Chapter VI

SUMMARY OF FINDINGS AND SUGGESTIONS
This chapter summarizes the findings of the study and offers suggestions for effective carrying out the general insurance business in general and insurance business of National Insurance Company Ltd., in particular. Besides it also presents the scope for further research.

Introduction

Insurance whether life or general is basically a protective umbrella. It is a warm blanket of economic activity. It provides security of the economic value. It is a risk transfer mechanism by which one organization exchanges its uncertainties and losses to ascertain contribution and thereby receive compensation if loss is suffered by it, from the common fund of insurer.

The insurance business in India is divided into life insurance and non-life insurance. Life insurance is a contract whereby the insurer in consideration of premium undertakes to pay an annuity or a certain sum of money, either on the death of the insured or on the expiry of a certain period of time. The non-life insurance on the other hand, is the insurance which covers the risk of business activities and other activities except the risk of human life.

The insurance mechanism has two fundamental characteristics-shifting or transferring of risk of loss or damage of asset from owners of assets and sharing of losses by all the members of the group. The prime aim of the insurance business in India is to develop the insurance business by developing the new range of products and increase the insurance business basically increasing the nature of customers. It also has twin objectives to provide the short-range and long-range reliefs.
The growth of insurance business took momentum from the time of invasion by foreign rulers, establishment of diplomatic relations with the other countries like China, Mongolia, Greece and European countries. However, the real evidence of existence of the concept of insurance can be found from the time when business started growing across the world.

The details on the international comparison of insurance penetration show that the countries like Canada, Mexico, Chile, France, Russia, South Korea, China, South Africa registered a positive growth rate in penetrating their general insurance business, while Indonesia, Malaysia, Kenya, Australia, Brazil, Germany, Japan including India registered a negative growth rate. International comparison of insurance density (a ratio of premium in US Dollar to total population) Russia stands first followed by China, Chile, Brazil, India, Japan, United Kingdom, United Nations, Mexico and Malaysia. The general insurance business is being carried out by the public, private, specialized and reinsurers. Of late, with wide spread economic reforms across the globe have clearly paved the way for private companies to enter the general insurance business in India.

The insurance system is believed to have originated as early as between 1000 BC to 2000 BC in India. During 18th century, the British insurers arrived in India and started the insurance business to protect their interest in trade and business. In 20th century, the general insurance got encouragement from Swadeshi Movement. During the 21st Century, with the enactment of Insurance Regulatory and Development Authority in 1999, the general insurance business opened up to private insurers since 2000.
At present there are twenty one General Insurance companies operating in India. Of which, four are in public sector, fifteen are in private sector and two in a specialised sector. The public sector general insurance companies produced a record performance during 2006-07 and grew to a whopping business of Rs.12000 crore by the end of 2007. The profits of the four State-Owned companies put together were 120 per cent during 2006-07. The profits of the other eight private general insurers rose to Rs.230 crore over the profits of 2005-06. The market share of public sector companies in general insurance is 65 per cent whereas the eight private companies put together had a market share of 35 per cent. The market share of private insurance companies are growing in a significant manner. For instance, the Gross Written Premium grew from Rs.175.3 billion in 2005 to Rs.203.8 billion by 2006. During the same period, the market share of the private insurance companies rose from 20.3 per cent to 26.6 per cent.

GIC is one of the investment institutions in the Indian economic system. The GIC and its subsidiaries apportion their investable funds for the both the Government and socially oriented sectors and the corporate sector. They extend financial assistance to the corporate sector in the form of term loans and corporate securities. They also sanction finance to corporate sector for establishment of new units, expansion, diversification, modernisation and rehabilitation of the existing units. GICs grant assistance for long term working capital requirements and for meeting the cost over run etc. However, they are under obligation to invest in Government and other approved securities and to finance the socially oriented sectors like housing etc.

In April, 1993 Government setup a high power committee headed by Dr. R.N. Malhota to suggest reforms in the insurance sector and make it more efficient and
competitive. The committee recommended to setup a statutory institution (Insurance Regulatory and Development Authority) to protect the interests of the policy-holders, regulate, promote and ensure orderly growth of the industry and for matters connected therewith.

