“You don’t need to pray to god when there are storms in the sky, but you do have to be insured.”

Bertolt Brecht
A. **GENERAL**

In 2012, the Indian Insurance market was ranked 16th globally and was 5th largest in Asia. Although it accounts for only 2.5% premium in Asia, it has the potential to become one of the biggest insurance markets in the region if this industry learns to grab the opportunities and face the challenges.¹

The Life Insurance Industry has come a long way since 1818, when the first life insurance company was established in Calcutta. It has undergone various phases of development and in every phase, this industry has strengthened itself in terms of reach, customer satisfaction and regulatory supervision.² The opening up of insurance sector to private players in 2000 has inaugurated a new era of insurance developments like product innovations, introduction of riders, corporate agents, group insurance business, new channels of distribution such as banks and anew regulatory regime. And, today it has achieved a position of very high potential and competitiveness in the market.³

B. **CURRENT SCENARIO OF LIFE INSURANCE INDUSTRY**

The current scenario of life insurance industry can be studied as under:

1. **Huge Insurance Market in India**

Though, the Indian life insurance industry has witnessed a rapid growth during the last decade. But still, India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Till now, only 22% of the insurable population is covered while the remaining population is yet to be

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¹ Dr. Saroj Hiremath, “Insurance Sector- Challenges & Opportunities”, *Insurance Times*, May 2013, p.32.
covered. Moreover, the saturation of market in many developed economies has made the Indian market even more attractive for global insurance majors. Many foreign companies are interested in investing in the domestic market and to grab the opportunity government has raised the foreign direct investment cap to 49%.

2. Customer Service

After the entry of foreign players, the industry is seeing a lot of competition and consequent improvement of customer service in the industry. The competition has compelled the players to bring new and innovative products, wider choice of prices and quality services to the consumers. These efforts have not only brought insurance closer to the customer but have also made it, more relevant. Another interesting aspect is that insurance sector is heading towards servicing from mere selling. The mantra of “sell it and forget it” is now converting into “service and retain clients” and this requires core insurance knowledge and not merely selling expertise. A lot is being done for increased customer service but there is a long way to go as the standards of service are below customers’ expectation.

3. Distribution Channels

Even today insurance agents are the main source through which insurance products are sold, but the current scenario makes it imperative for the insurers to look for well balanced alternative channels of distribution. At present the other distribution channels that are available in the market are direct selling, On-line Selling, Corporate Agents, Banc assurance, Group Selling, Brokers and Cooperative

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5 Supra n.1, p.35.
6 Every insurance company has a separate customer service department. The servicing of client is now taken care of by customer service department. Supra n.1, p.37.
7 Supra n.1, p.37.
8 Multiple distribution channels help insurers to reach out to different sectors of society with trade unions, post offices, sugar cooperatives as the new focal points of sale.
Societies. These new channels can become the growth engines of insurance industry. To make all these channels a success the companies have to be very alert and skilful to know how to use these channels in a proper way as the effectiveness and cost of diverse distribution strategies of different players is crucial in ensuring the success of players in the insurance business and particularly in the retail line of business.

4. Banc Assurance

Banc assurance refers to selling of insurance policies through banks. It is one of the most promising channels of distribution and has a great future in India as India has an extensive bank network established over the years. What insurance companies have to do is to just take advantage of the customers’ long standing trust and relationships with banks. This is a mutually beneficial situation as banks can also expand their range of products on offer to customer, while at the same time; the insurance company will also earn profits from the exposure.

The RBI and IRDA have set certain guidelines for the companies that couple to form Banc assurance. It is pertinent to mention here that the Public Sector banks in India can emerge as leading players in the distribution of insurance products across all parts of the country and especially in rural areas.

5. Production Innovation

Attracting and retaining customers is the primary priority of insurance industry. To do so, insurers need to provide product innovation and get customers exited about new product concepts, protection offers and superior services. There

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10 www.irdindia.in/Journal_IJRDMR/PDF/Vol2_lass1/3.pdf, Accessed on 18/1/14 at 12:00 P.M.
11 Ibid.
12 www.tips.thinkrupee.com/articles/bancassurance-in-india.php, Accessed on 14/1/14 at 5:00 P.M. See also, Banking Regulation Act, 1949; Section 6(1)(o).
13 Supra n.4, p.197.
has been a plethora of new and innovative products offered by new players. Today customers have tremendous choice from a large variety of products from pure term insurance to unit linked investment products. Customers are now buying products and services based on their true needs and not just the traditional money back policies, which are not appropriate for long term protection and savings.\footnote{Product development and new innovative policies have changed the old rules of selling game and has eroded the dominance of commissioned policy selling.}

6. Rural Marketing

In India, life insurance has been more or less an urban phenomenon but since the majority of Indian population still resides in rural areas, the development of rural market is critical in driving overall insurance market development over a longer period of time.\footnote{www.indiannba.com/Faculty_Column/FC608/fc608.html. Accessed on 12/1/14 at 6:00 P.M.} Insurance companies are focusing on spreading their network in rural markets as it has huge potential and technological development is helping the insurance companies in this drive of rural expansion.\footnote{Rural India seems to have an appetite for mobile phones, computers and cars and to add to it we have insurance.} The rural customer is exhibiting an increasing propensity for insurance products.\footnote{Joshi, N.M., “Rural Markets-Miles to go in Indian Insurance Industry”, 10th Conference on Insurance, (2005), FICCI, New Delhi.} Moreover, IRDA has made it mandatory for life insurers to sell 5\% of their aggregate policies in the rural areas during the first year of operation that will be progressively increased to 15\% by the fifth year.\footnote{Supra n.4, p.271.} A research exhibited that the rural consumers are willing to spend anything between Rs. 3,500 and Rs. 29,000 as premium each year. Thus, those who understand rural India better will be in demand.

7. Information Technology

There is a radical change in the technology that has revolutionized the entire insurance sector. Insurance industry is a data rich industry and thus there is dire need to use the data for trend analysis and personalization. The mind-boggling
development in Information Technology has made the insurance industry more customer-centric.\textsuperscript{20} It has replaced the traditional methods of policy servicing by ‘Online’ policy servicing. In coming years online insurance will play a vital role in new business.\textsuperscript{21} Hence, worldwide interest in e-commerce and India’s prominent position in Information Technology and Software development will play an important role in marketing of life insurance.

