Chapter III - Overview of General Insurance Business in India (Problems, Challenges, Prospects etc.)

3.1 Insurance Regulatory & Development Authority of India (IRDA)\textsuperscript{46}

Insurance Regulatory & Development Authority is regulatory and development authority under Government of India in order to protect the interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry. It is basically a ten members' team comprising of a Chairman, five full time members and four part-time members, all appointed by Government of India. This organization came into being in 1999 after the bill of IRDA was passed in the Indian parliament.

The creation of IRDA has brought revolutionary changes in the Insurance sector. In the last 10 years of its establishment the insurance sector has seen tremendous growth. When IRDA came into being; the only players in the insurance industry were Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC), however in last decade 23 new players have emerged in the field of insurance. The IRDA also successfully deals with any discrepancy in the insurance sector.

“As per the section 4 of IRDA Act' 1999, Insurance Regulatory and Development Authority (IRDA, which was constituted by an act of parliament) specify the composition of Authority as under.”\textsuperscript{47}

The Authority is a ten member team consisting of

(a) a Chairman;
(b) five whole-time members;
(c) four part-time members, (all appointed by the Government of India)
Duties, powers and functions of IRDA

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA as under (www.irda.gov.in):

Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

a) Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include:
   a) issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
   b) protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
   c) specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents
   d) specifying the code of conduct for surveyors and loss assessors; promoting efficiency in the conduct of insurance business;
   e) promoting and regulating professional organizations connected with the insurance and re-insurance business;
   f) levying fees and other charges for carrying out the purposes of this Act; calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
   g) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
   h) specifying the form and manner in which books of account shall be
i) maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

j) regulating investment of funds by insurance companies;

k) regulating maintenance of margin of solvency;

l) adjudication of disputes between insurers and intermediaries or insurance intermediaries;

m) supervising the functioning of the Tariff Advisory Committee; specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause(f);

n) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

o) exercising such other powers as may be prescribed

3.2 Various Insurance Regulations issued by IRDA since 2000 to 2010

The IRDA has issued various insurance regulations from the year 2000 to 2010, which are as under:

- IRDA Actuarial Report and Abstract 2000
- IRDA Registration of Indian Insurance Companies 2000
- IRDA Insurance Advertisement and Disclosure 2000
- IRDA The IRDA (Meetings) 2000
- IRDA Investments (Life and General) 2000
- IRDA Statements of Accounts 2000
- IRDA The Insurance Advisory Committee (Meetings) Regulations, 2000
- IRDA Assets, Liabilities, and Solvency Margin of Insurers Regulations, 2000
- IRDA Obligations of Insurers to Rural Social Sectors Regulations, 2000
3.3 Public Sector & Private Sector Business Scenario: 2000 to 2008

The research work is being carried out for the period 2000 to 2008 and hence, we have to understand what the situation prior to 2000 was and what has been the situation during the period 2000 to 2008. The pre-liberalization period is the period prior to 2000 and in this period there was monopoly of the General Insurance Corporation of India and its following four subsidiaries:
Insurance Regulatory and Development Authority Act (IRDA) came into effect in the year 1999. This Act removed the exclusive privilege of GIC and its subsidiaries to carry on general insurance business in India. The supervisory role of GIC over the subsidiaries ended and they were made four independent companies. There were 14 general insurance companies in the private sector by 2008.

**The State of the General Insurance Market**

India is the fifth largest general insurance market in Asia with annual premiums of $6.3 billion in FY09. India has second largest population in Asia (and the world) and an increasing middle class population. The low penetration of general insurance presents tremendous opportunity. It was projected that from 2006-2026 the working class population is expected to increase from 675.8 million to 795.5 million\(^4\). The market continues to be dominated by public sector, though share has declined since FY01. The large, middle class population, increased awareness and income levels have fuelled growth of the general insurance business. The maximum foreign partner investment is soon expected to increase to 49%, which is currently 26%
The industry has witnessed radical changes since the opening up of the market in 2000. Between FY01 and FY08 the industry grew at 19.5% per annum and ~10% in FY09.

Key growth drivers in the future can be summarized as under:

- Growing economy
- Low insurance penetration as a % of GDP
- Higher disposable income and savings
- Increasing urbanization and awareness

Detariffing has strengthened the bargaining power of the consumer, but in the short run has hurt profitability of the insurance companies. Companies will have to customize products and improve customer experience in order to win further market share. Increase in the FDI cap from 26% to 49% will help increase growth. It will be critical to develop systems that will ensure accurate pricing of risks, and adequate training of underwriters and sales force. On the whole, while the short term scenario for the general insurance sector appears to be
challenging, the long term prospects definitely present ample opportunities for growth.

General Insurance industry logs 12.53\(^{51}\) per cent growth in FY 2008. During the period, four public sector non-life insurance companies collected Rs16, 899 crores in reviewed fiscal, against Rs16, 278 crores in previous fiscal. The 13 non-life insurers collected Rs. 28, 131 crores in premium in FY’08, against Rs. 24, 998 crores collected in the previous fiscal, according to industry data.

