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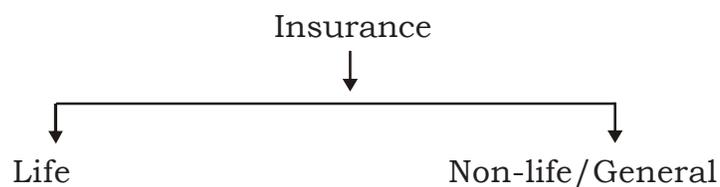
## **RECENT TRENDS IN INSURANCE SECTOR**

### **1.0 INTRODUCTION**

In day to day life every human being is engaged in some activity, it may be related to earn livelihood or household activity. The activity which provides livelihood is known as economic activity. Though there are so many economic activities like manufacturing, trading, banking, transportation and insurance and many more. But in this module we are explaining only the Insurance activity which can be taken by an individual or group of persons to earn their livelihood.

The detail meaning of insurance is being explained in other module but in simple words insurance means transfer of risks of an individual (unexpected and uncertain) i.e Death, old age. Disability, illness or business risks (unexpected and uncertain) i.e fire, earthquake, theft and liability to an insurance company.

The insurance sector is divided in two parts life and general or non-life.



Life insurance deals with only human lives and non-life deals with other than human life. Insurance is divided into two segments i.e. Life and non-life/general and each segment have developed independently therefore it is being discussed

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separately in the following paragraphs.

In 2000, Indian insurance sector has taken U turn i.e. Privatization (private insurance companies to nationalization (Government Companies) to Privatization/mixed economy (Private/Government companies). Before we discuss how it has happened we would like to enlighten you the past history of insurance in India in brief.

It is said that insurance was practiced in India even in the Vedic times and the sanskrit term “YOGAKSHEMA” in the Rigveda is in reference to a form of insurance practiced by the Aryans 3000 years ago. The code of Manu which prescribes the many practices to be followed by the people for social harmony and development in Ancient India had also dictated that a special charge be made on goods carried from one city to another to ensure their safe carriage to the destination.

**1.1 OBJECTIVES**

At the end of the lesson you will be able to know

- Why the life & general insurance sector was nationalized
- Why insurance sector was liberalized in 1999
- IRDA action to develop the insurance sector

**1.2 LIFE INSURANCE**

In 1870 two British life insurance companies entered in India and attempted to do life insurance business on Indian lives. After that many Indian & foreign companies started business in India and by the year 1955 there were 255 insurance companies operating in India and transacting the business to the extent of Rs 200 crores. Due to the following reasons the Government decided to nationalize the life insurance industry w.e.f 1/7/1956.

1. No full guarantee to the Policyholders (who are insured).
2. The concept of trusteeship (confidence) was lacking.
3. Many insurance companies went into liquidation (bankrupt).
4. There was malpractice in the business.
5. Non-Spreading of life insurance.
6. No insurance in rural areas.
7. No group insurance
8. No social security

To overcome the abovementioned problems the life insurance business was nationalized and formed Life Insurance Corporation with following features:

1. The Central Govt. guaranteed the Policyholders through the LIC.
2. Being a Corporation formed under Special Act Passed by the Parliament therefore the public can trust.
3. The LIC cannot be liquidated without the order of the Central Govt.
4. Under the LIC Act, all day-to-day functions of the Corporation and the method of Investment in Govt. Securities were defined. Therefore, the malpractices were eliminated.

After the nationalization the life insurance business has grown substantially in very first year i.e. from Rs 200 crore upto 1956 to Rs 328 crores in 1957 and till privatization in 2000 the business was transacting worth Rs 73436 crores.

### **1.3 GENERAL INSURANCE**

Prior to nationalization of the General Insurance Business in 1972 by enactment of the General Insurance Business Nationalization Act 1972 (GIBNA 1972) there were 55 Indian Companies and 52 non-Indian Companies carrying of the business of General Insurance in India. Before the nationalization the total premium written by these companies was Rs.170 crores as on 1971. At that time the “key Economic indicators” were as follows:

Gross Domestic Product	Rs. 36503 Crores
Per Capita Income	Rs. 675 Crores
Population	541 mns

To understand the why of nationalization in the first place it is sufficient to read the following excerpts from the speech of the then Finance Minister Mr.Y.B.Chavan.

