CHAPTER I

INTRODUCTION

Every kind of business is exposed to various kinds of risks at all times. Some risks can be prevented while other cannot be prevented. The loss that is suffered by the occurrence of such risks can be reduced through insurance (www.bimaonline.com).

Wherever there is uncertainty there is risk and when risk occurs, there is loss of property which affects economic development of the country. Such risks must therefore be shared by those who are exposed to them by starting an insurance fund. This is the basis of insurance (Bodla, 2003)

Insurance is therefore, an agreement between insurer and insured in consideration of premium received from the insured, subject to limit of a specified amount suffered by specified perils insured against during the stated period (Desai, 2006). The nature of insurance transaction can be represented by the following triangle.

![Insurance transaction](Fig.1.1)

From the business point of view, insurance can be divided into there categories i.e,

1) **Life insurance Business**

Life insurance is different from other insurance business in the sense that, here, the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period, whichever is earlier. At present, life insurance enjoys maximum scope because life is the most important property of the society or an individual. Each and every person requires the
insurance. This insurance provides protection to the family at a premature death or gives adequate amount at the old edge when the earning capacity is reduced.

Life insurance is not only a protection but is a sort of investment because a certain sum is returned to the insured at the expiry of a period or to his nominee at his death (Garg, 2004).

2) General insurance business

The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurance are strictly called property insurance. Motor, theft, fidelity, and Machine insurance represent liability insurance to a certain extent (Garg, 2004). General insurance therefore, includes marine insurance, providing protection against loss of marine risks, fire insurance which covers risks of five and miscellaneous insurance.

3) Social insurance business

The social insurance is to provide protection to the weaker section of the society who is unable to pay premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the insurance of the socialist ideas, the social insurance is an obligation duty of the nation. The government of a country must provide social insurance to its masses (Garg, 2004).

History of General instance

The history of general insurance can be traced back to the early civilization. As civilization progressed, the incidence of losses started increasing giving rise to the concept of loss sharing. Loss of profit insurance was practiced by the Aryans through their village co-operatives. It was also practiced by the Mediterranean merchants in the 14th century B.C. through the issue of Bottomry Bonds. The code of Manu indicates that there was the practice of marine insurance carried out by the traders in India with those of Srilanka, Egypt and Greece (Bodla, 2003).

The earliest transaction of insurance as practiced today can be traced back to the 14th century A.D in Italy when ships were only covered. This practice of marine insurance gradually spread to London and during the 16th century it was established in the mercantile transactions. The history of Marine insurance is closely linked with the origin
and rise of the Lloyds ship owners (Khan, 1988). Captains and merchants used to gather in a coffee-house to deal with the various problems. Individual merchants started adopting marine risks to their other line of activity. The coffee-house made remarkable progress in individual undertaking and thus this practice grew up (Rajesham, 2006). The Lloyds Act was framed to setup the Lloyds by which they were empowered to transact other classes of insurance. Today Lloyds is regarded as the largest insurance underwriter in the world (Bodla, 2003).

**History of insurance development in India**

Insurance in its modern form first arrived in India through the British company called the oriental life insurance company in 1818, followed by the Bombay assurance company in 1823, and the Madras Equitable life insurance society in 1829. They insured the lives of Europeans living in India. The first company that sold policies to Indians with “fair value” was the Bombay Mutual life Assurance society starting in 1871 then Oriental Government Security Life Assurance Company in 1874. (Satyanarayana, 2006).

**Important milestones in general insurance industry in India**

In 1850 Triton Insurance Company Limited became the first general insurance company established in India, it was based in Calcutta. In 1907 Indian Mercantile insurance company limited was set up as the first company to transact all classes of general insurance businesses. In 1957 General insurance council, a wing of the insurance association of India framed a code of conduct for ensuring a fair conduct and sound business. In 1968 Insurance Act was amended to regulate investments and set a minimum solvency margins and the tariff advisory committee (TAC) was set up. In 1972 the General Insurance Business (Nationalization) Act, 1972 was passed to nationalize the general insurance business in India with effect from 1-1-1973 (Sasidharan, 2007). And finally in 1999 the current act, the Insurance Regulatory Development Authority (IRDA) Act, was passed to open insurance sector (both life and non life) to private participation.

