CHAPTER I

INTRODUCTION

Ours is an era of uncertainty and life is full of surprises. It is the sum total of tensions and apprehensions regarding the future uncertainties. Wherever there is an uncertainty, there is a risk. The risk can't be avoided. It has got multi-faceted dimensions and involves huge losses. No one can accurately predict the uncertainty. Life styles have changed rigorously and along with these changes, the uncertainties of lives of individuals have also increased. The choice to handle and manage these uncertainties of life lies purely with the individuals and it is their basic responsibility.

The history of our Indian culture reveals that joint family system provided financial cushion and also protection when an unfortunate incident occurred to an individual in the family. The industrialization process of our country resulted into the division of the joint family system into nuclear family units and the support of the joint family system completely disappeared.

The domain of insurance solves one of the significant problems of a rational human being by building up a corpus for an uncertain future. The purchase of a life insurance policy is one such planned and systematic decision of the individual to minimize or if possible, even to eliminate the loss of risk arising out of uncertainty. This gives him protection economically and also provides peace of mind as his family is sure to get relief from financial stress and strain.

The Indian society is largely traditional. The life insurance industry in India has not been given due importance as life insurance is considered only as a negative thinking of ‘widow’s money’ when the bread-winner of the family is no more. The industry is associated purely with an inauspicious event. The insured feels that paying insurance premium to the insurers is real. But, receiving claim proceeds from them is only a distant contingent. Hence, our
population can’t take insurance in a positive manner. But, at present, it is considered a positive instrument by many for creating assets and wealth during long-period to the insured.

Insurance, generally, operates on the premise of uncertain future and as such its promotion and development depends mostly on the ability of insurers in assessing the real uncertainties of life of the insured. Insurance provides payment for unexpected losses for individuals, family and business firms, allowing their activities to continue smoothly despite unfavourable and unfortunate events.

The business which affects all walks of life is insurance business. Insurance is a business which works on confidence. It is not only a handmaid of commerce but a basic service needed by the society. It is to be made available to every person. Thus, confidence on insurance is to be restored and cultivated by the insurer. An insurer’s reputation is evaluated mainly on his ability to fulfill his promise when the insured needs it.

The life insurance industry also plays an important role in the mobilization of household and corporate savings and promoting investment activity. This industry provides for efficient and productive allocation of capital resources, thus facilitates growth and development of an economy. India is a nation with large population and a larger share of this population is living below the poverty line. Hence, insurance is an important issue to our economy.

The life insurance industry in India, with LIC and 22 private sector players, has been playing a major role in performing some insurance functions to the society, especially to the larger masses. The industry supplements the Government’s efforts and takes over the national character. It is a major vehicle in contributing to productivity, providing employment, supporting societal development, establishing infrastructure besides providing financial protection against uncertainties of individuals.
CONCEPT

The subject matter of insurance is the life span of human being. “Life insurance commands the greatest popularity and importance in the insurance world because the life is the most important property of the society or an individual”\(^1\). “The basic premise of insurance is to protect the few against the heavy financial impact of anticipated misfortune by spreading the loss among the many who are exposed to risk of a similar nature”\(^2\).

Insurance is an effective financial instrument wherein the customers pay a smaller amount to the insurer in the form of premium for meeting a larger uncertain loss that would exist if they have not taken insurance. Insurance has neither prevented losses nor reduced the costs of losses. But, the principle of insurance states the loss of few is shared by many.

The Oxford English Dictionary defined insurance as “the act of securing the payment of a sum of money in the event of loss or damage to property, life, etc. by payment of a premium or premiums”. The term insurance may also be defined as “a social device providing financial compensation for the consequences of adversities, the payments being made from the accumulated contributions of all parties participating in the arrangement. The essence of insurance thus, is collective bearing of risks as it involves pooling of risk”\(^3\). It is also a social instrument or mechanism in which economic security and social protection are provided to people and also to corporates.

Insurance is a mix of promise and service. It is a promise to be made to the insured to fulfill a stated obligation in future as per the conditions laid down in the insurance policy. It is also a service rendered by the insurer when the need arises to the insured. Hence, the survival of life insurance industry depends mostly on utmost good faith of the insured.

---


Insurance is generally categorized into two groups i.e., life and non-life insurance. Life insurance provides financial protection to the insured against the risk of uncertain and unpleasant things that occur. Non-life insurance provides protection to the insured against accidents, property damage, burglary and other liabilities. Insurance is made available to the public through insurance contracts or policies. There is no possibility of partial loss in the life insurance policies. Hence, all policies are purely full cash payment policies. If an unfortunate event occurs, the insurer has to pay the sum assured of the policy. But, there is a partial loss in case of property and liability insurance.