“The primary objective of nationalization of general Insurance was to make it meaningful to the common man, to carry its message to the remotest corner of the country and to give it its rightful place in the economy of the country. When it was in the private sector it was a mere handmaid to trade and

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industry and served to cater to the interests of a limited clientele. Worse still it functioned in a manner favoring the interests of a few at the expense of, needless to say, the majority. There were allegations of malpractices on a big scale.”

“It was the objective of nationalization to remove these malpractices and usher in an era of Insurance run on sound business principles and functioning on healthy and egalitarian lines. The emphasis should be on spreading the message of Insurance as widely as possible and on ensuring that it gives the right weightage to the weaker sections of the society. The principle of competition must have its useful role to play, but not at the expense of unhealthy rivalry.”

“General Insurance is a service and proper and efficient service is due to the policyholder as a matter of right. The Corporation exists for the benefit of the policyholder.”

“Business must cease to work under purely mercenary motives. Whenever, one feels the need for protection against an unpredictable contingency, a suitable Insurance cover should be available. No excuse should be given that a particular cover is not conventionally given or that other markets of the world do not give it.” “Healthy employer-employees relationship is of vital importance to achieve the main objectives of nationalization.”

“It will be necessary for the Corporation to review the rating structure in order to ensure that all classes of the policyholder receive a fair deal and the equitable rate of premium.”

The Act led to the formation of the General Insurance Corporation (GIC) and the shares of the Indian Insurance Companies and the units of other Insurance Companies operating in India along with the General Insurance business of LIC were transferred to the GIC. The Indian companies became subsidiaries of GIC and the non-Indian Companies were transferred to 4 companies selected as flag companies to operate from 4 zones as under:

1. National Insurance Co. Ltd., with its Head Office at Calcutta.
2. The New India Assurance Co. Ltd. with its Head Office at Mumbai.
3. The Oriental fire & Insurance Co. Ltd., with its Head Office

at New Delhi (from 1974) (now named as The Oriental Insurance Co. Ltd.)

4. United India fire & General Insurance Co. Ltd., with its Head Office at Madras (now named United India Insurance Co. Ltd.)

The basis of allocation of the 107 companies was the geographical areas of operation i.e. south based companies were allotted to United India, the North based to the Oriental Insurance, the West based to the New India Assurance and East based National Insurance. The 4 flag companies became the subsidiaries of General Insurance Corp. with effect from 1/1/1973. The total business has gone from Rs 1145 crores in 1973 to Rs 9522 crores in 2000.



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### INTEXT QUESTIONS 1.1

1. Who started the life insurance in India ?
2. How many companies were merged to nationalize the general insurance business?

### 1.4 REVIEW OF INSURANCE BUSINESS IN INDIA

From above you must have observed that the insurance business has grown manifold after the nationalization of Life Insurance in 1956 and General Insurance in 1972. But the international comparison as per details given below will show that insurance penetration and insurance density in India is at low level as compared to the developing/developed countries.

#### International Comparison

Countries	Insurance penetration (Premium as GDP)			Insurance Density (Premium per capita in \$)		
	Total	Non-life	Life	Total	Non-life	Life
USA	8.55	4.32	4.23	2921.1	1474.4	1446.6
UK	13.35	3.05	10.30	3244.3	741.5	2502.8
JAPAN	11.17	2.30	8.87	3908.9	805.50	3103.4
RUSSIA	2.13	1.34	0.78	26.80	17	9.9
France	8.52	2.82	5.70	2080.9	688.60	1392.30
Germany	6.52	3.55	2.96	1675.70	923.50	762.2
<b>INDIA</b>	<b>1.93</b>	<b>0.54</b>	<b>1.39</b>	<b>8.50</b>	<b>2.40</b>	<b>6.10</b>
BRAZIL	2.01	1.66	0.35	68.60	56.70	11.8
MEXICO	1.68	.86	0.82	84.60	43.30	41.30

