

# Analysis on Insurance Reforms in India

Dr. Saurabh Verma

Assistant Professor Department of Commerce Upadhi PG College Pilibhit (India)

---

## ARTICLE DETAILS

### Article History

Published Online: 10 October 2018

### Keywords

insurance, insurance reforms, insurer

---

## ABSTRACT

The insurance advertise was opened to the private players not just because of the residential factors, for example, Low infiltration of extra security, non-accessibility of various client arranged items, low-level of consumer loyalty, higher premium rates and absence of demonstrable skill with respect to the safety net provider or more all low spread of life coverage in the nation, yet additionally because of the worldwide conditions won in the monetary market.

---

## 1. Introduction

The word insurance in stills a sense of security in the minds of people. Insurance is a part of financial system that takes care of the financial consequences of certain specific contingencies both in the case of individuals and corporate bodies. In insurance terminology, such contingencies are called risks and they cause losses when they take place. Insurance neither prevents risks nor alters the probability of its occurrence, but reduce the extent of financial loss by transferring risks from the individual to a group. 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 makes it very difficult to budget and so the organization seeks ways of controlling the financial effect of the risk. It is of immense value not only to industries but also to individuals.

The monetary progression in India began on 24th July 1991. After Independence in 1947, India clung to communist strategies. In the 1980s, Prime Minister Rajiv Gandhi started a few changes and later the administration of Mr. P.V. NarasimhaRao and his fund serve Manmohan Singh began get through changes. In any case, an unmanageable Balance of Payment and a socially excruciatingly high rate of swelling pressurized the legislature to dispatch monstrous financial changes in 1991.

Changes in the Insurance Sector were started with the entry of the IRDA Bill in the Parliament in Dec. 1999. The IRDA since its joining as a statutory body in April 2000 has meticulously struck to its timetable of encircling directions and enrolling the private segment insurance agencies. It has put in a casing work of all around good controls and furthermore gave the supporting frameworks to the insurance division.

Most of the services in reality are a combination of products and services having both tangible and intangible aspects. There are only a few, purely tangible or purely intangible services. The financial services in general and insurance services in particular are perfect example for pure intangible services. The financial services occupy a very important and sizeable part of intangible services. With

everincreasing demand for quality service in financial sector the role of employees and professionals has seen radical changes.

### **The Indian Insurance Sector:**

In India the coming of Life Insurance began in the year 1818 with the foundation of the Oriental Life Insurance Company in Calcutta. The General Insurance has its foundations in the year 1850 in Calcutta from the foundation of Treton Insurance Company Limited by British. In 1870 British Insurance Act was executed which prompted the foundation of different insurance agencies before nineteenth century's over like Bombay Mutual, Albert Life Insurance, Royal Insurance and so on. The Indian Life Assurance Companies Act, 1912 was the main statutory measure to manage life business.

In 1928, the Indian Insurance Company Act was passed which empowered the legislature to gather measurable data about both life and non-life business executed in India. Later in 1938, the prior enactment was combined and revised by the Insurance Act 1938 to ensure the interests of the guaranteed open. At that point there were huge number of insurance agencies and there were charges of out of line exchange hones as well. So govt. chosen to nationalize 245 Indian and Foreign Insurance Companies and LIC was shaped by an Act of Parliament i.e. LIC Act 1956. The LIC had restraining infrastructure till the late 90s. Nationalization was in similarity with the administration picked way of state lead arranging and advancement.

## 2. Review of literatures

The insurance division is sine-quo-non for improvement and financial development of any economy and it has been perceived for a long time. The noteworthiness of insurance was additionally recognized in the main meeting of United Nations Conference on Trade and Development (UNCTAD) in 1964 by expressing that "a sound national insurance and reinsurance showcase is a basic normal for financial development." Shrivastava and Shrivastava (2002) hold the view that there is lack of material entomb linkage between financial advancement on one hand and insurance benefits on alternate, though pretended by different administrations like managing an account, transport, correspondence, open organization, guard and so forth in quickening the national pay

of an economy has been appropriately featured. Ahuja Rajeev (2004) assessed the advancement record of Indian insurance industry in the wake of initial four long periods of progression. He be that as it may, brought up four regions in which the insurance controller needs to rapidly push ahead in particular annuity and medical coverage, staging off duty, fortifying of self-direction and surveying of capital prerequisite. As indicated by him, the accomplishment of the opposition in the money related segment at last relies on the effectiveness of control. Along these lines, consistent inspecting and tweaking of the tenets by the controller was likewise recommended to keep pace with the advancement in the business sectors. Technique of the Study The investigation is expository and clear in nature. The entire substance is isolated into two sections regarding insurance thickness and insurance infiltration, especially after India's new financial approach of 1991. The time of the examination relates from 2001-2013. The examination depends on optional information, which have been gathered from IRDA yearly report. The information is identified with insurance thickness and insurance entrance in India. The information has been exhibited in tables and graphs. With the assistance of exceed expectations devices and graphical examination, the scientists have endeavoured to demonstrate the pattern and advance of the insurance business, especially as far as insurance thickness and infiltration.