Private players increased their business from Rs. 8,720 crores to Rs. 11, 231 crores during the period.

In percentage terms, while public sector firms could increase their premiums by just 4%, nine private sector players clocked premium growth of 29%.

Private sector players’ market share has grown to about 40% in FY’08 as compared to the public sector’s 60% share.

During the fiscal 2007-2008, market leader New India Assurance premium collection grew by 5% to Rs5, 274 crores\(^{52}\).

With the economy growing at a healthy rate, new and exciting areas of insurance are opening up in the Indian market to provide youth with great career opportunities.

The Indian market is big and very attractive to many companies, Indian or foreign, for the fact that there is a vast uninsured or underinsured area in the economy. There is little awareness about the general insurance, and therefore, insurance penetration is very low in India compared to many other countries, even the developing ones. This vast unexploited market draws many companies.

*The general insurance had grown by leaps and bounds in the country during the past decade from Rs.10, 000 crores in 1999 to Rs.40, 000 crores in 2011.* The target is to cross the Rs. one lakh crores mark by 2020, but it could be achieved much earlier, probably by 2017 or so\(^{53}\).
The general insurance sector is growing at a healthy 13 per cent per annum, but the premium density was only 4.4 US dollars, very low in comparison with many other countries\textsuperscript{54}.

The market share of private general insurers has been increasing over the years since liberalization. In FY09, the private insurers had a market share of 41.08\% which was higher than 34.90\% in FY07\textsuperscript{55}. As a consequence, there has been a decline in the market share of the public insurers to 58.92\% in FY09 from 65.10\% in FY07. Despite the decline in the market share of the public sector insurance companies the volume of premium underwritten by them has increased over the previous year reflecting an expansion in the general insurance market.

![Figure SNI2\textsuperscript{56} Market shares of Public General Insurance Companies](image)

Among the public sector insurers, New India had the largest market share at 30.59\% in FY09\textsuperscript{57}, lower than its market share of 31.36\% in the previous year. Oriental Insurance, National Insurance and United India Insurance had market shares at 21.96\%, 23.72\% and 23.71\% respectively in FY09 as against 22.63\%, 23.81\% and 22.22\% in the previous year. Among the private insurers, ICICI Lombard had the highest market share of 27.20\% in FY09 followed by Bajaj Allianz with a share of 21.00\%. Reliance General Insurance has registered a decline in its market share from 17.33\% in FY08 to 15.23\% in FY09.
Some of the factors that have enabled private sector players to improve their market share include:

**Leverage:** The private sector players continue to leverage on the business relationships of their parents and their quality of service to gain market share in the general insurance market.

**Operational Flexibility:** The private general insurers enjoy considerable operational flexibility, whereas the public sector companies have been constrained by their traditions. In the past, private insurers had aggressively targeted the more profitable corporate fire and engineering businesses by combining them with discounted offers on de-tariffed products, for example, personal accident & health, marine cargo and hulls. Private general insurance players especially during their initial years have selectively targeted more profitable business lines than the public sector companies for growth purposes. They have benefitted from the experiences of the public sector as well as their international joint-venture partners. The inherent operational flexibility of the private players such as aggressive pricing has also allowed them to capture a greater share of large corporate accounts.

**Innovation:** Public players’ limited capacity to innovate impacted their ability to tailor and aggressively price products for large corporations. The private players by contrast have focused on account-level profitability for large corporations and have expanded their shares by cross-subsidizing tariffed products. However, a strong relationship that the public sector general insurance companies have with their existing corporate clients has enabled them to retain their dominant market position.

**Strong Infrastructure and Systems:** Private players are not hindered by their charters or legacy systems and have constructed technologically advanced infrastructure. They started with large investments in technology, which helped them to build robust data management systems. This characteristic enabled quick and effective decision-making for pricing and claims settlements, which are vital for building franchises. On the other hand, public entities have only recently
upgraded their systems and have to grapple with transition issues, such as moving from paper to paper-less systems. Hence they are burdened by legacy systems and fragmented databases.

**Claims Settlement:** The public insurers have also been hampered in claims servicing by their process oriented approach. They have been unable to expedite claim settlements through out-of-court negotiations since a large proportion of their claims pertain to the third party motor segment, which is subject to adjudication by the Motor Accident Claim Tribunal. The result is a time-consuming process. However, the combination of superior technology and selective underwriting has allowed the private sector players to set high standards for policyholder services, thereby differentiating themselves from public sector insurers. The claim settlement performance of the private sector has also been superior because of the limited amount of third party motor business that they have underwritten.

