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OPERATIONAL PERFORMANCE OF ORIENTAL INSURANCE AND BAJAJ ALLIANZ GENERAL INSURANCE COMPANIES IN INDIA



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ABSTRACT

Insurance is a risk transfer mechanism by which an organization can exchange its uncertainty for certainty. The uncertainty experienced would include whether a loss will occur, when it will take place, how severe it will be and how many there might be in a specified time period. This uncertainty and how many there might be in a specified time period. It is of immense value not only to industries but also to individuals. Insurance is a method in which a large number of people exposed to a similar risk called 'insured' make contributions by way of premiums to a common fund, out of which the

losses suffered by the few people due to 'insured perils' are made good.

Insurance in India covers both the public and private sector organizations. It is listed in the Constitution of India in the Seventh Schedule. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014.

In today's age of consumerism, insurance requirements have expanded to keep pace with the increasing risks. Gone are the days when life insurances ruled the roost; today we have a wide assortment of risk coverage commencing from health insurance to travel insurance to theft insurance to even a wedding insurance. With affluence and spending capacity on the surge there is a growing trend to fulfill needs, deal with responsibilities and secure one's possessions, be it good health or worldly wealth.

KEYWORDS :Problems of small scale industrial units, raw material, financial, labour, technical, competition, power supply, marketing and transport problems .

INTRODUCTION:

People face a lot of risks in their daily lives. Some of these lead to financial losses. Insurance is a way of protecting against these financial losses. For a payment (premium), an insurance company will take the responsibility of compensating your financial losses.

DEFINITION OF GENERAL INSURANCE:

Insurance contracts that do not come under the ambit of life insurance are called general insurance. The different forms of general insurance are fire, marine, motor, accident and other miscellaneous non-life insurance. Insuring anything other than human life is called general insurance. Examples are insuring property like house and belongings against fire and theft or vehicles against accidental damage or theft. Injury due to accident or hospitalization for illness and surgery can also be insured. Your liabilities to others arising out of the law can also be insured and is compulsory in some cases like motor third party insurance.

Insurance other than 'Life Insurance' falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. There are also other covers such as Errors and Omissions insurance for professionals, credit insurance etc.

Wilfred (1999) stated that performance measures provide managers, front-line employees, and companies with a broad assortment of both cultural and technical benefits. These benefits go far beyond the bottom line, but they are not commonly recognized. While it is not a prerequisite to implementing performance measures, an understanding of these benefits will give manager's insight into what makes a good measurement system and how performance measures should be used.

SubbaRao and Ramana (2012) stated that Operational performance is an important parameter to measure the effective functioning of Insurance Company. The operational performance of the company can be gauged in term of the number of products introduced over a period of fire, ages of claims, year-wise settlement of grievances, motor third party cases compromised through various fields.

Foster (2013) said that many manufacturers, like insurers, operate at low margins, and they have learned to look beyond financially-oriented industry metrics like Operating Ratios to stay competitive. Instead, they delve into the microeconomics of their business. They examine processes in each work stage-what we've termed a "unit of work"-to understand and improve each of the underlying elements that drive their costs and operational performance. By changing the focus to operational productivity, you could potentially move the operating ratio 10 to 20 points-doing it rationally and benchmarking yourself using value as the guide. Operational performance will help drive your firm's competitiveness.

NET INCURRED CLAIMS TO NET PREMIUM RATIO

Table: 1 shows Incurred Claims to Net Premium ratios of OICL and BAICL. It is observed from the table that there is an overall increasing growth in both incurred claims and net premiums of both OICL and BAICL. But in year 2012-13, there is a decrease in incurred claims of OICL with Rs. 4392.85 Crores when compared to the previous year 2011-12 with Rs. 4464.83 Crores in year 2009-2010, which amounts to Rs. 71.98 Crores and there is a decrease in net premium of BAICL with Rs. 18842.00Crores