Realizing the vast potential in Indian market, companies all over the globe rushed to find a foot-hold the lucrative Indian market. Evolution of technology and convergence of services witnessed the insurance products are also being offered by banks. The potential for growth of the Indian Insurance industry can be gauged by the fact that the Indian Insurance market registered the growth in the Asian region even though India’s share of global insurance premium is less than 0.5 per cent compared with the US 24.2 per cent and Japan 21 per cent. The private players are well aware that only 25 per cent of the insurable population have been extended insurance coverage. This implies that in India the market penetration is low and the potential to exploit is high.

The problem

National Insurance Company Ltd. (NICL) was incorporated in 1906 with its Registered office in Kolkata. It is the oldest and second largest non-life insurer in India and having a large market in Northern and Eastern India. It has been internationally recognized as one of the top five General Insurance Companies in the Asia Pacific. Its net work is about 1000 offices, manned by more than 16000 skilled personnel and covering even in remote rural areas. The NICL, befittingly has offered more than 200 products since its inception to cater the emerging needs of the society, industry and extending services to 14 million policy-holders. As part of the company’s major strategic initiative, it has tied up with commercial banks, non-
banking financial institutions automobile manufacturers, NGOs and State Governments for marketing its insurance activities. The company used to carry out its business under GICs and with the emergence of Insurance Regulatory and Development Authority in 2001, it has been operating the business independently. With the emergence of liberalization, privatization and globalization many changes have taken place across the world including the operations of general insurance business. Today many foreign companies have entered the general insurance business and creating a severe competition within the country and the across the world. Thus, NICL is facing competition not only with its counterparts in public sector, but also with private companies within India and outside the country. Therefore, it is high and right time to access and gauge its current status and to frame the strategies to face the future challenges and stand in the competitive business world. It is against this backdrop, the current study proposed to evaluate the performance of NICL in terms of its growth, operational and financial performance during the study period i.e. 2001-02 to 2008-09.

It is observed from the literature reviewed that some articles are found on general insurance and very few studies are on insurance. It is surprised to find that no in-depth studies are found in general insurance. More so, no specific studies are made on the performance evaluation of general insurance companies in general and NICL in particular. Economic reforms initiated early 1990s have recently been geared up and opened doors to the entry of private sector in the domains of general insurance. Many financial institutions both in the public and private sectors have been taken up by insurance business. This, indeed, is a challenging task to the public sector institutions like NICL to face and withstand in the competitive business world as of today. Hence, the current study is a humble attempt in this direction. It is strongly believed that the
findings of the study would help to access the performance of NICL on selected parameters such as its physical growth, operational and financial performance to formulate new business strategies as to face the challenges of contemporary general insurance business.

National Insurance Company Ltd., is the pioneering company in general insurance business in India started in 1906, followed by New India Assurance Company in 1919, United India Insurance Company in 1936, Oriental Insurance Company in 1947. All these four companies were under the control of G.I.C. of India till 2000. On the recommendations of Dr. R.N. Malhotra Committee and with the introduction of Insurance Regulatory and Development Authority (IRDA) in 2000, doors are opened to the private sector. As of now, there are as many as 15 companies in private sector started the general insurance business with different products.

As on 31st March 2009, there are as many as 4376 offices of all four General Insurance Companies in India under public sector. Of these, 1361 offices representing 31.12 per cent belong to United India Insurance Company Ltd., 1055 offices pertaining to New India Assurance Company Ltd., 995 offices are related to Oriental Insurance Company, and 965 offices belong to National Insurance Company Ltd. It is observed that though the NICL has limited branch offices, but it is the pioneering leader to the rest of the General Insurance Companies in India especially in public sector.