**Distribution:** The Indian general insurance industry has historically been dominated by the agency channel, through which 75% of total premium income was sourced. But in recent periods other channels such as banc assurance, brokers, corporate agents, direct marketing and direct sales channels are gaining importance. In a deregulated environment, the broking community is slowly becoming an integral part of the insurance and risk financing process. Most insurers now have tie-ups with the banks, which acts as corporate agents and are remunerated on a commission basis. For example, ICICI Lombard sources a major portion of its business from a tie-up with ICICI Bank. Similarly, Bajaj Allianz General Insurance Company Limited (BAIL, second largest private player) has tie-ups with large number of banks, which contribute a big share of its total premium income. As of September 10, 2008, 281 brokers were registered with IRDA, including 242 direct brokers, 33 composite brokers and 6 reinsurance brokers. This has enabled private players to enter into uncovered markets and expand their share in overall general insurance market.
3.4 Impact of IRDA act on general insurance policy holders

The formation of the Malhotra Committee in 1993 initiated reforms in the Indian insurance sector. The aim of the Malhotra Committee was to assess the functionality of the Indian insurance sector. This committee was also in charge of recommending the future path of insurance in India.

The Malhotra Committee attempted to improve various aspects of the insurance sector, making them more appropriate and effective for the Indian market.

The recommendations of the committee put stress on offering operational autonomy to the insurance service providers and also suggested forming an independent regulatory body. The Insurance Regulatory and Development Authority Act of 1999 brought about several crucial policy changes in the insurance sector of India. It led to the formation of the Insurance Regulatory and Development Authority (IRDA) in 2000. The goals of the IRDA are to safeguard the interests of insurance policyholders, as well as to initiate different policy measures to help sustain growth in the Indian insurance sector. 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 sector, Investment and Accounting Procedure, Protection of policy holders’ interest etc. Applications were invited by the Authority with effect from 15th August, 2000 for issue of the Certificate of Registration to both life and non-life insurers. The Authority has its Head Quarter at Hyderabad.

Protection of the interest of general insurance policy holders

"IRDA has the responsibility of protecting the interest of insurance policyholders. Towards achieving this objective, the Authority has taken the following steps:"

- IRDA has notified Protection of Policyholders Interest Regulations 2001 to provide for: policy proposal documents in easily understandable language; claims procedure in both life and non-life; setting up of grievance redressal machinery; speedy settlement of claims; and policyholders' servicing. The
Regulation also provides for payment of interest by insurers for the delay in settlement of claim.

- The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policyholders with regard to payment of claims.
- It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.
- All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.
- The Authority takes up with the insurers any complaint received from the policyholders in connection with services provided by them under the insurance contract.

3.5 Nationalization of General Insurance Business in India

Mr. P. S. Palande, Mr. Shah and Mr. M. L. Lunawat, in their book, “Insurance in India”, has discussed this chapter in detail. The essence of the same is as under;

Nationalization Phase of Indian General Insurance Business:

The Government had nationalized the insurance business in India, but it gathered the momentum in the year 1944. In this same year, a bill to amend the Life Insurance Act 1938 was introduced by the government in the Legislative Assembly. The government took the control of 154 Indian insurance companies, 16 non-Indian companies and 75 provident societies in the year 1956 and nationalized these companies. The Life Insurance Company was formed by an act of parliament in this year which is called as LIC Act, 1956. The capital contribution of the government of India was Rs. 5 Crore.

The government, in the year, 1972 formulated an act called The General Insurance Business (Nationalization) Act. This act nationalized the general
insurance business in India with effect from 1st January 1973 and the amalgamation of private companies was effected.

The nationalization process was accomplished in two stages. In the first stage, the government took over the management of these companies by passing an ordinance and in the second stage; the government took over the ownership of these companies by means of a comprehensive bill. The government nationalized the LIC in the year 1956 with the objective of spreading the life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country. The purpose was to provide them adequate financial cover at a reasonable cost. Today, LIC is India’s leading Insurance Company, with 2000 branches. Thus, LIC has the highest number of branches across India in the insurance sector.

The question comes to mind that why the nationalization was done? Was it required? What prompted government to nationalize the insurance business? What are factors that lead the government to nationalize this business?

The insurance sector in India was an open competitive market. From this, it became nationalized business. Today, it has come back to liberalized market. Therefore, it can be said that the insurance sector in India has experienced a 360-degree journey over a period of more than a hundred years.

India became independent in the year 1947 and within ten years of independence, the insurance business was brought under the control of the government. These government controlled companies functioned under the burden of bureaucracy and inefficiency. These companies had millions of policyholders. This was due to the fact that there were no other alternatives available to the policyholders. This was the situation till the re-opening of the sector in the 1990s. Prior to this, if there were any attempts regarding opening up of the sector, there used to be very violent criticism and agitation from insurance employees unions. There was a Congress led government at the centre during the period 1991-1996 and this government introduced reforms in various sectors of the economy. However, this government could not bring about a change in the
insurance sector. It was the BJP-led coalition government which took the challenge to instate the present liberal structure. They had to face the criticism from some of their coalition partners.

The argument behind opening up of the sector was consumer-centric, which claimed that opening up the insurance sector would give better products and service to consumers. Those who were not in favour of opening up of the sector or the privatization of the sector argued that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment.

