THE IMPACT OF KEY INDICATOR OF FINANCIAL PERFORMANCE ANALYSIS FOR SELECTED INSURANCE COMPANIES IN INDIA

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Abstract
An analysis of a business's economic performance looks at its overall health during a particular time. This is the process for accurately establishing a connection between the accounting record and gain as well as loss account items in order to figure out a business's monetary abilities and shortcomings. The term "working capital management" describes the administrative accounting approach used by the business to track and make use of its present resources and current debts, which make up its financial resources, in order to ensure the best possible financially effective functioning of the business. The study was analyzed using the Altman Z Score model [1]. Five Indian life insurance businesses were chosen for the study, and working capital management for the ten years between 2011–2012 and 2020–21 was analyzed. This study makes use of secondary data. In this study secondary data is used and various ratios and statistical tool used for analysis.

I INTRODUCTION

Analyzing financial performance involves determining a company's financial strengths and weaknesses by combining balance sheet data. It additionally assists with both medium- and long-term forecasts as well as development. In other words, economic achievement is an indicator of the effectiveness an organization is in achieving its monetary objectives. Financial assessment determines the connection between various aspects of the financial statement to better understand the company's condition and efficiency. This is utilised to assess the general well-being of an organisation at a specific point in time frame as well as contrast related businesses inside an identical sector or across industries or sectors. You can evaluate the company's policies and activities according to financial performance [2]. This is called financial evaluation. However, the process of analyzing financial performance involves analyzing and interpreting financial data to provide an in-depth assessment of the economic and cash flow of the company's activities. The economic analyst course provides learners with the fundamentals of financial evaluation. It provides a simple tool to assess and comprehend the well-being of your company.

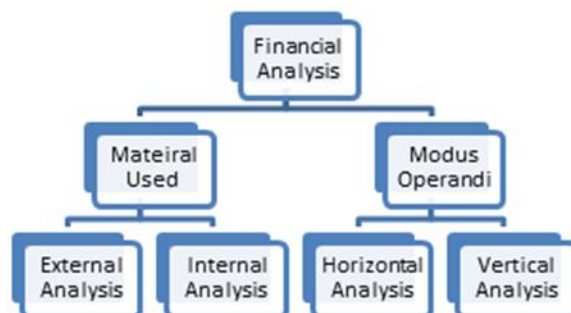## II Analyze the Financial Performance:

Financial performance can be measured in a variety of ways; but-all measurements must be aggregated [3]. In addition to sales, individual components like operating profit and income, and operating cash flow are also available. Additionally, analysts and investors may want to take a closer look at the financial reports to find out the rate of profit margin growth. Stakeholders in businesses might include trade creditors, investor-s, bondholder-s, employees, and managements. Every group is interested in monitoring a company's financial performance for different reasons.
Analysts rely on data provided by companies in their Form 10K, commonly referred to as an annual report, to assess their financial performance. The Form 10K is a mandatory legal document that all publicly traded companies must file. Its primary objective is to furnish stakeholders with an accurate and reliable summary of the company's financial performance. Moreover, these statements, alongside various other disclosure documents, undergo scrutiny and approval by company management [4]. Hence, the Form 10K serves as the most comprehensive annual source of financial performance data

accessible to investors. It typically includes three significant accounting records: an inventory sheet, a statement of earnings, and a report on cash flows.

A Financial Performance Analysis Types

Analyses of financial outcomes might be categorized through various groups based on the materials and approaches employed, as explained below:

B Material used: Based on the materials used, two methods are available for analyzing financial performance:

- External analysis

External parties conducting this analysis include government agencies, credit agencies, investors, and additional lenders that are not granted permission to read the company's inside documentation. The financial statements that become accessible to everyone are largely intended for analytical purposes.

- Internal analysis

Those with access to the accounting records and other business-related data, such as government or court-appointed representatives, the organization's officers, and workers, carry out this study.

C Modus Operandi: Based on this methodology, two methods are available for analyzing financial performance:

- Horizontal Analysis

This study delves into the examination and interpretation of financial statements spanning multiple years. It involves comparing figures from the present year with those of a reference or standard year, often presenting variances in percentage terms. Through this analysis, management gains insights into the nature and whereabouts of both strengths and weaknesses within the organization. Given its utilization of data over several years, this approach is commonly referred to as dynamic analysis.

