

A Comparative Financial Performance Analysis of Select Five Health Insurance Companies in USA



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Financial Performance Analysis

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.” This word is also used as an overall assessment of the financial health of a company over a certain time period and is used to compare companies across the same industry.

Objectives:

- To assess the financial stability (Liquidity position) of an organization.
- To determine the Profitability position of an Organization.
- To evaluate the cash flows of an organization.
- To determine the short as well as long term solvency position of an organization
- To predict the financial performance and failure of an organization.
- To provide useful information to the stakeholders and assess in better decision making process.

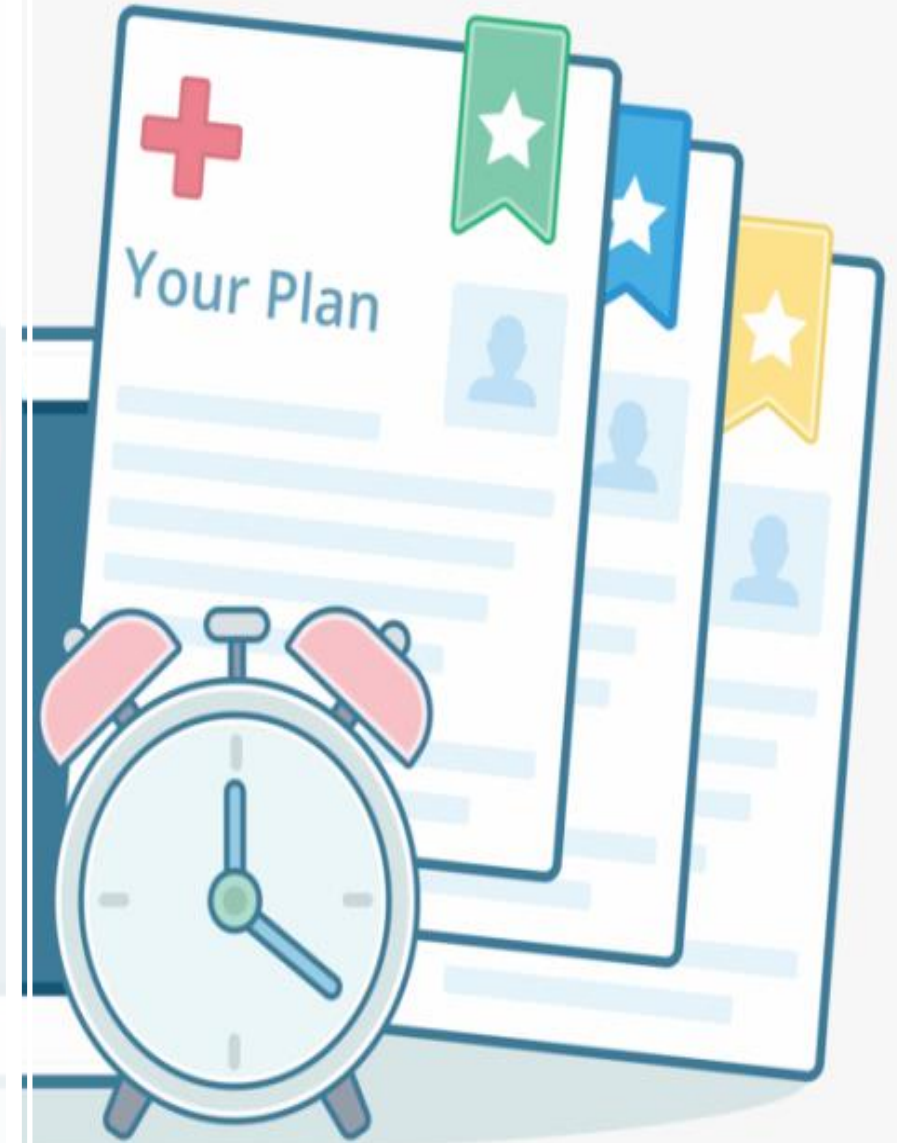
Types of Financial Statements

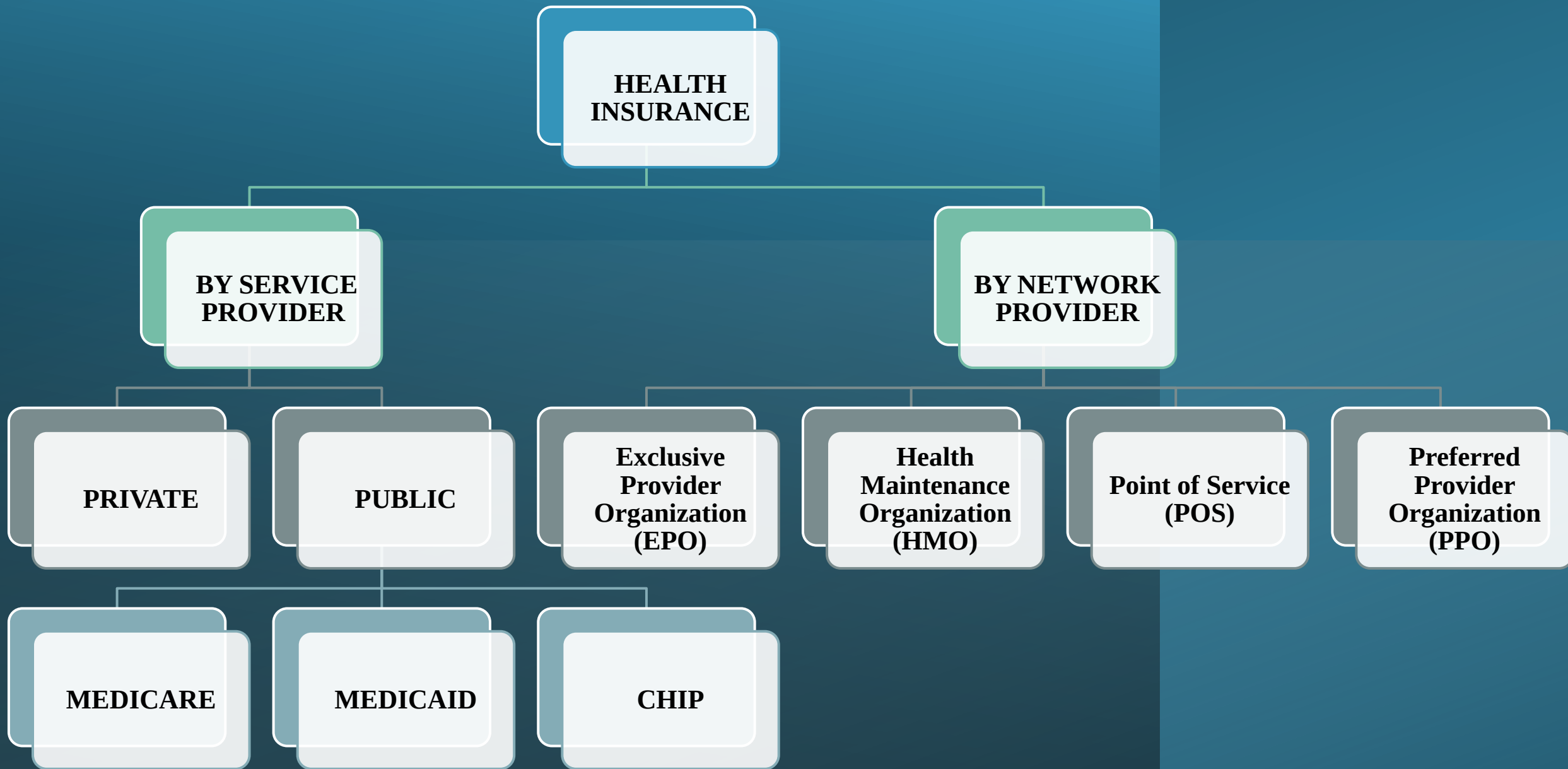
- Income Statement
- Balance Sheet
- Statement of Change in Equity
- Statement of Cash Flow