**List of General Insurance Companies in India as in June 2008.**

Public Sector (6)
National Insurance Company Limited (Calcutta)
New India Assurance Company Limited (Bombay)
Oriental Insurance Company Limited (Delhi)
United India Insurance company Limited (Madras)  
Export Credit Guarantee Corporation Limited  
Agriculture Insurance Company of India Limited  
Private sector (15)  
Bajaj Alliance General Insurance Company Limited  
ICICI Lombard General Insurance Company limited  
Reliance General Insurance Company Limited  
IFFCO-Tokio General Insurance Company Limited  
Royal Sundaram Alliance Insurance Company Limited.  
Tata AIG General Insurance Company Limited.  
Cholamandalam General Insurance Company Limited  
HDFC Chubb General Insurance Company Limited  
Star Health and Allied Insurance Company Limited  
Apollo DKV Insurance Company Limited.  
Future Generali India Insurance Company Limited  
Universal Sampo General Insurance Company Limited  
Shriram General Insurance Company Limited.  
Bharti Axa General Insurance Company Limited.  
Raheja QBE General Insurance Company Limited.  
Re-Insurer (1)  
General Insurance Corporation of India (GIC) (www.banknetindia.com/finance)

Regulation of insurance companies began with the Indian Life Assurance companies Act 1912. In 1938, all insurance companies were brought under regulation when a new insurance Act was passed. It covered both life and non life insurance companies. It clearly defined what would come under life and non life insurance business. The act also covered, among others, deposits, supervision of insurance companies, investments, commissions of agents and directors appointed by the policyholders. This piece of legislation lost significance after the insurance business was nationalized in 1956 (life) and 1972 (non-life), respectively. When the market was opened again to private participation in 1999, the earlier insurance act of 1938 was
reinstated as the backbone of the current legislation of insurance companies as the IRDA Act, 1999 was superimposed on the 1938 Insurance Act.

By Mid-2008 there were 21 companies in the general insurance sector operating in India. Six of them are public sector companies, of which four were former subsidiaries of the GIC that operated as nationalized companies, and the other two are export credit guarantee cooperation limited and the Agriculture insurance company of India limited. The rest are private sector companies. Most of these private sector companies have foreign partners with a maximum of 26 per cent of share, but there are also pure domestic companies (e.g. Reliance General Insurance Company Limited).

It is also encouraging sign that regulators are ready to accommodate more diverse forms of corporate channel for the distribution of insurance. At the same time, in a few joint ventures, Indian banks shared the domestic equity portion with other non banking entities. It still remains to be seen how this new mode of corporate co-operation will develop.

**Nationalization of General Insurance Business**

Prior to nationalization, the general insurance business in India was transacted by 107 companies (63 domestic and 44 foreign). Under the general insurance business Nationalization Act, 1972, these were amalgamated and grouped into four operating companies; National Insurance Company Limited head office New Delhi, the New India Assurance Company Limited head office Mumbai and United India Insurance Company Limited head office Chennai. They become subsidiaries of holding company, namely General Insurance Corporation of India which came into being on January 1st 19734 (Cheturvedi, 2006).

**Objects of GIC**

There were several objectives for setting up this structure, they can be summarized as follows; to set up standards of conduct, sound practices and provisions of efficient customer service in general insurance business. The GIC was to help control the expenses of the subsidiaries. It was to help with the investment of funds for its four subsidiaries. It was to bring general insurance to the rural areas of the country, by distributing business to the four subsidiaries, each operating in different areas in India. GIC was also designated the national re-insurer. By law, all domestic insurers were to
cede 20 per cent of their direct gross premium India to the GIC. The idea was to retain as much risk as possible domestically. This was intern motivated by the desire to minimize the expenditure in foreign exchange. All four subsidiaries were supposed to compete with each other (Desai, 2006)).

Why Nationalization was initiated

The nationalization of insurance sector was justified on three counts; It was perceived that private companies would not promote insurance in rural areas, the government would be in a better position to channel resources for saving and investment by taking over the business of insurance, bankruptcies of life insurance companies had become a big problem (at the time of takeover, 25 insurance companies were already bankrupt and another 25 were on the verge of bankruptcy). The experience of the next four decades would tamper the views (Sinha, 2002).