- Vertical Analysis

This type of research examines the numerical relationships among various items on the balance sheet as of a specific date. It proves beneficial for contrasting the achievements of multiple businesses within identical categories or sections within a single business. However, for a thorough comprehension of a business's monetary position, this analysis may not be particularly useful as it relies on data gathered over a limited time frame. Due to its reliance on data from a single date or accounting period, this approach is also referred to as static analysis.

III Techniques (or) Tools of Financial Performance Analysis

Depending on the requirements of the analyst, there are numerous approaches to financial performance analysis [5]. Nonetheless, there are six primary areas where the goals of financial analysis are addressed. Includes any or all of the following:

a) A Short-term liquidity: Capacity to fulfill immediate obligations.

b) A Funds flow: Cash availability and usage in the future.

c) A Capital structure and long-term solvency: The capacity to produce future earnings and fulfill our long-term commitments.

d) A Return on investment: The capacity to offer enough money in compensation to draw in and keep funders.

e) An Asset utilization: Achieving a specific level of profitability requires certain asset intensity in revenue production.

f) An Operating performance: achieved success in reducing expenses and increasing revenue by putting in place long-term operational activities.

IV Review of Financial Performance

Analyzing financial results empowers you to reassess your company's objectives and craft informed strategies for enhancement. When conducting a financial evaluation of your company, consider the following:

1. Cash Flow - This represents the total amount of money coming into and leaving the business. Forecasts require regular review and updates.

2. Working Capital - When requirements change, it's important to identify why and evaluate how they compare to industry standards.

3. Cost Base - Keep your costs under a review by making sure your selling price options cover your costs. However, you shouldn't expect your clients to foot the bill for operational inefficiencies.

4. Borrowing - Overdraft and loan positions are determined by determining whether there are better or cheaper forms of finance available.

5. Growth - There are plans to adjust funding as the company's needs and growth change.

V Measures of Financial Performance

Profitability stands as one of the paramount financial considerations. It denotes your ability to generate financial gains, ensuring that your earnings exceed your overall expenses. Ultimately, the primary goal for most expanding businesses is to increase profitability. Hence, comprehending the analysis of the rate of return becomes essential.

1. A Profitability ratios are usually classified into two wide methods: profits and earnings. The most widely used proportions for profitability are:

a. A Gross Profit Margin - What profit can you make considering your direct cost of goods sold, or also known as contribution?

b. An Operating Expenses Margin - It falls within gross and net earnings metrics. Expenses have been implemented to a wallet, however assessment and tax transactions are not. To identify an instance, it is additionally referred to as EBIT margin (earnings before interest and tax).

c. A Net Profit Margin - This is a far more precise indicator of profit because it requires into account every expense, not just immediate expenses. Each overhead costs, taxation, and interest transaction are taken into account in the profit estimation.

d. A Return on Capital Employed - The net revenue is calculated as an amount of the entire investment in capital in the enterprise. It enables you to see the way the cash you invest in your company compares with different expenditures that you might consider in your business, such as Deposit into bank.

VI An Accounting Ratios to Measure Financial Performance

You should take into account additional common financial metrics in addition to revenue in order to assess the achievements of your company. These proportions examine:

- **Liquidity** – An evaluation of your capacity to pay your immediate financial demands.
- **Solvency** – A method of assessing your financial health that compares your long-term debt against your equity and assets
- **Efficiency** – Measuring metrics such as stock turnover to assess how effectively you are utilizing your company's resources.

In essence, a financial performance report serves as a comprehensive summary of a business's financial health, offering insights into its overall performance and facilitating decision-making for various stakeholders and investors. [7].

VII A Financial Statements Used in Financial Performance Analysis:

Information for financial analysis is sourced from various departments within your organization. These statements are typically compiled periodically, commonly annually, though they may also be prepared for quarterly or semi-annual accounting periods. Among the most accessible financial documents available to the public is the annual report, which is often the simplest and most concise.