In non-life insurance business, the General Insurance Companies offered more than 160 varieties of policies (during 2008-09) to the public to suit their different needs. The non-insurance business broadly covers two types of products (a) commercial line of insurance which include cottage, tiny and small sectors insurance,
traders insurance, professionals and specific professional insurance, industries and commercial organizations insurance, rural industries and rural insurance prospects (b) personal line of insurance primarily include property insurance, health insurance, accident insurance and liability insurance.

The general insurance companies in India are presently offering more than 160 policies and the number of products issued were more in private sector than the GICs in public sector during the study period i.e. from 2001 to 2009. The market share of private insurance companies are growing in a significant manner than the public sector GICs.

It is further found that the market share of public sector companies in general insurance is 65 per cent where as the eight private companies put together sharing the remaining 35 per cent of total business.

From the literature available on General Insurance it is found that though the population of India is high, the awareness among the people about the importance of insurance is very low. Owing to the low penetration level of this essential service 35 million people, only 1 billion population are covered by insurance. After liberalization, the private GICs have become a service competitor to the GICs in public sector. The increased competition from the private sector, has forced the general insurers to reduce the premium mainly in non-tariff business like Marine, Group Personal accident etc.

It is also observed that the Indians are traditionally savings-oriented. Nearly one-fourth of their income is saved. And yet, only six per cent of the total savings is invested in insurance products. This figure is more than 20 per cent when compared to developing countries like South Korea. Compared to 19 Western countries, the
growth rate of non-line insurance business in India has registered the least growth rate (-0.33 per cent) in penetrating the general insurance business.

In terms of network of business, the United India Insurance Company is enjoying the major share under the public sector and the least-share is seen in case of National Insurance Company Ltd. Among the public sector GICs, except during 2001-02 year, in the rest of the years during the study period, NICL has been introducing new products more in number than its counter part companies in the public sector. In case of Gross Domestic Product including premium received the private sector is far ahead than the public sector.

There is a considerable increase in collection of direct premium both in case of Marine and Miscellaneous schemes than Fire Insurance. It is found that till 2000, the GICs, under public sector used to monopolies the general insurance business. However, with the wide spread economic reforms across the globe has clearly paved the way and opening the doors for private companies to enter the general insurance business in India. Alarming growth of GI business is found with the entry of private agencies both from within India and abroad. This indeed, felt for a regulating and monitoring agency at national level. Hence, a separate Act was passed in 1999 as a result Insurance Regulatory and Development Authority in came into existence from December 2000. It has been framing different rules and regulations to monitor the insurance business and protect the policy-holders.

National Insurance Company was started in 1906 and it is the leader to the rest of the general insurance companies in India especially in public sector. The company is bifurcated from GICs in public sector and has started its business independently since 2001.
Operational Performance

It is found in the study that a positive growth rate in terms of policies and premiums received, persons covered, number of claims reported and settled. It is also significantly noticed that the claims settled in the personal accident insurance for Kissan Credit cardholders and the amount released thereon is 31.19 per cent of increase in terms of amount paid to the policy-holders of NICL.

In case of Janata Personal Accident Policy of the company there is a positive growth rate regarding policies and persons covered. But surprisingly, negative growth rates are explicitly noticed in terms of premiums received, claims reported and settled including the amount released for settlement of claims.

A closer observation of the table and the linear growth rates in case of Gramin Personal Accident Policy of NICL, a negative growth rate is obviously found in terms of policies issued, persons covered, premium received, claims reported and settled. It is observed that Universal Health Insurance is also one of the schemes well received by the policy-holders and found that more than 50 per cent of policies were issued and 46.68 per cent of persons is covered exclusively during 2008-09 period only.

Mediclaims insurance is a popular scheme launched and successfully implemented scheme by NICL. This scheme, gained much momentum from 2004-05 onwards. Hence, compared to other schemes, the growth rate in all aspects of the Mediclaim is found quite satisfactory. The NICL also specifically designed plans keeping in view the specific target groups. Among such schemes Raja Rajeswarai Mahila Kalyan Yojana is one such scheme. This policy covers housewives, students, domestic labour, skilled and unskilled labour and other women. It is observed that this schemes gained popular and well received during its early years i.e 2001-03 and later
there is substantial decrease in case of policies issued, persons covered and premium received. Though the average details of the schemes are showing a satisfactory trend but the linear growth rate is showing a negative trend.