## MODULE - 1

Business Environment

### Recent Trends in Insurance Sector

KENYA	3.26	2.48	0.78	9.9	7.5	2.4
AUSTRALIA	9.82	3.39	6.43	2037.4	703.8	1333.6
MALAYSIA	3.88	1.72	2.16	140.4	62.3	78.1
NIGERIA	0.95	0.88	0.07	2.6	2.4	0.20



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The reasons for low penetration may be that the insurance sector was totally in the hands of the public enterprises. It is observed that the public enterprises in any country can't perform all the economic and business effectively. Even in the socialist country, public enterprises in all the fields can't discharge their full responsibilities. It is also said that complete governmentalization or nationalization will lead towards slavery. Though the Indian economy is a mixed economy (not in Insurance sector till 2000) but the expectation from the public enterprises is too much. In fact, the support and subsidy provided by the Govt. indirectly punishes the taxpayer and the countrymen.

Keeping in view these problems the Indian Govt. started the liberalization process in 1991. Though the liberalization, privatization and globalization (LPG) has taken place in many sector but the insurance sector was liberalized, privatization and globalized in the year 2000.

**Liberalization:** means abolition of industrial licensing, removal of the limit on industrial investment & a more welcoming approach to foreign investment.

**Globalization:** means opening of the Indian economy for global cooperation in economic activities. This would involve foreign direct investment in industry and foreign institutional investors investing in the securities market by way of mutual funds etc., removal of quantitative restrictions on imports and reduction of import tariff.

**Privatization:** means refers to allowing private sector to invest in government companies as well as invest in areas earlier reserved for the public sector. It also implies greater participation of private sector in areas exclusively reserved for public sector.

Before liberalization the Insurance sector was controlled by Controller of Insurance but now the corporate body known as Insurance Regulatory & Development Authority (IRDA) has been formed under IRDA Act 1999 whose main objectives are as follows:

So far, the IRDA has issued licences to 20 Life Insurance companies and to 15 General Insurance companies including exclusive health insurance company. The private insurers have started their business during the year from 2000 to 2001; and till date there is growth in insurance penetration from 1.93 to 2.40 as well as insurance density from 8.50 to 9.36.

**Notes****1.5 STEPS TAKEN BY IRDA**

IRDA has taken the following steps to develop the Insurance sector in India keeping in view of the following key indicators.

**INDIA'S PROFILE**

Total Area	3287263 Sq. Kms.
Land Area	2973190 Sq.Kms.
Coastlines	7000 Kms
States	29
UT	6
Districts	463
Population	1.03 (Billion) as on 1/4/ 2001
Urban Population	27%
Population Growth	2.14%
Sex Ratio	927 Females 1000 Males
Density of population	273 persons per KM
Literacy Rate	52.10%
Life Expectancy(Male/ Female)	62/64 years

**1.5.1 Policies And Measures To Develop Insurance Market**

The Authority has taken a pro-active role in the establishment of a vibrant Insurance market in the country by taking the following steps:

- i) The market regulation by prudential norms,
- ii) The registration of players who have the necessary financial strength to withstand the demands of a growing and nascent market,
- iii) The necessity to have “fit and proper” person in-charge of businesses,

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- iv) The implementation of a solvency regime that ensures continuous financial stability, and above all,
- v) The presence of an adequate number of insurance companies to provide competition and choice to customers all these steps lead to the establishment of a regime committed to an overall development of the market in normal times.
- vi) Prescribed rural and social sector norms in respect of Insurance business being underwritten by the companies.
- vii) The companies have also been asked to devise insurance policy to specific sector in the economically weak population.

**1.5.2 Research and Development Activities Undertaken by the Insurance companies**

The insurers have been conducting market research either in-house or through professional agencies

- i) to introduce tailor-made products targeted at specific segments of the population so that Insurance can become more meaningful and affordable.
- ii) Risk assessment studies are being carried out for measuring accumulation of risk of a particular place at any one point of time.
- iii) Consumer awareness campaigns are being encouraged to improve insurance literacy levels by conducting workshops, distributing literature etc.