HEALTH INSURANCE INDUSTRY - USA

- Health insurance is a type of insurance that covers the whole or a part of the risk of a person incurring medical expenses.
- The U.S. health care system is unique among advanced industrialized countries.
- The U.S. does not have a uniform health system, has no universal health care coverage, and only recently enacted legislation mandating healthcare coverage for almost everyone.
- Rather than operating a national health service, a single-payer national health insurance system, or a multi-payer universal health insurance fund, the U.S. health care system can best be described as a hybrid system.





RATIONALE



- The five companies (United Healthcare, Cigna Corp., Humana Inc., Anthem Inc., Centene Corp.) have been selected as they have consistently maintained their position among the top 10 health insurance companies in the recent past. They have been pitted as competitors against each other.
- Hence this study aims at analyzing the financial statements of these leading health insurance companies in USA to trace their business performance over the last five years and to understand factors influencing their performance.
- It also aims to analyze the initiatives taken by them to adapt to the shifting focus of the health insurance industry.

RESEARCH QUESTION?

1. What are the comparative liquidity, profitability, solvency, leverage and market value ratio among five selected health insurers in the USA?
2. What is the relationship of ratios among five selected health insurers in the USA through financial indicators?
3. What is the comparative financial position of five selected health insurers in the USA?

RESEARCH OBJECTIVES

The main objective of the study is to analyze the financial performance of the five selected health insurers in the USA.

- a) To determine the liquidity, profitability, solvency, leverage and market value ratio among five selected health insurers in the USA.
- b) To assess the relationship of ratios among five selected health insurers in the USA through financial indicators.
- c) To evaluate the comparative financial position of five selected health insurers in the USA

REVIEW OF LITERATURE

TITLE	AUTHOR	FINDINGS
A Review on Solvency Margin in Indian Insurance Companies.	Bhuvnesh Gour , M. C Gupta	The solvency of life insurers is also dependent on the profits received from total investible funds and the interest rate.
Multiple linear regression approach to modeling determinants of profitability of life insurance companies in Kenya	Teresa, Nyatuka	The size of the company was the most important factor of ROA (return on assets) for insurance companies.
Health Insurer Financial Performance in 2020	Daniel McDermott , Lina Stolyar , Elizabeth Hinton , Giorlando Ramirez , Cynthia Cox,	During the pandemic, health insurers appeared to have become more profitable in majority of the markets. Gross margins were greater and medical loss ratios were lower in 2020 than in 2019
Determinants of United Kingdom general insurance company performance.	Shiu, Y	The performance of insurers is positively linked to interest rate, equity income, solvency margin and liquidity and negative inflation-dependency correlation.
Determinants of Financial Performance of Insurance Companies of USA and UK During Global Financial Crisis (2007 -2016).	Anam Batool, Chaudhry Abdullah Imran Sahi	Internal characteristics such as company size, debt, and asset turnover are positively correlated with profitability metrics such as ROA and ROE in the United States insurance business. The internal factor liquidity, on the other hand, has insignificant association with the profitability indices ROA and ROE

LITERATURE GAP

There are very few research articles on performance in the insurance industry, and most publications on financial performance are centered on banks.

Following a thorough examination of the literature, it has been determined that no comprehensive analysis of the performance of the health insurance sector using financial ratios has been conducted.

Although, there has been some research on financial performance analysis in other foreign countries but there is not much study related to the US Health Insurance Industry.

RESEARCH METHODOLOGY

STUDY DESIGN

- A Quantitative and Comparative study design has been leveraged wherein secondary data sources have been capitalized to perform financial statement analysis using ratio analysis for the selected five health insurance companies over a period of five fiscal years.

DATA COLLECTION

- The data for the present study has been collected from secondary sources. A systematic approach was adopted to research on key terms related to the study. A ratio analysis deep dive was done by using search strings that included “Ratio analysis for health insurance”, “Financial statement analysis + Health insurance + USA”.