Insurable interest is necessarily to be needed to the validity of an insurance contract. If there is no insurable interest, the contract becomes void and unenforceable. However, the cessation of an insurable interest does not affect the validity of the insurance contract where an insurable interest existed at the time the policy was issued\(^4\).

Previously, life insurance was considered purely a tax saving device and compensating the inauspicious event. But, at present, it is elevated to the position of a product of a combination of both investment and risk cover. If the insurance facility is not available to the individuals, families and business organizations, they have to maintain relatively larger sums of money to meet their assumed risks. This amount is in the form of idle cash or may be invested in highly liquid and low-interest carrying securities. This means an inefficient use of capital. Hence, insurance provides for the optimal utilization of the available capital.

**ORIGIN**

The origin of the life insurance scenario is as old as the history of human civilization. There was no direct reference to insurance. But, many indirect references were found. “Life insurance in India can be traced back to

---

the Vedas. A form of community insurance was prevalent around 1000 BC and was practiced by the Aryans. Some societies were found in the Buddhist period to help families build houses, protect widows and children. It also found mention in the writings of Manusmrithi, Dharmasastra and Arthasastra.

The concept of insurance was also born at ‘Lloyd’s Cafeteria’ in England where most of the sailors and ship-owners refreshed themselves. For compensating the losses incurred to the ships in the high seas, a coalition was formed amongst ship-owners and they pooled up larger sums of money. Later, this idea initiated the development of large scale business of personal, property and liability insurance.

Insurance in modern form originated in the Mediterranean during the 13th century. The earliest references to insurance have been found in Babylonia, the Greeks and the Romans. Marine insurance is the oldest form of insurance followed by fire insurance.

The two great economic waves in human history were the Renaissance and the Industrial Revolution. The insurance mechanism in India had not been able to match the waves in equal measures as compared with the other developed nations of the world.

In United States, there were three broad categories of insurance, i.e. life insurance, health insurance and liability insurance. The United States had traditionally dominated the world insurance market. The insurers supported loss prevention agencies and provided inducements for individuals and companies to engage in loss prevention and loss reduction activities. Premium credits were often given for smoke alarms, fire sprinklers and drivers’ training programmes. Experience-rating credits were common to

---

7 Later, the U.S. domination had come down due to the entry of outside insurers into the insurance market and these companies had increased their share in the world total premium volume.
some lines of commercial insurance\textsuperscript{8}. But, life insurance did not prosper during the 18\textsuperscript{th} century due to wide fluctuations in death rate. After 1800, some active interest was seen in developing insurance business.

The life insurance was also existent in England. The policy of life of William Gybbons on June 18, 1633 was the recorded evidence of life insurance. Even before this, the annuities were found common in England. The first registered life office was the ‘Hand-in-Hand Society’ which was established in 1696\textsuperscript{9}. With the advent of industrial revolution, the miscellaneous insurance like accident insurance, fidelity insurance, liability insurance and theft insurance took the present shape in the country. Lloyd’s Association was the main insurance institution. The scope of non-life insurance was becoming wide with the development of the societal needs.

**INDIAN LIFE INSURANCE SYSTEM**

The life insurance system in India has been progressively evolutionary through a number of phases in its nearly 200 years of history. The institutions providing life insurance services had been an integral part of the Indian insurance system. The evolutionary development of life insurance industry in India went through many different phases moving from private market to nationalization and from nationalization to liberalization.

**Early Period and Pre-Independence**

The first insurance company was started in 1818 at Calcutta. Later, the Bombay Mutual Life Insurance Society was also commenced its business in 1870. Some other European life insurers came to India to cover the European lives. They also covered the Indian lives of a higher income group, that too, at a higher level of premium. This exercise of the foreign insurers greatly


humiliated Indians and as such patriotic Indians felt the need for Indian insurance companies to serve Indian Public.

Later, the impact of Gandhiji's Swadeshi Movement was felt in the insurance circles with the increasing support of clients to domestic companies. The Indian Mercantile Insurance company was started purely with indigenous capital. The number of insurance companies also grew with time. As there was no legal framework to control or monitor the insurance business, the business did not develop appreciably. There were many instances that during this period, private insurance companies used to give rebate on premiums paid in order to induce policyholders to insure themselves as much as possible. They also struggled hard for giving as good a return as possible to the policyholders on the money invested by them in buying life insurance policies. Several complaints and frauds were noticed during the period from 1920 to 1930 which disturbed significantly the insurance business in India. The business was mostly guided and governed by the provisions of the British Acts.