Objectives of Nationalization

The main objectives of nationalization were as follows; to ensure the development of the general insurance business in sympathy with the best of interest and advantage to the country, to promote competition in the economy and to prevent the concentration of wealth to the common detriment. To widely spread their activities over geographical area to innovate new products as per the requirements of different segments of the population and also to meet social objectives through formulating policies for weaker section of society (Bodla, 2003)

Benefits of Liberalization

Following are some of the benefits and opportunities that are achieved as a result of liberalization and privatization of insurance sector; It will lead to competition which will develop a better understanding of consumer requirement leading to more customized products for the market place. There will be world class technology with new innovative products suitably fashioned to the Indian needs. The competition will bring strong consumerism and will increase market size. There will not only be inflow of efficiency and quality of service to the customers, but also a wider choice of price and increased market size.

There will be inflow of managerial and financial expertise from the worlds leading insurance markets. Further, the burden of educating consumers will be shared
among many players. The introduction of advanced selling techniques with international flavor will direct the sector towards a high growth trajectory. The international companies will help in building world class expertise in local market by introducing the best global practices. Regulatory norms of compulsory social obligations will enhance the rural coverage at affordable and reasonable prices; otherwise, this is a vast potential and virgin market, which competitors will surely like to capture. Innovative and flexible priced insurance products of our country will integrate into the world’s economy. Private players are likely to embark on client segmentation and product differentiation strategies that should result in more innovative and flexible products and services. Banks entering in the insurance territory will add another dimension of competition. New Competitive parameters would improve customer value and increase people’s awareness of insurance. Insurance liberalization in India is expected to result in a wider choice of major commercial insurance covers, such as fire, export credit and product liability etc (Bhir, 1957).

**Review of Economic Environment**

Insurance has come up as a very important financial service in most of the parts of the world. Insurance is considered as one of the important segment in an economy for its growth and development. This industry provides long term funds that are essential for the development of basic infrastructure. The insurance industry also provides debt to the capital market including market for the government bonds (Kumar, 2002). Insurance is basically defined as a financial agreement that redistributes cost of unexpected losses, today stands tremendous enthusiasm by the prospective new players across the globe as well as domestic industry is well understood after privatization of insurance industry and passage of IRDA act.

According to preliminary estimates published by the Reserve Bank of India (RBI), contribution of Insurance funds to financial savings was 14.2 per cent in 2005-06, and 2.4 per cent of the GDP at current market prices. Development of the insurance sector is thus necessary in supporting continued economic transformation. The Indian economy continued to record a strong growth during the fiscal year 2005-06, backed by sustained manufacturing activity and impressive performance of the services sector with
reasonable recovery in agricultural activity. Real gross domestic product (GDP) increased by 8.4 per cent in 2004-05.

The service sector recorded a growth of 10.3 per cent during 2005-06 higher than the average growth of 8.6 per cent during the last five years. The sector, a key driver of growth in 2005-06, contributed nearly three fourths to the overall real GDP growth. The robust performance of the service sector was led mainly by trade, hotels, transport and communication, which contributed almost one half of the sector’s growth. There has been an impressive performance of real estate and business services which grew by 9.7 per cent in 2005-06. It may be heartening to note that GDP emanating from insurance which constituted 12 per cent of total GDP (current prices) in 2000-01, the year in which this sector was opened up for private participation, increased to 19.3 per cent in 2004-05. The opening up of this sector has contributed favorably to insurance growth.

Non life insurers underwrote a premium of Rs.12377.76 crore during the first half of 2005-06 recording a growth of 22.81 per cent over Rs.10079.15 crore underwritten in the same period of previous year. The private sector non-life insurers underwrote a premium Rs.4340.57 crore as against Rs.2688.50 crore in the corresponding period of the previous year, recording a growth of 61.45 per cent. Public sector non-life insurance underwrote amount of Rs.8037.19 crore which was higher by 8.75 per cent (Rs.7390.65 crore in the first half of 2004-05). The public market share of the public insurers, and the private players was 64.93 and 35.07 per cent respectively.