The annual report contains a financial declaration, income claim, balance sheet, and summary of alterations to equity [8]. These financial statements are crafted internally in adherence to International Financial Reporting Standards (IFRS) in Ghana and across much of Europe. Additionally, a discussion of the annual financial statements is provided to elucidate the figures. Typically, the information disclosed in annual reports is confined to legal requirements. Supplementary details are primarily utilized by internal stakeholders involved in financial analysis.

A Analysis of Financial Strength in Insurance Firms

Lenders, investors, corporate executives, and entrepreneurs highly prioritize financial stability. Effective cost management is crucial for the success of numerous businesses globally. Assessing the financial well-being of a corporation can be approached through various methods. The key lies in selecting the appropriate measurement method tailored to your firm, considering factors such as the state of the economy, industry dynamics, timeframe, and stage of the business lifecycle [9]. Every business operates within a competitive landscape, whether at a local, regional, national, or global level. Therefore, understanding a company's financial performance relative to its industry peers is crucial. Broadly speaking, there are three key metrics used to evaluate a company's financial health: solvency, liquidity, and profitability. Financial strength is characterized by the ability to meet or surpass financial obligations. The term "financial strength" encompasses a company's capacity to fulfill creditor obligations not only under current economic and operational circumstances but also amid potential future challenges. This entails leveraging existing resources, securing additional funds through the issuance of long-term debt securities or common stock, or maintaining favorable credit ratings to ensure uninterrupted interest and dividend payments amidst business transactions and expansions. There are two facets to a company's financial strength: short-term and long-term.

- Short-term financial strength can be described as a company's liquidity (or) technical solvency.
- The company's ability to finance its longer-term asset requirements is contingent upon the structure in place.

 Bankers and current creditors focus on a company's immediate capability to meet its debt obligations. This pertains to the short-term financial resilience of a company [11]. Our bondholders and long-term lenders prioritize our long-term financial stability. This is especially significant when assessing the financial strength of a life insurance company.

B A Short Term Financial Strength

Short-term financial strength refers to an organization's capability to settle its current debts promptly. The importance of short-term financial stability cannot be overstated. Liquidity ratios serve as indicators of an organization's temporary financial stability by measuring its capacity to fulfill its current obligations. Among the key ratios that measure liquidity are the present proportion and the rapid ratio, which both evaluate the liquidity of a business.

1) Current Ratio

The current ratio assesses a company's capacity to fulfill its short-term commitments by comparing its liquid assets to liabilities due within one year. This ratio gauges whether a company possesses adequate resources to settle debts, bills, and other financial obligations expected within the next 12 months. A higher ratio signals to creditors and investors that the company is well-equipped to meet its immediate obligations without encountering significant challenges:

$$Current\ Ratio = Current\ Asset\ /\ Current\ Liabilities$$

The current ratio evaluates a company's ability to settle its short-term obligations using its current assets. Acceptable current ratios vary across industries. Generally, creditors prefer a higher current ratio as it suggests the company is more likely to repay its debts. However, for investors, an increasing current ratio isn't always positive. A excessively high ratio might indicate inefficiency in utilizing current assets and short-term financing. A current ratio below 1 implies potential difficulty in

meeting short-term obligations, though some companies, especially those with rapid inventory turnover or efficient cash collection processes, can operate effectively with such ratios.

Inventory, valued at cost, allows companies to acquire and sell goods for a profit, generating cash exceeding the recorded inventory value. Similarly, a low current ratio might be justified if a company can collect cash from customers well before paying suppliers. While a high current ratio offers protection for creditors against adverse events, it may reflect poor financial planning or the presence of suboptimal assets or excess capital from a management perspective.

The conventional guideline for the current ratio is 2:1, meaning a company should ideally have current assets twice the value of its current liabilities to be considered technically solvent. This standard aims to ensure timely payment of short-term debts, avoiding disruptions to normal business operations. However, it's important to note that the 2:1 rule shouldn't be universally applied as a measure of attractiveness or liquidity across all businesses. This ratio suggests adherence to a solvency liquidation theory, where a higher current ratio implies a greater safety margin and enhanced capability to meet current obligations. Yet, an excessively high ratio may indicate underutilization of current assets, which isn't advantageous for the company despite being beneficial for creditors. Therefore, after computing a company's current ratio, it's prudent to benchmark it against industry peers for comparative analysis.