8. Merger and Acquisition

The Life insurance industry is undergoing profound change. The integration of financial service institutions and globalization of insurance markets has greatly influenced competition in this mature industry.\textsuperscript{22} This increasing competition has created a pressure for product innovation, development of distribution system, greater cost efficiency in operations, effective use of technology and a stronger capital base. As a result insurance industry has experienced an unprecedented wave of mergers and acquisition activity. Many private companies including MNC’s are amalgamating the world over to get more competitive edge.\textsuperscript{23}

9. Policyholders’ Awareness and Knowledge

The existing level of awareness of consumers about insurance products is very low; it is so because a huge segment of our population is still illiterate. Even the educated consumers are ignorant about the variety of insurance products available in the market.\textsuperscript{24} Hence, it is necessary to undertake an extensive plan for education of

\begin{itemize}
\item[\textsuperscript{20}] The technology has now key role in policyholders servicing and it provides better knowledge and expertise than agents. Not only that it has reduced the dependency of policyholder on agents for timely renewal of policy by offering new gateways like internet banking, ATMs, ECS, mobile banking etc.
\item[\textsuperscript{21}] Supra n.1, p.37.
\item[\textsuperscript{22}] http://link.springer.com/content/pdf/10.1007/978-1-4615-5045-7_5.pdf#page-1. Accessed on 13/8/13 at 11:00 A.M.
\item[\textsuperscript{23}] Indian Life Insurance market has also witnessed first acquisition of an existing company by an Indian Corporate. The Reliance Capital Limited acquired the entire equity capital of AMP Sanmar and its name was changed to Reliance Life Insurance Company Ltd.
\item[\textsuperscript{24}] www.cii.co.uk/knowledge/life-pension/articles/the-lapsation-of-life-assurance-policies-in-india-causes-and-costs/25229. Accessed on 12/1/14 at 5:00 P.M.
\end{itemize}
consumers. Although, in the past decade there is certainly an improvement in policyholder awareness and knowledge about insurance as Government, IRDA, NGOs like FIBLI, insurance companies and related stakeholders are concentrating on customer education, literacy and awareness about insurance, its services and products through advertisements, seminars, workshops, comics, e-literature, animated films etc.

10. Job Opportunities

After nationalization, LIC has created various job opportunities by starting branch offices, recruiting development officers, agents and by implementing rural career agents. In recent times, job opportunities in insurance sector have increased many folds. With the expansion of life insurance business throughout the country, opening up of new offices, launch of new products, concentration on client retention and quality servicing, the demand for trained personals is increasing. Not only that, liberalization of insurance sector and the consequent cut throat competition promises several new job opportunities for those who are equipped with degrees in finance, law and administration. Apart from this, there is high demand for professionals in streams like underwriting, actuarial, accounting, software, marketing and claim management. Also there is a huge scope for claim consultants who will help people get insurance claims.

C. FORECAST OF LIFE INSURANCE MARKET

With a large number of insurance providers already operating in the country, the insurance industry has shown early signs of entering a consolidated phase and will

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25 Education will certainly result in expansion of the life insurance market and will enable the needy consumers to purchase appropriate products. An enlightened consumer is better equipped to protect his interests. He knows the importance of savings, investment and social security and is ready and willing to pay the appropriate price for the same.

26 Supra n.1, p.37.

27 In total till 2010, LIC has employed 1, 15,966 employees across the country in all cadres on various positions.
continue to change the competitive landscape significantly.\footnote{http://www.researchandmarkets.com/reports/1958842/life_insurance_in_india_key_trends. Accessed on 16/08/13 at 11:30 a.m.} The size of life insurance market is determined by a number of factors such as GDP, savings, disposable income, employment, innovation in product development and distribution, quality of regulatory supervision etc. The Indian insurance sector is expected to grow faster than the country’ overall economic growth. A number of agencies and individuals have made forecasts about the future growth and size of the life insurance market in India. Here, we may consider few such forecasts.\footnote{Supra n.2, p.139.} Though these forecasts differ from each other, but, there is a common thread i.e. scope for significant expansion of life insurance business in India.

1. **Confederation of Indian Industry (CII), New Delhi**

   CII based its assumption on GDP. It estimated the life insurance premium growth rates to be between 18 per cent to 20 per cent and 20 per cent to 30 per cent for the pension business. According to the estimates, life insurance market would be worth more than Rs.1, 40,000 crore and pension market of Rs.14, 000 crore by 2010.\footnote{Ibid.}

2. **Monitor Company, USA**

   Monitor Company USA, on behalf of IFC projected Indian Life Insurance market. According to this projection, the market value of Indian life insurance by the end of 2008 would be Rs.100, 000 crore to Rs 120,000 crore. The monitor group further estimated that by the next 10 years, LIC would retain 70-80 per cent market share.\footnote{Ibid.}

3. **National Insurance Academy (NIA), Pune**

   According to NIA the New Business Premium income is expected to increase from Rs.1, 15,000 crore in 2008 to Rs. 1, 64,800 crore in 2010 and Rs. 4, 08,399 crore in 2015.
In view of above growth rates in New Business, NIA has projected industry total premium income of Rs.2,93,561 crore in 2010 which would go up to Rs.7,61,714 in 2015.32

4. Swiss Re Forecast

Swiss Re Economic Research and Consultancy has also made a projection about the growth of life and non-life insurance in India. According to Swiss Re Forecast, life insurance penetration would increase to 4.4 percent and average growth rate would be around 18 percent during 2004-14. Life insurance premium would increase from Rs.7,49,971 million to Rs.39,47,899 million in 2014.33

The estimates of these reputed organizations provide tentative indications about the future of life insurance market in India. It is pertinent to take into consideration that these recent predictions like the one made by NIA are more optimistic than those made earlier in the post-liberalized period. As now Indian economy has become more vibrant and is on the path of sustainable upward growth thereby providing more opportunities to financial institutions like life insurance companies to grow.34

D. CHALLENGES BEFORE THE LIFE INSURANCE INDUSTRY

Constant changes are taking place in society, economy and in insurance industry. These changes have thrown up multiple and multi-dimensional challenges before the life insurance industry. At this stage unearthing its potential and finding ways to face these challenges is need of the hour. Therefore immediate action is required to increase the coverage and penetration level of insurance.35

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32 Id. at p.140.
33 Ibid.
34 Ibid.
1. Promoting Life Insurance Literacy

Since economic and financial literacy is very low in India, insurance companies need to create an environment of awareness and understanding about the variety of insurance products by disseminating information and educating public about relative benefits and strengths of insurance. Moreover, Indian market is led by personalized selling and brand name of LIC so, there is limited awareness about insurance among the investing public. In order to promote their sales the insurance companies need to launch educative campaigns for mass information, knowledge and informed decision making.

2. Differentiated Focus on Diverse Market Segment

Life Insurance market is unique and consists of unlimited critical factors with varying degree of choices led by various concerns about saving risk, old age, health, disposable income, seasonality in income, prioritization of consumption etc. Therefore, market segmentation is a key concern for any insurance company and at the same time forecasting medium to long term changes in specific market segment is also a very challenging task. In order to increase penetration level, marketing efforts need to be directed through market segmentation approach based on rural and urban market, high end and low end market; pension and retirement market etc. Although, in recent times segment specific products and marketing strategies are being designed to deal with this issue. Nevertheless, a more scientific approach is required to design distinct products and a specialized training to sell them.