SOURCES OF SECONDARY DATA

- Annual Report, 10k filing
- Insurance Company Website
- Journals/Magazines

SAMPLING DESIGN

- Judgement sampling technique has been applied to select health insurance companies from the top 10 health insurers in the USA. The parameters considered for selection include revenue and membership

DATA TOOLS

- The data tools that have been leveraged to derive relevant information that will aid in financial performance analysis and calculation of financial ratios of FY2016 to FY2020 for the selected health insurance companies have been listed below:
 - Balance Sheet
 - Income Statement
 - Annual Transcripts
 - Analyst Reports

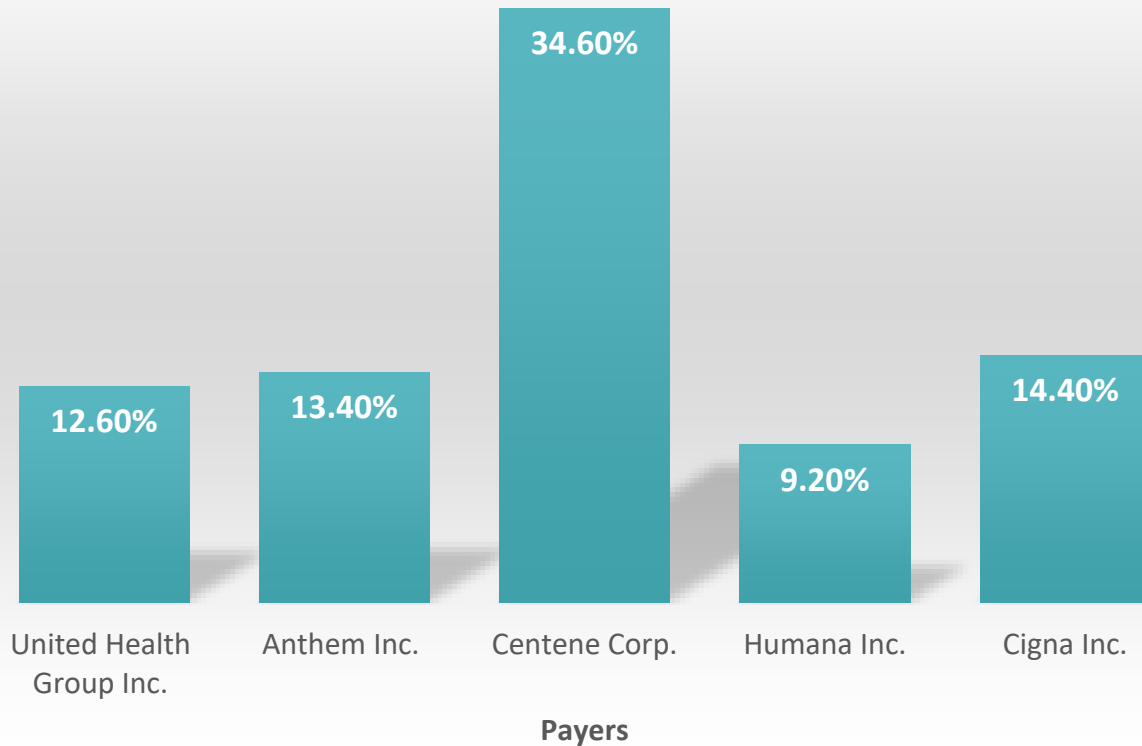
Comparative analysis – Criteria for selecting 5 Health Insurers

The top 10 health insurance companies are compared based on the Revenue and Number of Subscribers. Judgement sampling is applied and 5 health insurance companies i.e., United Health Group Inc., Anthem Inc., Centene Corp., Humana Inc., and Cigna Inc. are selected for the financial performance analysis.

ORGANIZATION	REVENUE	NO. OF SUBSCRIBERS
United Healthcare	US \$257.141 billion	45 million
Centene	US \$111.11 billion	25 million
Anthem	US \$121.9 billion	41 million
Humana	US \$77.155 billion	20 million
Cigna	US \$160.401 billion	22 million
CVS (Aetna)	US \$75.467 billion	23.4 million
Wellcare	US\$17.007 billion	6.3 million
Molina Healthcare, Inc.	US \$19.4 billion	3.6 million
HCSC	US \$47.3 billion	17 million
Kaiser Foundation	US \$88 billion	12.4 million