Table 1 Analysis of Short - Term Financial Strength - Current Ratio

1) Current Ratio

Current Ratio = Current Asset / Current Liabilities

Table 4.1 Analysis of Short - Term Financial Strength - Current Ratio

Year	HDFC	MAX	ICICI	Reliance	LIC
2011-12	1.06	0.82	0.57	0.77	2.05
2012-13	0.62	0.75	0.38	0.86	1.70
2013-14	0.80	0.62	0.42	0.79	1.82
2014-15	0.85	0.64	0.53	0.75	1.88
2015-16	0.76	0.70	0.65	0.37	2.33
2016-17	0.97	0.90	0.59	0.35	1.74
2017-18	0.89	1.01	0.69	0.75	4.09
2018-19	0.74	0.95	0.67	0.71	4.79
2019-20	0.78	1.04	1.01	1.25	4.10
2020-21	0.76	1.31	0.79	1.05	4.27
Mean	0.823	0.881	0.631	0.765	2.876
S.D	0.124	0.209	0.181	0.269	1.263
C.V	0.150	0.237	0.287	0.352	0.439
Range	0.44	0.67	0.63	0.90	3.05
%	82.263	88.104	63.062	76.470	287.638
CAGR	0.204	0.268	0.271	0.258	0.303

Source: CMIE Database

The current ratio of sample life insurance companies is being shown in Table 1, which reveals that the higher position of 2.876 is being calculated for LIC, followed by 0.881 revealed by MAX Life Insurance Company Ltd. The Current Ratio of selected Insurance Companies makes a reflection that they are below the mean ratio for most of the years, giving a point of view of conclusion that the actual calculated Current Ratio has actually not revealed the satisfactory position with respect of all other Insurance Companies.

The Range of Current Ratio making a higher reflection in calculation by indicating 3.05 for LIC for the concerned present study. The Compound Annual Growth Rate reveals the highest value of Growth Rate (0.303) in LIC, followed by subsequent decline in other Insurance Companies.

The co-efficient of variation showed that the current ratio of LIC was more consistent (0.439) than the other companies and it was followed by Reliance (0.352), ICICI (0.287), MAX (0.237) HDFC (0.150).

Table 2 ANOVA Analysis of Short-Term Financial Strength - Current Ratio

SUMMARY				
Groups	Count	Sum	Average	Variance
HDFC	10	8.23	0.823	0.015712
MAX	10	8.74	0.874	0.045604
ICICI	10	6.3	0.63	0.033044
Reliance	10	7.65	0.765	0.073094
LIC	10	28.77	2.877	1.59329

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	35.74667	4	8.936667	25.37751	0.00	2.58
Within Groups	15.84671	45	0.352149			
Total	51.59338	49				

**P<0.01 *P<0.05 S- Significant NS- Not Significant

Source: Computed using the values of ratios

In order to examine the significant effect of difference between the years and companies on the Current Ratio, F test has been made and it is exhibited in the Table 2. The table reveals that the p - value of F is less than 0.05; the null hypothesis is rejected at one percent level of significance. The hypothesis "there is no difference between the years and companies on the Current ratio" is disapproved. It is concluded that, there is difference between the years and category of sectors on the current ratio.

2) Liquidity Ratio

Liquidity ratios measure the capacity of an organization to fulfill its financial obligations for the foreseeable future. Such financial metrics examine how well an organization includes sufficient current capital to cover its liabilities as they come due. Creditors and lenders frequently employ liquidity metrics to assess the financial condition of an organization while deciding whether to extend credit [10]. These ratios assess the comparative liquidity of an organization's resources against its present obligations as reflected in its latest balance sheet. A larger proportion indicates a bigger capacity to settle quick debts, indicating the company's capacity to utilize current assets for meeting current liabilities.