**Kumar (2016)** explored, that there has been an observable change in the market dynamics since liberalization and introduction of economic reforms. A considerable amount needs to be done for future growth and development of the market in an orderly and sustained manner. Even post liberalization insurance companies in India have been ignoring rural markets. Insurance companies in India will have to show long term commitment to the rural sector as well, and will have to design products which are suitable for rural people. Insurance companies need to think about their distribution mechanism to work effectively in rural markets.

**Joy and Pratim (2016)** explored that in the pre-reform era, the Life Insurance Corporation of India dominated the Indian life insurance market with a market share close to 100 %. But the situation drastically changed since the enactment of the IRDA Act in 1999. At the end of the FY 2012- 13 the market share of LIC stood at around 73%, with the number of players in India's life insurance sector. The authors deliberated that; the reason for the decreased market share over this period could be attributed to the increasing competition prevailing in the country's life insurance sector. At the same time, the liberalization of the life insurance sector for private participation has eventually raised issues, about ensuring sound financial performance and solvency of the life insurance companies; besides safeguarding the interests of the policyholders.

**Sinha (2015)** has used a dynamic slacks based data development analysis model (DEA). The same has been used in this study using 15 life insurance companies in a seven-year period (2005–2006 to 2011–2012). The author has identified that, the unique selling point of the present approach is unlike the conventional static DEA models. He has also presented a framework, by using a link variable, connecting the observed years and thereby creating a common benchmark.

**Ramamoorthi and Kumar (2014)**, reviewed the theoretical analysis of product liability insurance between buyers and sellers. A model consisting of three groups of buyers, a producer-seller, and an insurance institution has been developed under varying assumptions in their study. Authors have found that the liberalization of the economy has resulted in the availability of large number of lucrative alternative products and financial services.

**Mandeep K. and Dalwinder K. (2014)**, in their paper, "Customer Satisfaction towards Life Insurance in Punjab" identified the association between customer satisfaction and demographics of customers. Their study brought out seven factors through factor analysis, namely; services and company reputation, quick and timely services, customer convenience, additional facilities, loyalty of employees, efficient departments with disciplined employees, and service material and understanding of requirements.

**V. Ushakiran, Maschendar and Sreenivasa (2013)** discussed that growth in the life insurance sector touched new statures, and the entry of the private companies has given a tough challenge to the Life Insurance Corporation of India. The entire risk business has started to show significant changes. Right from increasing insurance penetration to changing the customer's mind-set about life insurance to the state of reducing risk as an investment alternative. Insurance firms have started focusing upon innovative policies and creative practices in the Indian market. This orientation has changed the entire shape of the life insurance sector in India.

**Pamecha and Chhajer (2013)** in their article discussed the paradigm changes that took place in the Life Insurance industry in India. These authors have elaborated the rationale behind the leadership position enjoyed by LIC in the market. The recent regulatory changes in the Life Insurance industry in India have also been highlighted in the article. Authors found that the global integration of financial markets resulted from de-regulating measures, explosion of technological information and financial innovation. Also the study emphasized, that liberalization and globalization have allowed the entry of foreign players in the insurance sector, providing a better array of services for the customers at competitive prices.

**Debabrata Das and Jasojit Debnath (2012)** in their paper, "Performance of Insurance Companies in India: A Comparison of Public and Private Insurers", highlighted the performance of life insurance sector in terms of variety of parameters, and also threw light on the different marketing channels. Their study also suggested that life insurers have improved over the years, and insurance is now not limited only to a particular class or society. Rather with innovative products and better customer services, the insurance firms are trying to cultivate a insurance habit among all segments of the population.