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36 www.flame.org.in/KnowledgeCentre/ChallengesinLifeInsuranceindustry.aspx. Accessed on 17/1/14 at 6:00 P.M.
37 See also the Pre-launch Survey Report of Insurance Awareness Campaign sponsored by IRDA.
38 Various consumer organizations and media can play a very important role in consumer education and this will brighten the scope of expansion of insurance market in India.
39 Changes in customers’ behavior, income and earning patterns, size of his needs, etc. have a significant bearing on the success of any marketing operation. Thus, monitoring these changes accurately through marketing research becomes extremely important.
40 Till recently insurance products were not fully segment directed and uniform market strategies were adopted for all types of insurance products.
3. Developing Need Based Products

The emergence of new business and new business models, new exposures all wrapped in new technologies, are opening up the potential for product innovation.\textsuperscript{41} The widening of product basket is one of the significant outfits of privatization and liberalization of insurance business in India.\textsuperscript{42} The new life insurance products are unique in character and contain several embedded benefits of different order of value.\textsuperscript{43} These products are expected to serve the emerging needs of customers which are dynamic in nature. And understanding these emerging needs is crucial to design new products.\textsuperscript{44} Now the times have changed and there is a paradigm shift from mass market to personalized products…products which are innovative and immediately available to meet the unique and evolutionary needs of customers. Therefore, insurance companies need to come out with innovative products after in-depth market research.\textsuperscript{45} Also, there is an urgent need to develop ‘composite products’ providing insurance and investment benefits in addition to pension products, health insurance, and term assurance investment product.

4. Just Pricing of the Products

The pricing of products has an important bearing on life insurance business. It has always to be kept in mind that insurance is a cooperative device to deal with uncertainties and the price of every product should be viable and meaningful.\textsuperscript{46} Thus, pricing is a critical factor for any insurance product and in the fast changing insurance market fixing ‘right’ or ‘just’ price in light of factors like changing longevity, varying product choices, emerging pension and annuity market, uncertainties in financial

\textsuperscript{41} Supra n.7.
\textsuperscript{43} Retirement plans, pension plans, children plans, investment plans etc.
\textsuperscript{44} Supra n.4, p.347.
\textsuperscript{45} It has been observed throughout the world that investors are moving away from insurance market to pension, mutual funds and other investments for better and short term returns.
\textsuperscript{46} Supra n.4, p.212.
market, unpredictability of long-term inflation and real interest rates would be an important challenge. All these factors call for scientific pricing that is to say a more segmented, more frequent mortality investigation and an in depth research on business cycles, varying interest rates and market fluctuations. At this juncture, IRDA will have to monitor the changes closely to create a healthy competition in the life insurance market and allow private players and state entity to co-exist peacefully.47

5. Protecting the Mortality Shocks

Another critical yet not so much discussed challenge is the emerging mortality shock as referred by Swiss Re, arising out of natural calamities such as earthquakes, floods, volcanoes, chemical plants and epidemics such as SARS, HIV and AIDS.48 These killer happenings may destroy the little improvement in mortality. Risks arising out of these unpredictable happenings are huge and unpredictable. These are costly but crucial challenges, which need industrial level initiatives and serious research for prediction of such risks. The efficiency of a life insurance company to manage such risks would be a deciding factor of growth.49

6. Demand Pull Distribution

Another important and critical area of concern for life insurance industry is how to reach effectively to the potential customers.50 Marketing strategies followed by most of the companies are merely ‘market push’ rather than ‘demand pull’.51 This is like thrusting a particular product on customers through agents, banks and brokers,

47 IRDA ensures financial soundness by efficiently managing the risks through risk pricing and risk transfers. 
48 Supra n. 2, p.348. 
49 Life insurance business is driven by mortality table, which is used for fixing premium. Mortality table is generally based on the statistics collected through mortality investigation. 
50 Insurance is a ‘push’ product, rather than a ‘pull’ product; it is a big challenge for the insurance companies to make their products meaningful to prospective consumers. 
51 Supra n.2, p.348.
without taking into consideration the choices and needs of customers.\textsuperscript{52} Therefore, product distribution is something more than just selling the product and must be aimed at building a sustainable relationship based on costs and needs. As indicated earlier like other policies of life insurance, the distribution policy should also be customer centric to enhance customer value by selling need based products at reasonable costs to maximize sales. And at the same time, there is a need to innovate and develop alternative cost-effective channels depending on product character and market segments.

\section*{7. Managing Customers’ Choice}

It is the consumers who are the driving force of any industry; they are the engines of growth. Customer value enhancement and customer serving are essential conditions for growth and survival of any insurance company especially in a competitive environment. Although since deregulation a considerable improvement has been observed in customer service experience but it seems that Indian life insurance industry is yet to go a long way to design and deliver customer expected service packages.\textsuperscript{53} Insurance companies need to focus on customer’s value, cost effective quality and customer service. The concept of Customer value management – building customer’s value and securing customer loyalty, customer service is not merely a function but a philosophy.\textsuperscript{54} It includes providing quality customer service by segmenting the market, creating products that are both appealing and actuarially sound, developing appropriate marketing campaign, lowering acquisition costs and creating customer loyalty culture. Thus, in coming times managing customer’s choice and demand would be a critical task for insurance companies.

\begin{minipage}{\textwidth}
\textsuperscript{52} Efficient distribution does not only concern about product push but also considers customers’ needs.
\textsuperscript{53} Supra n.2, p.192.
\textsuperscript{54} Customer value management calls for effective implementation of Customer Relationship Management (CRM) through its proper integration into business planning.
\end{minipage}
8. Investment Management

Every insurance company makes investment of its funds from time to time. However, it is not open to the insurance industry to make its investment as it likes as there are prescribed yardsticks for the same. IRDA from time to time prescribe guidelines for insurance companies for making such investments.

Investment management is one of the three important functions of an insurance company and its management efficiency is judged by fund management performance particularly in a highly volatile, complex and inefficient capital market like India. Market is influenced by many types of interventions which also make fund management a difficult task. Promoting a culture of competency and knowledge based system, would enable the insurance companies to overcome market related risks.

9. Optimization of Technological Efficiency

New economy and emerging markets are characterized by technological impulses and managing these impulses is considered to be an important challenge and organizational success. Technology has widespread influence and is being used for product development, distribution, servicing and for other management functions. Investment in technology has increased substantially in all types of companies but what is often missing is replacement and opportunity cost of such investment and optimum utilization of technology. Further, there is often no proper assessment of actual return being received out of technological investment. Since any investment is

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55 Funds management is a futuristic function, and its success depends on high level analytical power, forecasting ability and technical knowledge to perceive and monitor macro financial changes and impact thereof.
56 Supra n.2, p.349.
57 Information technology has become an intrinsic part of the insurance industry the world over, from general accounting to customer service, reinsurance, and underwriting and risk management. In India, it is used as a reporting tool whereas overseas it is used as a decision making instrument.
judged by its medium to long term return, optimization of technological efficiency is an important management consideration.

10. Management of Human Capital

Real asset of a company is not money but the human capital, which needs better attention.\(^5^8\) In a competitive market environment there is need for paying more attention to manage human resources. Therefore one of the most critical management initiatives is to design and implement a mechanism to create conditions for optimum utilization of human resources.\(^5^9\) Such a mechanism must be able to promote an environment for innovation and self-actualization for people. For this an organization should first assess the value of human capital, identify the organizational requirement, remove the mismatch between knowledge and job, encourage the creative thinking of people and remove the obstacles of growth and external interference. The insurance companies need to frame their human resource policies to retain the competent and motivated staff and create healthy internal environment and group harmony.\(^6^0\)

11. Knowledge Management

Continuous innovation in financial services has been creating an ever growing demand for new skills to suit the organizational requirements in the changing environment. At the same time new knowledge and technology has made yesterdays expertise totally obsolete and there is no room for precedent oriented management decision or purely perception based management system. Today’s hard reality demands knowledge based management and decision supported by facts and research.