REVENUE – 5 Year CAGR

5 year CAGR



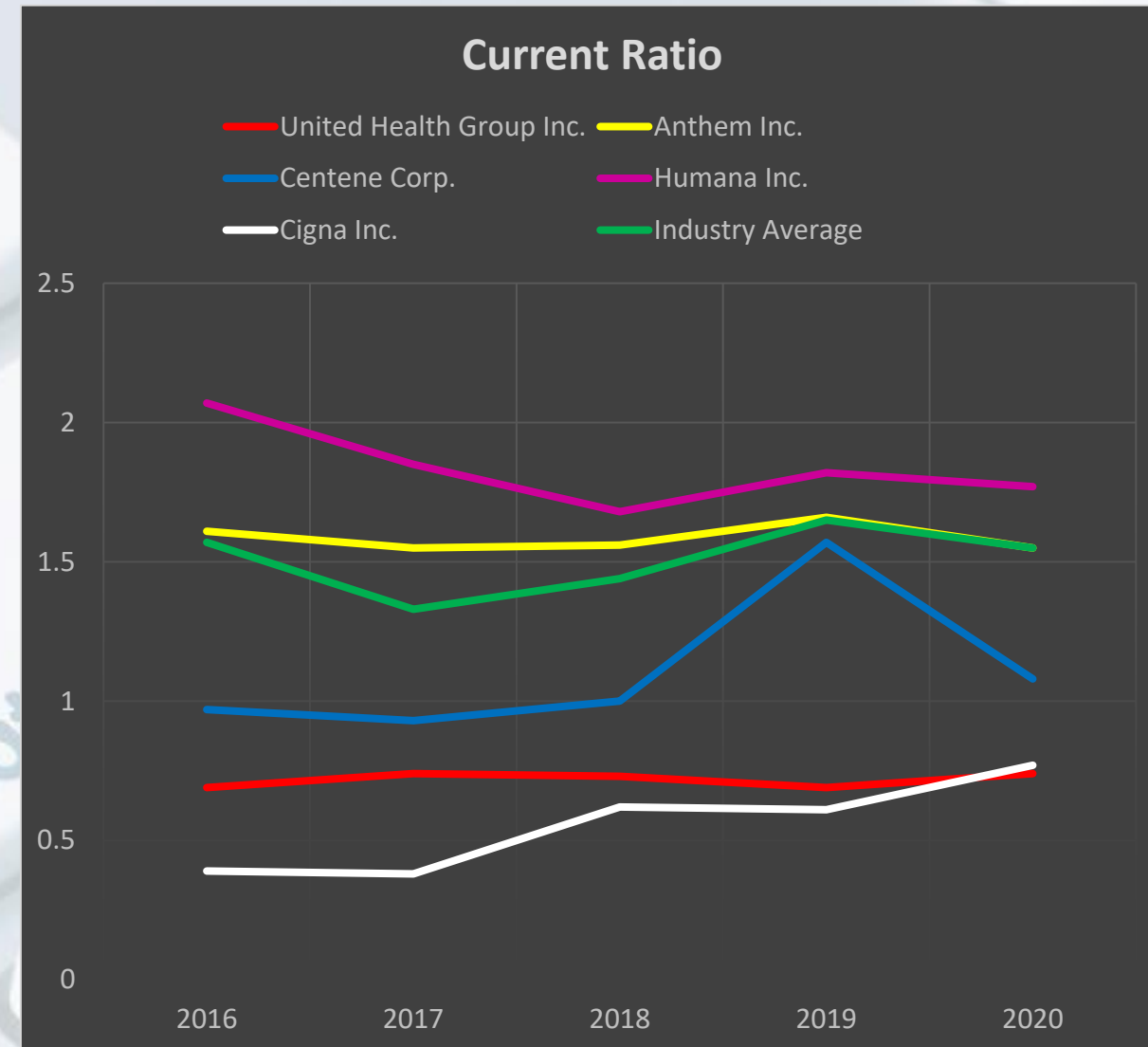
A distinctive finding in the data is Centene Corp. which has the highest 5 year CAGR and Since 2002, it has been noticed that Centene Corp. has a consistent and significant revenue growth. Recently, Wellcare is acquired by Centene Corp. which now has resulted into diversification.



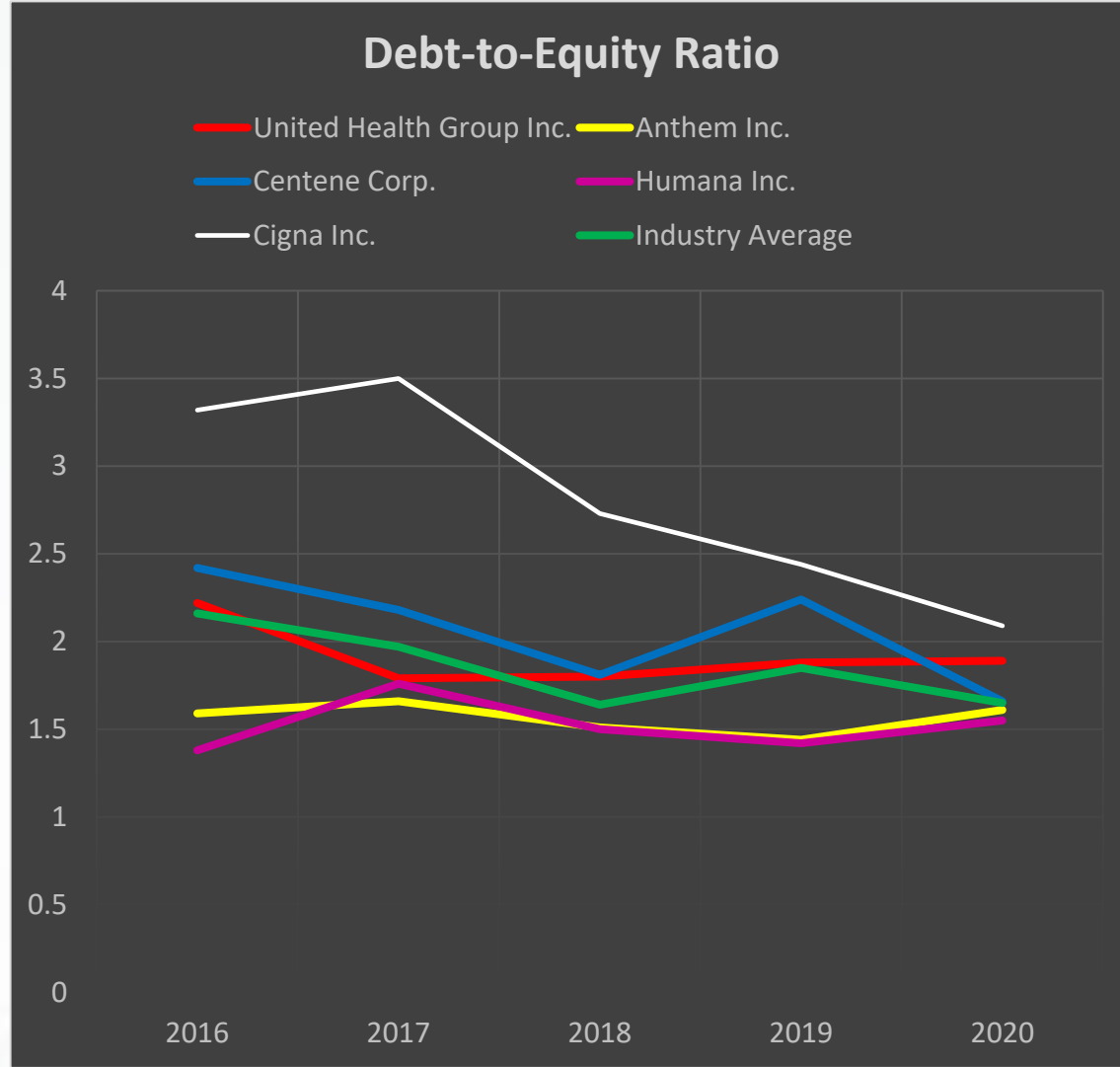
It can be seen that Humana Inc. has comparatively the lowest 5 year CAGR. On further research the attributable loss in the performance is due to a mounting loss in the Individual Commercial segment of Humana which in turn affects the companies' top and bottom line.

