

**ANALYZING ATTRIBUTES IN THE POLICY HOLDER ACCOUNT OF ICICI  
PRUDENTIAL LIFE INSURANCE COMPANY**

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**ABSTRACT**

Attributes took part in the policy holder account of a life insurance company portrays the relationships of incomes and expenditure. For the purpose of analysis 10 years Policy Holder Account (2005-06 to 2014-15) is taken from the ICICI Prudential life insurance company. They are premium, reinsurance ceded, income from investment, other income, commission, operating expenses, benefits paid, interim bonus paid and surplus after tax. Descriptive statistics used to find out the range, minimum, maximum, mean and standard deviation. Linear regression is used to find out the relationship between surplus after tax and other remaining attributes. Both descriptive statistics and linear regression are found out using SPSS. Surplus after tax kept as dependant variable and all remaining attributes are kept as independent variables. Based upon the inference, surplus after tax has high positive relationship with premium, income from investment, and other income commission, operating expenses and interim bonus. There is no relationship exists between the surplus after tax and reinsurance ceded and benefits paid.

**Key words:** Policy holder account, Premium, Commission, Benefits paid and Surplus after tax.

**INTRODUCTION**

Life insurance is about providing financial protection against an unforeseen event and building long term savings. It is ever emerging industry for growth and prospers. Life insurance industry alone contributes 3.5% to the GDP. There are 23 private life insurance companies successfully functioning in India. Among the total, ICICI Prudential Life placed the dominant position. It is joint venture between ICICI Bank Ltd., and Prudential plc. holding 74% and 26% stake respectively.

Policy Holder Account is also known as Revenue Account. It is prepared to find out the surplus or deficit of life insurance business. From the surplus, an appropriation is made to shareholders

account and other reserves. Balance of surplus is transferred to funds for future appropriations, which is shown in the Balance sheet as Life Assurance Fund.

### **NEED OF THE STUDY**

Analysis of policy holder account in life insurance is an unexplored area to research. With this intention, the research is carried out with the aim to study the growth of premium, the primary incomes and expenditure and to find out the attributes in the 'policy holder account' which have direct relationship the 'surplus after tax'.

### **STATEMENT OF THE PROBLEM**

Life insurance industry financial soundness is very important to the policy holders. Only steady and strong financial soundness can attract more new business to this industry. It provokes to following questions,

What is the growth of premium of the life insurance company?

What are the primary incomes and other incomes to the life insurance company?

What are the primary expenditures to the life insurance company?

What are the attributes in the policy holder account that have direct relationship with the surplus after tax?

### **OBJECTIVES**

The research is carried out with the following objectives

1. To know about the growth of premium of the life insurance company.
2. To identify the income and expenditure to the life insurance company.
3. To analyze the attributes in the 'policy holder account' that has direct relationship with the 'surplus after tax'.

### **RESEARCH METHODOLOGY**

The entire research is relied on the secondary data. The data relevant to this research are taken from the annual reports of the ICICI Prudential Life Insurance Company. 10 years i.e. from 2005-2006 to 2014-2015 'policy holder account' is taken for the purpose of analyzing the above

mentioned objectives. Growth rates, descriptive statistics and linear regression are the tools applied in this research.

### **HYPOTHESIS**

The research endeavour to the following null hypotheses:

H01: There is no significant relationship between the incomes and ‘surplus after tax’ of Life Insurance Company.

H02: There is no significant relationship between the expenditures and ‘surplus after tax’ of Life Insurance Company.

### **DISCUSSION OF THE RESULT**

Growth of premium of the Life Insurance Company:

Premium is the primary source of income of Life Insurance Company. Premium tells about the company growth and prospers. The growth of premium is calculated on the base year method and comparison of previous year. It is shown in the table 1.