The insurance sector was finally opened to competition again in 1999-2000. It will, therefore, take some time before we can gauge its true performance. By 1956, as many as 154 Indian insurers, 16 non-Indian insurers and 75 provident societies (in all, 254 entities) had entered the life insurance business in India. This figure may look big, but the fact is that the geographical spread and the number of lives covered were rather small.

At that time, the insurance companies, by and large, were governed by short-term considerations. Because of this, the business was confined mainly to cities and the more affluent segments of the society. The insurance policies were being offered to the people in high income groups and usually people with small income groups were neglected. It was required to reach the poor and small income group people. The income and financial position of small income group people had not even been attempted for offering policies to them.

It is during this period that a number of malpractices occurred in the industry. This caused losses to the unsuspecting public.

There were also some instances of mismanagement and misutilisation of funds collected. This was highly objectionable and harmful development in this field. These diversions of funds were so large that it led to a situation where the insurance companies were not in a position to honour their commitment to their own customers.
Some of the companies were winding up. This process gathered momentum especially after the First World War. In between 1914 and 1920; many insurance companies were closed down. This caused large losses for the small investors. The Union Government’s efforts at regulating the industry through various legislative measures were not very effective. The former Finance Minister, Dr. C. D. Deshmukh said in Parliament, during the debate on the life insurance (Emergency Provisions) Bill, 1956, that: “The industry was not playing the role expected of insurance in a modern state and efforts at improving the standard by further legislation.”

The managements were expected to act as trustees. The concept of trusteeship seemed entirely lacking. Indeed, most managements had no appreciation of the clear and vital distinction that exists between trust moneys and those which belong to joint stock companies.

Because of these developments, the demand for stricter government control of the industry gathered momentum and called for nationalization of the insurance business.

Again, quoting Dr. C. D. Deshmukh, ‘Misuse of power, position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance’.

Although that was the immediate cause of nationalisation, Dr. C. D. Deshmukh argued that the principal point about nationalization was that the state did not have to make out a case that the private sector had failed. Nationalization is justified on many other grounds of ideology, philosophy and the objective of a welfare state. It was necessary in order that the interest of the insuring public and the industry could be safeguarded, the country’s economy promoted and more funds provided for economic development. These were the considerations which persuaded the Government of India to opt for nationalization of this industry.

The general insurance business of India has been doing very well after nationalization. It has grown in spread and volume after nationalization.
Post-Nationalization Process

The GIC’s equity capital increased from the original capital of Rs. 215 million to Rs. 2.15 billion through bonus issues in 1982, 1986, 1990 and 1994. The four companies continued to expand their activities and, by 2001-2002, they operated through 2,699 branch offices, 1,360 divisional offices and 92 regional offices spread all over the country.

The gross premium income of the non-life insurance business grew from Rs. 2.04 billion in 1973 to Rs. 280.5 billion in 2007-2008. The net premium income of the four subsidiaries was Rs. 87.45 billion and GIC’s operations produced a net premium income of Rs. 26.71 billion. Of this, direct overseas operations of the subsidiaries produced a gross premium income of Rs. 9.3829 billion.

Even with a conservative approach towards investments and after fully providing for technical and other reserves, the industry has always made profit. It grew from Rs. 380 million in 1973 to Rs. 8.74 billion (net) in 1999-2000, but came down to Rs. 5.1740 billion in 2001. In 2001-2002, the GIC itself ended up with a loss of Rs. 2.0470 billion (up from a loss of Rs. 3.3489 billion in the previous year.) on underwriting, but it’s total profit when other income is taken into account, was Rs. 3.0671 billion, down from Rs. 4.0101 billion in 2000-2001.

As of March 31, 2002, GIC’s total investment was Rs. 71.3583 billion, the income from which amounted to Rs. 7.6638 billion. For the general insurance companies as a whole, income from investments has been consistently rising and was Rs. 28.6369 billion in 2001-2002. GIC’s reserves as on March 31, 2002 stood at Rs. 27.1560 billion and its assets were of the order of Rs. 103.7884 billion as at the end of 2002.

The general insurance industry has contributed handsomely to the national exchequer in dividends and taxes. Thus, GIC has been consistently paying, an annual dividend at 25 per cent to the government, although for 2002, it declared a lower dividend of 20 per cent (as against 30 per cent in 2001).
Taxes paid by the general insurance industry during the same period amounted to Rs. 1.2015 billion, of which Rs. 0.5 billion was from the GIC and Rs. 0.7015 billion was paid by the four companies.

Unfortunately, even after nationalization, general insurance, like the life insurance business, also continued to show a bias towards the city based trade and industry for a number of years. Its emphasis has now changed and from a virtual nil premium base in 1973. Its rural and non-traditional business rose to Rs. 3.3614 billion as on March 31, 1998. The premium acquired during the year 2000-2001 was Rs. 4.2505 billion.