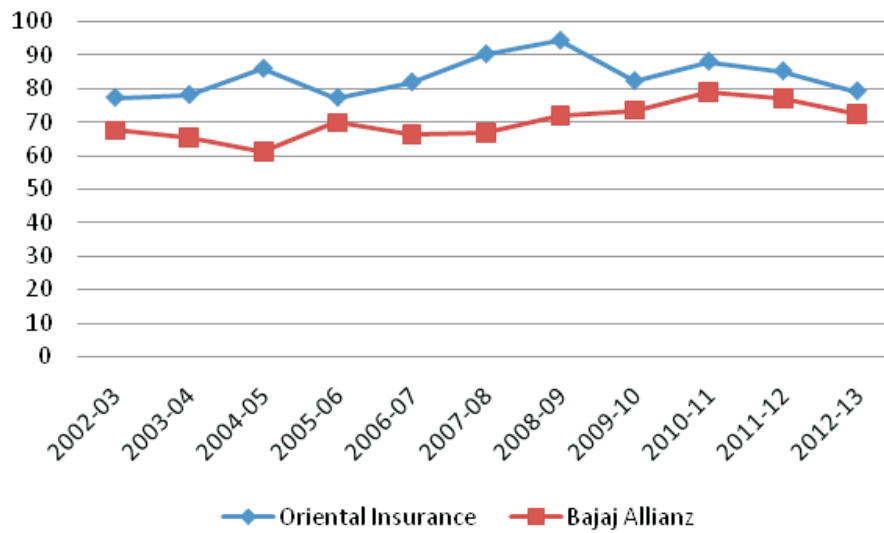
when compared to the previous year 2008-09 with Rs. 18913.00 Crores, which amounts to Rs. 71 Crores less than the previous year. Incurred Claims to Net Premium ratios of OICL and BAICL followed a fluctuating trend during the period of the study 2002-13. Highest Incurred Claims to Net Premium ratio of OICL was observed in the year 2008-09 with 94.50 percent, lowest was found in the years 2002-03, 2005-06 with 77.25 percent.

**Table 1: Incurred Claims to Net Premium Ratios of OICL & BAICL
(Ratios shown in Percentage terms)(in Crore)**

Year	OICL			BAICL		
	Incurred Claims	Net Premium	Ratio	Incurred Claims	Net Premium	Ratio
2002-03	1466.55	1898.42	77.25	1040.00	1541.00	67.49
2003-04	1587.64	2033.03	78.09	1506.00	2306.00	65.30
2004-05	1908.38	2218.02	86.03	2263.00	3709.00	61.01
2005-06	2064.75	2500.46	77.25	4100.00	5864.00	69.92
2006-07	2358.85	2879.73	81.91	5556.00	8385.00	66.26
2007-08	2602.22	2878.67	90.39	9457.00	14154.00	66.82
2008-09	3057.19	3235.10	94.50	13599.00	18913.00	71.91
2009-10	3260.17	3962.53	82.27	13866.00	18842.00	73.59
2010-11	4065.36	4611.58	88.16	17013.00	21497.00	79.14
2011-12	4464.83	5236.65	85.26	19079.00	24747.00	77.09
2012-13	4392.85	5545.25	79.22	21181.00	29243.00	72.43
Average Mean			83.67			70.09
Std. Deviation			5.74			5.38
Std. Error Mean			4.06			3.80
Student T Test			0.0009			

Source: Annual reports from Oriental and Bajaj

Chart 1: Incurred Claims to Net Premium Ratios of OICL & BAICL



Highest Incurred Claims to Net Premium ratio of BAICL was observed in the year 2010-11 with 79.14 percent, lowest was found in the year 2004-05 with 61.01 percent. The table also shows the Average Mean of OICL (83.67 percent) and BAICL (70.09 percent), and represents OICL has 13.58 percent more than BAICL.

To test for the equality of Incurred Claims to Net Premium ratios of selected organizations OICL and BAICL, Student T-test has been employed to examine whether the computed value of Student T-test is significant or not.

It is observed from the table that the calculated value of “t” is 0.0009 at 5% level of significance. The result shows that the Student T-test value of both OICL and BAICL is less than the critical value of “t” at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operational performance of OICL and BAICL during 2002-2013 in terms of Incurred Claims and Net Premiums. The observed Standard Deviation is 5.74 and 5.38 and Standard Error Mean is 4.06 and 3.80 of both OICL and BAICL respectively.

