

A Study of Insurance Sector from Indian Perspective

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ABSTRACT

The liberalization and globalization process initiated by the government of India can be considered as the major economic policy change which has taken place during the last decade of 20th century. Hence many financial sector reforms have been introduced. Most of the business activities carried out in an economy is expected to escalate the welfare of the masses and placing them at higher levels of satisfaction on persistent basis. Although different sectors of the economy do not grow in isolation and contribute to each other's development, the service sector proved a prime role with its share in the national income. The financial sector constitutes one of the foremost apparatus of the services sector and within that sector, insurance services assume vital significance. The insurance business grew at a faster pace in 1940s and 1950s after independence. The Indian companies strengthened their hold on this business. But, there were a number of insurers, who declared insolvency. Life Insurance Industry was nationalized in 1956 with the merger of 250 private Life Insurance Companies, and the Life Insurance Corporation (LIC) of India was formed. The non-life insurance business, however, continued to thrive in the private sector till 1972. For the first time liberalization measures in insurance sector to be undertaken by the Government were announced by the Finance Minister, Government of India, Dr. ManMohan Singh in his Central Budget (1993-94) speech. Financial sector reforms were initiated in 1991 and insurance reforms in 1999 by the government of India. In order to improve the quality of insurance services in the country the Malhotra committee (1993) had recommended the comprehensive framework of reform in the insurance sector. The present paper is an attempt to examine the insurance sector from Indian perspective.

1. Introduction

The liberalization and globalization process initiated by the government of India can be considered as the major economic policy change which has taken place during the last decade of 20th century. Hence many financial sector reforms have been introduced. Most of the business activities carried out in an economy is expected to escalate the welfare of the masses and placing them at higher levels of satisfaction on persistent basis. Although different sectors of the economy do not grow in isolation and contribute to each other's development, yet the development experience both disclose that as the economy progresses, the service sector assumes a prime role and its share in the national income. The financial sector constitutes one of the foremost apparatus of the services sector and within that sector, insurance services assume vital significance. Until 1999, the insurance organization in India was comprised of two states owned monolithic institutions namely the life insurance corporation of India and the general insurance corporation of India and its four subsidiaries. The new economic policy pursued from mid 1980 onward focused attention on increasing productivity and efficiency of the economy through the instruments of competition and interplay of market forces. As a follow up to the above policy, financial sector reforms were initiated in 1991 and insurance reforms in 1999 by the government of India. In order to improve the quality of insurance services in the country the Malhotra committee (1993) had recommended the comprehensive framework of reform in the insurance sector. The present paper is an attempt to examine the reforms of insurance sector.

1.1 Brief History

- Oriental Life Insurance Company is the first life insurance company established in year 1818.
- The Triton Insurance Company Ltd. Is the first general insurance company in India established in the year 1850
- As many sections of society are affected by the insurance services made available, it was monitored at the federal level since inception.
- Insurance Act, 1938 which has addressed various important issues concerned to the insurance business in India.
- In 1956 to setup "Life Insurance Corporation of India" 245 life insurers were nationalized.
- In the year 1972 to setup "General Insurance Corporation of India" and its 4 subsidiaries, 107 general (non-life) insurers were nationalized.
- Nationalization of insurance was opted on account of malpractices then prevailing an inability of some of the insurers to duly manage the policyholders' funds and also to spread the significance of life and general insurance to every corner of the economy and to serve the requirements of the country as a whole.
- As a part of inclusive reform of 1991, under the chairmanship of Mr. R. N. Malhotra, central government has setup a committee for reforms in insurance sector.
- The committee recommended: setting up of independent regulatory mechanism and steady

opportunity of insurance sector for private/foreign participation.

- With the performance of "Insurance Regulatory and Development Authority Act, 1999" private participants in the Indian insurance market was permitted though foreign equity in any insurance company being restricted to 26 percent.

