

# Exploring the Relationship between the Profits of SBI Life Insurance and SBI General Insurance Company

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**Abstract:** This study delves into the relationship between the profits of SBI Life Insurance and SBI General Insurance Company. Understanding this dynamic is crucial for both investors and academics, as it sheds light on how the financial performance of SBI subsidiaries influence each other. The research emphasizes that the financial success of one subsidiary company (SBI LIFE Insurance Company) plays a significant role in enhancing the financial success of other subsidiary company (SBI General Insurance Company) which is into insurance business. Specifically, the study focuses on the State Bank of India (SBI), the largest public sector bank in India. Using profit data from the past ten financial years, up to the fiscal year ending in 2024, sourced from secondary data, correlation tests were conducted to analyse the profits of SBI Life Insurance and SBI General Insurance Company. The findings reveal that the profits of SBI Life Insurance and SBI General Insurance Company are positively correlated with each other and demonstrating a strong interdependence within the organization.

**Key Words:** SBI Life Insurance Company, SBI General Insurance Company, Profit

## 1. INTRODUCTION

Today, many leading corporations are not just standalone entities. Similar to how a tree's roots and branches extend across a vast area, the subsidiaries of most companies span various industries, sectors, countries, and even continents. Each subsidiary is a distinct legal entity with its own identity, and it can be fully or partially owned by the parent company.

A subsidiary is a company that is managed by its parent company. While it operates independently, it remains linked to the larger organization. A parent company can establish a subsidiary either by forming it internally or by acquiring a controlling stake in an external company. When the parent holds the majority ownership or control, it influences the subsidiary's resources, business strategies, and operational decisions.

As one of the emerging economies globally, India, along with State Bank of India being the largest public sector bank, makes it crucial to examine the relationship between the profits of SBI Life Insurance and SBI General Insurance Company.

### 1.1 SBI (Parent company)

(SBI, 2024) is the largest public sector bank in India and play a distinctive role in the country's contemporary banking system. As a Fortune 500 company and a public sector financial services institution, SBI is headquartered in Mumbai. With a rich history spanning over 200 years, it is widely regarded as the most trusted bank by generations of Indians.

Serving more than 450 million customers, SBI operates through a vast network of over 22,425 branches, consistently prioritizing innovation and customer focus. The bank operates with a foundation built on its core values: service, transparency, ethics, politeness, and sustainability. Additionally, SBI maintains a global presence with 229 international offices across 31 countries.

## 1.2 Subsidiaries of STATE BANK OF INDIA

SBI CAPITAL MARKETS LIMITED

SBI CARDS & PAYMENTS SERVICES LIMITED (SBICPSL)

SBI DISCOUNT AND FINANCE HOUSE OF INDIA

SBI GLOBAL FACTORS LIMITED (SBIGFL).

SBI GENERAL INSURANCE COMPANY LIMITED (SBIGIC)

SBI PENSION FUNDS PRIVATE LIMITED (SBIPF)

SBI LIFE INSURANCE COMPANY LIMITED (SBILIFE)

SBI SG GLOBAL SECURITIES SERVICES PRIVATE LIMITED (SBI-SG)

SBI FUNDS MANAGEMENT PRIVATE LIMITED (SBIFMPL)

## 1.3 SBI GENERAL INSURANCE COMPANY LIMITED (SBIGIC)

(SBIGIC, 2024) is a rapidly growing private general insurance provider backed by the robust support of its parent company, SBI. With a network of more than 143 branches across India, SBI General ensures accessibility to insurance services nationwide. Its extensive distribution network includes over 30,000 agents and 560 brokers, enabling it to reach even the most remote regions. The company has established 22 OEM partnerships to enhance motor insurance offerings. Additionally, SBI General has forged strategic alliances with NBFCs, leading banks, cooperative societies, web aggregators, and digital platforms to build sustainable, long-term value for its stakeholders.