Management Expenses to Net Premium Ratio

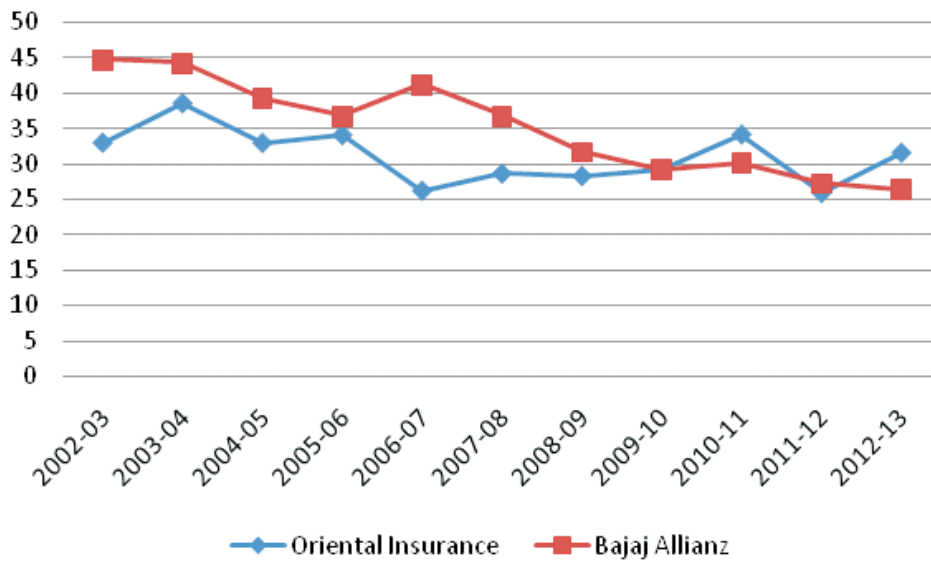
**Table 2: Management Expenses to Net Premium Ratio of OICL & BAICL
(Ratios shown in Percentage terms) (`inCrores)**

Year	OICL			BAICL		
	Management Expenses	Net Premium	Ratio	Management Expenses	Net Premium	Ratio
2002-03	625.59	1898.42	32.95	690.00	1541.00	44.77
2003-04	782.11	2033.03	38.47	1020.00	2306.00	44.23
2004-05	729.89	2218.02	32.91	1456.00	3709.00	39.26
2005-06	850.76	2500.46	34.02	2156.00	5864.00	36.77
2006-07	754.23	2879.73	26.19	3454.00	8385.00	41.19
2007-08	823.61	2878.67	28.61	5195.00	14154.00	36.70
2008-09	914.44	3235.10	28.27	5988.00	18913.00	31.66
2009-10	1150.76	3962.53	29.04	5485.00	18842.00	29.11
2010-11	1572.54	4611.58	34.10	6461.00	21497.00	30.06
2011-12	1354.46	5236.65	25.87	6722.00	24747.00	27.16
2012-13	1748.70	5545.25	31.54	7687.00	29243.00	26.29
Average Mean			31.09			
Std. Deviation			3.86			
Std. Error Mean			2.73			
Student T Test			0.097			

Source: Annual reports from Oriental and Bajaj

Table: 2 represent Management Expenses to Net Premium ratios of OICL and BAICL. The table shows that management expenses of OICL recorded a variant trend from year 2002-03 to 2012-13 whereas management expenses of BAICL showed an overall increasing trend during this period. But in the year 2009-10, management expenses of BAICL were decreased to Rs. 5485.00 Crores when compared to previous year.

Chart 2: Management Expenses to Net Premium Ratio of OICL & BAICL



It is also observed from the table that net premium of both OICL and BAICL showed increasing trends during the period of study. But in OICL a small decrease in net premium was observed in the year 2007-08 which amounts to Rs 1.06 Crores difference when compared to the previous year. The Management Expenses to Net Premium ratios of OICL and BAICL showed variant trend during the period 2002-03 to 2012-13. Highest Management Expenses to Net Premium ratio of OICL was observed in the year 2003-04 with 38.47 percent, lowest was found in the year 2006-07 with 26.19 percent. Highest Management Expenses to Net Premium ratio of BAICL was observed in the year 2002-03 with 44.77 percent, lowest was found in the years 2012-13 with 26.29 percent. The table also shows the Average Mean of OICL (31.09 percent) and BAICL (35.20 percent), and represents BAICL has 4.11 percent more than OICL.