Regarding Bhagyashree Child Welfare Policy, a positive linear growth rate is noticed with regards to persons covered policy-holders premium received and the amount paid, while a negative rate is noticed in case of policies issued, claims reported and settled. Jana Arogya Bima Policy can be availed by the policy-holders whose age falls between five to sixty years. The details as demonstrated in table 4.8 spelt-out that negative trends are noticed in all the respects of the scheme.

It has been witnessed that Parivar and Varishta mediclaims policies are much ahead and progressive in all respects. A comparative analysis between mediclaim policies bring us to infer that Parivar and Vristha mediclaims of the company in all respects are quite satisfactorily received by the policy-holders. Rural insurance business has also been carried out by the NICL since its bifurcation in the year 2001-02. Regarding the premiums received, a positive linear growth rate is found where as number of claims, claims settled and the amount paid to the policy-holders of rural insurance business negative linear growth rates are found.

Cattle and live stock insurance is yet another scheme introduced and being carried out by NICL since 2001-02. The operational performance of NICL with regard to Rural Insurance Scheme is 68.19 per cent of the policies were issued only during 2001-02 as the highest while the least percentage were issued during 2007-08. With regard to number of persons covered and claims reported the highest percentages are noticed during 2001-02 than the other years. The results with regard to this scheme are that positive linear growth rates show that except premiums

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received and amount paid, in the rest of the aspects a negative trend is clearly observed.

The details of claims disposal percentage of NICL clearly show that over the years, it is found that there has been an increasing trend in the settlement of cases. The cases disposal rate was 20.77 per cent during 2001-02 and by 2008-09, the rate of settlement was 29.12 per cent. The growth rate in terms of cases settled was 12.18 per cent which is found so significant.

It is observed from the study that many motor third party cases were compromised through Lok Adalat and conciliatory forums are also playing a due role in settling the cases of general insurance business that are being carried out by the NICL. However, it is found that Adalat is the best mechanism in settlement of cases of National Insurance Company Ltd.

Year-wise working results of National Insurance Company regarding underwriting are showing positive trend. With regard to unexpired risks reserves, except 2001-02 and 2005-06, a positive trend has been clearly observed.

It is noticed from the study that the cases pending from three months to five years were more during 2001-02 and thereafter started declining. This further reflects the fact that the number of cases outstanding and the amount thereon over the years have been mounting in the initial years compared to the end of 2008-09.

As far as settlement of cases against the cases reported, it is found that out of 105500 cases reported, only 11.34 per cent cases were settled within 30 days, 12.98 per cent within six months, 15.38 per cent cases after six months but within a year,
6.08 per cent settled in between 1-5 years. From this, it can be inferred that the cases reported for settlement was found very sluggish.

Operational performance of NICL is also gauged on the status of grievances reported, number of cases resolved and the number of cases pending over a period of time. The overall picture of the grievances reported and settled is showing a positive trend, signifying the fact that settlement of grievances of the policy-holders is satisfactory.

Financial performance

It is noticed that the Gross Direct Premium received there are ups and downs from the schemes of Fire and Marine insurance while it is constant in case of Marine Insurance. In case of fire insurance, there was a growth till 2006-07 and thereafter a down fall is clearly noticed. However, in case of Miscellaneous schemes, there is a good record of growth rate.

It is found that net premium income is the income arrived after deducting the expenses incurred on various schemes. It is quite interesting to note that as much as 8.13 per cent of growth rate is achieved over a period of time from all the general insurance business activities carried out by NICL.

Regarding scheme-wise and year-wise net premium income earned by the NICL, though the company has been earning net premium incomes, but the figures, gratify that the growth rate is more in case of Miscellaneous premiums followed by the incomes in the form of Fire and Marine insurance.