## 1.4 SBI LIFE INSURANCE COMPANY LIMITED (SBILIFE)

(SBI Life, 2024) operates through a diverse distribution network that includes an extensive bancassurance channel, with State Bank as its largest bancassurance partner in India. The company also has a vast and effective network of individual agents, totalling 246,078 as of March 31, 2024. Additionally, it leverages various other distribution channels such as direct sales, corporate agents, brokers, insurance marketing firms, and other intermediaries to reach a broad customer base.

## 1.5 IMPORTANCE OF SUBSIDIARIES.

Parent companies can benefit significantly from acquiring or establishing subsidiaries. For instance, they may gain access to additional resources offered by another company, expand into new markets where the subsidiary has a strong presence, or create separate entities for different brands to maintain distinct identities and enhance overall brand recognition.

Financial factors often play a significant role in the decision to establish a subsidiary. For example, if a company wishes to divest an unprofitable business unit without impacting its core operations, structuring it as a subsidiary before selling it can facilitate this process. Additionally, a company can generate capital by selling shares in the subsidiary, allowing it to raise funds without altering the stock value of the parent company.

Regardless of the reason for its establishment, the stock of a subsidiary is recorded as an asset on the parent company's balance sheet. Ideally, a subsidiary should contribute positively to the parent company's value. However, this is not guaranteed, as underperformance by the subsidiary can negatively impact the overall performance of the entire group.

This study holds particular significance as it represents the first attempt to explore the relationship between the profits of subsidiary companies.

The paper is organized into seven sections. After this introduction, Section 2 outlines the importance of the research, while Section 3 provides a review of the existing literature. Section 4 details the research methodology and the criteria for selecting companies. The findings from cross-company analysis and research outcomes are discussed in Section 5, followed by the implications and conclusions of the study in Section 6. Finally, Section 7 highlights potential areas for future research.

## 1.5 THE IMPORTANCE OF THE RESEARCH

Today, many leading corporate entities operate as intricate networks rather than standalone units. Like the sprawling branches and roots of a tree, their subsidiaries extend across industries, regions, and even continents. Each subsidiary is a distinct legal entity with its own identity, owned wholly or partially by the parent company.

The motivations for establishing subsidiaries vary. They may arise from business necessities, such as geographic expansion or the nature of the parent company's operations. Others result from acquisitions, ventures into new business areas or strategic moves to create legal barriers that limit liability in case of failure.

This study holds significance as it is the first to explore the relationship between the subsidiary companies profits of the State Bank of India (SBI). As India emerges as a growing economic power and SBI cements its position as the largest public sector bank, the findings will provide valuable insights for potential investors. By analysing the relationship between the profits of SBI Life Insurance and SBI General Insurance Company, the study aims to help investors refine and optimize their investment strategies.

## 2. REVIEW OF LITERATURE

A subsidiary company is characterized by the level of control a CAFR holding company has over it, which may be achieved either by influencing its board composition or by owning over 50% of its total outstanding shares, either directly or in partnership with other subsidiaries<sup>11</sup>. Indian companies are required to include details about their subsidiaries, where the parent company holds substantial control, in their annual reports. (Chakrabaarti & Megginson, 2008) noted that subsidiaries act as extensions of the parent company, helping it to broaden its presence across various regions, industries, and even international markets. Legally, a subsidiary of a listed company is regarded as an Indian entity and is required to adhere to nearly all Indian corporate regulations. (Beuselinck et al., 2018) their research on parent-subsidiary relationships primarily concentrates on multinational corporations operating subsidiaries in different countries.