To test for the equality of Management Expenses to Net Premium ratios of selected organizations OICL and BAICL, Student T-test has been employed to examine whether the computed value of Student T-test is significant or not.

It is observed from the table that the calculated value of “t” is 0.097 at 5% level of significance. The result shows that the Student T-test value of both OICL and BAICL is higher than the critical value of “t” at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operational performance of OICL and BAICL during 2002-2013 in terms of Management Expenses and Net Premiums. The observed Standard Deviation is 3.86 and 6.71 and Standard Error Mean is 2.73 and 4.74 of both OICL and BAICL respectively.

Management Expenses to Gross Premium Ratio

Management Expenses to Gross Premium Ratio of an organization is one of the important parameters for evaluating operating efficiency. Income of premium is the main source of generating income of general insurance companies. The gross direct premium is includes income of direct premium from India and outside of India.

Table 3 gives an overview of Management Expenses to Gross Premium Ratios of OICL and BAICL.

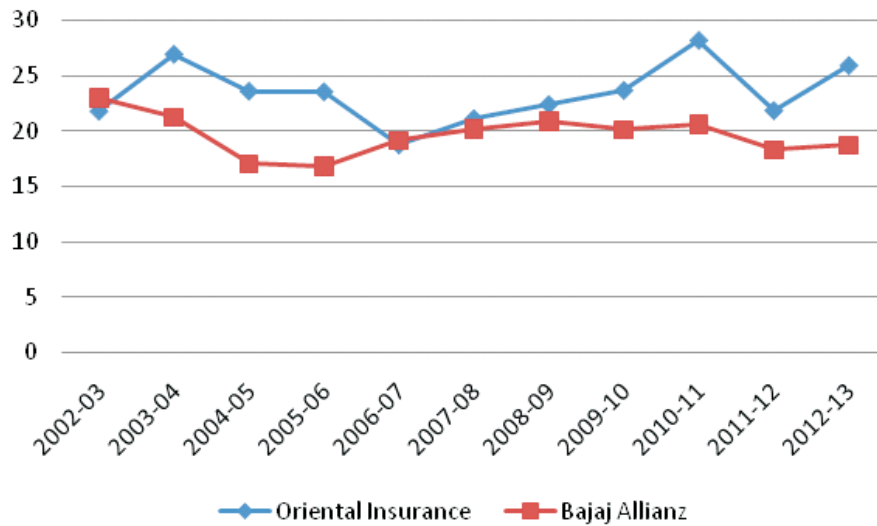
The table shows that management expenses of OICL recorded a variant trend from year 2002-03 to 2012-13 whereas management expenses of BAICL showed an overall increasing trend during this period. But in the year 2009-10, management expenses of BAICL were decreased to Rs. 5485.00 Crores when compared to previous year.

**Table 3: Management Expenses to Gross Premium Ratio of OICL & BAICL
(Ratios shown in Percentage terms) (`inCrores)**

Year	OICL			BAICL		
	Management Expenses	Gross Premium	Ratio	Management Expenses	Gross Premium	Ratio
2002-03	625.59	2868.15	21.81	690.00	2998.00	23.02
2003-04	782.11	2899.74	26.97	1020.00	4798.00	21.26
2004-05	729.89	3090.55	23.62	1456.00	8561.00	17.01
2005-06	850.76	3609.78	23.57	2156.00	12846.00	16.78
2006-07	754.23	4020.78	18.76	3454.00	18033.00	19.15
2007-08	823.61	3900.20	21.12	5195.00	25780.00	20.15
2008-09	914.44	4077.90	22.42	5988.00	28662.00	20.89
2009-10	1150.76	4854.68	23.70	5485.00	27249.00	20.13
2010-11	1572.54	5569.88	28.23	6461.00	31294.00	20.64
2011-12	1354.46	6194.60	21.87	6722.00	36759.00	18.29
2012-13	1748.70	6737.66	25.95	7687.00	41094.00	18.71
Average Mean			23.46			
Std. Deviation			2.74			
Std. Error Mean			1.94			
Student T Test			0.001			