Liquidity Ratio – Current Ratio

- Humana Inc. has the highest Current Ratio followed by Anthem Inc. in 2020 indicating towards adequate amount of working capital and a good choice for investment.
- Further analysis of Cigna's balance sheet revealed high cash coverage and appropriate debt levels which indicates towards efficient management of borrowings, however low liquidity could raise concerns over asset management from investment point of view.
- Apart from United Health Group Inc. & Cigna, all others are within the comfortable range of current ratio.
- Comparing to the industry's average, Centene Corp., Cigna Inc., & United Health Group Inc. has low current ratio indicating a higher risk of distress. These companies have a relatively lower liquidity position than its competitors

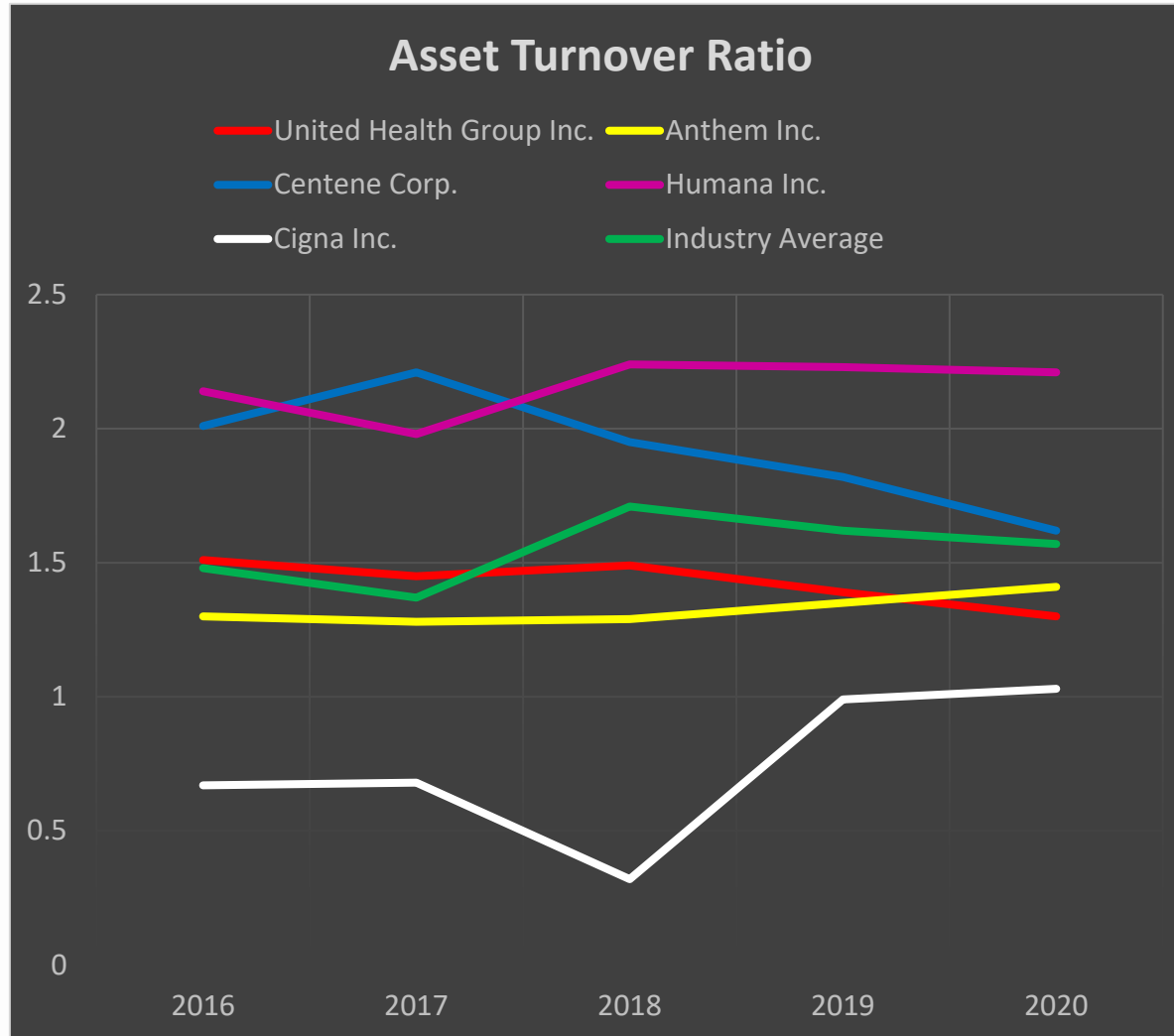


Solvency Ratio – Debt/Equity Ratio



- In 2020 United Health Group Inc. has the highest Debt/Equity ratio.
- The highest Debt/Equity ratio in these five years (2016 – 2020) has been observed in Cigna among all. This can be attributed to the merger between Cigna Inc. and Express Scripts, a pharmacy benefit manager in a \$67bn deal.
- Centene also showed high Debt/Equity ratio than the industry average. This increase was primarily due to the acquisition of Fidelis Care, in the Health Insurance Business Marketplace.
- Debt-to-equity ratio of all the selected health insurers has slightly decreased in 2020 due to the impact of covid-19 and volatile financial markets on the assets as well as liabilities.