**Appraisal of the Insurance Market**

In a period of a half a century, the insurance sector in the country has come full circle, from being an open competitive market to full nationalization and then back again to liberalized market in which private players and public sector companies are on a level playing field (Kapse, 2003). Most of the new companies in the industry have entered the market as joint ventures (JV) with participation of a foreign partner holding up to 26% of the total paid-up equity capital. The opening of the sector to the private players witnessed with introduction of a number of new products deserving the attention of the customers and possibly the Indian Insurance market is one of the fastest growing markets. The factors that support the possibilities for increased penetration of the Indian market are the emerging socio-economic changes, increased wealth, education and awareness of
insurance needs. Insurers are increasing introduction of innovative products to meet the specific needs of the prospective policy holders. The industry is today slowly emerging from the shadows of insurance being a synonym to life insurance corporation (LIC).

The insurance sector in India, which was opened up to private participation in the year 1999, has completed a decade in a liberalized environment. With an average annual growth of 37 per cent in the first year premium in the life segment and 15.72 per cent growth in the non-life segment, together with the largest number of life insurance policies in force, the potential of the Indian insurance industry is still large. The non life public sector insurers have been rather slow to respond to the evolving competition compared to the life segment. Both the authority and the industry have been playing an active role in increasing consumer awareness. In addition, the insurance companies in general and private insurance companies in particular, are reaching out to untapped semi urban and rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments.

The penetration ratios of health and other non-life insurance in India is also well below the international level. These facts indicate immense growth potential of the insurance sector. Since opening up of the insurance sector in 2000, 24 private companies have been granted licenses and foreign investment of Rs.1688.67 crore has been made into the Indian market by the end of 2005-06. (www.irdaindia.org, 2006). By end March 2006, there were 15 life and 15 non-life insurance companies of the non-life insurance companies two are specialized insurance companies Viz. Agricultural Insurance Company (AIC) which handles crop insurance business and Export Credit Guarantee Corporation (ECGC) which transacts export credit insurance.

Table 1.1
Number of Registered Insurers in India by March, 2006

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Public sector</th>
<th>Private sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life insurance</td>
<td>1</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>General insurance</td>
<td>6</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>1</td>
<td>0</td>
<td>01</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>24</td>
<td>32</td>
</tr>
</tbody>
</table>

**World Insurance Scenario**

In 2005, worldwide insurance premiums amounted to USD 3426 bn of this, USD 1974 bn accounted for life and USD 1452 bn to non life insurance. In real terms, total premium volume grew by 2.5 per cent while life premiums increased by 3.9 per cent, non life premiums increased by 0.6 per cent. Profitability in life insurance improved compared to 2004. Non life business remained profitable despite huge hurricane losses in the U.S. High economic growth, moderate inflation, low interest rates and favorable stock markets in Europe, Japan and in the emerging markets contributed to growth in the insurance industry. Profitability of life business has continued to improve in many countries due to lower costs.

In the year 2004-05, non life business growth slowed down due to decline in premium rates in commercial lines such as aviation and marine, which had experienced sharp increases in rates between 2001 and 2004. Premiums in emerging markets like India continued to outgrow than in mature insurance markets. Profitability in non life business remained sound with favorable underwriting experience. Despite the huge catastrophe losses, capital in the industry continued to rise in line with higher exposure. This development was supported by new capital flowing into the markets.

**Role of Insurance in International Economy**

Insurance Plays and Important role not only in national economy but also in international economy. Marine cargo insurance, for example provides risks coverage for shippers and importers and the banks which finance international trade. This role becomes all the more important in the context of an active government policy to encourage exports. Indian insurers operate in more than 30 countries through agencies, branches and subsidiary/associate companies. These operations earn foreign exchange and represent invisible exports. The UK insurers for example earn more premium overseas than from their domestic operations. The Indian insurers have also an international presence through an active insurance exchange program with insurers in over 100 countries. Another dimension of international insurance found in regional co-operation is reinsurance. Asian Re-insurance Corporation (of which India in a member) with headquarters in Bangkok Thailand is one example. Large industrial an
infrastructural projects setup in India through joint ventures or otherwise, with overseas finance need tailor made specialized insurance covers.