The starting of regulation over the insurance business was taken place only with the enactment of the Indian Life Assurance Companies Act, 1912 and the Provident Fund Act, 1912. In 1914, the Government started publishing returns of insurance companies in India. Later, a new Indian Insurance Companies Act was enacted in 1928. But, the first comprehensive enactment was the Insurance Act of 1938 which provided strict state control over insurance business. The Insurance Act of 1938 which came into force from 1st July, 1939 was a landmark to the conduct of insurance business in the country and was followed even after nationalization of insurance sector by the monopolistic players and also after liberalization. The importance of the Act was that the whole business was brought under a unified system of control and regulations. By 1938, there were 176 insurance companies operating in the country.
Under the provisions of the Insurance Act, 1938, the Government had established the Institution of Controller\textsuperscript{10} of Insurance along with a separate department to supervise and regulate insurance business in the country. The headquarters of this Department were located in Kennedy Cottage, Simla. As the regulator, the Controller of Insurance, was located in a far away place and he was not adequately staffed to monitor and supervise the well-dispersed industry.

By 1947, 50 per cent of premiums in life insurance sector were controlled by the domestic industry sector. This sector was developed in competition with foreign insurance sector which was predominantly represented by British Insurance Companies, whose contribution to the development of insurance expertise in Indian-sub continent markets must also be duly recognized.

**Post-Independence and Nationalization**

After Independence, the business of Indian insurance grew at a faster pace as competition amongst Indian companies intensified and as the non-Indian insurers were dislodged by Indian Life Companies. Despite the strides by the Indian companies, the insurance business remained an urban phenomenon. There was an immense scope for further spread of life insurance in the country. Moreover, this limited development was marked by many malpractices involving misuse, and frequent liquidation of insurance companies. This shook public confidence and also deprived policyholders of their savings and security\textsuperscript{11}.

\textsuperscript{10} The previous designation, “Superintendent” was replaced by “Controller” signifying wide supervisory, regulatory and state control over insurance business. The first three appointees by the Government to this prestigious office in Simla carrying a fixed tenure of five years were Shri L.S. Vaidyanathan, Shri M.A. Aziz Ansari and Shri A.Rajagopalan. They were the pioneers in regulating the insurance sector in India.

In the 1950s, things were very different. Though prudential norms were introduced, the life insurance industry was operated in a casually regulated environment and operated on a varied basis. Some companies were doing famously well, making profits and serving their customers properly. But, there were many others who were on the verge of sickness and incurring losses. However, the Government was also pursuing public programmes that needed captive funding and saw the life insurance industry, with its heavy amount of life funds, as a good source.

The Insurance Amendment Act, 1950 abolished principal agencies. There were a large number of insurance companies and the level of competition was high. There were also allegations that many companies resorted to unfair trade practices.

Life insurance business during this period was slow and restricted mostly to urban areas and upper class population. The insurance needs of the population in rural areas and low networth individuals were completely neglected. Insurance was considered only an unfulfilled dream to many and the concept of nationalization was thought off by the Government.

Nationalization of the life insurance business in India was also an outcome of the Industrial Policy Resolution of 1956 which created a policy framework for extending State control over at least seventeen sectors of the economy, including life insurance.

On the eve of the nationalization of life insurance in India, the then Prime Minister, Pandit Jawaharlal Nehru advocated that the nationalization of life insurance is an important step in our march towards a socialist society. Its objective has to serve the individual as well as the state. The life insurance has to spread rapidly throughout the country and to bring a measure of security to people.

The then India’s Finance Minister Shri C.D. Deshmukh asserted that the nationalization of life insurance sector was done only as an economic
priority. The majority of the small and medium-size life insurance companies which developed in Indian market during the British regime were financially weak and likely to collapse in time to come. It was, therefore, necessary to consolidate the entire life insurance business under the control of a public sector Life Insurance Corporation of India.

To this effect, an ordinance was promulgated by the Central Government on 19th January, 1956. Later, a Bill was introduced in Parliament and was passed into an Act in 1956. It received the assent of the president on 1st July, 1956. Life insurance business was nationalized in 1956 with the merger of 245 private life insurance companies i.e. 154 Indian, 16 non-Indian and 75 provident societies.

All the 245 companies lost their identity and were merged into the LIC from 1st September, 1956 on which day the Life Insurance Corporation of India came into being. The LIC took over the assets of all these companies. The Corporation began its operations with 5 Zonal offices, 33 Divisional offices and 212 Branch offices.

After nationalization of the insurance organizations, the Controller of Insurance moved from Simla to New Delhi and became a part of the Union Ministry of Finance. As a result, the ownership role of the Government on the insurance front came to the forefront rather than the previous regulatory role.

The policies of the Indian insurance sector were in tune with the macro-economic norms of mixed economy subject to the predominant public sector control of the Nehruvian Social Welfare State Model influenced on the one hand by the models of liberal welfare states from Western Europe and U.K. and on the other by the state control planned economy of USSR.