Efficiency Ratio - Asset Turnover Ratio

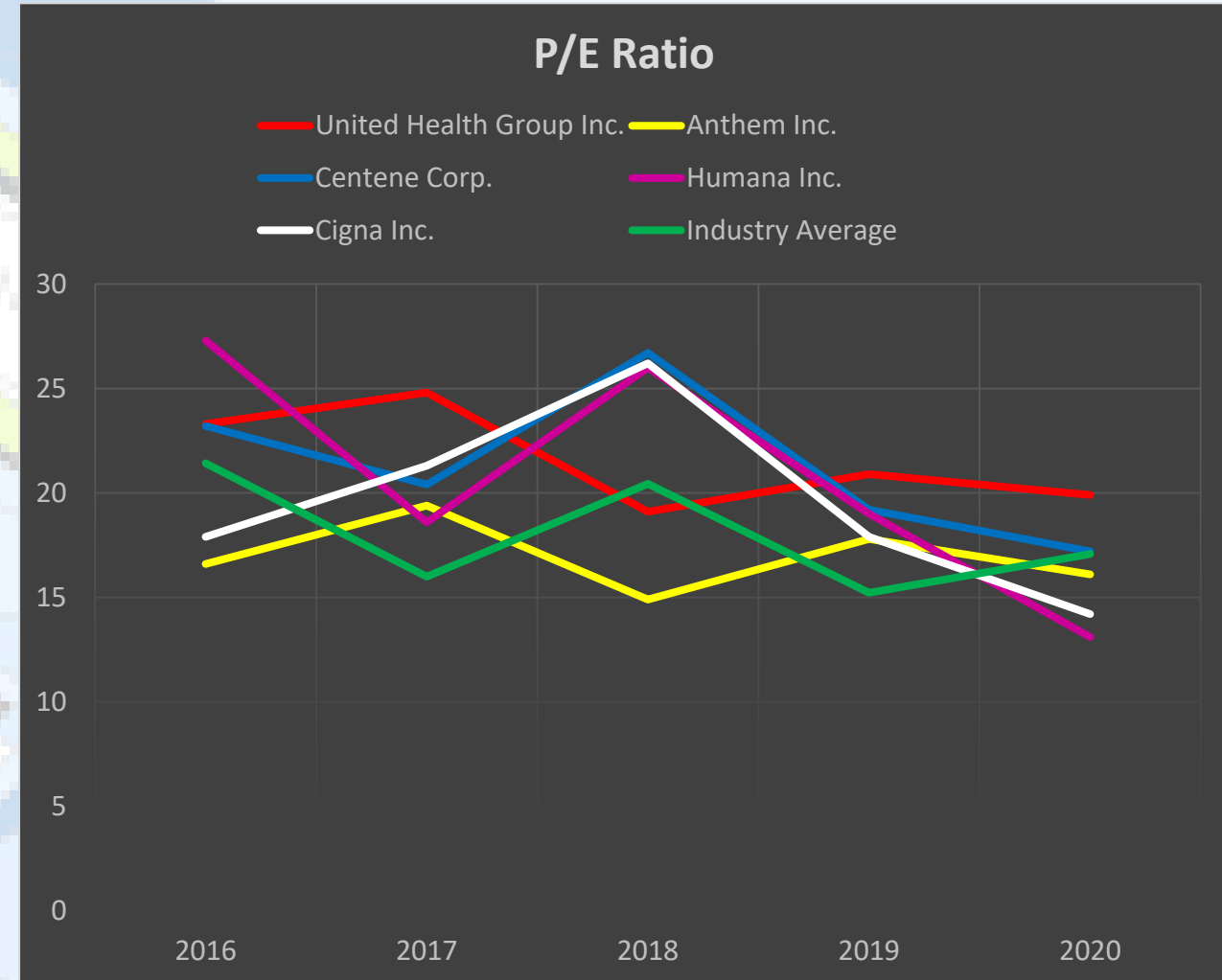


- As a standard interpretation, Higher the Asset turnover ratio more efficient is the management of assets in relation to net sales or revenue.
- Humana Inc. has the most efficient management as it reports an average ratio of 2.16.
- Apart from Humana Inc., Centene Corp. reported a ratio higher than the industry's average of 1.57.
- Cigna's low performance can be associated with the prior ratio of solvency wherein the financial obligation's ability also stood low among the competitors, thereby indicating towards a management intervention for better optimization of resources and finances.
- A consistent performance has been observed in United Health Group Inc. & Anthem Inc. in 5 Years.
- Comparing to the industry average, Centene Corp., & Humana Inc. has shown a consistent higher Asset Turnover Ratio indicating more efficient utilization of assets.