**Indian Insurance Industry**

With a large population and untapped market, insurance happens to be a big opportunity in India. The insurance business (measured in the context of first year premium) grew at 47.93 per cent in 2005-06, surpassing the growth of 32.49 per cent achieved in 204-05. However insurance penetration or premium volume as a share of country’s GDP, for the year 2005 stood at 2.5 per cent for life insurance and 0.62 per cent for non life insurance. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance market has witnessed dynamic changes which induces presence of a fair number of insurers in both life and non-life segment. Consumer awareness has improved. Competition has brought more products and better customer servicing. It has had a positive impact on the economy in terms of income generation and employment growth.

<table>
<thead>
<tr>
<th><strong>Table 1.2 (i)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insurance Penetration (Premium as % of GDP) Non-life</strong></td>
</tr>
<tr>
<td><strong>Countries</strong></td>
</tr>
<tr>
<td>United states</td>
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<tr>
<td>Canada</td>
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<tr>
<td>Brazil</td>
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<tr>
<td>Mexico</td>
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<tr>
<td>Chile</td>
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<tr>
<td>United Kingdom</td>
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<tr>
<td>Germany</td>
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<tr>
<td>France</td>
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<tr>
<td>Russia</td>
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<tr>
<td>Japan</td>
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<tr>
<td>South Korea</td>
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<tr>
<td>PR China</td>
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<tr>
<td><strong>India</strong></td>
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<tr>
<td>Malaysia</td>
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<tr>
<td>Indonesia</td>
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<tr>
<td>South Africa</td>
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<tr>
<td>Nigeria</td>
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<tr>
<td>Kenya</td>
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<tr>
<td>Australia</td>
</tr>
</tbody>
</table>
Table: 1.2 (ii)  
Insurance Density (Premium per Capita in USD) Non-life

<table>
<thead>
<tr>
<th>Countries</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>1474.4</td>
<td>1540.7</td>
<td>1664.1</td>
<td>1799.0</td>
<td>1980.2</td>
<td>2062.6</td>
<td>2122.0</td>
</tr>
<tr>
<td>Canada</td>
<td>700.6</td>
<td>759.6</td>
<td>784.6</td>
<td>905.8</td>
<td>1148.9</td>
<td>1262.6</td>
<td>1377.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>56.7</td>
<td>62.7</td>
<td>53.2</td>
<td>45.0</td>
<td>46.8</td>
<td>55.2</td>
<td>72.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>43.3</td>
<td>50.4</td>
<td>59.4</td>
<td>67.5</td>
<td>65.3</td>
<td>67.6</td>
<td>71.4</td>
</tr>
<tr>
<td>Chile</td>
<td>48.7</td>
<td>49.7</td>
<td>54.3</td>
<td>62.1</td>
<td>78.0</td>
<td>88.6</td>
<td>106.6</td>
</tr>
<tr>
<td>United Kingdom</td>
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<td>730.7</td>
<td>825.9</td>
<td>1199.7</td>
<td>1441.4</td>
<td>1318.0</td>
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<td>809.9</td>
<td>891.1</td>
<td>1120.8</td>
<td>1265.3</td>
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<td>France</td>
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<td>715.7</td>
<td>930.5</td>
<td>1057.7</td>
<td>1093.9</td>
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<tr>
<td>Russia</td>
<td>17.0</td>
<td>22.3</td>
<td>32.6</td>
<td>43.5</td>
<td>64.3</td>
<td>89.6</td>
<td>116.5</td>
</tr>
<tr>
<td>Japan</td>
<td>805.5</td>
<td>808.2</td>
<td>701.12</td>
<td>714.7</td>
<td>768.0</td>
<td>830.8</td>
<td>116.5</td>
</tr>
<tr>
<td>South Korea</td>
<td>262.3</td>
<td>298.5</td>
<td>296.7</td>
<td>337.8</td>
<td>369.4</td>
<td>412.5</td>
<td>495.5</td>
</tr>
<tr>
<td>PR China</td>
<td>5.0</td>
<td>5.7</td>
<td>7.8</td>
<td>9.2</td>
<td>11.2</td>
<td>13.9</td>
<td>15.8</td>
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<tr>
<td><strong>India</strong></td>
<td>2.4</td>
<td>2.3</td>
<td>4.1</td>
<td>6.6</td>
<td>3.5</td>
<td>4.0</td>
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<td>Malaysia</td>
<td>62.3</td>
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<td>89.3</td>
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<td>Indonesia</td>
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<td>4.1</td>
<td>6.6</td>
<td>8.1</td>
<td>8.1</td>
<td>8.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>77.9</td>
<td>79.1</td>
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<td>64.8</td>
<td>107.4</td>
<td>141.0</td>
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<td>Nigeria</td>
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<td>1.8</td>
<td>2.1</td>
<td>2.5</td>
<td>3.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Kenya</td>
<td>7.5</td>
<td>6.5</td>
<td>6.6</td>
<td>8.5</td>
<td>9.5</td>
<td>8.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Australia</td>
<td>703.8</td>
<td>665.8</td>
<td>628.0</td>
<td>695.6</td>
<td>912.1</td>
<td>1186.3</td>
<td>1203.2</td>
</tr>
</tbody>
</table>