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\(^{5^8}\) Human Capital is important for any organization especially for organizations whose activities revolve around special human interactions. As along with right product and right services the new insurers also need right people with the right set of knowledge, skill and aptitude.

\(^{5^9}\) Supra n.2, p.348.

\(^{6^0}\) The organizational growth and sustainability to a great extent depends on human capital management, therefore one must develop an objective base ‘human capital care’ policy to optimize maximum returns.
findings. However, knowledge-based management can be promoted by building up a knowledge bank through efficient talent management practices. Organizational culture also plays an important role in knowledge based management system where employment is a brand and employees have got sufficient opportunity for self-actualization.

12. Managing Training Activities

Training and learning activities occupy a greater space in the activities of insurance companies. Learning in future will also not be the same and will follow a different objective through different methods. The future belongs to e-learning which is going to emerge as a critical determinant of sustainable growth because e-learning will provide smart, fast and effective training at a low cost. Training needs to focus on strategy building and quantitative decision making. Training must be able to enhance productivity and skill of cost and risk management. Moreover, training should be able to enhance sensitivity, accountability, killer instinct and competitive skills among the managers. Therefore, creating an appropriate training atmosphere will be a real challenge for the insurance companies.

13. Managing Research Activities

Future functioning of an insurance company will be significantly influenced by quality research inputs. Working of an insurance company covers a wide area of socio-economic and financial market, and in order to take important corporate decisions, research and research based decisions in India. A sound research based data and data based futuristic decisions would give a competitive edge in decision-making and having such a research team and technology would definitely make a difference.
decisions and to have strategic planning, research must be promoted. Data management and interpretation of data are crucial for policy planning, marketing, analysis of customer’s satisfaction, human resource development, funds management, cost management etc. So, the research must focus on marketing and distribution, customer satisfaction and value addition, human resource development, funds management, cost management and utilization of technologies. Research based futuristic decision making would give a competitive edge to insurance companies.

14. Optimizing Benefits of Regulation and Self Regulation

In a market economy, regulatory regime plays a crucial role in promoting enterprising freedom, expanding product base and making the customer’s concerned aware about his/her freedoms and rights. At the same time, customers become more vulnerable and less protective due to unethical pricing and underlying potential fraud. Therefore, regulation and Regulatory Authority play a vital role in protecting customer’s interest and creating space for healthy growth of industry. In future, insurance regulatory challenges will shift from product design to market practices including sales process, need based selling and unfair practices.\(^6^5\) Regulation through regulatory authority has an element of control and free market sometimes rejects the policing attitude of a regulator. Moreover, this type of regulation is a costly affair. So, these days’ regulators throughout the world are encouraging self-regulation through code of good conduct under regulatory umbrella.\(^6^6\)

15. Improving Governance Efficiency

Governance as an evolving issue includes important issues such as corporate governance, ethical business practices and CSR. The concept of governance is an

\(^{65}\) Distribution polarization, code of conduct, corporate governance in investment decision and funds management, asset protection and ALM, mergers, liquidation and rehabilitation of insurance companies will be the major challenges before the regulators in future.

\(^{66}\) Section 64 of Insurance Act provides for formation of Insurance Council to advice IRDA on admissible expense ratio, developing sound practices and code of conduct, monitoring unhealthy practices, licensing of agents etc. See also, Supra n. p.352.
emerging phenomenon in India which has attracted the attention of corporate in recent times due to several corporate debacles.\textsuperscript{67}

It has been observed that while regulation creates checks and balances for an organization, corporate governance aims at institutionalizing transparency and ethical business practices through compliance and disclosures. The concept of governance is very important for a life insurance company because the stakeholders, particularly the policyholders are widely dispersed and often indifferent and ignorant about the practices and performance of the company. Therefore, there is need for developing a standard for governance of life insurance companies.\textsuperscript{68}

\textbf{E. OPPORTUNITIES FOR EXPANSION}

Life insurance has today become mainstay of any market economy. There are great opportunities for expansion of life insurance in India. The ever increasing population, diverse product portfolios, a rise in disposable income, robust economic growth and rural area development has all contributed to the growth of the life insurance sector. The deregulation of market in 2000 and the authorization of foreign participation have resulted in an increase in the number of players from 5 in 2000 to 24 in 2012.\textsuperscript{69} Recent experiences have shown that whenever an industry has been thrown open to competition, the size of market has grown as the market competition exerts a very positive influence in market expansion, higher life insurance penetration as well as higher insurance density. The falling rates of interests, the collapse of many small time financial institutions and the promise of e-commerce are some of the other opportunities knocking at the door of the insurance majors.\textsuperscript{70}

\begin{itemize}
\item \textsuperscript{67} Supra n.2, p.353.
\item \textsuperscript{68} www.financialservices.gov.in/insurance/Majorinitiatives.asp. Accessed on 23/3/14 at 12:00 P.M.
\item \textsuperscript{69} www.m.prnewswire.com/news_releases/life_insurance-in-india-key-trends-and-opportunities-to-2017-242231511.html. Accessed on 4/2/14 at 6:00 P.M.
\item \textsuperscript{70} www.pib.nic.in/feature/feyr2000/faug2000/1608200001.html. Accessed on 14/2/14 at 2:30 P.M.
\end{itemize}
1. **High Rate of Growth of GDP**

   GDP is a reflection of overall growth of economy. Reforms and deregulation of Indian Economy has positively influenced growth rate of GDP and boosted domestic savings. GDP has a direct bearing on disposable income, saving and investment. Thus, when there is an increase in savings and national productivity, it has a direct positive impact on the sale of life insurance.

2. **Domestic Savings**

   The reforms and liberalization have exerted significant impact on income, savings and insurance purchase. India is one of the countries in the world which has maintained higher growth rate in domestic savings in spite of economic deregulation and increased consumerism. This is mainly due to the higher propensity of household sector to save. Thus, steady growth in economy, expansion of service sector and increase in GDS all contribute significantly to the expansion of the insurance market in India.

3. **Disposable Income**

   The disposable income is the most important factor for life insurance demand. It is the measure of purchasing power and improvement in general economic well-being of the population of a country. A part of disposable income goes for consumption and the other part is saved and this saved part is very crucial for expansion of insurance market.

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71 GDP is the monetary value of all the finished goods and services produced with in a company’s border in a specific time period usually annually or yearly. It includes all the private and public consumption, government outlays, investment and export less import that occur with a defined territory.