**Table 1 Growth of premium of the Life Insurance Company**

<b>Year</b>	<b>Premium `000</b>	<b>Growth / Decline of Premium in Times [Base year 2005-06]</b>	<b>Growth / Decline of Premium in Times [Comparison of previous year]</b>
2005-06	42,610,465	1.00	-
2006-07	79,129,879	1.86	0.86
2007-08	135,610,612	3.18	0.71
2008-09	153,562,208	3.60	0.13
2009-10	165,287,541	3.88	0.08
2010-11	178,806,290	4.20	0.08
2011-12	140,215,780	3.29	-0.22
2012-13	135,382,380	3.18	-0.03
2013-14	124,286,495	2.92	-0.08

2014-15	153,066,175	3.59	0.23
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Growth of Premium on the basis of Base Year Method: For the year 2005-2006 to 2010-11 year the premium is grown from 1.00 to 4.20 times and thereafter it revolves to the value of 3.24 times. The premium for the succeeding years [2006-2007 to 2014-2015] has not decline to the premium of Base year [2005-2006].

Growth of Premium on the basis of Comparison of the Previous Year Method: Here the growth occurred on the decline trend from 2006-2007 to 2010-2011. The growth in 2006-2007 was 0.86 Times and it reduced to 0.08 Times in 2010-2011. Thereafter decline occurred on decline trend from 2011-2012 to 2013-2014. In the year 2014-15 growth of premium has occurred to 0.23 Times.

**Table 2 Incomes of Life Insurance Company**

Year	Premium `000	Reinsurance ceded `000	Income from Investment `000	Other Income `000
2005-06	42,610,465	-68,363	14,231,933	56,774,035
2006-07	79,129,879	-161,702	9,890,590	88,858,767
2007-08	135,610,612	-242,957	29,231,752	164,599,407
2008-09	153,562,208	-380,272	-61,471,220	91,710,716
2009-10	165,287,541	-529,211	175,799,633	340,557,963
2010-11	178,806,290	-636,528	62,315,324	240,485,086
2011-12	140,215,780	-936,980	-1,418,084	3,637,103
2012-13	135,382,380	-1,210,008	61,903,123	5,653,158
2013-14	124,286,495	-1,459,968	92,167,437	1,118,994
2014-15	153,066,175	-1,461,710	187,244,458	593,774

Table 2 shows various incomes attributes in the 'policy holder account'. They are premium, income from investment (includes interest, dividend, profit/loss on sale/redemption of investment, gain on revaluation, and accretion of discount) other incomes (includes fees and charges, and miscellaneous income). Reinsurance ceded is an expenditure which is always shown along with the income of 'policy holder account'.

**Table 3 Expenditures of Life Insurance Company**

Year	Commission '000	Operating Expenses '000	Benefits Paid '000	Interim Bonus paid '000	Surplus after tax '000
2005-06	2,833,915	7,250,037	2,094,666	-	100,641
2006-07	5,255,134	15,229,587	7,275,047	-	1,360,152
2007-08	8,109,683	29,199,375	20,148,659	596	3,251,153
2008-09	6,999,895	27,405,944	22,065,582	519	2,129,270
2009-10	6,029,678	25,691,533	72,099,903	467	12,977,002
2010-11	5,606,759	21,873,948	105,911,669	5,550	6,076,042
2011-12	6,054,687	20,034,728	84,543,802	29,831	13,319,646
2012-13	7,654,168	17,131,074	132,878,583	48,692	14,496,763
2013-14	6,274,850	16,168,605	120,739,625	93,770	12,599,650
2014-15	5,531,723	16,520,225	122,457,230	116,391	11,620,461

Table 3 shows various expenditures attributes in the 'policy holder account'. They are commission, operating expenses, benefits and interim bonus paid to the policy holder. The excess of income over expenditure is surplus after tax which is also shown included in this table.

### **Descriptive Statistics**

Range, Minimum, Maximum, Mean, and Standard deviation of Attributes in 'policy holder account' are explained in descriptive statistics.

**Table 4 Descriptive Statistics**

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Premium	10	136195825	42610465	178806290	130795782.50	41001779.352
Income from Investment	10	248715678	-61471220	187244458	56989494.60	77912767.899
Other Income	10	339964189	593774	340557963	99398900.30	116276094.853
Reinsurance Ceded	10	1393347	68363	1461710	708769.90	527709.302
Commission	10	5275768	2833915	8109683	6035049.20	1460851.923
Operating Expenses	10	21949338	7250037	29199375	19650505.60	6620666.578
Benefits Paid	10	130783917	2094666	132878583	69021476.60	51751983.458
Interim Bonus Paid	10	116391	0	116391	29581.60	43309.496
Surplus After Tax	10	14396122	100641	14496763	7793078.00	5737978.252
Valid N (list wise)	10					