*Source: Swiss Re, Sigma various volumes*

**Challenges facing insurance industry**

There are a number of threats that inhibit the growth and development of insurance business in India. They affect the marketing action and cause deterioration in growth and profitability. We shall look at some of these challenges summarily one by one.

**Managing customer grievances**

The insurers will have to face an acute problem of the redressal of the consumer grievances for deficiency in products and services. Increasing awareness will bring a number of legal cases filled by the consumers against insurers likely to increase substantially in future (Satyanarayan, 2006).

**Growth of captive insurers**

Like in developed countries, in the next few years in India also, large industrial commercial and other organizations may develop ways of retaining more of their own risk in recent years; in USA, commercial insurers have lost up to 35 per cent of their insurance premium to captive and other forms of risk retention. In UK, direct insurers
have also experienced the loss of similar business because of development of captive insurers and development of alternative risk transfer financial products (Choudhry, 2007).

**Selective Marketing**

Various observers are concerned that private players would neglect difficult and unfamiliar lines of business such as motor insurance, insurance products to cater to the needs of rural market etc and would focus on commercial client. Private players are avoiding motor insurance and other similar insurance which are loss producing (Choudhry, 2007).

**Terrorism**

Terrorism attacks have had a dramatic impact on the insurance sector in India and on world insurance market. The area which has been mostly affected is the reinsurance. After the September 11 attacks on the world trade Center in USA, there was an increase in demand for terrorism cover by the existing as well as new policy holders. The immediate impact of the incident was the hardening of the rates and reluctance on part of the re-insurers to cover terrorism risks. In response to this, the Authority set up a separate pool. The Indian market terrorism risk Insurance pool on April 01, 2002 with Rs.200 Crore per risk location. The cover per Risk/Location has been revised to Rs.600 Crore with effect from 1\textsuperscript{st} April 2006 (Pressman, 2006).

**Tough competition**

Competition will bring pressure on profit margins and underscore the need for better control on claims, cost and management expenses (Choudhry, 2007). With the entry of private players in the non-life segment, stiff competition has arisen and with the generation of alternative options with the customers i.e. of private sector, their expectations have touched the new mountains high.

**Weaknesses in insurance sector**

Notwithstanding the fact that the insurance industry has grown up after nationalization in terms of premium income, introduction of new products, wide coverage of individuals and organizations, innovating new covers for weaker sections of society, investment in social sectors, creating infrastructure at grass-roots level etc, it suffers from several weaknesses which have come to the face for discussion. These are as follows;
Insurance Penetration

Despite the growth of gross domestic premium by 47 times between 1973-74 to 1999-2000, the insurance penetration defined as insurance premium as share of gross domestic product, was as low as 0.61% in non-life business in 2005. Compared to other countries, both developed and developing, India still lags behind as revealed in table1.2 (i). Low insurance penetration is pointer to the fact that spread of insurance business has relatively been poor in the country and large section of insurable population in still isolated form the insurance coverage (Bodla, 2003).

Insurance Density

Another parameter to measure the progress of insurance is the insurance density defined as premium per capita. The available data indicates that in 2005 for non-life side, it was US dollar 4.4 in India. It was as high as US dollar 2122.0 in USA as shown in table1.2 (ii). Although insurance density is low in India, what surprises is that the insurance density is even lower compared to several developing countries whose per capita income is even lower than that of India (Bodla, 2003).