74 *Supra n.2*, p.136.
India has rapidly growing middle class of roughly 250 to 300 million who can afford to buy life insurance products. With the onset of reforms and growth of economy the purchasing power of this class is increasing, making it a lucrative market for insurers.75

4. Booming Capital Market

A booming capital market has a definite impact on investment and market expansion because every insurance company requires a huge start-up capital during the initial years of growth. A well organized and well-governed capital market allows transfer of knowledge, skill and technology and thereby promotes competition.76

There has been a huge inflow of funds in the country in the post reform period as a result of opening up of the industry to foreign companies. And it is believed that a further rise in the equity share of foreign investors to 49% will further boost the market and will provide the much needed impetus for meeting the long-term financial needs of infrastructure companies.77

5. Vast Untapped Insurance Potential

India is a highly populated country and would continue to be so in the near future. It has vast untapped insurance potential as barely 6% of India’s insurable population is insured.78 During nationalization, the performance of insurance industry as compared to the population was much below the expectation so; this vast untapped potential needs to be tapped by the emerging life insurance companies. Today, India has a huge working population that is growing and the companies just need to reach out to this population.79

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75 Supra n. 73.
77 www.m.hindubusinessline.com/opinion/fdi-in-insurance-pass-the-bill-now/article5107400.ece. Accessed on 21/3/14 at 6:00 P.M.
78 For a country like India which is fifth largest in the world and has a population of more than 1.25 billion, the cover that its population has is next to nothing.
79 www.m.thehindubusinessline.com/features/investment-world/macro-view/there-is-vast-untapped-potential-for-the-life-insurance-industry/article556634ece. Accessed on 4/3/14 at 5:00 P.M.
6. High Level of Confidence of Investors

The investor is one of the most important links in the working of a financial sector. The health and efficiency of the financial system is significantly influenced by preference and confidence of investors. One of the significant factor which indicates a positive feature of life insurance growth in India is the confidence and trust in life insurance. The Survey of Indian Investors conducted by SEBI and NCAER (2000) indicates that life insurance is preferred instrument of Indian households particularly for high income group.81

7. Low Level of Penetration and Density but High Gravity Rate

The Indian Insurance Market has remained under developed with low levels of insurance penetration and insurance density. Life Insurance Penetration is calculated as premium in percentage of GDP and is considered to be an important indicator of life insurance development while Life Insurance Density is the premium per capita of a country and is another important indicator of growth of life insurance industry. The poor reach of insurance in the country and the sheer number of people make India a market with tremendous potential. This low density and penetration are an indication of existence of huge untapped potential for the insurance industry. Thus, given the high growth rates in economy, savings and insurance with lower penetration and density we can say that life insurance can grow further to a considerable extent.

8. Advertisement

Like any other business, advertising is an essential aspect of life insurance business and every company has to essentially advertise its products and services to

81 www.sebi.gov.in/sebiweb/home/list/4/4/0/2/Investors-Survey. Accessed on 14/3/14 at 5:00 P.M.
83 Supra n.1, p 36.
gain and retain its market share. Advertisement is an important component of marketing as it attracts the attention and interest of prospective customers. Television and print media are the most popular media for life insurance advertising.84

But given the complex and sensitive nature of life insurance, in additions to other laws that may be applicable, the IRDA has drawn up a set of guidelines which all insurance advertisements are required to follow.85

9. Rural Market

There is a vast potential for insurance growth in rural India. A recent survey by the Foundation for research, Training and Education in Insurance (FORTE) suggests that insurance can be sold profitably in rural India.86 There also exists tremendous potential of growth in the insurance business, particularly that of life insurance in rural India due to recent growth and changes in composition and structure of income. A recent survey indicates that Rural India accounted for 57 percent of estimated household income at the All India Level.87 Thus income growth and hierarchical improvement of rural household indicates the increased scope of life insurance and health insurance in rural areas.88

10. Low Level of Coverage

A rough estimate of insurable population on basis of working age population in 2003 showed that only around 25 per cent of such population has been covered by LIC and coverage by private players is around 26-27 per cent. Presently, 15 life insurance companies and a wide network of distribution and product market campaign has been spreading the message regarding life insurance which will create better

85 See also the IRDA (Insurance Advertisement and Disclosure) Regulations, 2000.
87 Rural sector has been defined as the places or areas classified as ‘rural’ while conducting the latest decennial population census.
88 Supra n.3.
understanding and awareness about life insurance leading to higher purchase and penetration.

11. Recent Regulatory Development

The development of insurance industry in India is critically dependent on the nature and quality of regulation. Overall the regulatory environment is favorable and takes care that the players maintain prudent underwriting standards, reserve valuation and investment practices. The primary objective of these current regulations is to protect the interests of policyholder and promote stability and fair play in the market place by preventing unhealthy sales practices. However, for the time being theses regulations have resulted in a significant slowdown but many including IRDA believe that this will be in the best interest of industry in long run.

12. Operation of LIC

The operation of LIC for the last 50 years has created tremendous amount of understanding and awareness about life insurance, which is considered to be a very positive factor directly providing an opportunity for life insurance industry to grow further. Today, LIC has become the leading investment institution of India. One of the greatest non-financial achievements of LIC is that, it has been able to create trust even among ordinary and illiterate people and has set up its offices even in remote villages of rural India.

F. EMERGING HEALTH INSURANCE MARKET IN INDIA

Over the last 60 years India has achieved a lot in terms of health improvement and has made considerable progress in its health status. Death rate has reduced from 40 to 9 per thousand, infant mortality rate reduced from 161 to 71 per thousand, live

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90 www.in.milliman.com/insight/articles/perspectives/india/pdfs/The-impact-of-recent-regulatory-changes-on-the-indian-life-insurance-market. Accessed on 16/1/14 at 2:00 P.M.
91 Supra n.4, p.259.
92 After independence India has developed a large government health infrastructure with more than 150 medical colleges, 450 district hospitals, and 3,000 Community health centers. On top of this there are a large number of private and NGO health facilities and practitioners scattered throughout the country.
births and life expectancy increased from 31 to 63 years. But still India is way behind many fast developing countries such as China, Vietnam and Sri Lanka in health indicators. The government funded health care system has poor quality and low accessibility while the private health care services are very expensive and unaffordable to large segment of our population. There are several contentious issues pertaining to development in this sector which need critical examination. A proper management and regulation of this sector can improve the access to care and health status of the country very rapidly.

1. Meaning

Health insurance means insurance against loss due to ill health. It is a type of insurance coverage that pays for the medical and surgical expenses incurred by the insured and provides coverage for medicine, visits to the doctor or emergency room, hospital stays and other medical expenses. Health insurance can either reimburse the insured for expenses incurred from illness or injury or pay the care provider directly. Health insurance can be directly purchased by an individual, or it may be provided through an employer. It has many cousins, such as disability insurance, critical (catastrophic) illness insurance and long term care (LTC) insurance.

A health insurance policy is a contract between an insurance provider (e.g. an insurance company or a government) and an individual or his/her sponsor (e.g. an employee or a community organization). The contract can be renewable (e.g. annually, monthly) or lifelong in case of private insurance, or be mandatory for all

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93 In India only about 2% of total health expenditure is funded by public/social health insurance while 18% is funded by government budget while in many low and middle income countries contribution of social health insurance is higher. Most of the public funding is for preventive, promotive and primary care programmes while private expenditure is largely for curative care. Policies differ in what they cover, the size of the deductible and/or co-payment, limits of coverage and the options for treatment available to policy holder.

94 www.m.investorwords.com/2289/health_insurance.html. Accessed on 19/5/14 at 10:00 P.M.