*Despite all these achievements, coverage by general insurance is still lower in India as compared with other countries.*

- The awareness level is low for general insurance products
- The commission structure was not very attractive for good agents to survive on a full time basis
- The distribution channels were not responsive to customer needs
- Their knowledge was not adequate
- Customer service needed improvement
- In particular, personal lines of business did not get adequate attention

These are some of the reasons for its slow growth in India.

The GIC was designated as the Indian reinsurer under section 101(A)(8)(ii) of the Insurance Act, 1938 and has done well for itself in this area.

*The benefits of Nationalization can be summarized as follows:*

1. Distribution
2. Variety of Product
3. Trust and Faith
4. Large Work force of Agent
The success of the insurance companies will be determined by their reach. This is true for all the insurance companies, irrespective of the age or the ownership. Today, the nationalized companies have a large reach and presence when compared with private companies. This is so, because, building a distribution network is expensive and time consuming. This is the challenge before the new entrants. It would be very difficult for them to penetrate in the market easily.

There are different product policies designed by the Nationalized Insurance companies. They are varied and focus on the need of Indian customer. This is the reason that even in a small village, there is a policyholder of the nationalised insurance company. In the initial stage, new entrant cannot expect the penetration and variety of products. This is because the small amount of policies will increase their carrying cost.

_The reason for believing in nationalized companies is that these companies are owned by the government itself and they are existing since 1956. The people of India have real faith and are confident in with Nationalized Insurance Companies._

Since the government companies are there in this field for quite a long time, these nationalized companies have large and distributed human resource. This is very important for targeting huge mass. The same will not be possible for the new private entrants in the initial years. Even if they do, they would lack in experience and patience which is foremost quality of an agent.

The above are some of the benefits of nationalization. But there are many other areas in insurance sector, where the new entrants would plan their strategy and can penetrate the market.

**Opportunities for New entrants**

There are various opportunities for the new entrants in the field of general insurance:

1. They can introduce innovative products offering a right mix of flexibility/risk/return depending which will suit the appetite of the customers
2. They can target specific niches, which are poorly served or are not served at all.

3. Being the agrarian economy again there are immense opportunities for the new entrants to provide the liability and risks associated in this sector like weather insurance, rainfall insurance, cyclone insurance, crop insurance etc.

4. The financial sector is aggressively targeting retail investors. Housing finance, auto finance, credit cards and consumer loans all offer an opportunity for insurance companies to introduce new products like creditor insurance etc. Similarly, organized sector sales of TVs, refrigerators, washing machines and audio systems. Only a negligible portion of these purchases is insured. Potential buyers for most of this insurance lie in the middle class. This is a huge market for new private entrants.

5. The lack of a comprehensive social security system combined with a willingness to save in India will lead to a large demand for pension products. However, current penetration is poor. Making pension products into attractive saving instruments would require only simple innovations already prevalent in other markets. For example, their returns might be tied to index-linked funds or a specific basket of equities. Buyers could be allowed to switch funds before the annuities begin and to invest different amounts at different times.

6. Health insurance is another segment with great potential because existing Indian products are insufficient. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earnings through disability.

### 3.6 Trends in General Insurance Business

With the de-regulation in Indian Insurance industry, the monopoly of public sector general insurance companies’ in general insurance sector has come to an end. This has augmented the innovative practices initiated by the private players. Growth in the interactive technology such as internet has further created a wave
of excitement in the insurance market. Indian economy and Indian general Insurance sector is likely to achieve a double digit growth. Here is a glimpse of Insurance Industry over 190 years.

Insurance is a Rs 450 billion industry in India. The value of the market is determined by gross premium incomes. Indian Insurance market was at its all-time high in 2003 with a growth of about 17.4% over the previous year.

"Since 2001 Insurance is growing at the rate of 15-20 % annually. The growth in the insurance industry is affected by volatility in real estate rates, GDP rates and long term interest rates. Fluctuations in exchange rates also affect the growth in this sector. The gross premium as a percentage of the GDP has gone up from 2.3 in the year 2000 to 7.6 in 2008." Together with banking services, it adds about 7% to the country's GDP.

The Indian Insurance Industry has gone through following phases:

- Ancient Historical Times
- British-India Period
- Post-Independence era of Indian Insurance
- Nationalization Phase of Indian Insurance
- Liberalization of Indian Insurance
- General Insurance in 21st Century

The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership.
3.7 SWOT Analysis of Public Sector General Insurance Companies

"Moody’s-ICRA Global Insurance article in the “Indian General Insurance Industry Outlook, in April 2008 issue has done a very good analysis of the General Insurance Industries in India and it is discussed below.”

The insurance industry in India has been in existence for quite some time now. As a result of this it has acquired some strength during this period. But at the same time it has also developed some weaknesses as well.

The Malhotra Committee has thrown light already on the opinions of the persons which it had interviewed. It had also commissioned an agency to make an independent assessment of the prevailing public opinion about the strengths and weaknesses in the working of the insurance companies. After this, it has drawn some conclusions.