Relatively poor quality of insurance services

In general the quality of insurance services has been at a low key. The quality of insurance services may primarily be evaluated in terms of expeditious settlement of claims, delivery of policy documents and after sale services (Bodla, 2003).

Availability of insurance products

Today, customers desire to purchase package products instead of purchasing several multi policies. There are very limited number of such package policies (such as industrial all Risk policy and office umbrella policy). The policy catering to special needs of the public such as advance loss of Profit, directors and officers liability, etc are quite limited in number. The policies in segment of health covers, household risk cover, have not been marketed and publicized. The entire thrust on health insurance has been on the products after the occurrence of illness while the preventive aspects have been ignored. The health care aspect in health insurance is yet to gain importance. The product covering environmental and financial risks are non-existence. Another area, which has remained untapped, is the development of saving linked non-life policies in the country (Bodla, 2003).
Productivity

There are several parameters to measure the productivity in the insurance sector. These could be in terms of collection of premium per development officer, issuance of documents per employee, claim Settlement per employee, underwriting results, yield on investment income, etc. However, measuring productivity in terms of collection of premium per development officer, issuance of policy documentation and claim settlement by class III employees indicate that it was quite on a low scale and needs to be enhanced (Bodla, 2003). As regards solving of grievance, the rate is very slow, as can be seen from table 1.3. 703 grievances were directly reported to IRDA during the first half of 2005-06. Of these 538 were towards public sector non-life insurance companies, and the remaining for the private sector companies. Public sector companies resolved 177 grievances and private sector insurers resolved only 68 grievances. As on 30th September 2006, 458 grievances were pending with insurers (irdaindia.org).

Table: 1.3

<table>
<thead>
<tr>
<th>Name of insurer</th>
<th>Reported during April.06-Sept. 06</th>
<th>Of which Resolved</th>
<th>Pending as on 30-9-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>538</td>
<td>177</td>
<td>361</td>
</tr>
<tr>
<td>Private</td>
<td>165</td>
<td>68</td>
<td>97</td>
</tr>
<tr>
<td>Total</td>
<td>703</td>
<td>245</td>
<td>458</td>
</tr>
</tbody>
</table>

Source IRDA annual Report

Low spread of information technology

The spread of information technology in the industry has not been to the desired extent. The up gradation of technology does not necessarily restrict itself to process of computerization, which is already taking place in the industry, but through it, a wide data base has to be built up for being utilized by the insurance companies, agents and consumers. There is a need to create technology infrastructure such as electronic fund transfer (EFT), internet, automatic teller machines (ATMs), interactive voice response, electronic data interchange (EDI), local network services etc (Bodla, 2003).

Role of government in regulating insurance sector

This section explains the role played by the government in regulating the insurance sector in India (special reference to general insurance) in the post liberalization
era. The government constituted a regulatory authority called the insurance regulatory development authority in 1999. The government speaks through this regulatory body; the government enacted an Act in parliament to be called IRDA Act, 1999. This Act made amendments to the previous insurance acts in India. Many regulations have been framed under IRDA Act, 1999 and the insurance (Amendment) Act, 2002.

**Mission statement of IRDA**

- To protect the interest of and secure fair treatment to policyholders.
- To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;
- To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.
- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.
- To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness among market players;
- To take action where such standards are inadequate or ineffectively enforced.
- To bring about optimum amount of self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.