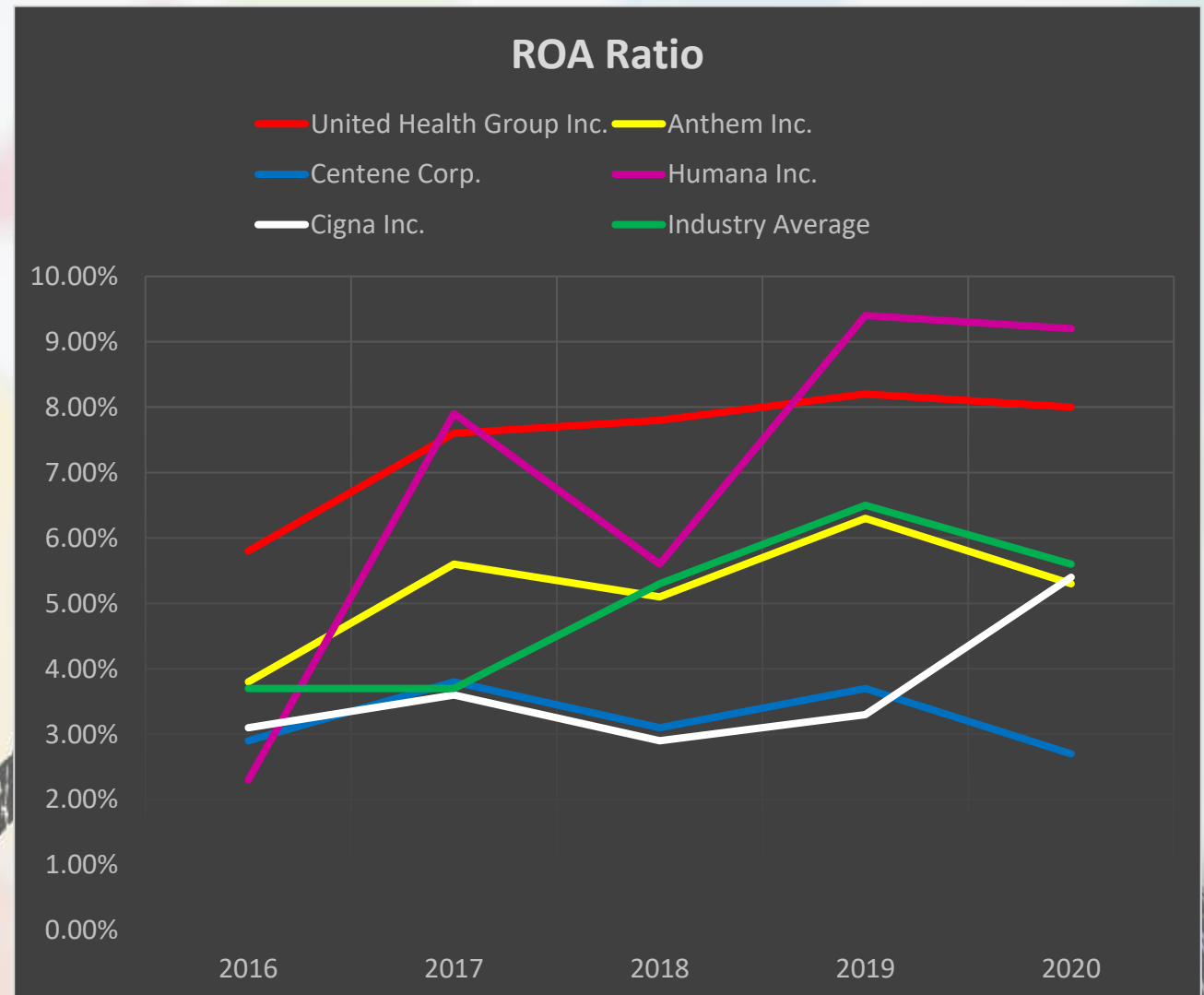
Market Value Ratio – P/E Ratio

- P/E ratio represents the amount which investors are willing to pay for each rupee of the firm's earnings.
- Centene Corp and United Health Group Inc. has greater current P/E Ratio as compared to the industry average, whereas Anthem Inc., Cigna Inc., and Humana Inc., has lower current P/E ratio indicating that regardless of business performance, the stock may be undervalued.
- Humana Inc. and Cigna Inc. shows comparable valuation throughout the five years.
- Centene Corp. has highest P/E ratio as compared to Industry average followed by United Health Group Inc. in the given 5 years (2016 – 2020) highlighting potential opportunity for the investors.



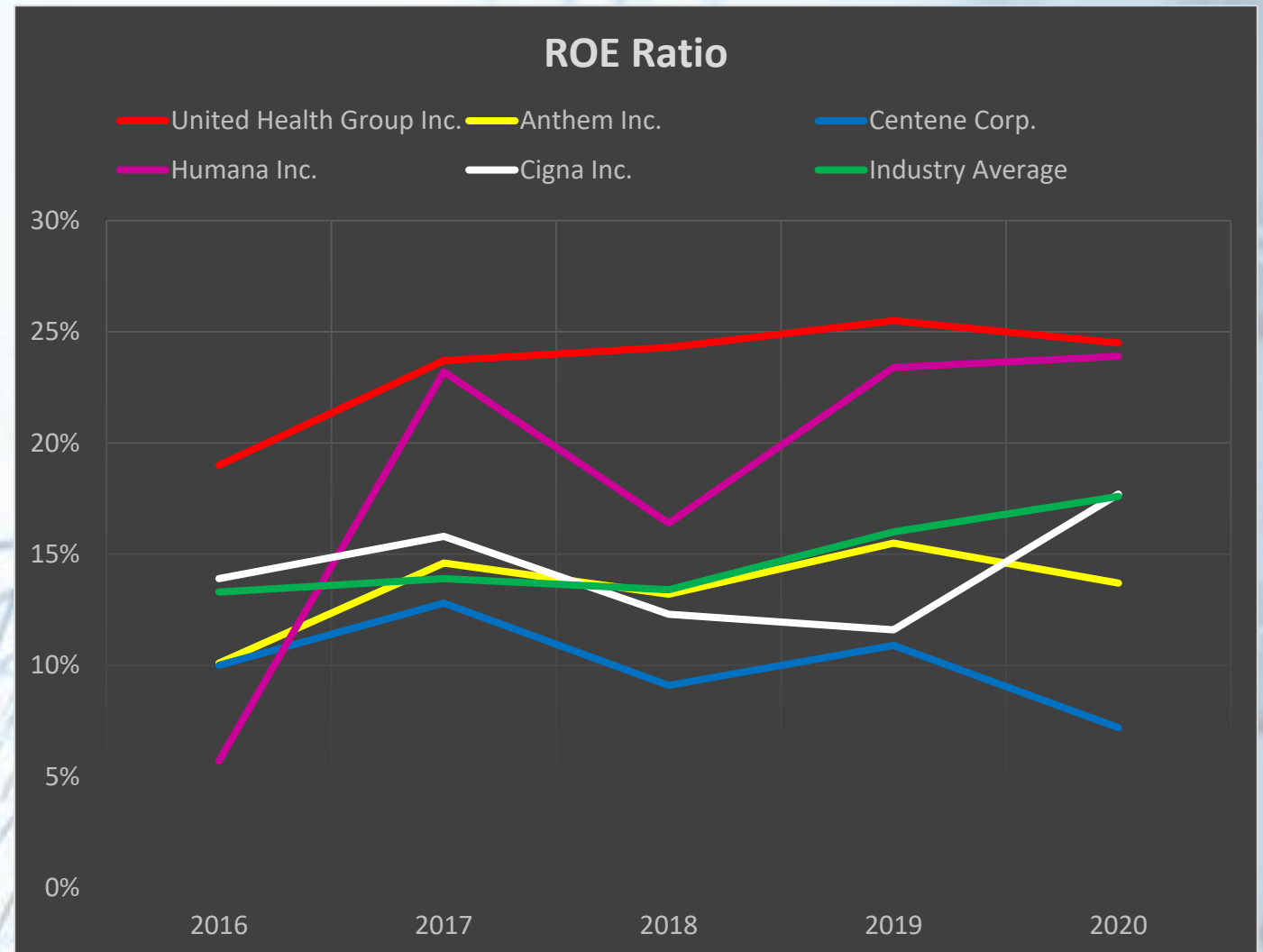
Profitability Ratio – ROA

- United Health Group Inc. & Humana Inc. has high ROA which indicates highest returns are generated from better utilization of assets by these companies.
- Anthem Inc. has comparable ROA to the industry average whereas Cigna Inc. & Centene Corp. has low ROA than the industry average.
- When it comes to Humana Inc. an increase in 6.9% can be seen. A decrease in 0.2% can be seen in Centene Corp. in 5 years.
- Large changes, on the other hand, are not visible in Anthem Inc. and Cigna Inc. which have remained relatively consistent over the five years under consideration.