Premium is the consideration for payment of the 'sum assured' on the completion of the stipulated period of time or on the happening of the death of Policyholders. Thus premium is payable for purchasing 'Insurance protection'. It includes first year premium, renewal premium and single premium. Minimum premium occurred in the year 2005-2006 was ` 4,26,10,465 thousand and maximum premium in 2010-2011 was ` 17,88,06,290 thousand. The Range of premium for the 10 years was ` 13,61,95,825 thousand. The average of the premium for the year 2005-2006 to 2014-2015 was ` 13,07,95,782.5 thousand with a standard deviation ` 4,10,01,779 thousand.

Income from investment mainly depends on the financial markets. Loss from investment occurred in the year 2008-2009 of ` 61,471,220 thousand due to economic crisis around the world. Maximum income from investment occurred in the year 2014-2015 was ` 18,72,44,458 thousand. Range of income from investment for the 10 years was ` 24,87,15,678 thousand. The average income from investment for the year 2005-2006 to 2014-2015 was ` 5,69,89,494.6 thousand with a standard deviation ` 7,79,12,767.9 thousand.

Other incomes might be in form of penalty from the policy holder for the delayed payment of premium, and extra fees for abnormal life insurance coverage. Other income is ancillary income to the life insurance business, it ranges for the 10 years was `33,99,64,189 thousand. For the year 2014-2015 the other incomes has reduced to the minimum amount `5,93,774 thousand and maximum amount `34,05,57,963 thousand in the year 2009-2010. The average other incomes for the year 2005-2006 to 2014-2015 was `9,93,98,900 thousand with a standard deviation `11,62,76,094.8 thousand.

Reinsurance ceded is expenditure occurred when the management feels that the risk taken is more than risk bearing capacity, risk is shifted through reinsurance. Reinsurance ceded ranges for the 10 years was `13,93,347 thousand. In the year 2005-2006 reinsurance ceded minimum amount `68,363 thousand and maximum amount `14,61,710 thousand in the year 2014-2015. The average reinsurance ceded for the year 2005-2006 to 2014-2015 was `7,08,769.9 thousand with a standard deviation `5,27,709.3 thousand.

Commission amount paid to agents for the making business through them. Commission paid to agents for the first year premium, renewal premium, and single premium. Commission amount ranges for the 10 years was `52,75,768 thousand. In the year 2005-2006 Commission amount minimum amount `28,33,915 thousand and maximum amount `81,09,683 thousand in the year 2007-2008. The average Commission amount for the year 2005-2006 to 2014-2015 was `60,35,049 thousand with a standard deviation `14,60,851.9 thousand.

Operating expenses in life insurance business are employees remuneration and welfare benefits, training expenses, rents, repairs, printing and stationery, communication expenses, legal and professional charges, medical fees and auditor fees, advertisement and publicity. Operating expenses ranges for the 10 years was `2,19,49,338 thousand. In the year 2005-2006 operating expenses minimum amount `72,50,037 thousand and maximum amount `2,91,99,375 thousand in the year 2007-2008. The average operating expenses for the year 2005-2006 to 2014-2015 was `1,96,50,505.6 thousand with a standard deviation `66,20,666.6 thousand.

Benefits paid mean the claim amount on the maturity of policy and prematurity of policy at the time of death or surrender. Credibility in the name of insurance company relies in the promptness of making payments to the claim. Minimum amount of benefits paid in the year 2005-2006 was `

20,94,666 thousand and maximum amount in 2010-2011 was ` 13,28,78,583 thousand. The Range of Benefits paid for the 10 years was ` 1,307,83,917 thousand. The average of the Benefits paid for the year 2005-2006 to 2014-2015 was `6,90,21,476.6 thousand with a standard deviation `5,17,51,983.458 thousand.

Interim bonus is an additional sum which gets accrued to the policy on a yearly basis. Company distributes a part of its surplus to the policy holder in the form of bonus. This amount is paid on the maturity of the plan or in the case of unfortunate death. Interim bonus ranges for the 10 years was `1,16,391 thousand. In the year 2014-2015 interim bonus has paid a maximum amount of `1,16,391 thousand. The average interim bonus for the year 2005-2006 to 2014-2015 was `29,581.6 thousand with a standard deviation `43,309.496 thousand.