Strengths

The government of India tried and brought about some qualitative improvements in the working of the insurance companies after nationalization. This was in terms of improved delivery systems, a large number of products on offer, geographical spread, reach and presence in remote areas served by a wide network of intermediaries, systems to manage very large funds collected almost on a daily basis, substantial funding of infrastructure creation, fulfilment of social obligations, and recently, better service through a fair amount of computerization.

As a result, over the years, the nationalized industry built up a sound financial base, and improvements in the areas mentioned above. It is served by a large and qualified staff, some of it with experienced professional talent.

There have been some more initiatives from the public sector units to further improve their work culture, but being of recent origin, they are still to bear full fruits and so the quality of work still leaves tremendous scope for improvement.
Even in a difficult field like reinsurance, the general insurance sector under government control has acquired a good standing in the international market. All these strengths have put the public sector units in a position to successfully compete with other companies if they are freed from unnecessary government controls and are allowed to take timely, forceful and well-directed action.

**Weaknesses**

It is to be expected that an entity with a long standing monopoly position would develop certain weaknesses too. Certain weaknesses as noted by the Malhotra Committee that did surface in the nationalized insurance industry are briefly discussed here.

The weak areas of the industry were perceived to be the following: poor customer service, vast marketing and services network inadequately responsive to customer needs. The technical knowledge of most of the agents and development officers was also inadequate and they did not provide sufficient information about the scope of available covers. Insurance covers were expensive. The awareness level of various plans of insurance was quite limited amongst the policy holders, particularly in the rural areas. In addition to overstaffing, there was need for improvement in the culture, productivity and discipline among the employees. Similarly, the spread of rural-and welfare oriented insurance was limited. Technology was fully exploited.

Governmental interference affected the functioning of industry in the public sector mould. There was excessive government-directed investment of funds, which resulted in poor investment policies. Insurance executives felt inhibited in exercising discretion and taking timely and fair decisions because of apprehensions with regard to external agencies like the Central Vigilance Commission (CVC) and the Comptroller and Auditor General (C & AG). However, these checks and balances cannot be done away with in a public sector where large public funds are involved. Further, the phenomenon of corruption has also reared its ugly head, which is exacerbated because of the lags in
computerization which had seriously affected operational efficiency and customer service.

In the case of the general insurance industry, the perception of the consumer was that the four subsidiary companies were not effectively competing with each other due to ‘fixed’ tariffs and ‘market agreements’ in respect of non-tariff areas; and that GIC had been exercising excessive and detailed formal and informal control over their operations. Fair settlement of the claim amount, the speed of claims settlement, speed and accuracy in payments and the handling of grievances were the problem areas. There was little research and development (R&D) effort.

The Tariff Advisory Committee (TAC) was virtually an in-house wing of GIC and did not enjoy autonomy commensurate with its statutory status. TAC’s interaction with the users of insurance was inadequate and it’s responses to rating issues were painfully slow. The marketing of personal lines of insurance was also poor.

In anticipation of the opening up of the insurance sector to private competition, the general insurance industry had formed a core group and prepared a Vision (2001) Statement sometime in 1997, that recognized its weaknesses as follows: underwriting losses, low employee morale, overstaffing, weak penetration in rural areas, dissatisfied customers, low product innovation, and rigid control mechanisms.

Opportunities

The variety of constraints put on it by its owner, viz. the government, was both a reason as well as an alibi for the under performance of the nationalized insurance sector. Now that restrictive government policies are being given up (almost reluctantly) and public sector units are being empowered to make independent decisions, they should be freer to decide their own growth path. It should also be possible for them to prove their potential strength by exploiting the tremendous opportunities such as the following: substantial potential for growth (with the existing products and set up); exploring untapped niche areas; and forming limited joint ventures with suitable partners. Easy access to
developments in the more advanced markets provides further opportunities to 
upgrade their working. Technological, financial or specific area based avenues of 
absorbing improved systems are also now more easily available.

The expectation that private sector entrants would necessarily take time to 
secure a foothold in the market was in itself an opportunity. In practice, though, 
the new companies are entering the market for business. It is, therefore, up to the 
public sector companies to move quickly and at least prevent further incursion 
into their territory. If they do not move fast enough, a valuable opportunity would 
be lost by them.

**Threats**

These opportunities will be of course be accompanied by threats in the 
competitive market, and may be of the following nature:

Private entrants are naturally targeting the profitable and more lucrative 
segments, by providing better service, new products and flexibility. They are 
targeting the bigger corporate and other clients in the well-established 
metropolitan centres. These new entrants have succeeded in eating into share of 
the existing entities. This share will increase substantially, if not in the immediate 
future, but in the long run, if the existing incumbents do not radically alter their 
marketing structure and practices.

The service provided will decide whether the threat of losing the market share will 
come true, and in a competitive market, mere complaining does not help.

The companies will look for talent. This is but natural. Retaining qualified and 
competent executives will be a considerable challenge for the existing 
companies.