Profitability Ratio - ROE

- United Health Group Inc. & Humana Inc. has high ROE than the industry average indicating high returns available to equity shareholders.
- This can enhance the growth of the companies while Centene Corp., Cigna Inc., & Anthem Inc. has low ROE than the industry average indicating no returns available to equity shareholders. Also, it shows the companies are at financial distress.



CONCLUSION

The analysis indicated that Centene Corp. has highest revenue CAGR with the largest market share.

The financial condition of Humana, Inc. and Anthem Inc. in 2020 is better than the financial condition of half of all companies engaged in the activity "Hospital and Medical Service Plans".

It can also be deduced that in 2020 solvency ratio was slightly affected due to Covid -19.

Humana Inc. and Centene Corp. shows better overall asset management than the peer group, having results above than the Industry averages.

United Health Group Inc. & Centene Corp. has expensive shares while Cigna's & Anthem's shares are undervalued.

Humana Inc. is generating more sales revenue while still having lower cost of sales. This reflects better cost management than the peer companies.

The overall comparative analysis shows that Humana Inc. is better positioned than the other four selected companies with respect to the return on assets, return on equity, efficiency, and Liquidity ratio.

It is then followed by United Health Group with respect to the valuation, return on assets, return on equity and leverage.





Limitations & Recommendations

The information gathered for the study is based on publicly available financial statements of the business, which may have some flaws.

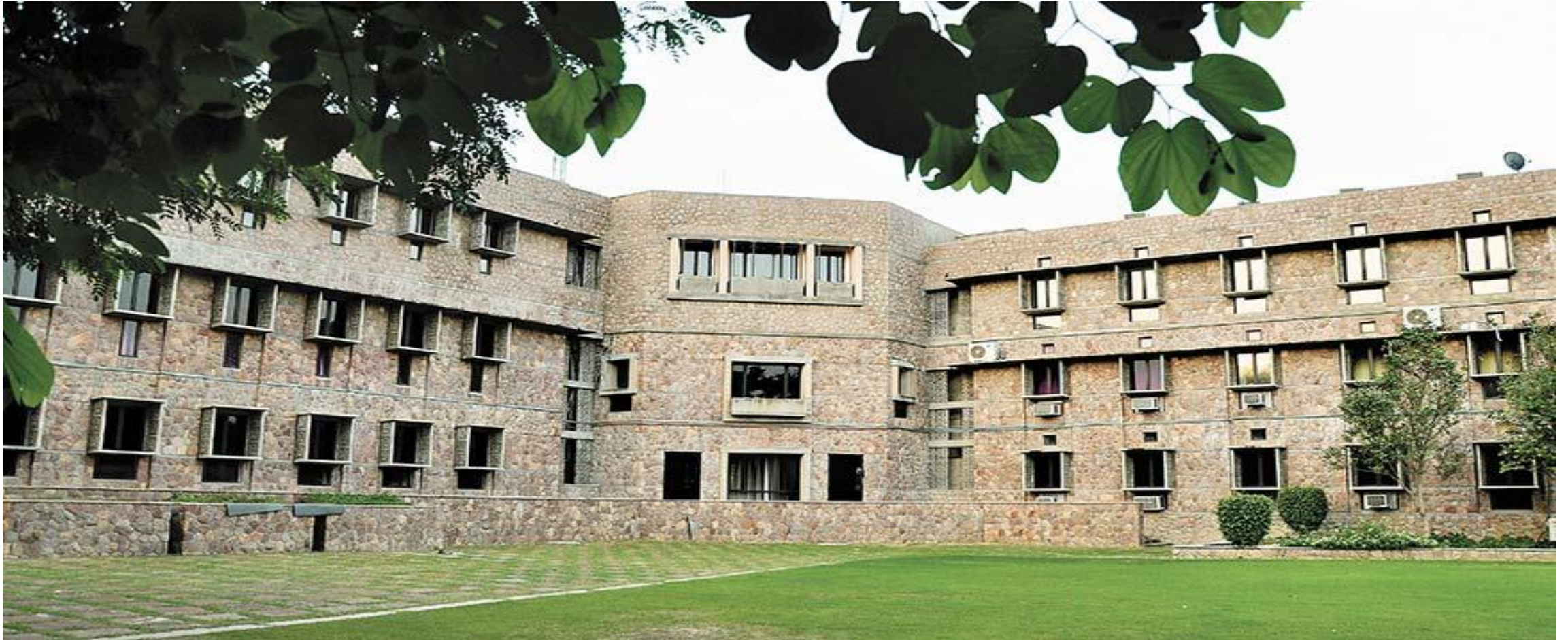
The study is limited to only 5 Health insurance companies in USA.

This study is based on secondary data that has been reviewed and evaluated throughout the last five years, from 2016 to 2020 (i.e., historical data for five years), and it cannot be repeated in the next five years or afterwards.

Only a few financial and statistical tools and approaches are employed in this study, therefore the results from other tools may differ.

The study's scope was limited to a small set of variables that measured financial success without taking into account any overall performance measurement instrument.

The research has covered limited tools and techniques for analysis. Thus, to get more accurate result, the further research should cover more analysis techniques. The findings can't be generalized with whole population.



THANK YOU