95 www.investopedia.com/terms/h/healthinsurance.asp. Accessed on 19/05/14 at 09:30 AM.
citizens in case of national plans. The type and amount of health care costs that will be covered by the health insurance provider are specified in writing in a member contract or “Evidence of Coverage” booklet for private insurance, or in a national health policy for public insurance.\textsuperscript{97}

2. Scope of Health Insurance Policy

A health insurance policy would normally cover expenses reasonably and necessarily incurred under the following heads in respect of each insured person subject to overall ceiling of sum insured (for all claims during one policy period).\textsuperscript{98}

(a) Medical Expenses

i. Rooms, Boarding Expenses

ii. Nursing Expenses

iii. Fees of surgeon, anesthetist, physician, consultants, specialists

iv. Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, Chemotherapy, Radio Therapy, cost of pace maker, artificial limbs, cost of organs and similar expenses.\textsuperscript{99}

(b) Sum Insured

The sum insured offered may be on an individual basis or on floater basis for the family as a whole.\textsuperscript{100}

(c) Cumulative Bonus (CB)

\textsuperscript{97} http://en.m.wikipedia.org/wiki/health_insurance. Accessed on 16/5/14 at 2:00 P.M.
\textsuperscript{98} www.policyholder.gov.in/uploads/CEDocuments/Health%20Insurance%handbook.pdf. Accessed on 17/5/14 at 4:00 P.M.
\textsuperscript{99} Ibid.
\textsuperscript{100} Ibid.
Health Insurance policies may offer cumulative Bonus wherein for every claim free year, the sum insured is increased by a certain percentage at the time of renewal subject to a maximum percentage (generally 50%). In case of a claim, CB will be reduced by 10% at the next renewal.\textsuperscript{101}

(d) Cost of Health Check Up

Health policies may also contain a provision of reimbursement of cost of health check up. Read your policy carefully to understand what is allowed.\textsuperscript{102}

(e) Minimum period of stay in Hospital

In order to become eligible to make a claim under the policy, minimum stay in the hospital is necessary for certain number of hours. Usually, this time limit is 24 hours. This time limit may not apply for treatment of accidental injuries and for certain specified treatments. Read the policy provision to understand the details.\textsuperscript{103}

(f) Pre and Post hospitalization expenses

Expenses incurred during a certain number of days prior to hospitalization and post hospitalization expenses for a specified period from date of discharge may be conducted as part of the claim provided the expenses relate to the disease/sickness.\textsuperscript{104}

(g) Cashless Facility

Insurance companies have tie up arrangement with a network of hospitals in the country. If policyholder takes treatment in any of the network hospitals, there is no need for the insured person to pay hospital bills. The insurance company,
through its third party administrator (TPA) will arrange direct payment to the hospital. Expenses beyond sub limits prescribed by the policy have to be settled by the insured direct to the hospital. The insured can take treatment in a non-listed hospital in which case he has to pay the bills first and then seek reimbursement from insurance company. There will be no cashless facility available here.\textsuperscript{105}

3. Importance of Health Insurance

Future is unpredictable and rather, uncertain. Each of us is exposed to various health hazards and a medical emergency can strike anyone of us without prior warning. Health insurance gives you a chance to be a part of an informed purchasing program where you can safeguard yourself against all predictable and unpredictable health care needs.\textsuperscript{106} Healthcare is increasingly expensive, with technological advances, new procedures and more effective medicines that have also driven up the cost of health care. While these high treatment expenses may be beyond the reach of many, taking the security of health insurance is much more convenient.\textsuperscript{107}

To understand the need of health care insurance it is important to know when health care needs arise and how you can benefit by having a good insurance coverage.\textsuperscript{108} Here are a few examples of health care needs:-

- When you or your enrolled family members are in an accident and need medical assistance.

- When you or your enrolled family members need emergency care an account of a serious or unexpected illness.

\textsuperscript{105} Ibid.

\textsuperscript{106} Buying health insurance protects us from sudden, unexpected costs of hospitalization which would otherwise make a major dent into household domestic savings or even lead to indebtedness.

\textsuperscript{107} “Handbook on Health Insurance”, Insurance Regulator and Development Authority.

\textsuperscript{108} www.path2usa.com/meaning-of-health-insurance-what-is-health-insurance. Accessed on 12/5/14 at 6:00 P.M.
• When you or your enrolled family members need non emergency hospital services like visiting a physician eye doctor or a dentist.

• When you or your enrolled family members need medical treatment for an existing medical condition or other health problems.

4. Evolution of Health Insurance

Practices of insurance broadly speaking have long histories related to contracts and procedures designed to protect people from loss of property and loss of life. And health care has its own evolving story beginning as a standard service performed in exchange of a fee. But contracts on healthcare, or health insurance truly became an issue of vital and controversial importance only in the early part of the twentieth century, when medical care became institutionalized and more advanced and the cost of services began to rise. Around that time, groups began developing relationships with health care providers to develop what would become the predecessors to modern health insurance plans or fee based insurance.

In India, since independence, the government sector has been the backbone of healthcare ecosystem, including health care delivery and insurance. In our country health insurance evolved slowly in tandem with general insurance, with both sharing key landmarks. The growth of health care delivery too was limited in pre-nationalized era. However, after economic liberalization in 1991, health care delivery equipment, methodology, and process sharing from developed countries became mainstay. With the improvement in healthcare delivery and increased disposable income, life

109 In Mesopotamia, under the code of Hammurabi, it was expected tha successful t health care in particular surgery with the knife was paid for appropriately.

110 www.randamhistory.com/2009/03/31_health-insurance.html. Accessed on 19/5/14 at 2:00 P.M.
expectancy had increased to 65 years by 2011.\textsuperscript{111} The insurance Regulatory and Development Authority (IRDA) legislation in 2000 served as a key milestone in healthcare insurance.\textsuperscript{112} It opened up the health insurance industry to private players.\textsuperscript{113}

5. Current Health Insurance Scene in India

Unlike various other developing countries, the concept of health insurance in India is underdeveloped except for the organized sector.\textsuperscript{114} In India, health insurance is still in its evolving stage and is mainly dominated by government schemes.\textsuperscript{115} The major public health insurer in India is the government owned General Insurance Corporation (GIC) and its four subsidiaries with 60% market share. However, Private Health Insurers expanded rapidly post 2005 with products centered around the ‘in-patient reimbursements’ and ‘cashless payments’. The number of private doctors and private clinical facilities are also expanding exponentially.\textsuperscript{116} But, most of the health insurance products offered by private entities are similar to the government-defined product, Mediclaim, and are indemnity-based. It is pertinent to mention here that given its high premium, most Mediclaim and similar policy holders belong to the middle and upper class.\textsuperscript{117} And resultantly, community health insurance schemes


\textsuperscript{112} IRDA took a significant step to promote health insurance and made a provision in the Insurance Act, 1938, under which preference will be given to register the applicant who agrees to carry on life insurance and non life insurance business for providing healthcare benefits to individuals and groups. IRDA also framed regulations to facilitate Third Party Administrators (TPA) to provide a linkage between insurance companies and policyholders.

\textsuperscript{113} Health insurance membership quadrupled between 2007 and 2011. (300 million in 2011) and is expected to be 600 million by 2015.

\textsuperscript{114} India spends only 6% of the GDP on health expenditure.

\textsuperscript{115} While the urban population has witnessed a proliferation in the means of health care financing and delivery over the past two decades, the rural population lacks basic health care delivery and financing.

\textsuperscript{116} Over the period the private health care expenditure has grown at the rate of 12.84% per annum and for each one % increase in per capita income the private health care expenditure has increased by 1.47%.