**1.5.3 Protection of Interests of Policyholders**

To protect the interests of holders of Insurance policies and to regulate, promote and ensure orderly growth of the Insurance industry the Authority has taken the following steps:

- i) a leading consumer activist has been inducted into the Insurance Advisory Committee.
- ii) In addition to this member, this committee has drawn representation from the industry, Insurance agents, women's organizations and other interest groups.
- iii) While the Government has taken steps to strengthen the Boards of the State-run companies by inducting representatives from consumer organization and policyholder,

- iv) the Authority, on its part, was careful to ensure that all the new private companies registered have a director representing consumer interests on their Boards.
- v) In addition to this measure all insurers have been advised to streamline their grievance redressal machinery and set benchmarks for efficient and effective service.
- vi) All insurance companies are adhering to the Insurance Ombudsman scheme formulated by the Government and complaints against insurance companies are being referred to them by the aggrieved policyholders from time to time.
- vii) The Authority is conscious of the fact that the fine print should not take away what the bold print promises and in this regard has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the Insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects.
- viii) All Insurance intermediaries, before obtaining a licence, or at the time of renewal of licence, are required to undergo compulsory training to ensure that they can service the policyholders better by being well trained and informed.
- ix) Guidelines have been issued to insurers to file their existing and new products with the Authority. In case of new products insurers are required to submit details of
  - premium rating,
  - policy conditions,
  - proposal form,
  - claim form,
  - underwriting manual and
  - the system in vogue to review the rates, terms and conditions in future.
  - In addition to this, they are required to furnish certificates from advocates and actuaries that the statements made are true and accurate and are not in violation of any law and
  - that the policy wordings are simple and easily understandable to a policyholder.



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**Notes****1.5.4 Maintenance of Solvency Margins of Insurers**

As per provisions of the Insurance Act and the regulations made there under, every life insurer is required

- to maintain an excess of value of his assets over the amount of his liabilities of not less than Rs.50 crores (Rs.100 crores in the case of a reinsurer) or
- a sum equivalent based on a prescribed formula, as determined by regulations not exceeding 5% of the mathematical reserves and a percentage not exceeding 1% of the sum at risk for the policies on which the sum at risk is not negative, whichever is highest.

Similarly, every General insurer is required to maintain a minimum solvency margin of

- Rs.50 crores (Rs.100 crores in the case of a reinsurer) or
- a sum equivalent to 20% of net premium income or a sum equivalent to 30% of net incurred claims whichever is highest, subject to credit for reinsurance in computing net premiums and net incurred claims.

In addition, at the time of registration all the new insurers have been required to maintain a solvency ratio of 1.5 times the normal requirements.

**1.5.5 Monitoring of Investments of the Insurers**

Investment income is a key determinant in the calculation of premium rates for any insurance company under the various insurance policies/schemes and for declaration of bonus by life insurers. It is a core function of an insurance company, which cannot be outsourced by an insurer.

In the case of general insurance, investment income compensates underwriting losses, if any, of the insurance company, which in turn enables them to keep their premium rates competitive.

Therefore, insurance companies essentially invest these funds judiciously with the combined objectives of liquidity, maximization of yield and safety.

An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year. Since the insurance companies keep the policyholders money in their

fiduciary capacity they are also required to maintain a minimum level of solvency to meet the reasonable expectations of the policyholders.

For this, the Authority has mandated the pattern of investment to be followed by the insurance companies. Investments in Government securities, approved investments and infrastructure and the social sectors have been prescribed in the Insurance Act, 1938. (details have been explained in other module)

### 1.5.6 Health Insurance

All the new insurance companies have been advised that they will carry out health insurance business not as a stand-alone product but as a combined rider with existing life/ non-life policies, and introduce health products in the market. At the moment the health products available is of the standard reimbursement type policy and its variants.

IRDA has recently notified regulations for Licensing of Third Party Administrators (TPA)- Health Services in order to popularize health insurance. Health services rendered by a TPA shall include services in connection with health insurance business. However this shall not include the business of insurance company or the soliciting, directly or through an insurance intermediary including an insurance agent. It is expected that TPAs will bring some sort of regulation regarding standard and quality of treatment, period of treatment and rates.