Source: Annual reports from Oriental and Bajaj

Chart 3: Management Expenses to Gross Premium Ratio of OICL & BAICL



It is also observed from the table that gross premium of both OICL and BAICL showed increasing trends during the period of study. But in OICL a small decrease in net premium was observed in the year 2007-08 which amounts to Rs120.58Crores difference when compared to the previous year. The Management Expenses to Gross Premium ratios of OICL and BAICL showed variant trend during the period 2002-03 to 2012-13. Highest Management Expenses to Gross Premium ratio of OICL was observed in the year 2010-11 with 28.23 percent, lowest was found in the year 2006-07 with 18.76 percent. Highest Management Expenses to Gross Premium ratio of BAICL was observed in the year 2002-03 with 23.02 percent, lowest was found in the years 2005-06 with 16.78 percent. The table also shows the Average Mean of OICL (23.46 percent) and BAICL (19.64 percent), and represents OICL has 3.82 percent more than BAICL.

To test for the equality of Management Expenses to Gross Premium ratios of selected organizations OICL and BAICL, Student T-test has been employed to examine whether the computed value of Student T-test is significant or not.

It is observed from the table that the calculated value of “t” is 0.001 at 5% level of significance. The result shows that the Student T-test value of both OICL and BAICL is higher than the critical value of “t” at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operational performance of OICL and BAICL during 2002-2013 in terms of Management Expenses and Gross Premiums. The observed Standard Deviation is 2.74 and 1.87 and Standard Error Mean is 1.94 and 1.33 of both OICL and BAICL respectively.

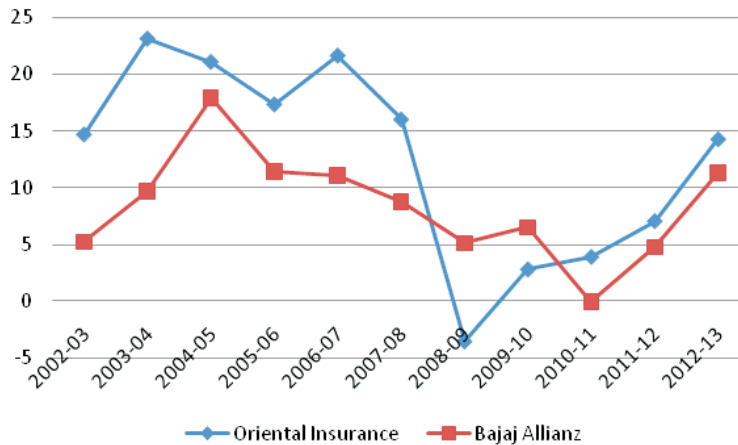
Operating Profit to Net premium Ratio

**Table 4: Operating Profit to Net premium Ratio of OICL & BAICL
(Ratios shown in Percentage terms) (`inCrores)**

Year	OICL			BAICL		
	Operating Profit	Net Premium	Ratio	Operating Profit	Net Premium	Ratio
2002-03	279.08	1898.42	14.70	80.52	1541.00	5.23
2003-04	471.43	2033.03	23.17	222.89	2306.00	9.67
2004-05	468.19	2218.02	21.11	666.44	3709.00	17.97
2005-06	434.15	2500.46	17.36	668.59	5864.00	11.40
2006-07	624.18	2879.73	21.67	929.39	8385.00	11.08
2007-08	461.21	2878.67	16.02	1235.88	14154.00	8.73
2008-09	-116.01	3235.10	-3.59	964.05	18913.00	5.09
2009-10	110.22	3962.53	2.78	1227.39	18842.00	6.51
2010-11	178.82	4611.58	3.88	-21.50	21497.00	-0.10
2011-12	368.44	5236.65	7.04	1175.88	24747.00	4.75
2012-13	791.21	5545.24	14.27	3320.53	29243.00	11.35
Average Mean			12.58			
Std. Deviation			8.79			
Std. Error Mean			6.22			
Student T Test			0.179			