2. Insurance Sector

The insurance sector in India dates back to 1818 when the first insurance company was established the Oriental Life Insurance Company at Calcutta which was followed in quick succession with the establishment of Bombay Life Assurance Company in 1823 and Madras Assurance Society in 1829. Even though during 1818, there was no exclusive legislation to control the operations Indian life insurance companies act was enacted in act 1 938 was passed, there was mushroom growth Pre-nationalization phase of life insurance industry measures however it continued to operate in an environment of trusteeship, unethical actuarial practices, lack of competition, discriminating premium and bonus, rate profile for the industry. These dark deeds of dishonest public chauvinism and invited public demand for nationalized. India nationalized life insurance by amalgamating all i.e. life insurance Corporation of India. Life insurance India is the year 1 956 dominated life insurance sector, totally under the control of Government of India result, revenue of both of them increased from Rs. 2704 showing an annual growth rate of 16.53%

Which is from its very inception the corporation has made impressive improvements. LIC issued many products in the past 20 years including schemes for economically backward Sections.

2.1 Economic Reforms and Insurance Sector:

Due to change in economic policy of Government in 1991, many reforms were introduced. In this process a committee was set up under the chairmanship of Mr.R.N.Malhotra, ex-governor of RBI which submitted its evaluate the Indian insurance industry recommend its future direction. The committee was setup with an objective of implementing the reforms in Indian financial sector.

2.2 The Insurance Regulatory and Development Authority (IRDA) Act, 1999

The Act has amended the existing Insurance Act 1938, Life Insurance Act 1956, and General Insurance Business Act, 1972. The schedules contain the amendments made to the Insurance Act, 1938 and Life Insurance Act, 1956 and General Insurance Business Act, 1972. It is a tool to check the accounting and reporting system of insurers. The Act has made it mandatory to present systematic formats for submitting the accounts. The Act has permitted the Authority or the representatives of the Authority to inspect the insurer's offices or sites or discuss with the staff or the groups of the insured to assess the requirements of the insurance business. The Authority is authorized to recommend new laws required to meet the needs of the insurance business. It has the power to make regulations in the field of the licensing of insurers, agents, intermediaries, capital, investments and securities, etc.

The Insurance Regulatory and Development Authority Act, 1999 is the result of the fresh Bill submitted to the Parliament in December 1999. The Insurance Regulatory bill, 1998 was not passed by the Parliament because of its dissolution. The said Bill was submitted to Standing Committee of the Parliament which discussed the Bill in full length. The other insurance institutions, insurers and parties interested in insurance have by far participated in the deliberations and discussions of the provisions of the Regulatory Authority. The Standing Committee provided some changes; suggestions and other interested parties have suggested some amendments to the then regulatory system. By incorporating the changes and suggestions received, a fresh Bill was submitted to the Parliament, which passed the Bill and the IRDA Act came into existence.

2.3 Malhotra Committee:

The committee submitted its report in January 1994 recommending that private insurers be allowed to co-exist along with government companies like LIC and GIC companies. The reforms were designed at constructing with structural modifications, progress and identifying that insurance is a vital part of the overall Financial System Which Requires Reforms.

On the basis of the recommendations given by Malhotra committee, the Government introduced IRDA Bill in 1999 which was passed by the Parliament, the reactions were mixed the Vajpayee Government re-introduced the bill with some changes. In 1999 the bill was finally passed and IRDA formed to regulate and promote insurance business in India.

The major features of IRDA Act 1999 are as under:

1. The authority has a power to issue to the applicant a certificate of registration to review modify withdraw, suspend or caused such registration.
2. Indian insurance company defined to mean a company registered under the companies act 1 956 with foreign equity not exceeding 20 percent of total equity share holding including equity holding of Non-resident Indians, foreign institutional investors and overseas corporate bodies have been allowed to carry an Insurance business
3. Specifying the form and manner in which books of accounts will be maintained and statement of accounts rendered by insurer and insurance intermediaries.
4. Section provides that Insurance advisory committee will be constituted and shall consist of not more than 25 members.
5. The maximum of 26 percent will be allowed for foreign promoters and they are allowed to hold any equity beyond this ceiling at any stages.
6. The powers presently being exercised under insurance will be transferred to the insurance will be transferred to insurance regulatory and development authority.
7. Paid up capital to be maintained at not less than Rs. 100 crores for life insurance and general insurance and Rs. 200 crores in case of reinsurance.
8. Insurance companies should deposit either in cash or approved securities with RBI a sum equal to 1 percent

of the gross premium commencing after 31/03/2000 subject to a maximum of Rs. 10 Crores. The maximum limit is Rs. 20 Crores in case of re-insurance business.