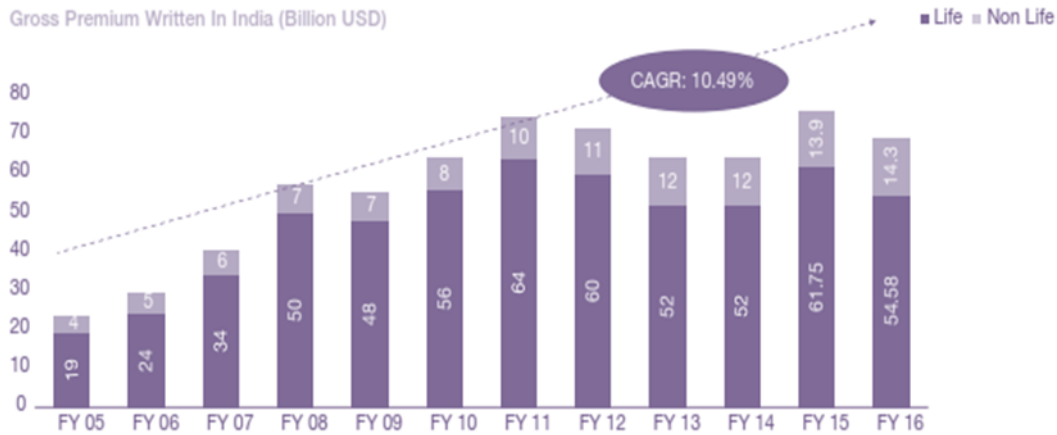
**Rajendran R. and Natarajan B. (2015)** highlighted that the business in India, the business outside India as well as the total business of LIC has always had an increasing trend. The collected and analyzed data proved that liberalization, privatization and globalization are exerting a positive influence on LIC and its performance.

**Kirti D. (2015)** focused on consumer beliefs and attitudes towards advertising media. He concluded that it is very important for marketers to generate advertisements that are believable and offer relevant information about the product. The message in the advertisements should focus on benefits and attributes, with required amount of creativity in it to get maximum results.

### 3. Insurance Sector Reforms

The Indian protection industry had a CAGR of 10.49% in the course of recent years. In spite of the worldwide monetary log jam of 2010– 13, there was a striking recuperation in

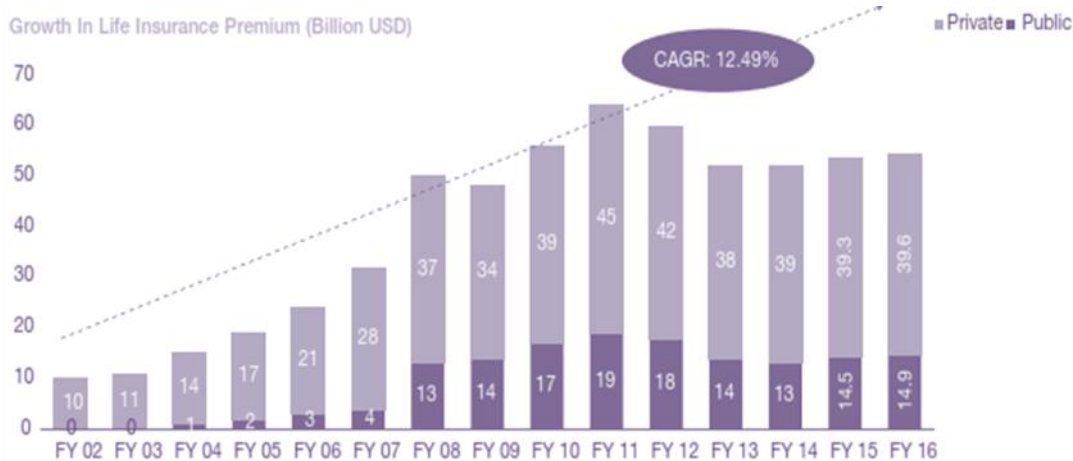
premium development in India. The life coverage showcase developed from 10.5 billion USD in FY02 to 54.58 billion USD in FY16. From FY02– 16, disaster protection premiums extended at a CAGR of 12.49%. In spite of numerous difficulties, the life coverage industry can possibly develop by 2– 2.5 times by 2020, bolstered by long haul patterns and essentials fundamental family unit investment funds. The disaster protection premium market extended at a CAGR of 11.93% from 14.5 billion USD in FY04 to 56.05 billion USD in FY16. Amid the main portion of FY 2016– 17, the extra security industry detailed a 20% development in general APE.



Source: Insurance Regulatory and Development Authority, TechSci Research  
 Note: CAGR- Compound Annual Growth Rate

As of March 2016, the rising investment of private players has prompted an expansion in their offer in the life coverage

industry, with the piece of the pie achieving 29.6% in FY16 from 2% in FY03.