Source: Annual reports from Oriental and Bajaj

Chart 4: Operating Profit to Net premium Ratio of OICL & BAICL



“The excess of revenue over related costs applicable to a transaction, a group of transactions of an operating profit is profit.” The more commonly use accounting forms of profit are gross profit, operating net sales and the cost of goods sold during a given period is termed as ‘Gross Profit’. For service firm the cost of services sold includes the price paid for services and all the expenses directly related to such services, while for a manufacturing firm it includes the cost of raw materials and direct cost of labour and power. If the selling and administrative expenses and provisions for non-cash items like depreciation is deducted from gross profit, the resultant figure is know as operating profit, while net profit is the residual income left after meeting all the contractual and non-contractual expenses such as administrative, selling and distribution costs.

Table 4 provides an insight into Operating Profit to Net premium ratios of both OICL and BAICL. The table shows that operating profit of OICL and BAICL recorded a variant trend from year 2002-03 to 2012-13 It is also observed from the table that net premium of both OICL and BAICL showed increasing trends during the period of study. But in OICL a small decrease in net premium and was observed in the year 2007-08 which amounts to Rs 1.06 Crores difference when compared to the previous year. The Operating Profit to Net Premium ratios of OICL and BAICL showed irregular trend during the period 2002-03 to 2012-13. Highest Operating Profit to Net Premium ratio of OICL was observed in the year 2003-04 with 23.17 percent, lowest was found in the year 2008-09 with -3.59 percent. Highest Operating Profit to Net Premium ratio of BAICL was observed in the year 2004-05 with 17.97 percent, lowest was found in the years 2010-11 with -0.10 percent. The table also shows the Average Mean of OICL (12.58 percent) and BAICL (8.33 percent), and represents OICL has 4.25 percent more than BAICL.

To test for the equality of Operating Profit to Net Premium ratios of selected organizations OICL and BAICL, Student T-test has been employed to examine whether the computed value of Student T-test is significant or not.

It is observed from the table that the calculated value of “t” is 0.179 at 5% level of significance. The result shows that the Student T-test value of both OICL and BAICL is higher than the critical value of “t” at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operational performance of OICL and BAICL during 2002-2013 in terms of Operating Profit and Net Premiums. The observed Standard Deviation is 8.79 and 4.78 and Standard Error Mean is 6.22 and 3.38of both OICL and BAICL respectively.

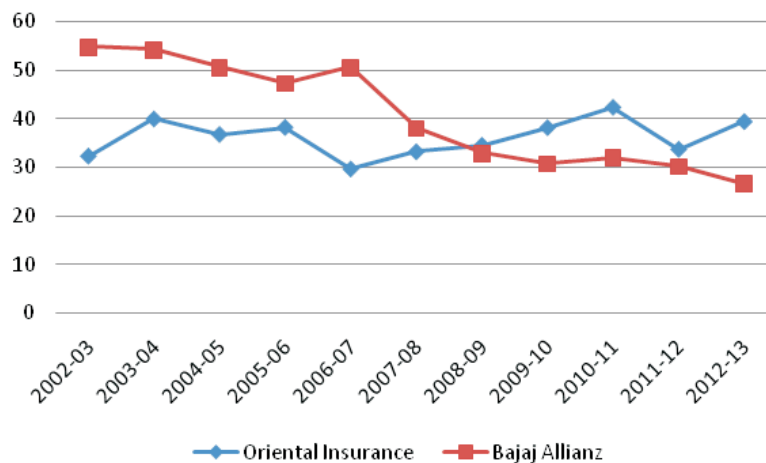
Management Expenses and Commission to Net premium Ratio
 Table: 5 shows the sum of Management Expenses and Commission to Net Premium Ratios of OICL and BAICL. The table shows that sum of management expenses and commission of OICL and BAICL recorded an overall increasing trend from year 2002-03 to 2012-13. But in the year 2006-07, sum of management expenses and commission of OICL were decreased and which amounts to Rs. 100.31Crores when compared to previous year 2005-06 and in the year 2009-10, sum of management expenses and commission of BAICL were decreased and which amounts to Rs. 423 Crores when compared to previous year 2008-09.