In 1971, another historical event took place in the political and economic development of India. The then Prime Minister Mrs.Indira Gandhi’s Government took the decision of turning India’s mixed economy into the Socialist Republic of India. Mrs.Indira Gandhi also mentioned that Life
Insurance is an ideal form of saving, both from the direct interest of individual and from the interest of the nation. LIC has done notable work in promoting the saving habit. The Indian life insurance system during this period mainly catered to the needs and obligations of the planned economy based on mixed economic system wherein the public sector LIC occupied a monopolistic position in life insurance business. The major historical events of the Indian life insurance system which created a base to the present well-structured and well-organized life insurance industry are given in Table 1.1.

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Historical Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1870</td>
<td>Bombay Mutual Life Assurance Society started its business.</td>
</tr>
<tr>
<td>1912</td>
<td>The Indian Life Assurance Companies Act was enacted as the first statute to regulate the life insurance business.</td>
</tr>
<tr>
<td>1914</td>
<td>The Government started publishing returns of insurance companies in India.</td>
</tr>
<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about life and non-life insurance business.</td>
</tr>
<tr>
<td>1938</td>
<td>Earlier legislation was consolidated and amended by the Insurance Act, 1938 with the objective of protecting the interests of the insuring public.</td>
</tr>
<tr>
<td>1950</td>
<td>The Insurance Amendment Act, 1950 abolished Principal Agencies.</td>
</tr>
<tr>
<td>1956</td>
<td>245 Indian and foreign insurers and provident societies were taken over by the Central Government and the insurance business was nationalized. LIC was formed by an Act of Parliament, i.e. LIC Act, 1956.</td>
</tr>
<tr>
<td>1968</td>
<td>The Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set-up.</td>
</tr>
<tr>
<td>1983</td>
<td>An Amendment Bill to the LIC Act, 1956 was drafted to split the LIC. Different Committees constituted by the Government were not in favour of the split.</td>
</tr>
<tr>
<td>1997</td>
<td>Government of India cleared proposals for giving greater autonomy to LIC.</td>
</tr>
</tbody>
</table>

Source: i. Annual Reports of LIC
Though the nationalized industry strengthened its network and profitability position due to its monopolistic character, the lack of competition made the industry to low consumer awareness, low levels of insurance penetration, high cost of insurance products, delayed delivery of service and stagnant customer servicing.

Despite, the Corporation in its long career as a monopoly has passed through several phases of development. The success of the organization was benchmarked with the growth of other segments of the financial services industry. A cursory glance at Table 1.2 may provide a view of life insurance business in India during the last ten-year period of pre-liberalization. It showed an increase in the number of offices from 1,651 to 2,048 during the period. But, there was no increase in the offices established by the Corporation during 1998-2000 due to the ambiguity and uncertainty relating to the implementation of the reforms in the insurance sector in future. The Corporation did not take any initiative to establish new offices when there was no clear opinion on the efficacy of these reforms. There was a simultaneous increase in the number of policies and also the sum assured of the LIC. But, only a small increase was registered in later years of the period due to the impact of the same reason.

**Table 1.2**

<table>
<thead>
<tr>
<th>Year</th>
<th>No.of Offices</th>
<th>No.of Policies (Rs.in lakhs)</th>
<th>Sum Assured (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1,651</td>
<td>455.1</td>
<td>1,18,651</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,774</td>
<td>508.6</td>
<td>1,45,929</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,906</td>
<td>566.1</td>
<td>1,77,268</td>
</tr>
<tr>
<td>1993-94</td>
<td>2,008</td>
<td>608.7</td>
<td>2,07,601</td>
</tr>
<tr>
<td>1994-95</td>
<td>2,021</td>
<td>654.5</td>
<td>2,53,333</td>
</tr>
<tr>
<td>1995-96</td>
<td>2,024</td>
<td>708.8</td>
<td>2,94,336</td>
</tr>
<tr>
<td>1996-97</td>
<td>2,023</td>
<td>776.7</td>
<td>343,018</td>
</tr>
<tr>
<td>1997-98</td>
<td>2,046</td>
<td>849.2</td>
<td>3,98,959</td>
</tr>
<tr>
<td>1998-99</td>
<td>2,048</td>
<td>916.4</td>
<td>4,57,435</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2,048</td>
<td>1,013.00</td>
<td>5,34,589</td>
</tr>
</tbody>
</table>

Source: Annual Reports of LIC
Economic Liberalization and Financial Sector Reforms

“The process of financial globalization and liberalization is going on in full swing throughout the world. Even the hard-core Communist Countries and States are opting for liberalization process, leaving aside their socialist principles as day-by-day, its continuation was becoming a burden to their exchequers.12

The process of globalization began in 1970s and has got momentum in 1990s is of considerable value to India. This has brought challenges for the Indian business and more particularly to the banking and insurance sector.