One very serious danger that the government-owned units are likely to face is 
that even if at some point of time, the government does decide to disinvest a 
portion of its equity; they may not be fully free from government interference. This 
could be a genuine threat since they would be competing with units which are 
free from such artificial and unnecessary restrictions.
The new units, equipped with state-of-the-art equipment and innovative procedures would have an edge over the erstwhile public sector units, which until recently had no such opportunity and incentive. Due to the possible negative impact on employment, there was no serious effort at updating technology or equipment. The resultant inadequate investment in infrastructure could lead to their lagging behind in the race.

One of the trickiest problems is going to be to deal with the surplus staff which they are perforce required to carry, as against the leaner establishments with which their competitors’ have started their operations. This threat has to be carefully and skilfully handled because sooner or later, some downsizing will have to be resorted to even while protecting the interest of the employees.

This analysis suggests that the industry has to carefully chart out its strategy on the basis of an appreciation of the strengths and weaknesses as also the possible threats and opportunities. It lends further support to the argument favouring opening up and restructuring of the insurance sector.

**Weaknesses/Challenges**

- Premiums rates will remain under pressure due to intense competition on the more profitable lines
- Falling premium income -- without a corresponding reduction in claims -- is likely to drive down profits
- Reinsurance is likely to cost more as treaty reinsurers reduce ceding commissions to compensate for the lower rates following deregulation
- Public and private sector insurers’ greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets
- Private insurers need to raise more capital, otherwise growth could be constrained since reliance on reinsurance for capital relief is not always viable or available
• Traditional distribution channels, especially tied agents, need to be improved to match the new product offerings

• There is general lack of transparency as financial and operational data for insurers are not readily available as none of India’s insurers are directly listed on stock exchanges

• Like all developing economies on a fast track, the shortage of trained insurance professionals and technicians at all levels cannot be remedied in the short term

• Natural catastrophes will always be present; the Indian sub-continent is vulnerable to cyclones, floods, hurricanes and earthquakes, and until there is a national capacity (similar to the terrorism pool) to manage losses, dependence on overseas reinsurers will continue

Strengths/Opportunities

• The intense competition brought about by deregulation has encouraged the industry to innovate in all areas; from underwriting, marketing, policy holder servicing to record-keeping

• Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products

• Competition in a deregulated environment will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services

• Innovations in distribution and improvements in market penetration will follow as public and private insurers compete to market their products

• Allowing insurers to issue their own policy wordings and set their own rates will enable underwriters to tailor products to meet client needs

• The existence of stringent licensing requirements ensure that only adequately capitalized and professionally managed companies are eligible to carry out insurance and reinsurance
• The Insurance Regulatory Development Authority of India’s (IRDA) emphasis on quarterly reporting/monitoring of insurer solvency will enhance capital adequacy and transparency

• Licensed brokers are very much part of the intermediary structure and only those with adequate capital, professional experience and expertise will be licensed by IRDA

3.8 Challenges/Problems faced by Public Sector General Insurance Companies

The prospects of Indian Public Sector General Insurance Industries are very bright, however, at the same time, the industry is facing various challenges and these could be summarized as under:

Private insurance companies are entering the market every year. Therefore, the companies should carve out niche areas such that the threat of new entrants might not be an obstacle for them. There is also a chance that the big players might squeeze the small new entrants.

Power of Suppliers

Those who are supplying the capital are not that big a threat. For instance, if someone as a very talented insurance underwriter is presently working for a small insurance company, there exists a chance that any big player willing to enter the insurance industry might attract that person off.

Power of Buyers

No individual is a big threat to the insurance industry and big corporate houses have a lot more negotiating capability with the insurance companies. Big corporate clients like airlines and pharmaceutical companies pay millions of dollars every year in premiums.
Availability of Substitutes

There exist a lot of substitutes in the insurance industry. The large insurance companies provide similar kinds of services – be it auto, home, commercial, health or life insurance.

*Besides this, other areas can be focused to grow and survive in the Indian Market*

Understanding Customer needs

Understanding the customer better will allow insurance companies to design appropriate and-customized products, determine pricing correctly and increase profitability.

High-level Training and Development

Ensure high levels of training and development not just for staff but also for agents and distribution organizations. Existing organizations will have to train staff for better service and flexibility, while all companies will have to train employees to cope with new products and an intensive use of information technology.

Agent Relationship

Build strong relationships with intermediaries such as agents.

Market Segmentation

They must segment the market carefully to arrive at the appropriate products and pricing and should cater the needs of every individual.