**Table 5: Management Expenses and Commission to Net premium Ratio of OICL & BAICL
(Ratios shown in Percentage terms) (`inCrores)**

Year	OICL			BAICL		
	Mag. Expenses + Commission	Net Premium	Ratio	Mag. Expenses + Commission	Net Premium	Ratio
2002-03	613.00	1898.43	32.29	844.94.00	1541.00	54.83
2003-04	811.01	2033.03	39.89	1250.72	2306.00	54.24
2004-05	814.46	2218.02	36.72	1875.43	3709.00	50.56
2005-06	954.16	2500.46	38.16	2778.15	5864.00	47.38
2006-07	853.85	2879.73	29.65	4240.00	8385.00	50.57
2007-08	954.96	2878.67	33.17	5383.00	14154.00	38.03
2008-09	1115.46	3235.10	34.48	6226.00	18913.00	32.92
2009-10	1510.56	3962.53	38.12	5803.00	18842.00	30.79
2010-11	1949.48	4611.58	42.27	6865.00	21497.00	31.93
2011-12	1763.46	5236.65	33.68	7469.00	24747.00	30.18
2012-13	2182.24	5545.24	39.35	7786.00	29243.00	26.63
Average Mean			36.16			40.73
Std. Deviation			3.81			10.83
Std. Error Mean			2.69			7.66
Student T Test			0.211			

Source: Annual reports from Oriental and Bajaj

Chart 5: Management Expenses and Commission to Net premium Ratio of OICL & BAICL



It is also observed from the table that net premium of both OICL and BAICL showed increasing trends during the period of study. But in OICL a small decrease in net premium was observed in the year 2007-08 which amounts to Rs 1.06 Crores difference when compared to the previous year. The sum of Management Expenses and Commission to Net Premium ratios of OICL and BAICL showed uneven trend during the period 2002-03 to 2012-13. Highest sum of Management Expenses and Commission to Net Premium ratio of OICL was observed in the year 2010-11 with 42.27 percent, lowest was found in the year 2006-07 with 29.65 percent. Highest sum of Management Expenses and Commission to Net Premium ratio of BAICL was observed in the year 2002-03 with 54.83 percent, lowest was found in the years 2012-13 with 26.63 percent. The table also shows the Average Mean of OICL (36.16 percent) and BAICL (40.73 percent), and represents BAICL has 4.57 percent more than OICL.

To test for the equality of sum of Management Expenses and Commission to Net Premium ratios of selected organizations OICL and BAICL, Student T-test has been employed to examine whether the computed value of Student T-test is significant or not.

It is observed from the table that the calculated value of "t" is 0.211 at 5% level of significance. The result shows that the Student T-test value of both OICL and BAICL is higher than the critical value of "t" at 5 percent level of significance. Hence, the null hypothesis is rejected and alternative hypothesis is accepted and it is concluded that there is a significant difference in operational performance of OICL and BAICL during 2002-2013 in terms of sum of Management Expenses and Commission to Net Premiums. The observed Standard Deviation is 3.81 and 10.83 and Standard Error Mean is 2.69 and 7.66 of both OICL and BAICL respectively.

CONCLUSION

No doubt, performance measures provide managers, front-line employees, and companies with a broad assortment of both cultural and technical benefits. One of the performance measures "Operating performance" is an important parameter to be considered for measuring the effective functioning of Insurance Company. General insurance companies operate at low margins, and they have learned to look beyond financially and industry oriented metrics like Operating Ratios to be considered to stay competitive. Hence, to compare the operational performance of OICL and BAICL companies, ratio analysis has been conducted with statistical evidence. For the study of operational performance the following ratios were considered.

1. Net Incurred Claims to Net Premium Ratio.
2. Management Expenses to Net Premium Ratio.
3. Management Expenses to Gross Premium Ratio.
4. Operating Profit to Net premium Ratio.
5. Management Expenses and Commission to Net premium Ratio.

The various statistical techniques used to test the said hypothesis were means, averages, student t-test etc. After conducting statistical tests, it is found that in some financial years, the operational performance of OICL is better than BAICL but overall operating performance of BAICL is far better than OICL and statistically there are significant differences in operational performance between these two companies in terms of all considered operational ratios were found.

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