Liquidity ratios play a crucial role in assessing a company's liquidity position. They provide insight into the availability of near-cash or non-cash assets for immediate payment. Typically, if current assets exceed current liabilities, the financial situation is deemed favorable. Liquidity ratios offer a measure of a company's capability to fulfill its obligations promptly as they come due. The formula for calculating includes:

Liquid Ratio = **Liquid Assets ⁄ Current Liabilities**

Inventory and prepaid expenses are omitted from current assets in these calculations because they may not readily convert into cash. Creditors are particularly concerned with this ratio as it pertains to immediate cash flows and liquidity reserves. Typically, an acid test ratio of 1:1 is deemed satisfactory as it readily satisfies all current obligations for companies. Liquidity denotes the capability to swiftly and inexpensively convert assets into cash. These ratios prove most beneficial when utilized for comparative analysis, both internally and externally.

In essence, a company's liquidity refers to its capacity to fulfill short-term obligations and serves as a crucial gauge of its financial well-being.

1) Liquidity Ratio

Liquid Ratio = Liquid Assets / Current Liabilities

Table 3 Analysis of Short-Term Financial Strength - Liquidity Ratio

Year	HDFC	MAX	ICICI	Reliance	LIC
2011-12	0.46	0.04	0.28	0.60	0.87
2012-13	0.23	0.22	0.20	0.68	0.81
2013-14	0.29	0.18	0.21	0.45	0.82
2014-15	0.36	0.20	0.16	0.30	1.19
2015-16	0.31	0.22	0.16	0.15	1.11
2016-17	0.30	0.23	0.10	0.13	0.96
2017-18	0.28	0.17	0.12	0.25	1.30
2018-19	0.25	0.20	0.09	0.30	1.32
2019-20	0.21	0.20	0.08	0.20	1.33
2020-21	0.24	0.25	0.06	0.20	0.97
Mean	0.293	0.191	0.146	0.325	1.068
S.D	0.073	0.059	0.071	0.189	0.210
C.V	0.248	0.308	0.486	0.584	0.197
Range	0.25	0.21	0.22	0.47	0.51
%	29.280	19.059	14.563	32.457	106.846
CAGR	0.205	0.479	0.177	0.185	0.285

Source: CMIE Database

The liquidity ratios of the sampled insurance companies in Table 3 indicate that the highest mean value is observed in LIC at 1.068, followed by Reliance at 0.325. Across all selected insurance companies, their liquidity ratios consistently fell below the mean ratios for the majority of the years. Therefore, it can be inferred that the liquidity position of the remaining companies was deemed unsatisfactory.

The Liquidity ratio ranged from 0.51 for LIC, indicating the highest among the selected insurance companies in India for this study. MAX exhibited the highest compound annual growth rate at 0.479, followed by a decline in growth rate for the other insurance companies.

The Liquidity of variation showed that the co-efficient variation ratio of Reliance seems to be more consistent (0.584) than other companies and it was followed by ICICI (0.486), MAX (0.308), HDFC (0.248) and LIC (0.197).

Table 4 ANOVA Analysis of Short Term Financial Strength - Liquidity Ratio

SUMMARY				
Groups	Count	Sum	Average	Variance
HDFC	10	2.93	0.293	0.005379
MAX	10	1.91	0.191	0.003366
ICICI	10	1.46	0.146	0.004782
Reliance	10	3.26	0.326	0.036004
LIC	10	10.68	1.068	0.043462

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	5.712308	4	1.428077	76.78384	0.00	2.578739

Within Groups	0.83694	45	0.018599			
Total	6.549248	49				

An F-test was conducted to investigate the notable impacts of both the year and inter-firm differences on liquidity ratios, with the results presented in Table 4. The table indicates that the p-value of F is below 0.05. Consequently, the null hypothesis is rejected at the 1% significance level. This entails rejecting the hypothesis that "there are no differences in liquidity ratios between years or companies." Thus, it is concluded that variations exist across different years and sector categories concerning liquidity ratios.

VIII Conclusions

This research delved into assessing the financial performance of chosen insurance firms in Jordan through Altman's Z-score model. This model, employing a multivariate formula, assesses a company's financial well-being and the likelihood of facing bankruptcy in the subsequent two years, relying on essential financial ratios. In examining performance, the study scrutinized correlations between balance sheet entries and income statement figures to pinpoint areas of strength and vulnerability. By dissecting financial statement elements and their interrelations, financial performance analysis offers valuable insights into a company's position and operations. The overarching aim is to gain a deeper understanding of the company's present status and its trajectory in terms of performance.

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