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6 insurance ratios to know

Yogita Khatri explains the ratios you need to understand before you buy an insurance policy.

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1 PERSISTENCY RATIO

This ratio helps you understand how persistent customers have been in renewing their policies every year. It is measured at different intervals –13th month, 25th month, 37th month and 61st month. It gauges the trust customers have in the long-term products and services being offered by the insurer.

Persistency ratio is calculated thus: number of policyholders paying the premium divided by net active policyholders, multiplied by 100. Higher the persistency ratio, the better.

"It implies that the associated policyholders are satisfied with the product portfolio, customer service, post sales service, product utility, returns on their product, customer loyalty, etc. and are renewing their policies as and when due," says Harjot Narula, CEO, ComparePolicy.

According to the latest data available, Kotak Mahindra Old Mutual has the highest 61st-month persistency ratio, while Star Union has the lowest.

An indicator of customer satisfaction

A high ratio indicates a large pool of satisfied customers.

Life insurer	61st month persistency ratio
Kotak Mahindra Old Mutual	62.69%
IDBI Federal	52.74%
HDFC Standard Life	49.76%
ICICI Prudential	49.10%
Exide Life	47.20%

Low persistency ratio indicates inability to retain customers.

Life insurer	61st month persistency ratio
Star Union	19.59%
Future Generali	20.46%
DHFL Pramerica	22.00%
Bajaj Allianz Life	24.30%
Shriram Life	24.50%

Data as on 31 March 2017; Source: Public disclosures by respective companies; Compiled by ComparePolicy.

2 SOLVENCY RATIO

It defines how good or bad an insurance company's financial situation is on defined solvency norms. According to Irdai guidelines, all companies are required to maintain a solvency ratio of 150% to minimise bankruptcy risk. "Solvency ratio helps identify whether the company has enough buffer to settle all claims in extreme situations," says Mathieu Verillaud, CFO, Bharti AXA General Insurance. Hence, it is a good indicator of an insurance company's financial capacity to meet both its short-term and long-term liabilities.

Solvency ratio is calculated as the amount of Available Solvency Margin (ASM) in relation to the amount of Required Solvency Margin (RSM). The ASM is the value of the company's assets over liabilities, and RSM is based on net premiums and defined as per Irdai guidelines. Higher the solvency ratio, the greater the chances of your claims getting paid.

There are unusual trends insurance buyers should watch out for here. For instance, among all the 24 life insurance companies, Sahara Life has the highest solvency ratio of 812%. However, this figure is misleading because the company isn't doing well financially. It has posted losses of ₹4.57 crore for the third quarter ended 31 December, 2016. It had posted a profit of ₹3.05 crore in the third quarter of the previous fiscal. In fact, the insurance regulator has taken over the management of Sahara Life.

In the general insurance space, state-owned Oriental Insurance and National Insurance have poor solvency ratios of 122% and 126% respectively. Policy buyers should opt for companies that have maintained a good solvency ratio over the last few years.

An indicator of a company's financial capacity to meet both short-term and long-term liabilities

High solvency ratio may not always mean good financial health, like in the case of Sahara.

Life insurers	Solvency ratio
Sahara Life	812%*
DHFL Pramerica	768%
Bajaj Allianz Life	582%
Canara HSBC OBC	401%
IDBI Federal	352%

General insurers	Solvency ratio
Raheja QBE	447%*
Liberty Videocon	287%
Cigna TTK	265%
Bajaj Allianz	261%
SBI General	219%

Two state-owned insurance firms have among the lowest solvency ratios.

Life insurers	Solvency ratio
LIC	151%*
Future Generali	161%
Bharti Axa	182%
India First	184%
HDFC Stand. Life	192%

General insurers	Solvency ratio
Oriental Insurance	122%*
National Insurance	126%**
Universal Sompo	157%
Reliance General	158%*
IFFCO-TOKIO	160%

*Data as of 31 Mar 2017; *Data available as of 31 Dec 2016; **Data as of 30 Sep 2016; Source: Public disclosures by respective companies; Compiled by ComparePolicy.*

3 COMBINED RATIO

This indicates a general insurance company's total outflow in terms of operating expenses, commissions paid, and incurred claims and losses on its net earned premium. Opt for companies with lower combined ratio as it means that the expenses or losses of the company are lesser than its premium revenue for that time period.

"If the combined ratio is greater than 100%, it usually means the cash outflow of the insurance company is more than its earned premium, which is not a healthy financial condition," says Narula.

According to the latest data available, Cigna TTK and Kotak Mahindra have one of the highest combined ratios at 167% and 147%, respectively. However, do note that the higher combined ratio does not mean the company is running at a loss as the ratio does not include earnings from investments or investment income, say experts.

An indicator of operating expenses

A low ratio means expenses are less than premium revenue.

General insurer	Combined ratio
Star Health	93%
Bajaj Allianz	97%
Apollo Munich	97%
HDFC ERGO	100.67%
Cholamandalam	101.25%

A high ratio may not always indicate a loss-making company.