Revamped Marketing Strategy

Worldwide, insurance products move along a continuum from pure service products to pure commodity products then they could be sold through the medical shops, groceries, novelty stores etc. Once commodization, popularity and awareness of the products are attained then the products can move to remote channels such as the telephone or direct mail. Brand loyalty could shift from the insurer to the seller.
Despite innumerable delays the sector has finally opened up for private competition. The threat of private players shaking up and giving the run for incremental market share for the Public Sector mammoths has been overplayed. The number of potential buyers of insurance is certainly attractive but much of this population might not be accessible for the new insurers. Since distribution will be a key determinant of success for all insurance companies regardless of age or ownership, Indian Insurance companies should broaden the distribution network. As the product moves towards the mature stages of commodization (increased awareness and popularity) they could then use a host of new channels like grocery stores, direct mails. Regulators must formulate strong and fair guidelines and ensure that old and new players are subject to the same rules and at the same time the government should ensure that the IRDA does not become yet another toothless tiger. In a reopened Indian insurance market, regulators must formulate strong fair and transparent guidelines and make sure that old and new players are subject to the same rules. Companies meanwhile must be prepared to set and meet high standards for themselves. The big challenge for both companies and regulators is to ensure that they replicate the benefits of the past while eliminating its ills.

3.9 Prospects of Public Sector General Insurance Business in India

In the book “Insurance: Fundamentals, Environment and Procedures, by Mr. B.S. Bodla, Mr. M. C. Garg, Mr. K. P. Singh-Deep & Deep Publications Pvt., the prospects of Indian General Insurance companies has been discussed, which are as under:

The opening of the general insurance sector has offered many opportunities to the existing as well as new players to enter this business. They can now penetrate into untapped areas, sectors and sub-sectors and unexploited segments of population. At present, the general insurance density and penetration are at a very low level. The insurance penetration is the indicator of
the significance of insurance industry in relation to a country’s entire economic productivity. It indicates importance of insurance industry in the national economy.

On the other hand, insurance density reflects upon the country’s insurance purchasing power. Both indices are at very low level in the country even compared to the countries with the same level of economic development and per capita income. This shows that there is a vast potential for the growth of this sector in future. It is estimated that the economy will continue to grow at the rate of around 7 to 7.5% in future. As a result of this, the scope for increasing insurance network in the country is also expected to grow up. This gives us an idea of the scope of insurance network and how fast it will continue to grow. This also shows that in India the prospects for insurance industry are very good.

Looking at the new entries in this sector, it is very clear that yet a large number of companies will enter the Indian market and the scope will keep on increasing. There will be a shift from monopoly to competitive market. There will be change from sellers’ to the buyers’ market in the insurance industry. This will also pose challenges to this sector. This challenge will be for both existing as well as to new industries. The challenge will be in terms of increasing sensitivity of the consumers to the quality of services offered by the firms, in terms of policy conditions, time consumed in the delivery of policy documents, pricing of products, expeditious settlement of claims, marketing channels etc.

With the arrival of new firms in the industry, consumers will expect new products designs at low prices, their professional selling, and responsive services. The firms lagging behind in these areas are likely to lose share in the market in a very short time and may even be forced to leave the industry. Thus, the competition while offering ample opportunities to the firms to widen the horizon of the market are also subjected to serious challenges due to increased sensitiveness of consumers to the quality of customers’ services.

The intense competition which is there because of deregulation has compelled or encouraged the insurance industries to innovate in all the areas. It is expected
that there will be aggressive marketing policies by private sector companies. This will increase the awareness amongst the people. Since the environment is deregulated and opened up, the same will force to set premiums. There will be innovations. The market penetration will also be there. This is because both the public and private sectors will be competing to market their products.

India is geographically large and has the world’s second largest population -1.20 billion approximately. At the same time, it has one of the lowest penetration rates for property and casualty insurance in Asia in terms of premium as a percentage of GDP. This situation reflects the fact that India’s insurance market is still in its infancy and has not yet fully matured. Justifying the Assocham’s predictions, RNCOS in its new research report, “Booming Insurance Market in India (2008-2011)” has forecasted that the Indian general insurance industry to grow at a CAGR of more than 25% between 2008-09 and 2010-11. As per a senior research analyst at RNCOS, the strong growth in the Indian general insurance sector is primarily due to the intense marketing strategies and techniques adopted by these companies.

Further, the private general insurance companies have started focusing on untapped rural areas offering tremendous growth opportunities. This will help in raising the private sector’s share in rural market. Private general insurance companies have a vast product portfolio in terms premium amounts, giving people a large number of alternatives to choose from as per their requirement. In addition, the general insurance companies mainly target the manufacturing sector but the service sector accounts for a very large share in the country’s GDP, offering growth opportunities to the industry. Also, private players have better market capitalization over public companies as they provide high return and aggressively market their products.

According to a Research Analyst at RNCOS, a market research and consultancy firm, “Due to the adoption of aggressive marketing techniques by private players, the competition in the sector has further intensified, which is reducing the market share of public sector general insurance companies. However, the public sector
general companies have widened their product range and improved their quality to match with those offered by private players, giving them long term advantage. General Insurance companies will earn lots of profits with the development and expansion of the insurance industry in the country.\textsuperscript{65}

The prospects of general insurance business in the coming years and in this millennium have been forecasted as very bright.