Additionally, many studies examine how companies manage their earnings as a whole, with a focus on the consolidated financial statements of parent companies and their subsidiaries. Consolidated financial statements (CFS) merge the financial data of a parent company and its legally separate subsidiaries, presenting the combined information as that of a single economic entity. (Srinivasan& Narasimhan, 2012) highlighted in their studies that, through the entity concept approach, consolidated financial statements capture the interconnections and mutual dependencies between the parent company and its subsidiaries. (Coppens, L. & Peek, 2005) in their research, examined the distributional characteristics of net profit levels and changes in net profits across eight European countries. Their study investigates whether private firms in these countries engage in earnings management and explores the influence of tax incentives on such practices, particularly in relation to expanding business operations through subsidiaries. (Eghbal et al., 2023) examined the impact of non-additive valuations on cash flows and sales

growth, utilizing the Choquet fuzzy approach as a pooled non-additive integral. The study focused on 62 parent companies and 322 subsidiaries listed on the Tehran stock market between 2011 and 2019. The findings reveal that, while there is no significant relationship between market valuations (based on non-additive valuations) and operating cash flows, a positive correlation exists with sales growth. This could be attributed to the synergies resulting from the business combinations between the parent companies and their subsidiaries.

To the best of our knowledge, no prior research has examined the relationship between the profits of among subsidiaries. Our study aims to fill this gap by analysing data from SBI Life Insurance and SBI General Insurance Company.

### 3. OBJECTIVES OF THE STUDY

The main objectives framed for the present study are as follows:

- To study the relationship between profits of SBI Life Insurance and SBI General Insurance Company.
- To study the performance of SBI Life Insurance Company.
- To study the performance of SBI General Insurance Company.

### 4. RESEARCH METHODOLOGY

This is quantitative study design, based on secondary data collected from annual reports of selected companies and NSE website. The data collected were analysed with help of statistical tool like multiple correlation, percentage analysis to identify the relationship and nature of relationship between the variables. In this study profits of SBI Life Insurance Company and SBI General Insurance Company are variables. Last 10 years profits ending March 2023-24 is considered for the research study.

### 5. ANALYSIS & FINDINGS

Since subsidiaries operate independently, parent companies no longer maintain full control over them. While they establish strategic goals, they are not involved in every corporate decision. In this context, the present study aims to examine the relationship between the profits of SBI Life Insurance and SBI General Insurance Company. To achieve this objective, the following hypothesis was formulated and tested using correlation analysis:

**Hypothesis:** • H0: There is no significant relationship between the profits of SBI Life Insurance and SBI General Insurance Company.

**Table No. 1 showing summary of variables**

Name of variables	Variables Summary
V1	SBI Life Insurance Co. Ltd
V2	SBI General Insurance Co. Ltd

**Table No. 2 Showing the correlation matrix between Profits of SBI Life Insurance Company and SBI General Insurance Company.**

Variables	V1	V2
V1	1	0.520
Sig. ( 2- tailed)		0.124

## Analysis:

In the table No.2 indicating significant positive correlation between SBI Life Insurance Company and SBI General Insurance Company.

Based on the above research and findings it is clear that, profits of SBI Life Insurance Company and SBI General Insurance Company are positively correlated. So, H<sub>0</sub> is rejected and H<sub>1</sub> is accepted.

## 6. CONCLUSION

This study highlights that the profitability of most subsidiaries of SBI shows a positive correlation with one another and with the parent company (SBI). By spinning off specific divisions as subsidiary companies, SBI has enhanced its efficiency in its core business operations. These subsidiaries operate independently, focusing on establishing their own brands or product lines while leveraging the shared customer base and interconnected operations. This matrix aids in identifying potential synergies or areas that may benefit from enhanced integration within the SBI ecosystem.

The findings of this study provide valuable insights for investors, demonstrating how the profitability of subsidiaries impacts each other. This reinforces the importance of profitability as a key factor in investment decision-making. Additionally, the study highlights the essential for additional analysis to examine further factors that may influence the relationship between SBI Life Insurance Company and SBI General Insurance Company.

## 7. LIMITATIONS

1. The study focuses on selected subsidiaries of SBI.
2. The analysis of the study is limited to the financial year 2014-15 and 2023-24.
3. The study is based on secondary data and the data has been collected from the annual reports of the companies and NSE website.
4. The study analyses the limited set of variables.
5. As the size of the sample selected is very small, the limitations of a small sample are applicable.

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