\textsuperscript{117} Supra n.111.
sponsored by the government and non-governmental organizations (NGOs) are evolving to cater to the needs of the rural population.\textsuperscript{118}

In light of escalating health care costs, lack of easy access of people of lower income group to quality health care, increasing burden of new diseases and health risks, health insurance in India has wider scope in coming years.\textsuperscript{119} Therefore, a careful and significant effort is required to tap the Indian Health Insurance Market with proper understanding and training.

\textbf{(a) Mediclaim Scheme}

The most popular health insurance cover is Mediclaim Policy.\textsuperscript{120} It is reimbursement based insurance for hospitalization and it does not cover outpatient treatments. A person between 3 months to 80 years of age can be granted mediclaim policy up to maximum coverage of Rs. 5 lakh against accidental and sickness hospitalizations during the policy period as per latest guidelines of General Insurance Corporation of India.\textsuperscript{121} The scheme is offered by all the four subsidiary companies of GIC.

Mediclaim has provided a model for health insurance for the middle class and the rich. But given its higher premium it remained limited to middle class and urban tax payers segment of the population. There are also other problems and negative unintended consequences of this scheme. There are reported fraud and manipulation by clients and providers, which have implications for the growth and development of this sector. The monitoring systems are weak and there are chances that if the doctor

\textsuperscript{118} Ibid.
\textsuperscript{119} www.actuariesindia.org/downloads/gcadata/10thGCA/Emerging\%20Health\%20Insurance\%20in\%20India-An\%20overview_j\%20Anitha.pdf. Accessed on 17/5/14 at 6:00 P.M.
\textsuperscript{120} The government insurance companies started this first health insurance scheme in 1986, under the name mediclaim; thereafter Mediclaim has been revised several times to make it an attractive product.
\textsuperscript{121} The current statistics on health insurance indicate that out of 1 billion populations only about 2 million of population is covered by Mediclaim scheme.
and patient collude with each other, they can do more harm to the system.\textsuperscript{122} There is also element of adverse selection problem as the scheme is voluntary. As the scheme reimburses charges without limit it also will pushed up the prices of services in the private sector. Our analysis of mediclaim data from one center indicates wide variation of charges for same operation in the same city. Anecdotal evidence from doctors also indicates that charges are increased if patients are insured. All these effects will tend to increase the prices of private health care thus hurting the uninsured.\textsuperscript{123}

(b) Employee State Insurance (ESI) Scheme

Under the ESI Act, 1948 ESI Scheme provides protection to employees against loss of wages due to inability to work due to sickness, maternity, disability and death due to employment injury. It also provides medical care to employees and their family members without fee for service.\textsuperscript{124}

The delivery of medical care is through service (direct) system and/or panel (indirect) system. It provides allopathic medical care, but medical care by other systems like ayurvedic and homeopathy in the states is also provided as per the state government decision. The medical care consists of preventive, promotive, curative and rehabilitative types of services are provided by the scheme through its own network or through arrangements with reputed government or private institutions by concept of proper referral system and regionalization.\textsuperscript{125}

\textsuperscript{122} \url{www.cccindia.co/corecentre/Database/DocFiles/Insurance.pdf}, Accessed on 19/5/14 at 10:00 A.M.

\textsuperscript{123} Ibid.

\textsuperscript{124} Ibid.

\textsuperscript{125} Preventive services include immunization, maternal and child health, family welfare services. Promotive services include health education and health check-up camps. Curative services include: dispensary care, hospital care, and maternity care, supportive services including diagnostic centre, drugs, dressings, surgical procedures, dental care, prosthesis and other appliances. Rehabilitative services include: physical rehabilitation, economical rehabilitation and provision of artificial aids (social, psychological rehabilitation).
(c) Central Government Health Insurance Scheme

This scheme was established in 1954 and covers employees and retirees of the central government and certain autonomous and semi-autonomous and semi-governmental organizations. It also covers members of parliament, Governors, accredited journalists and members of general public in some specific areas. Benefits under the scheme include medical care, home visits, free medicines and diagnostic services. These services are generally provided through public facilities with some specialized treatment being permissible at private facilities.

(d) Universal Health Insurance Scheme (UHIS)

The government announced UHIS in 2003 for providing financial risk protection to the poor. This scheme has been made eligible for the below the poverty line families only. To make the scheme more saleable, the insurance companies provided for a floater clause that made any member of the family eligible. In spite of all these efforts the scheme was not successful.

(e) Health Insurance for Poor by NGOs

With 70 per cent of population in India living in rural areas and 95 per cent of work-force working in unorganized sectors, and disproportionately large percentage of these populations living below poverty line, there is strong need to develop social security mechanisms for this segment of population. This need for security is further increased because the poor are the most vulnerable to ill health, accidents, death, desertion, social disruptions such as riots, loss of housing, job and other means of livelihood. There are some efforts in this direction of providing social security to the

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126 Supra n.119.
127 Most of the expenditure is met by the central government as only 12% is the share of contribution.
128 Supra n.119.
poor by a few NGOs. The most prominent among them is that of Self-Employed Women’s Association (SEWA). The other scheme by government insurance companies developed to focus on poor is called Jan Arogya Bima Policy which was introduced in 1995 and covers expenditure up to Rs. 5000 for a premium of Rs. 70 per annum. There is need in India to promote these schemes as they address the needs of the poor.

6. Consumer and Social Perspective on Health Insurance

With the liberalization of insurance and entry of private companies in this business it is very important that specific interventions are developed which focus on increasing the consumer awareness about insurance products. One of the major challenges after privatization of insurance would be how to develop such mechanisms, which help making consumers aware about the various intricacies of insurance plans. Consumer organizations such as CERC of Ahmedabad have been helping consumers to get due justice in disputes with the insurance companies. Their experience would be very valuable in guiding development of health insurance plans that are transparent and just.

Many a times the insurance claims are rejected due to some small technical reasons. This leads to disputes. Most of the time the conditions and various points included in insurance policy contracts is not negotiable and these are binding on consumers. There is no analysis on what fair practice is and what unfair practice is.

129 Over the last few years in India small and big NGO’s like Tribhuvandas, SEWA, ACCORD etc. have implemented the insurance schemes. Many of these schemes are designed to meet the needs of the poorer segments of the community. It is estimated that about 5 million people are covered under various NGO insurance schemes.

130 Supra n.122.

131 Ibid.

132 Ibid.
The most important area of dispute and unfair treatment is the knowledge and implications of pre-existing conditions. A number of cases of litigation are result of a disagreement on these pre-existing conditions.\textsuperscript{133} The patients with these pre-existing conditions are denied claims for treatment of complications.\textsuperscript{134} This is not fair and leads to disputes.\textsuperscript{135}

Health insurance is typically annual and has to be renewed yearly. Policy, which is not renewed in time lapses and a new policy, has to be taken out. Courts, however, have ruled that even if there is delay in renewing the policies it should be considered as renewed policy. In case two doctors give different reports one favouring consumer and other insurance company, the insurance company generally follows the later opinion. There are several such consumer-related issues, which need to be addressed in health insurance.