The Authority is encouraging to business community to come forward to start exclusively health insurance Company. Till date there is only insurer who is exclusively engaged in health insurance business.

### 1.5.7 Public Complaints

Many customers of insurance companies approach the Authority-both formally and informally for the settlement of their grievances. IRDA follows up for the settlement of these grievances on the complaints on a continuous basis with the insurance companies. Timely attention is given to these complaints and the insurers are advised to settle claims and grievances promptly.



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A system of grievance redressal has been built in the Authority supervised by one of its senior officers. This system has proved useful to the Authority – not only to see that complaints get attended to but also to give it an idea of the areas of working of an insurer where have to be improved. The experience gained in this regard is reflecting in the regulations made by the Authority.

**1.5.8 Functioning of Ombudsman (a person who decides the complaints of an individual on insurance matters)**

The institution of Insurance Ombudsman has great importance and relevance for the protection of interest of policyholders and also to build up their confidence in the system.

This institution has helped to generate and sustain the faith and confidence amongst the consumers in insurers.

The Insurance Council, which is the administrative body has appointed twelve ombudsmen across the country and have provided them with the necessary infrastructure.

The companies are required to honour the awards passed by an Ombudsman within three months.

The awards are binding on the Insurance companies: the customer, however, can resort to in case he decides on the insurance companies; the customer, however, can resort to it case he decides to do so, other methods of grievance settlement.

The Insurance Ombudsman is empowered to receive and consider complaints in respect of personal lines of insurance from any person who has any grievance against an insurer.

The complaint has to be writing, and addressed to the jurisdictional Ombudsman within whose territory a branch or office of the insurer complained against is located. The complaint can relate to any:

- a) Grievance against insurer.
- b) Partial or total rejection of claims by the insurer.
- c) Dispute in regard to premium paid or payable in terms of the policy.
- d) Dispute on the legal construction of the policy in so far as such dispute relate to claims.

- e) Delay in settlement of claims.
- f) Non-issue of any insurance document to customers after receipt of premium.

The limit of an Ombudsman's powers is at present prescribed as Rs.20 lakhs.

The insurance Ombudsman Scheme is complementary to the regulatory functions of IRDA, which has been mandated to take all necessary steps to protect the interest of the policyholders.

The institution of ombudsman has evoked a good deal of public appreciation as is evident from media reports and performance appraisal made by the Authority.

### **1.5.9 Re-insurer (means insurance of insurance companies)**

Reinsurance Business in India is being transacted by General Insurance Corporation. Before the privatization of the Insurance sector the General Insurance Corporation was performing the dual functions i.e. Insurance and Reinsurance. The Insurance business was transacted through its four subsidiaries namely the New India Assurance Co. Ltd., National Insurance Co. Ltd., The Oriental Insurance Co. Ltd., United India Insurance Co. Ltd. After the privatization the functions of GIC has been restricted to reinsurance and civil aviation Insurance. The Insurance Act 1938 has notified under Section 101A that Indian Reinsurer will be General Insurance Corporation and the four subsidiaries have been de-linked from GIC and shall work under the Central Government.

The Reinsurance Programme of every Insurer, carrying on general insurance business, shall be guided by the following objectives viz;

- To maximize retention within the country;
- To develop adequate capacity;
- To secure the best possible protection for the reinsurance costs incurred; and
- To simplify the administration of business.

### **1.5.10 Customer Service**

One of the innovations that some of the insurers have introduced is opening up of "call centers" which are functioning





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on a 24x7 basis. These centers act not only as enquiry offices for new business to be developed but also function as points of reference and records for claims, which have arisen. It is note worthy to find that some of the new insurers have found it possible to settle claims within 24 to 48 hours.

**1.6 SUMMARY**

Keeping in view the above mentioned steps taken by the Govt. to develop insurance sector, it is expected that growth of insurance will be as follows:

Presently the private players are making their presence felt only in the urban areas as they have open their offices in the selected cities.