9. IRDA would give preference; to companies providing health insurance in non-life sector.
10. No insurers shall invest funds of the policy holders outside India. The authority may specify the time and manner and issue directions relating to the investment.
11. If the Social obligations are not fulfilled a fine of Rs. 25 Lakhs will be levied and in case the obligations are still not fulfilled license would be cancelled.

2.4 Major Recommendations of the Committee:

1. Government state in the insurance companies to be brought down to 50%
2. Private sector should be granted permissions to enter the industry with a minimum paid up capital of Rs. 1 00 crores
3. No company is allowed to deal in both life and general insurance
4. Foreign companies may be allowed to enter by floating venture with Indian partners.
5. An insurance regulatory body should be set up in the lines of SEBI.
6. All the insurance should be given greater freedom to operator
7. Limited number of private companies to be allowed in the sector. But no form be allowed to operate in both life insurance and non-life insurance
8. Tariff advisory committee should be delinked from GIC to function as a separate statutory body under the supervision of insurance regulatory authority.
9. LIC should pay interest on delays in payments beyond 30 days.
10. Computerization of operations and updating of technology to be carried out in the insurance industry.

However, the report was widely opposed by the insurance employees and politician because they thought LIC would not be in a position to compete with the big multinationals because of their selective approach and social objective of insurance would find a back seat. On the base of this report, finance minister P. Chidambaram offered opportunities to private sector and MNCs in insurance sector.

2.5 Major Policy Changes:

Insurance sector has been unlocked for competition with private insurance companies of India with the ratification of Insurance Regulatory and Development Authority Act, 1999 (IRDA Act). As per the IRDA Act, 1999, Insurance Regulatory and Development Authority was established on 19th April 2000 to guard the safety of insurance policy holder and to promote, regulate and ensure systematic growth of the insurance industry. IRDA Act, 1999 tiled the way for the entry of private companies into the insurance market which was up to now the restricted to public sector insurance companies/ corporations. Under the new dimension private Indian insurance companies were allowed to operate in India with the following conditions:

- Under the Companies Act of 1956, Companies are formed and registered;
- The total assets of equity shares of foreign companies, should not exceed 26 percent paid up equity capital of Indian insurance companies,
- The company's only principle is to carry on life insurance business, general insurance business or reinsurance business.
- For life or general insurance business the minimum paid up equity capital is Rs. 100 crores.
- For carrying on reinsurance business the minimum paid up equity capital has been arranged as Rs. 200 crores.

The concerned authority has notified 27 Regulations on various subjects that comprise: Insurer's registration, regulations of insurance agents, Margin of solvency, Re-insurance, compulsion of Insurers to social and rural sector, Accounting and Investment Procedure, interest of Protection of policy holders' etc. With effect from 15th August, 2000 applications were invited by the Authority for issuing Registration Certificate to both life and non-life insurers. The Authority's Head Quarter is at Hyderabad.

2.6 Insurance Companies:

IRDA has so far permitted registration to 24 private life insurance companies and 23 general insurance companies. If public sector insurance company is added at present 25 and 24 will be the respective insurance companies are operating in insurance business. Details of the life and general insurance companies with its claim settlement ratio are furnished as under:

Table 1: Life Insurance Companies and Claim Settlement Ratio in India

| Sl. No | Company | Claim Settlement Ratio (%) |
|--------|--|----------------------------|
| 01 | AEGON Life Insurance | 95.30 |
| 02 | Aviva Life Insurance | 82.00 |
| 03 | Bajaj Allianz Life Insurance | 98.10 |
| 04 | Bharti AXA Life Insurance | 80.00 |
| 05 | Birla Sun Life Insurance | 88.45 |
| 06 | Canara HSBC OBC Life Insurance | 92.99 |
| 07 | DHFL Pramerica Life Insurance | 22.14 |
| 08 | Edelweiss Tokio Life Insurance | 85.10 |
| 09 | Exide Life Insurance | 83.16 |
| 10 | Future Generali India Life Insurance | 90.61 |
| 11 | HDFC Standard Life Insurance | 95.02 |
| 12 | ICICI Prudential Life Insurance | 96.20 |
| 13 | IDBI Federal Life Insurance | 84.79 |
| 14 | India First Life Insurance Company Ltd | 73.13 |

| | | |
|----|-------------------------------------|-------|
| 15 | Kotak Life Insurance | 90.69 |
| 16 | Life Insurance Corporation of India | 98.14 |
| 17 | Max Newyork Life Insurance | 96.23 |
| 18 | PNB MetLife Insurance | 92.90 |
| 19 | Reliance Life Insurance | 95.01 |
| 20 | Sahara Life Insurance | 90.19 |
| 21 | SBI Life Insurance | 95.70 |
| 22 | Shriram Life Insurance | 67.69 |
| 23 | Star Union Dai-ichi Life Insurance | 92.86 |
| 24 | Tata AIA Life Insurance | 89.68 |