In line with the liberalization measures announced during the 1980s, the Government announced a New Industrial Policy on July 24, 1991. This policy deregulates the Indian industrial economy in a substantial manner. The major objectives of the new policy are “to build on the gains already made, correct the distortions or weaknesses that might have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness”.13

The process of economic reforms was initiated in India by the Government of Shri P.V. Narasimha Rao in 1991 with the announcement of a number of measures for liberalizing the economy. Among the more important reforms are the financial sector reforms. The other reforms are – trade and capital flows reforms, industrial deregulation and disinvestment and public enterprise reforms.

Financial sector reforms were identified as the backbone of economic reforms and the then Finance Minister, Shri Manmohan Singh, set up Committees to explore what was right and wrong with various parts of the sector and suggest road maps to reforms.

The Committees were set-up for the banking industry headed by former RBI Governor, Shree R.Narasimham, and for the non-banking financial sector headed by Dr.A.C.Shah, a former CMD, Bank of Baroda.

When the new Industrial Policy was implemented in 1991 by the then Union Government, things started quickly and with a rapid pace. The Indian economy and also industry had undergone significant and rapid transformation, moving away from state controlled to competitive market economy. The Banking and insurance industry had changed rapidly in the changing and challenging economic environment throughout the world.

India embarked on transforming its regulated economy into an open market economy by launching reforms – both economic and financial – in 1991. The resultant growth from the reforms created jobs that provided the poor into gainful employment by providing more economic, social and community activities.

“A conceptual issue of economic liberalization entails on modernizing industries system by removing unproductive controls encouraging Private and foreign investment and integrating Indian economy with the global economy”\(^\text{14}\).

In the first stage which began in July, 1991, the reforms were directed at the gradual reduction in the statutory pre-emption of resources of banks, rationalization of the interest rate structure and the prescription of the prudential norms. These measures were taken to support the objective of reforming the Indian financial sector in order to improve the allocative and financial efficiency of the banking system and put in place a diversified and competitive system which would support the development and growth of the real sector of the economy.

The second stage of the financial sector reform programme in India was set to witness significant operational and financial improvements. The reform process had placed the commercial banks under increasing pressure to improve their performance, including the quality and content of their banking business. Demand for traditional banking services was gaining sophistication and was rapidly growing for new services.

The Gulf crisis in the late 1990 sharply accentuated macro economic problems. There was also political instability in the country. All these developments together eroded international confidence in the Indian economy and, as a result, the country’s credit rating in the international capital market declined steeply.

The reforms in India lacked normative perspective. They were characterized by an ideological overload. They appeared to have imitated the fashions or trends aboard. There was also a widespread feeling that they were not spontaneous. They were dictated by external bodies. In this connection, it was worth noting that many analysts in the US described the process of financial reforms in developing countries like India as the ‘Americanization of Finance’.

The financial sector in our country was in the process of change with the objective of the overall growth of the economy. The insurance sector, as every-one knew, constituted a very important and vital financial intermediary for the growth of an economy. The negotiations on Financial Services in the context of the ‘General Agreement on Trade in Services’ (GATS) were concluded in December, 1997. The largest component of the services sector as included in the financial sector was insurance.\(^{15}\)

This brought in new opportunities and challenges for the Indian insurance business due to the structural changes in the financial market and also technological and economic changes. New entrants into the life insurance market made the insurance service highly competitive and innovative.

**Insurance Sector Reforms**

For recommending insurance reforms and reviewing the working of the insurance industry, a Committee on Insurance Sector Reforms (CIRS) headed by R.N. Malhotra, former Finance Secretary and Governor, Reserve Bank of India, was constituted by the Union Government in 1993. The Committee submitted its report in 1994 recommended the opening up of the insurance sector to private entrepreneurs.

The major recommendations of the Committee included permitting private companies with a minimum paid up capital of Rs.100 crores to enter the industry, prohibition of composite insurers and permitting foreign companies to enter the industry in the joint venture mode with the domestic companies and all the insurance companies should be given greater freedom to operate in the insurance market. The other recommendations were introduction of alternative distribution channels for increasing the insurance penetration levels, the setting up of an insurance regulatory body and making the Controller of Insurance independent and also amendments to the Insurance Act, 1938.

The Committee had also highlighted the issues of marketing of insurance products like large untapped potential, low insurance awareness among the general public, excessive lapse ratio of policies and poor marketing, in-efficient and untrained field force and high turnover of agents. It made necessary recommendations wherever necessary.

The Committee was also required to examine the issue of increasing the spread of insurance industry and improving the customer service. The
Government responded to the recommendations positively and established an Interim Insurance Regulatory Authority (IRA) in January, 1996 through an Executive Order. The office of the IRA was located in New Delhi. This was an interim body that later became Insurance Regulatory and Development Authority when the IRDA Act was passed in 1999. The Committee Report was an important document which presented a brave, new era of possibilities and potentials to an economy that was newly liberalizing, looking with shining eyes at the new opportunities that had been developed instantaneously.