Particulars	Audited 2006-07	Unaudited 2007-08	2014-15(Projected)
<b>LIFE (first Year Premium)</b>			
<b>LIC</b>	55935	59182	100000
<b>PRIVATE</b>	19471	33806	95000
<b>TOTAL</b>	75406	92988	195000
<b>% Growth</b>		23%	109.70%
<b>NON-LIFE</b>			
PSU's Includes (ECGC & Agriculture Insurance)	17442	18398	40000
Private (includes Health Insurance cos)	8739	11407	30000
<b>Total</b>	26181	29805	70000
<b>% Growth</b>		14%	135%
<b>G. Total</b>	101587	122793	265000
<b>Population</b>	1.04 billion	1.06 billion	1.25 billion

To increase the insurance penetration and density these players have not only to operate in the rural area but also to develop new products to meet the customers needs.

**1.7 TERMINAL QUESTIONS**

1. Why life insurance sector was nationalized in 1956?
2. Why general insurance sector was nationalized in 1972?

3. What steps have taken by the Authority to protect the policyholder's rights?
4. Discuss the various steps taken by IRDA to develop the insurance sector.

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### 1.8 OBJECTIVE TYPE QUESTIONS

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1. Life insurance deals with\_\_\_\_\_ (Human/Animal)
2. In which year \_\_\_\_\_ the Indian Insurance Sector took U turn. (2000/1999)

*Choose the correct option*

3. Govt decided to nationalize the life insurance companies in 1956 due to
  - a. Lack of confidence
  - b. No guarantee to the policyholders
  - c. Malpractice in the insurance business
  - d. All of the above
4. The name of the Finance Minister at the time of nationalization of general insurance business was \_\_\_\_\_. (Y.B Chavan, Indira Gandhi)
5. On nationalization of the general insurance business how many govt. companies were formed \_\_\_\_ (four/six)
6. LPG in insurance sector means \_\_\_\_\_ {(Liberalization, Privatization, Globalization) (Liquified Petroleum Gas)}
7. Statement A: Protection of Interest of Policyholders is one of the steps taken by the Govt to develop the insurance sector.  
Statement B: Maintenance of solvency margins of insurers is not a step to develop the insurance sector.
  - a. Only A is true
  - b. Only B is true
  - c. Both are true
  - d. Neither of two
8. The main function of Ombudsman is to resolve the complaints of \_\_\_\_\_ (Insurer/policyholders)
9. The financial power of Ombudsman to resolve the complaint is \_\_\_\_\_ (Rs 20 lakhs/Rs 25 lakhs)
10. The reinsurance means \_\_\_\_\_ (Insurance of insurer/ insurance of an individual)



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**1.9 ANSWERS TO INTEXT QUESTIONS**

**1.1**

1. Two British companies in 1870 started to insure the lives of India.
2. 55 Indian and 52 non-Indian companies were merged in to four companies on regional basis.

**1.10 ANSWERS TO OBJECTIVE TYPE QUESTIONS**

1. Human
2. 2000
3. d
4. Y. B. Chavan
5. Four
6. Liberalization, privatization, globalization
7. a
8. policyholder
9. Rs 20 lakhs
10. Insurance of insurer

*(Rs in crores)*

Particulars	Audited 2007-08	Audited 2008-09	2014-15 (Projected)
<b>LIFE</b>			
<b>LIC</b>	<b>149740</b>	<b>157288</b>	<b>253314</b>
<b>PRIVATE</b>	<b>51561</b>	<b>64503</b>	<b>103883</b>
<b>TOTAL</b>	<b>201301</b>	<b>221791</b>	<b>357197</b>
<b>% Growth</b>		<b>10%</b>	<b>37.91%</b>
<b>NON-LIFE</b>			
<b>PSU's Includes ECGC &amp; Agriculture Insurance)</b>	<b>16832</b>	<b>18031</b>	<b>29039</b>
<b>Private (includes Health Insurance cos)</b>	<b>10992</b>	<b>12321</b>	<b>19843</b>
<b>Total</b>	<b>27824</b>	<b>30352</b>	<b>48882</b>
<b>% Growth</b>		<b>9%</b>	<b>61%</b>
<b>G. Total</b>	<b>229125</b>	<b>252143</b>	<b>406079</b>
<b>Population</b>	<b>1.04 billion</b>	<b>1.06 billion</b>	<b>1.25 billion</b>