Surplus after tax is the amount of money remaining after an insurer's liabilities are subtracted from its assets. It acts as a financial cushion above and beyond reserves, protecting policyholders against an unexpected situation. Minimum amount of surplus after tax earned in the year 2005-2006 was ` 100641 thousand and maximum amount in 2010-2011 was ` 14496763 thousand. The Range of surplus after tax earned for the 10 years was ` 14396122 thousand. The average of the surplus after tax earned for the year 2005-2006 to 2014-2015 was `14396122 thousand with a standard deviation ` 5737978.252 thousand.

### **Testing of Hypothesis on Surplus after tax and Income**

Incomes of the life insurance company are premium, income from investment, and other income are tested by linear regression. The significance value of premium is 0.106, income from investment is 0.082, and other income is 0.122. As all the income significance value is greater than 0.05, the null hypothesis is rejected. There is significant relationship between the incomes and 'surplus after tax' of Life Insurance Company.



**Table 5 Regression Table on Income**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1570439.099	4638115.760		-.339	.746
	Premium	.072	.038	.515	1.900	.106
	Income from Investment	.040	.019	.537	2.085	.082
	Other Income	-.023	.013	-.472	-1.799	.122

a. Dependent Variable: Surplus After Tax

**Testing of Hypothesis on Surplus after tax and Expenditures**

**Table 6 Regression Table on Expenditures**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1294340.224	5221014.834		-.248	.812
	Reinsurance Ceded	9.530	2.840	.876	3.356	.015
	Commission	-.220	1.564	-.056	-.141	.893
	Operating Expenses	.186	.336	.215	.555	.599

a. Dependent Variable: Surplus After Tax

Expenditures of the life insurance company are reinsurance ceded, Commission, and operating expenses, benefits paid and interim bonus paid are tested by linear regression. The significance value of reinsurance ceded is 0.015, commission is 0.893, operating expenses is 0.599, benefits paid is 0.014 and interim bonus paid is 0.869. As commission, operating expenses, and interim

bonus significance value is greater than 0.05, the null hypothesis on these expenditures is rejected. There is significant relationship between the commission, operating expenses, and interim bonus and ‘surplus after tax’ of Life Insurance Company.

**Table 7 Regression Table on Expenditures  
Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1071046.664	1820263.055		.588	.575
	Benefits Paid	.100	.031	.903	3.275	.014
	Interim Bonus Paid	-6.270	36.512	-.047	-.172	.869

a. Dependent Variable: Surplus After Tax

As reinsurance ceded and benefits paid significance value is less than 0.05, the null hypothesis on these expenditures is accepted. There is no significant relationship between the reinsurance ceded and benefits paid and ‘surplus after tax’ of Life Insurance Company.

**CONCLUSIONS**

The growth of premium is found more satisfied. This trend will lead the company to prosper in the industry. In the year 2010-2011 it earned a highest premium of ` 17,88,06,290 thousand which is 4.20 times of 2005-2006 year premium. In the latest year 2014-2015 the premium earned 0.23 times comparison to the previous year 2013-2014. A very low amount of Reinsurance ceded is shifted to another company, which shows the more risk bearing capacity of the company. Income from investment shows some fluctuations, as it is based on the market conditions. Other income is good up to the year 2010-2011 and thereafter it shows in decline trend. Commission is the reward to the agent for creation of business to the company. Commission expenditure is considered to be acceptable with comparison to the premium. Great achievement is made in controlling the operating expenditure, as it stand ` 2,91,99,375 thousand in the year 2007-2008 and this has been

considerable reduced to ` 1,65,20,225 thousand in the year 2014-2015 without any affecting the earning capacity. As for as benefits paid the amount has increased to great extent. It explicit two things, one is company good policy towards claim settlement. Another one is need to concentrate more on the underwriting of policies. As regards to surplus after tax is found satisfaction to the company. With the testing of regression, premium, income from investment, other incomes, commission, operating expenses and interim bonus paid has significant relationship with the independent variable, i.e. surplus after tax.

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