As India was a signatory to the World Trade Organization’s pact and as a way to honour its commitment, it took steps to open the banking and insurance sectors to private and global entrepreneurs. Insurance reforms were initiated in India’s insurance sector with the establishment of an IRA. But, the implementation of the insurance sector reforms and the opening up of the insurance business to the private sector in 2000 was preceded by a few years of hectic activity and preparatory work by the Government both at the debating and also legislative level.

In consonance to the Budget Speech in July, 1996, the then Finance Minister, Shri P.Chidambaram under the United Front Government headed by Shri H.D.Deva Gouda, introduced the IRA Bill, 1996 on 20th December, 1996. The Bill was referred to the Standing Committee. The Standing Committee submitted its report on 9th May, 1997. The Bill was taken for consideration after incorporating the recommendations of the Standing Committee. But, the Bill was withdrawn by the then United Front Government headed by Shri I.K.Gujral due to strong resistance from BJ P and Left parties.

However, it was strange enough to observe that the same BJP when it came to power at the Centre showed a strong inclination to insurance liberalization and also to establish a Regulatory Authority. This was made clear by the then Finance Minister, Shri Yashwant Sinha in his Budget speech.
Accordingly, the IRA Bill, 1998 was introduced in the Lok Sabha on 15th December, 1998. The Bill was usually referred to Standing Committee on Finance headed by Congress Party MP Shri Murali Deora on 4th January, 1999. The Committee while recommending the Bill suggested some amendments. These amendments were accepted by the Government and these amendments to the Bill were circulated on 18th March, 1999. However, the Bill could not be taken up for consideration in Lok Sabha due to the dissolution of the Lok Sabha in April, 1999.

It is pertinent to mention that the word ‘Development’ was inserted in the Bill at the last stage because the legislators were very much concerned that with competition amongst insurers, the regulator and the regulated may lose sight of developing the insurance market in India. Hence, it naturally defeated the prime objective of insurance liberalization and the opening up of the sector.

The newly drafted Insurance Regulatory and Development Authority (IRDA) Bill, 1999 was again introduced by the BJP Government in October, 1999 in Lok Sabha. The Congress which appeared to differ till the last moment in supporting the Bill, finally agreed with four amendments as described below:

- The Indian insurance companies have to discharge their obligations to provide cover to people in the rural areas.
- Priority to the grant of licence to those companies keen to enter exclusively in the health sector.
- Specific direction to new companies to invest in infrastructure projects.
- Imposition of heavy penalty for non-fulfillment of the provisions by the insurers.

Thus, the IRDA Bill, 1999 was passed by the Lok Sabha and Rajya Sabha on 30th October, 1999 and on 5th November, 1999 respectively. The Bill received president’s assent on 25th December, 1999.
The salient features of the IRDA Act are:

- Establishment of IRDA as a corporate body to regulate insurance business in the country;
- Establishment of insurance advisory committee with not more than 25 members;
- IRDA has to make rules and give guidance to the smooth functioning of the insurance sector;
- Allowing the entry of private players; and
- Fixing a cap of 26 per cent for foreign equity.

The rationale for insurance reforms was to convert the insurance of classes to the insurance of masses. Insurance reform measures in India were sequenced mainly to enable the insurance players to create a congenial environment for overcoming the external constraints and operate with greater flexibility and transparency. “The task of implementing reforms in a democracy remains complex. The support for reforms today, though far from universal, is fortunately much stronger than it was ten years ago”\textsuperscript{16}.

The greatest change in the last ten years has been in the attitude towards reforms. Whereas the supporters of reforms within India were rare during the 1980s, virtually every political party today recognizes the need for continued reforms\textsuperscript{17}. “Insurance reforms have improved the quality of customer satisfaction besides increasing insurance penetration, bringing hitherto untapped section of the population under the insurance net\textsuperscript{18}.

The insurance sector reforms created radical changes in the insurance market. Before the entry of private insurance players, the public sector LIC had complete monopoly over the market. After the opening up of the insurance market to private players, stiff competition amongst units arose and

\textsuperscript{18} FICCI, “Indian Insurance Industry – Overview”, \textit{Yojana}, April, 2006, p.10.
hence the LIC started thinking about retaining its market share. The private players were trying to get a part of the market share of the LIC.

The performance of insurance reforms took place in our country depended mostly on the ways in which the regulatory provisions were implemented. The positive performance seemed to be an outcome of reforms encompassing a range of measures that led to transformation spread over all the sectors of economy. This change brought higher degree of sophistication and efficiency in operations. Moreover, domestic economy became far more integrated with the rest of the world which was visible not only in terms of growing volumes of business, financial flows from and to the outside world which have also been steadily growing.