It has been vividly observed from the study that income earned on interests, dividends and profit on redemption of investments broadly constitute the major source
of revenue to the NICL. The source of income from fire insurance was found Rs.42.56 crore and declined till 2005-06 and again geared up till 2008-09. Income from Marine insurance during 2001-02 was Rs.29.05 crore and showed a declining trend up to 2008-09. However, income from Miscellaneous schemes, has been showing an increasing trend since 2001-02 till 2008-09. Income on profit on sale for redemption of investments, it is observed that the NICL has been enjoying a satisfactory growth in respect of all Fire, Marine and Miscellaneous schemes. The total income of NICL, thus, includes income from premiums, profit on sale for redemption of investments, interest on investments, dividends and rents and also income from other sources and showed an increasing trend consistently during the study period i.e. 2001-02 to 2008-09.

A penetrating look at revenue of total insurance schemes of NICL is gratifying to note that the internal efficiency of the company is clearly reflected in its operating profit. The ratio of total expenditure to total income was more than 100 per cent i.e. six out of eight years of the study period and this clearly indicates poor financial performance of the company.

Year-wise and scheme-wise analysis of operating expenses of the company led us to conclude that operating expenses were incurred more on Miscellaneous schemes followed by Fire and Marine schemes. The average details of the operating expenses, a negative linear growth rate is seen in case of Fire and Marine insurance. However, a positive linear growth rate to the extent of 9.04 per cent is noticed in case of Miscellaneous schemes.

It is observed from the study that a major portion of the amount is kept with the company itself and very meager amount is kept in the reinsurance business. It is
also observed from the study that the linear growth rate of operating profit under all
the schemes was negative. This implies that the operating expenses are quite high and
NICL is not able to exercise sufficient control on them leading to huge operating
losses.

It is also found that ratio of commission to total premium increased from 2.30
per cent in 2002-03 to 6.37 per cent in 2008-09. The ratio of commission paid under
Miscellaneous insurance schemes more or less is corresponding with this figure. However, the overall commission paid in NICL is well within the limits.

The growth rate in general insurance of NICL in case of Fire insurance is
registered at 11.89 per cent followed by Marine 7.71 per cent and Miscellaneous
schemes 6.79 per cent. On the whole, the growth rate in respect of all the schemes
comes to 2 per cent only. It is, therefore, concluded that the linear growth rate in case
of Fire insurance is more while the same is less in case of Miscellaneous schemes.

As far as the net claims to net premiums received are concerned, the ratio in
case of Marine insurance exceeded 100 per cent in 2008-09. The average ratio of
claims to premium is abnormal under Miscellaneous schemes followed by Marine
insurance. However, the abnormality under these categories to a some extent is
compensated by the ratio under Fire insurance category which is recorded an average
of 54.45 per cent. It is revealed in the study that majority of the claims are from
Miscellaneous schemes followed by Fire and Marine insurance. This explicitly
implies that the new schemes introduced from time-to-time by NICL are well received
by the policy-holders.

From the sources and applications of funds of NICL, the major sources of
funds include share capital, reserves and surpluses and fair value charge account and
application of funds mainly include investments, loans and the fixed assets. It is also observed that reserves and surpluses are mounting year after year except 2005-06 and 2008-09. One noticeable observation is that increase in investments could be achieved without adding any amount to the external sources of capital. This clearly indicates NICL's efficiency in fund management.

Regarding pattern of investments made by the company, it is found that major portion of investments are made in highly liquid and safe Central and State Government securities and approved investments. Loans on housing finance and fire fighting equipments, infrastructure and social sector investments have been increasing and the linear growth rate in them is much higher than the other investments.

It has been found in the study that among all the GICs under public sector, the solvency ratio is quite high during 2001-09 in New India Assurance Company Ltd. than its counter-part companies. However, the solvency ratio of NICL is the lowest among the other public sector GICs except 2007-08 but better than the standard ratio i.e. 1.5 per cent.

It is found that there has been a tremendous progress in the investments made on the loans on housing and fire fittings and equipments, infrastructure and social sector investments, investments on approved ones and also investments in other portfolios.