Source: IRDA Report, 2018

Table 2: General Insurance Companies and Claim Settlement Ratio in India

| Sl. No | Company | Claim Settlement Ratio (%) |
|--------|---|----------------------------|
| 01 | Apollo Munich Insurance | 54.99 |
| 02 | Bajaj Allianz General Insurance | 78.50 |
| 03 | Bharti AXA General Insurance | 76.88 |
| 04 | Cholamandalam MS General Insurance | 40.07 |
| 05 | Cigna TTK Health Insurance Company Ltd | 48.14 |
| 06 | Future Generali India Insurance Company Ltd | 77.31 |
| 07 | HDFC ERGO General Insurance | 76.90 |
| 08 | IFFCO Tokio General Insurance Company Limited | 81.96 |
| 09 | Liberty General Insurance | 79.14 |
| 10 | Max Bupa General Insurance | 51.96 |
| 11 | National Insurance Company Limited | 97.25 |
| 12 | New India Assurance | 91.26 |
| 13 | Oriental Insurance Company | 112.11 |
| 14 | Raheja QBE General Insurance Company | 68.97 |
| 15 | Reliance General Insurance | 92.23 |
| 16 | Religare Health Insurance | 50.52 |
| 17 | Royal Sundaram General Insurance Co. Limited | 78.13 |
| 18 | SBI General Insurance Company Ltd | 75.01 |
| 19 | Shriram General Insurance Company Ltd | 102.57 |
| 20 | Star Health and Allied Insurance | 60.51 |
| 21 | Tata AIG General Insurance | 72.32 |
| 22 | United India Insurance | 107.06 |
| 23 | Universal Sampo General Insurance | 70.91 |

Source: IRDA Report, 2018

2.7 Protection of Policy Holders:

IRDA is responsible for the protection of the insurance policy holders. To accomplish this purpose the Authority has undertaken the following steps:

- IRDA has advised Protection of Policyholders Interest Regulations 2001:
 - To provide policy proposal documents in easily understandable language;
 - Claims procedure in both life and non-life insurance;
 - Setting up of grievance redressal mechanism;
 - Immediate settlement of claims;
 - Service to policyholders'
 - The Regulation also provides payment of interest by insurers for the delay in settlement of claim.
- The insurers are obligatory to retain solvency limits so that they can meet their requirements towards policy holders with view to payment of claims.
- It is mandatory on the part of the insurance companies to reveal visibly the, terms & conditions and benefits under the policy. The advertisements made by the companies should not misinform about the policy to general public.

- All insurance companies are obligated to set up appropriate grievance redressal mechanism at head office and its respective branches.
- The Authority must receive the complaint from the policyholders in relation with services offered by them under the insurance contract.

3. Conclusion

The liberalization of insurance sector took almost a decade after the economic reforms in India. The promise of liberalization of insurance sector was the high growth of the sector with increased competition in the market. The evaluation of life insurance sector during the post liberalization period shows that the promise of liberalization has fulfilled partially. Even after liberalization, the growth of life insurance sector has remained stagnant as compared to the GDP growth and growth of population. The life insurance business shows a decline in Compound Annual Growth Rate after the initial short-term rise in the number of policies issued. Competition has not resulted in increased business.

To summarize, the overview of private sector reflects that the increase in a number of firms and competitive market has not resulted in breaking the low level of life insurance development in India. The financial soundness indicators

reveal that the private firms show reasonable financial soundness, thanks to the vigilant regulation by IRDA. However, on the business expansion side, the private firms are struggling for survival in the competitive market. The life insurance private segment is dominated by a few large firms and shows a very heterogeneous market structure. So far, the business prowess

of the private players, if any, largely relied on the „quasi-insurance“ products like Unit Linked Insurance Plans or bank assurance. The liberalization of life insurance sector has not resulted in any vibrant value addition to the stagnant life insurance industry in India.

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