In a dynamic business environment, reforms are an on-going and a continuous process. The insurance reforms in India are both regulatory and promotional in character to develop the insurance industry and also the insurance market. The steady growth of the industry and also the consolidation of private players have given a commemorative significance to proactive regulatory regime in India.

The insurance sector reforms are not static. These have to undergo change over a period of time to suit the changing requirements of the insurance sector. Future reforms can be justified by exhibiting the progress made by the insurance players in producing and contributing to economic growth and enhancing security of lives and assets of the population.

Table 1.3 gives a bird’s eye-view of some of the important events of the Insurance sector reforms that took place in our country for opening up of the Insurance sector to private players.
### Table 1.3

**Insurance Sector Reforms – Some Important Events**

<table>
<thead>
<tr>
<th>Month and Year</th>
<th>Important Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>April, 1993</td>
<td>A Committee on Insurance Sector Reforms headed by Sri R.N. Malhotra was set-up by the Government.</td>
</tr>
<tr>
<td>January, 1994</td>
<td>Malhotra Committee submitted its Report to the Finance Minister.</td>
</tr>
<tr>
<td>September, 1996</td>
<td>Interim Regulatory Authority (IRA) was established.</td>
</tr>
<tr>
<td>December, 1996</td>
<td>IRA Bill was introduced in Parliament and referred to the Standing Committee.</td>
</tr>
<tr>
<td>May, 1997</td>
<td>The Standing Committee submitted its Report.</td>
</tr>
<tr>
<td>August, 1997</td>
<td>IRA Bill was withdrawn following opposition to foreign participation.</td>
</tr>
<tr>
<td>June, 1998</td>
<td>Union Budget announced the opening up of insurance sector.</td>
</tr>
<tr>
<td>January, 1999</td>
<td>The IRA Bill was referred to Standing Committee on Finance for examination and report.</td>
</tr>
<tr>
<td>March, 1999</td>
<td>Standing Committee submitted its Report with some amendments to the Bill and those were circulated.</td>
</tr>
<tr>
<td>October, 1999</td>
<td>The newly drafted IRDA Bill with FDI cap of 26 per cent was introduced in the Parliament and the Bill was passed by Lok Sabha.</td>
</tr>
<tr>
<td>November, 1999</td>
<td>The Bill was passed by Rajya Sabha.</td>
</tr>
<tr>
<td>December, 1999</td>
<td>The Bill received Presidential ascent and became an Act.</td>
</tr>
<tr>
<td>April, 2000</td>
<td>IRDA was given statutory recognition.</td>
</tr>
<tr>
<td>July, 2000</td>
<td>The Advisory Committee was constituted and in consultation with the Committee, IRDA notified 11 regulations.</td>
</tr>
<tr>
<td>October, 2000</td>
<td>Private insurance companies came back.</td>
</tr>
</tbody>
</table>

Source: i. Yojana 2001  
ii. Annual Reports of LIC and IRDA

**Insurance Regulatory and Development Authority (IRDA)**

The birth of IRDA was glorious and memorable in the history of Indian life insurance industry. The IRDA was established on 29th December, 1999 with an objective to protect the interests of the insurance policy holders and to ensure an orderly growth of insurance industry in the post-reform period. The
IRDA comprises a chairperson and not more than nine permanent and temporary members. The IRDA shifted its headquarters to Hyderabad. IRDA played a dual role of a regulator and a developmental authority. In these roles, it aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy.

The regulations of the IRDA had helped the insured to have transparency in the activities of the insurers relating to sales, documentation, customer servicing and grievance redressal. These regulations had been the vehicle for important innovation in the sector. A joint effort of both public and private sector insurance players was needed to go forward with increased sharing of information and increased co-ordination in future research efforts, workshops and experimental projects to identify the best practices in life insurance business.

The purposes of insurance regulation were to promote insurer solvency, balance the inequality of knowledge between the insurers and the insured, deal with a unique pricing problem requiring some limits on free and unrestrained competition and promote certain related goals. Insurance regulation provides the insurance market with direction, management control and correction.

The Insurance Advisory Committee, an advisory body constituted by IRDA, comprises of leading experts from different fields. The Regulations were notified by the IRDA in consultation with the Advisory Committee.

The IRDA’s Investment Regulations, 2000 were helping the insurance companies to channelize their funds in deserving sectors of the Indian economy through optimally utilizing the investment avenues. The Reinsurance Regulations, 2000 also required the insurers to mandate maximum retention within the country. As a result, the insurance industry acted as an absorber of risks arising out of carrying out economic activities by the insurers. An amendment was made to the Insurance Act, 1938 in 2002 which paved the
way for the entry of insurance brokers for the first time in the history of Indian insurance.

