 gives the details related to the solvency ratio of selected life insurance companies in India during the period from March 2015 to March 2017.

**Table No. 7: “Solvency ratio of life insurers”**

S.No	Insurer	March 2015	June 2015	Sept. 2015	Dec. 2015	March 2016	June 2016	Sept. 2016	Dec. 2016	March 2017
1	Canara HSBC	3.16	3.53	3.84	4.04	4.11	4.22	4.28	4.26	4.01
2	Aegon	2.03	1.97	2.21	1.70	2.20	3.14	2.78	2.24	2.08
3	DHFL	12.69	12.79	13.12	12.15	10.31	10.17	8.94	8.15	7.68
4	Star Union	2.51	1.71	1.77	1.89	1.86	1.92	1.93	2.05	2.78
5	India First	2.03	1.63	1.58	2.16	2.17	2.08	1.91	1.86	1.84
6	Edelweiss	2.54	2.27	2.58	2.42	2.64	2.51	2.15	2.22	2.20

Source: IRDAI

**Table No. 8: “Trend Analysis”**

Quarter	Canara HSBC	Aegon	DHFL	Star union	India irst	Edelweiss
June 2017	3.50	2.02	6.97	1.88	1.88	2.54
September 2017	3.61	2.08	6.24	1.92	1.89	2.51
December 2017	3.72	2.14	5.50	1.97	1.90	2.47
March 2018	3.83	2.20	4.76	2.01	1.91	2.43

Source: Computed

***Result***

From the above table No. 8: Trend analysis shows, Canara HSBC solvency ratio of March 2017 was 4.01 and it decreased to 3.50 in June 2017. Accordingly, in September 2017 it was 3.61, December 2017 it was 3.72 and March 2018 it was 3.83. Although there’s fluctuation surrounded by the observed data, the solvency ratio decreased after demonetization.

Aego solvency ratio of March 2017 was 2.08 and it decreased to 2.02 in June 2017. Accordingly, in September 2017 it was 2.08, December 2017 it was 2.14 and March 2018 it was 2.20. Although there’s fluctuation surrounded by the observed data, the solvency ratio decreased after demonetization. DHFL solvency ratio of March 2017 was 7.68 and it decreased to 6.97 in June 2017. Accordingly, in September 2017 it was 6.24, December 2017 it was 5.50 and March 2018 it



was 4.76. Although there's fluctuation surrounded by the observed data, the solvency ratio decreased after demonetization.

Star Union solvency ratio of March 2017 was 2.78 and it decreased to 1.88 in June 2017. Accordingly, in September 2017 it was 1.92, December 2017 it was 1.97 and March 2018 it was 2.01. Although there's fluctuation surrounded by the observed data, the solvency ratio decreased after demonetization. India First solvency ratio of March 2017 was 1.84 and it increased to 1.88 in June 2017. Accordingly, in September 2017 it was 1.89, December 2017 it was 1.90 and March 2018 it was 1.91. Although there's fluctuation surrounded by the observed data, the solvency ratio increased after demonetization.

Edelweiss solvency ratio of March 2017 was 2.20 and it increased to 2.54 in June 2017. Accordingly, in September 2017 it was 2.51, December 2017 it was 2.47 and March 2018 it was 2.43. Although there's fluctuation surrounded by the observed data, the solvency ratio increased after demonetization.

## **CONCLUSION**

After demonetization the insurance sector will see little impact and for a short duration. In the last few years, especially the private sector insurers have dispirited cash transactions. The first year premium collection was increased without any effect from demonetization. Selected life insurance companies are starting new offices during the study period; it shows demonetization didn't give any pessimistic impact among the life insurance business. There is no improvement in the equity share capital; it shows investment in insurance sector got downward because of demonetization. Using the trend and forecasting analysis the solvency ratio, downcast due to demonetization.

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