General insurer	Combined ratio
Cigna TTK	167%
Kotak Mahindra	147%
Liberty Videocon	146%
Bharti AXA	133%
Oriental Insurance	128.45%*

*Data as of 31 Mar 2017; *Data available as of 31 Dec 2016; Source: Public disclosures by respective companies; Compiled by ComparePolicy.*

5 COMMISSION EXPENSE RATIO

This ratio tells us what is the outflow towards commissions from the written premium during a particular period. It is important to keep a tab on this ratio as it directly impacts the premium that you pay. "After a threshold, the higher the commission expense ratio, the lower the discount offered, leading to a higher premium paid," says Verillaud.

The lower the commission expense ratio, the better it is. Some companies may also have negative commission ratios, like in the case of HDFC Ergo, ICICI Lombard and others. However, that doesn't mean it is always good. "Negative commission expense ratio could be due to various factors such businesses where direct deals are done and no commission is paid like for crop insurance and mass health schemes operated by the government in several states," says Narula.

In the life insurance space, Reliance Life Insurance has the lowest commission expense ratio at 0.05%, while Max Life and Star Union have commission ratio of about 9%.

An indicator of expenses towards commissions

A low commission expense ratio will usually translate to lower premiums.

Life insurer	Commission ratio
Aegon Life	1%
DHFL Pramerica	2%
Bajaj Allianz Life	2.40%
Canara HSBC OBC	3%
Aviva	3%

General insurer	Commission ratio
Future Generali	-3%
IFFCO-TOKIO	-5.38%
ICICI Lombard	-7%
Reliance General	-6.01%*
HDFC ERGO	-14.19%

A high commission expense would translate to lower discounts offered.

Life insurer	Commission ratio
Star Union	9.07%
Max Life	9%
TATA AIA	8.36%
Bharti Axa	7.20%
Exide Life	6.80%

General insurer	Commission ratio
Cigna TTK	12%
Raheja OBE	11.43%*
Max Bupa	10%
Apollo Munich	9%
New India Assurance	7.12%

*Data as of 31 Mar 2017; *Data available as of 31 Dec 2016; Source: Public disclosures by respective companies; Compiled by ComparePolicy.*

4 INCURRED CLAIMS RATIO

The ICR metric indicates a general insurer's ability to pay claims. It is calculated as the total value of all claims paid by the company divided by the total amount of premium collected in a financial year. For instance, an ICR of 85% implies that the company has spent ₹85 on claims for every ₹100 collected as premium. "An ideal ICR range should be between 75 and 90%, which indicates a healthy settlement of claims by the insurer against the premium collection," says Narula.

An ICR greater than 100% may not be a good indicator. "It shows that a large part of the premium is used to cover actual risk transfer," says Verillaud. "But it is also a function of the company's ability to avoid fraud and select business," he adds. A higher ICR can be seen in a new company which may not have earned substantial premium in the initial years of operation and faced a high rate of claims.

The ICR does not reflect the company's process of claim settlement. A company with a good ICR can have a long claim settlement process.

An indicator of insurer's ability to pay claims

A high ratio is not always good news.

General insurer	Incurred claim ratio
Kotak Mahindra	347.60%
Shriram	100.88%
National Insura.	95.28%
Bharti AXA	92.52%
Liberty Videocon	91.78%

A healthy ratio is between 75 & 90%.

General Insurer	Incurred claim ratio
Raheja OBE	24.90%
Star Health	53.81%
Religare	57.25%
Max Bupa	59.53%
Apollo Munich	64.61%

Data as of 2015-16; Source: Irdai; Compiled by ComparePolicy

6 CLAIM SETTLEMENT RATIO

This has to be looked at before you buy any insurance policy. Claim settlement ratio (CSR) indicates how many claims a company has settled against the number of claims received. Higher the CSR, the greater are the chances of settlement of a claim. It is also a measure of the insurer's reputation.

Among life insurers, LIC has the highest claim settlement ratio of 98.33%. It means, out of every 100 claims received in a financial year, it has settled 98. "It is prudent to cumulatively analyse the past few years' claim settlement data to assess the trend for a particular insurer," suggest Narula.

You must not ignore CSR especially before buying pure risk covers such as term plans. "For other genres such as protection-cum-investment products, do look at other factors as well like returns, guaranteed benefits, cost, tenure, portfolio, etc.," says Narula.

While all the ratios are important, none should not be looked at in isolation. Along with these ratios, do consider all the parameters such as quality of service, policy features, terms and conditions, etc, before making a purchase decision.

An indicator of the number of claims settled

Always look for a high ratio.

Life insurer	CSR
LIC	98.33%
Max Life	96.95%
TATA AIA	96.80%
ICICI Prudential	96.20%
Aegon Life	95.31%

CSR is vital while buying term plans.

Life insurer	CSR
Shriram Life	60.24%
India First	71.87%
Bharti Axa	80.02%
Star Union	80.73%
Aviva	81.97%

Data as of 2015-16; Source: Irdai; Compiled by ComparePolicy