**Statutory functions of the Authority**

The authority is the government watchdog in insurance sector established on 19th April, 2000 to protect the interest of the holders of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry. The Authority has notified 27 regulations on various issues which include registration of insurers, regulation on insurance agents; solvency margin, re-insurance, obligation of insurers to rural and social sectors, investment and accounting procedure, protection of policyholders’ interest etc. The Authority has its Head quarter in Hyderabad (Sasidharan, 2007).
For smooth running of insurance business, the Regulatory Authority has been vested with adequate powers and duties, the duties and powers of IRDA are as follows; to regulate, promote and ensure orderly growth of the insurance business, to exercise all powers and functions of the controller of insurance and protect the interest of the policyholders in settlement of claims and terms and conditions of policies. The Authority promotes and regulates professional organizations connected with insurance business and calls for information from insurers, undertakes inspection and conducts investigations including audit of the insurer, intermediaries and other connected organizations and persons. It controls and regulates the rates and terms and conditions that may be offered by the insurers in respect of general insurance matters, not so controlled by the Tariff Advisory Committee under Section 64(U) of the insurance Act. It prescribes the manner and form in which accounts will be maintained and submitted by insurers and intermediaries, regulates investment of funds and margin of solvency and it also adjudicates disputes between insurers and intermediaries (Periasamy, 2003). The role of government in regulating insurance sector can be summarized in the charts given below (Desai, 2006).

**Fig.1.2**

**Objectives of IRDA**
Need/significance of the study

With the enlargement of economic activities in the developing world, the businesses are usually faced with risks of various kinds. For the business to survive in such risk conditions, the need for insurance cannot be ignored. This study is a humble attempt on my behalf to analyze the growth of general insurance industry in India and to evaluate performance of general insurance companies in India.

The present study is an attempt to analyze and highlight the aspects related to general insurance in India, if treated thoroughly, can result in a healthy growth of this sector. Some studies in the review have also been carried out on performance appraisal of
general insurance sector in India. Under the present scenario it is necessary on one hand to evaluate the performance of general insurance and on the other to study the role of government in regulating the insurance industry.

Apart from this, it is important to note that the sector has witnessed stiff competition from private companies since this industry was liberalized in 2000 following the recommendations of Malhotra Committee of April 1994. With the privatization of insurance industry in India, the consumers are expected to benefit in certain ways such as more of choice, better return, easier access, better customer services etc. The study has been conducted to look into these areas after privatization. This study is to help improve efficiency of insurance business in India and help enlarging insurance activities in the country. The study is very relevant to all those engaged in insurance industry including regulators, consumers and the society as a whole.

The study will help educate the society concerning the risks that are covered and the procedures of compensation. Further, the general insurance industry has passed through so many faces since its inception in its present form; it is also facing a number of challenges both national and international. The study is to give an understanding and the need to contribute towards development of insurance in the country and to teach those who are exposed to a certain risk the way to distribute it among themselves so that whoever faces the hazard may not suffer the loss.

Information and communication technology has become an indispensable vehicle through which insurance services are offered, it is, therefore, important to study the role plaid by ICT in the insurance sector and to suggest the areas in which ICT can be applied in order to increase production. The study also analyzes the marketing strategies adopted by insurance companies and to see how they can lead to growth and competition. More importantly, the study attempts to suggest the ways of improving awareness of the general public regarding general insurance services. In the wake of both man made and natural catastrophes including terrorism, fire, cyclone, earthquake etc, affecting life and property, there is need to engage in risk management techniques available and save the premium.
Objectives of the study

The major objective of the study is to analyze the growth of general insurance industry in India and to evaluate the performance of general insurance companies. Following are the specific objectives:

1) To study the role of the government in regulating the insurance industry in the post liberalization era.
2) To evaluate the growth and performance of general insurance companies in India.
3) To investigate the impact of information and communication technology in general insurance sector.
4) To critically analyze the marketing strategies and how they lead to growth and competition in general insurance companies in India.
5) To provide conclusion and suggestions on the basis of the study.

Organization of the study

The study covers the post-liberalization period of insurance sector from the year 2000 to the year 2006. The study has been organized in seven chapters. Chapter one is the introductory chapter which also explains the role of the government in regulating insurance industry in the post-liberalization era.

In chapter II both the empirical and theatrical studies conducted on insurance sector have been reviewed. Data base and Research methodology has been explained in chapter III, in this chapter, data sources have been explained and the sample size and the tools for data analysis also have been given in detail.

In chapter IV, the evaluation of the growth and performance of general insurance sector has been done. Various parameters have been used to evaluate the growth and performance. Chapter V shows the impact of information and communication technology in general insurance sector.

Chapter VI analyses the marketing strategies adopted by insurance companies and how they lead to growth and competition among insurance companies and chapter VII presents summary conclusions and suggestions of the study.