Source: Insurance Regulatory and Development Authority, TechSci Research  
 Note: CAGR- Compound Annual Growth Rate

Developing enthusiasm for protection, inventive item contributions and circulation channels have helped the development of the business. Further, the development expanding entrance of the Internet has likewise quickened request. The Indian protection showcase is an immense business opportunity holding up to be abused. Regardless of being the second most crowded country, India presently represents under 1.5% of the world's aggregate protection premiums and around 2% of the world's extra security

premiums. The nation is the fifteenth biggest protection showcase on the planet as far as premium volume, with the possibility to develop exponentially in the coming years. We should dive further into the zones that can support the potential for future development.

#### The Insurance Amendment Act (2015):

The recent regulatory reforms in the insurance industry can be divided into two phases- In Phase I of the reforms the IRDA Bill was presented before the Parliament in 1999 for its approval. In the Phase II of the reforms, there was an introduction of Insurance Laws (Amendment) Act 2008 in the Parliament. This proposal focused on the FDI cap hike in the insurance sector but was rejected by the then Government in May 2012. Again in the winter session of the Parliament in October 2013, the Bill was presented but failed to push up the reform process. However, Modi led NDA Govt. came into power on 16 May 2014 and the Finance Minister, Mr.ArunJaitley, announced in his first Union Budget speech on 10 July 2014, to increase the FDI limit upto 49% from 26%, with full Indian management and control through Foreign Investment Promotion Board (FIPB). And finally on 26December 2014, the Government passed the Insurance Laws (Amendment) Act 2015.

The Insurance (Laws) Amendment Act (2015) is a game changer for the insurance industry. It is a major step towards the deepening of economic reform process in insurance sector. With the FDI limit hike from 26% to 49% it will possibly speed up the on-going reform process in Indian economy and can take the Indian economy into new heights. One of the notable features of this amended Act of 2015 was that the subscribers of Employee's Provident Fund (EPF) will now have choice to opt for New Pension Scheme (NPS) of the Government of India and also the workers covered under the Employee's State Insurance will have the option to choose Health Insurance products organized by the IRDA. If the social security schemes of the Government of India including the state government and the insurance schemes issued by the IRDAI come together through a proper mechanism; would help to bring into reality, "MAKE IN INDIA" the dream of our PM NarendraModi, through skilled labor force and establishing India as a focus of business both- national and international level.

## References

1. Ahuja R. Insurance: Over the Transition, Economic and Political Weekly 2004; 39(32):3569-3571.
2. IRDA Annual Report, 2013-14
3. Kumar, S., (2016) The Post-Economic Reforms Possibility of Corporate Social Responsibility in India. Journal of Institute of Public Enterprise, pp.155-172
4. Joy and Pratim (2016) Indian Life Insurance Market and Corporate Performances: A Study Of Selected Firms, International Journal of Banking, Risk and Insurance, 4:1, pp. 26.
5. Sinha, R. P. (2015) A Dynamic DEA Model for Indian Life Insurance Companies, Global Business Review, 16:2, pp.258-269.
6. R. Ramamoorthy, S.A. Senthilkumar (2014) Product liability insurance: An Indian perspective, The Journal of Insurance Institute of India, 1:3, pp.62 -68.
7. Mandeep K. and Dalwinder K. (2014) Measuring Customer Satisfaction on Life Insurance Products (Case Study: Lagos State, Nigeria), International Journal of Management and Business Research, 4:2, , pp.73-80.
8. Ushakiran, V., Goud, M.M., and Murthy, S.S. (2013) Impact of Privatization on Risk Business: A Study of the Life Insurance Sector in India, The Journal of Venture Capital and Financial Services, 7:1/2, pp.32
9. Pamecha, S. and Chhajjer, A. (2013) Ongoing Journey of Life Insurance: Present Scenario & Future Prospects. Economic Challenges, 15:59, pp.54 - 62.
10. Das, D., and Debnath, J. (2012) Performance of Insurance Companies in India: A Comparison of Public and Private Insurers, IUP Journal of Risk and Insurance, 9:1, pp.7.
11. Rajendran, R. and Natarajan, B., (2015) The impact of LPG on life insurance corporation of India, Asia Pacific Journal of Finance and Banking Research, 3:3, pp.41-52.
12. Kirti D. (2015) Performance Evaluation of LIC: Ways of Winning Confidence, IUP Journal of Risk and Insurance, 6:2, 53.
13. <https://www.pwc.in/assets/pdfs/publications/2017/india-insurance-perspective.pdf>
14. <https://www.rbi.org.in/>
15. <https://www.irda.gov.in/>
16. <http://unctad.org>