Regarding operating revenue and operating costs, it is observed from the analysis that except during 2002-03 and 2008-07 in the rest of the years the NICL has been incurring losses. Operating expenses are found more during 2008-09 than its operating revenue whereas the operating loss is found the least during 2004-05. From this, it can be concluded that though the operating revenue from 2001-02 has been
increasing till 2008-09, correspondingly, it is noticed that operating expenses have been increasing except 2002-03 and 2006-07.

Suggestions

Based on the analysis and the findings arrived from the study, the following suggestions are offered for improving the general insurance business in general and the business of NICL in particular.

1. Though there is success in market mechanism of general insurance industry, still majority of the vulnerable sections of the society are unable to make use of (reach) enjoy the fruits of general insurance business. Hence, concerted efforts are to be initiated by the GICs including NICL to extend the scope of its business by including low income strata of people within its ambit.

2. With the entry of private and foreign agencies resulted in competitive pricing, better policy servicing, improved distribution system and speedy claim settlement. This led to a significant growth of general insurance of NICL business in terms of number of new policies issued, total premiums collected and level of penetration.

3. The gross premium received from the rural sector over the total business of GIC is to the extent of two per cent only. Therefore, in a country like ours which is rural and agricultural based, there is a dire need to introduce new products covering rural farmers and their farm activities under GIC.

4. The operational performance of GICs in public sector especially social sectors is good enough while the social sector is neglected by the GICs in private sector. Therefore, it is suggested that the new guidelines are to be framed by the IRDA and insist private agencies should takeup insurance business in rural sector.
5. The operational performance of NICL is quite satisfactory in terms of number of new products introduced, policy-holders concerned premiums received, number of cases settled and disbursement of claims during study period. However, the company is not penetrating itself to the rural and social sectors. Hence it is suggested that the company should launch many new products especially covering the rural farmers and more so social sector.

6. The growth of general insurance business could be ensured if the IRDA will take up radical reforms in making available reliable and timely statistical data and information about policies for insurance market.

7. Supervisory and regulatory mechanisms on the operations of general insurance of NICL must be strengthened to face the competition with the private institutions that have entered the general insurance business. The NICL should incorporate the stability and high solvency standards and introduce social security insurance schemes. In order to protect the farmers from the vagaries of natural and other catastrophes a separate crop insurance company is to set up exclusively for the sake of farmers. So that the farmers' lives and assets can be protected to a larger extent.

8. It is quite surprising to note that financial performance of NICL compared to other public sector GICs, is below than average. The operating expenses are also found more under the Miscellaneous scheme than Fire and Marine insurance schemes. Therefore, the NICL has to focus its attention on operating expenses under Miscellaneous category to improve its overall operating efficiency and thereby its financial performance.
9. In most of the markets, insurance products are used first and filed later. Therefore, IRDA needs to move to a use and file system. This step will certainly boost growth of general insurance business. Currently, the system is in vogue. Innovation should be the future plank for the industry. Insurers should be given total freedom by IRDA to device their own policies, pricing, wording, exclusions and deductibles at this is prevalent practice in most parts of the world.

10. Finally, it is hoped that if the above findings and suggestions are meticulously taken care and frame new policies and guidelines as per the global business trends and winds, the company will able to with in the business and face the competitors more effectively and efficiently and become a model company to the rest of the general business companies both in public and private sectors.

Scope for further research:

There is a wider scope to undertake research in the areas of general insurance business on the following themes.

1. Besides micro level studies of this type, comparative studies can also be taken up on the performance evaluation of GICs within the public sector for measuring the overall performance and functioning of GICs.

2. Similarly, comparative studies on performance evaluation between GICs in public and private sectors can also be initiated, and

3. Research studies can not only be made on the performance evaluation of GICs based on secondary data, empirical studies based on primary data can also be taken up by analyzing the opinions of the policy-makers, employees, agents and development officers of GICs on various aspects of general insurance business.