7. Role of Regulators

The government has established Insurance Regulatory and Development Authority (IRDA) which is the statutory body for regulation of the whole insurance industry. They would be granting licenses to private companies and will regulate the insurance business. As the health insurance is in its very early phase, the role of IRDA will be very crucial. They have to ensure that the sector develops rapidly and the benefit of the insurance goes to the consumers. But it has to guard against the ill effects of private insurance.\textsuperscript{136} As a result of increase in cost of private care the large

\textsuperscript{133} These problems also arise because of lack of specification of number of areas and properly spelling out the conditions. This is also because some chronic conditions such as high blood pressure and diabetes can increase the risk of many other diseases of organs such as heart, kidney, vascular and eyes diseases.

\textsuperscript{134} Medical conditions detected during the interim period are treated as pre-existing condition for the new policy, which is not fair. This is seen as major issue as it changes the conditionality’s about what constitutes pre-existing conditions.

\textsuperscript{135} Supra n.122.

\textsuperscript{136} The main danger in the health insurance business we see is that the private companies will cover the risk of middle class who can afford to pay high premiums. Unregulated reimbursement of medical costs by the insurance companies will push up the prices of private care.
section of Indian population who are not insured will be at a relative disadvantaged position as they will, in future, have to pay much more for the private care. Thus, checking increase in the costs of medical care will be very important role of the IRDA.

Secondly, IRDA will need to evolve mechanisms by which it puts some kind of statute in place that private insurance companies do not skim the market by focusing on rich and upper – class clients and in the process neglect a major section of India’s population. They must ensure that companies develop products for such poorer segments of the community and possibly build an element of cross-subsidy for them.137

Thirdly, the regulators should also encourage NGOs, Co-operatives and other collectives to inter into the health insurance business and develop products for the poor as well as for the middle class employed in the services sector such as education, transportation, retailing etc and the self employed.138

8. Further Steps to Improve Health Insurance

According to IRDA (IRDA, Annual Report 2004-05) slow growth of health insurance in India arises due to the lack of regulation in the health sector resulting in exposure of the beneficiaries to various wrong practices present in the system.139 In order to provide a further boost to the health insurance sector, the Committee on Examination of Regulatory issue appointed by IRDA in 2003 has recommended the following:

1. Registration of standalone health insurance companies with minimum capital of 500 million.140

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137 Supra n.122.
138 Ibid.
140 Once the standalone health insurance companies are setup, the growth rate in health insurance sector is expected to be much faster.
2. Adoption of risk-based capital model for standalone health insurance companies.

3. Allowing standalone insurer to write personal accidents as combined and add on covers.

4. There should be 51% FDI in standalone health insurance ventures.

5. Continuation of practices of health insurance being written both by life and non-life companies.

6. Agents of life and non-life companies to take agencies to standalone health insurance companies.\(^{141}\)

In view of the above discussion the following measures are required to give a boost to health insurance market in India.

1. To make health insurance more attractive need based affordable products need to be designed for various population segments.\(^{142}\) Moreover, the marketing initiatives also need to be improved.

2. Many problems particularly at the settlement level arise due to absence of a uniform code and common standard of treatment process. A common standard for treatment and a uniform format for treatment-related matters need to be in place, for insurers, TPAs and other parties.

3. Product pricing is a critical factor for health insurance which includes hospitals and other related services which health insurance policies offer. Since buying

\(^{141}\) Supra n.139.

\(^{142}\) Most of the existing products do not fulfill this criterion, and product such as Mediclaim and Jan Arogya need to be restructured since they provide reimbursement only for hospitalization, not for out-patients, which is not attractive.
capacity differs widely, the pricing should take into account affordability and availability.\textsuperscript{143}

4. New entry norms need to be formulated because in spite of preference given to registration of new companies who offer health insurance, the desired results could not be achieved. It is believed that the capital base of 1 billion might have discouraged the companies due to prevailing uncertainty.

5. Since health insurance is a risky business there is a possibility of frauds and therefore well managed data ware housing is essential.

6. Since health concerns get lowest priority by the poor who are more concerned for food and shelter, a literacy campaign for health insurance is required to create awareness.\textsuperscript{144}

The recent growth of insurance schemes in India, in many ways marks a new phase in India’s quest to provide universal healthcare to all. The key design features of insurance scheme need government intervention in order for the scheme to be equitable, efficient and effective.\textsuperscript{145} Health Insurance is going to develop rapidly in future and the main challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower price. The IRDA will have a significant role in regulating the health insurance sector and safeguarding the interests of policyholders by minimizing the unintended consequences.

G. REVIEW

Today, India accounts for more than 2 % of the world’s premiums and 6 % of the premium originating in Asia. The country is the tenth biggest insurance market in

\textsuperscript{143} Supra n.139, p.110.
\textsuperscript{144} Ibid, p.111.
\textsuperscript{145} “A Critical Assessment of the Existing Health Insurance Models in India”, Public Health Foundation of India (2011).
the world and has the potential to grow exponentially in the coming years. While regulatory hurdles and dominant incumbents bring challenges to foreign companies looking to enter the Indian Insurance market, low penetration and opportunities in the market make it quite lucrative.

Now, Life Insurance industry is poised for a big growth as many Indian and foreign companies are waiting in the wings for the green signal to start their operations. Soon, the Indian consumer will be presented with a bewildering array of products, different in price, features, benefits and procedures. How he is going to make his choice will determine the future of the industry. With the market thrown open the industry is at the crossroads again with reference to its future direction and the opportunities and the challenges it faces for itself, the regulator and the society as a whole. The biggest challenge faced by the government today is that of a regulator with the prospect of about 30 to 40 players, each represented by thousands of agents, brokers and intermediaries. The main task ahead is to evolve a free and fair method of assessing the companies to ensure fair play between the competitors and to safeguard the interests of largely uninformed customers. The other and equally serious aspect is to ensure that the vast amounts collected by the insurance and pension funds are utilized for the welfare of the people. As far the existing player, the public sector grand, the Life Insurance Cooperation of India is concerned, the challenge is one of sustaining the huge growths it has shown in recent times and manage its huge operations more efficiently than any other time in the past. As far as the prospective entrants are concerned the greatest challenge is to establish their presence in the minds of public.

Talking about the opportunities in life insurance industry, the recent experience has shown that whenever an industry has been thrown open to competition, the size of the market has grown. The size of the insurable population in
India is indeed vast and as yet the existing player has managed to cover only about \(\frac{1}{4}\)th of it. Therefore, the opportunities before the players are aplenty in terms of target audience. The falling interest rates, the collapse of many small time financial institutions, the scope of entering related areas like banking and pension in a bid for synergy and the promise of e-commerce are some of the other opportunities knocking at the doors of the insurance majors. Not only that there is also a probability of a spurt in employment opportunities. A number of magazines exclusively devoted to insurance have also been launched. Many of the universities and management institutes have either started or are contemplating new courses in insurance.

The opening of insurance sector will throw open a huge array of opportunities, many of which will be in unrelated fields and may give a bigger push to the development of the national economy as a whole.\(^{146}\)

It is high time for various stakeholders – life insurers, regulators, distributor and consumer groups to come together to a built a robust life insurance sector in India which will help create a secured society.\(^{147}\)

\(^{146}\) [http://pib.nic.in/feature/fcvr2000/faug2000/fi60820001.html accessed on 26/7/13 at 7:15 A.M.]

\(^{147}\) Supra n.36.