The Obligation of Insurers to Rural Sector Regulations, 2002 clearly imposed the premise of social responsibility of the insurers to provide insurance services in otherwise neglected and commercially difficult rural sector. It also fixed targets to insurers for fulfilling the rural and social sector obligations.

The IRDA also issued Protection of Policyholders’ Interests Regulations in 2002 to protect the interests of the insured and also created an internal cell to receive customer complaints to follow them up with the insurers. The regulations are very clear in mentioning the timeframe for compliance by insurers on customer related issues.

The Micro Insurance Regulations, 2005 established a credible and functional system of micro insurance in rural areas involving co-operation of the insurers and the rural community like self-help groups, dwacra groups, etc.

The registration of a professional institute of surveyors was also an outcome of insurance reforms. This helps the surveyors to develop their capacities and capabilities professionally to deliver qualitative and also the best services to the industry.

Regulations can’t come instantaneously and without consultations and deliberations. These are formulated only through a continuous and an evolving process. They depend mostly on the development, maturity and dynamism of the market. The outcome of the different regulations of IRDA established a credible and vibrant insurance sector which accepted risks in various economic and financial activities. The regulations were helpful in making the insurers to take initiatives in the growth and development of their business.
IRDA had set about changing the way the insurance business was conducted in a country through regulations. IRDA had regulated all the aspects including protection of policyholders, fulfillment of social obligations by the insurers and adoption of the prudential norms on insurance advertising. The Regulator had facilitated the insurers to serve the policyholders with lowest cost and more variety of insurance products to suit the needs of the customers and also sustain quality in the service in the emerging competitive environment by its stiff policies and procedures.

Regulations have a beginning but no end. But the insurance market needed to be governed by a combination of regulations by the IRDA and self-regulation and discipline by the insurers. The IRDA had also embarked upon an extensive insurance awareness campaign to popularize the benefits of insurance with special focus on the semi-urban and rural areas.

The Regulator's job is more complex in character. It needs to be not only fair but also transparent in its regulatory activities. These regulations must be sensitive to the needs of the market. The regulator’s performance is measured mostly by the stakeholders' confidence in the regulator and the regulatory process. The IRDA, being the Regulator of the insurance industry, has to see that the multi-beneficial concept of insurance should be brought to a larger majority of the population and to ensure fuller protection to them at a reasonable and low premium.

The IRDA Journal is an attempt to provide the industry and its customers a medium for information exchange. Information about the state of the industry, where it is headed, what concerns it and it is going to put its heads together and deal with it proactively are given in the Journal. This will help the constituents of the industry and more importantly its customers gauge what is going on and whether the industry is growing along healthy lines or not.
Life Insurance Council was also constituted under section 64A of the Insurance Act, 1938. It is a forum for the development of the life insurance industry in India. The main objective of the Council is to play a significant and complementary role in changing the life insurance industry into a more vibrant and help the people to foster prosperity. It co-ordinates the discussions held between the Government, Regulatory Body and the Public. It is just the face of the insurance industry. The Life Insurance Council also plans to provide important statistical data for the benefit of the stakeholders and also the regulator. The Life Insurance Council is presently performing the role of a self-regulatory organization of insurers, to some extent, by setting up market conduct standards based on ethical and moral values for insurers.

INSURANCE LIBERALIZATION

As a concept ‘Liberalism’ is meant for maximizing individual liberty, freedom of thought, expression and action. Liberty is inseparable from competition. Competition is a powerful motivator. Liberalism is not possible without the abandonment of all or most of the restrictive rules. Competition means absence of monopolist, so that a few can now influence the prices determined by the free play of the market forces as revealed at the market place. “One of the key objectives of insurance liberalization is to deepen the insurance markets by getting more and more consumers under its fold and improve on the product deliverable and customer servicing aspects of the business to bring it on par with international standards.”

The Indian life insurance industry entered a new phase of transition following liberalization. The liberalization gave an opportunity to the entry of transnational competitive insurance companies into the insurance market. The biggest representatives from each of the matured insurance markets joined the life insurance sector of our country. Till the year 2000, the insurance

---

industry was a government monopoly. But it is now experiencing severe competition because a number of players have entered into the Indian market in the form of joint ventures with Indian private sector partners.

During the long monopolistic regime, the Government attempted minor changes in the procedures without going into the root cause. The deregulation requires the comprehensive changes in the character and basic policies of the industry. The basic premise of globalization has opened up of new service markets to provide the countries with new opportunities for the expansion of trade and economic growth.

The entrants who wish to successfully lead the new environment have necessarily to be travelled on the platform of continuous innovation and evaluation. There is a likely competition for success among players in the life insurance industry. The players are competing for the space in the crowded insurance market. In this increasingly competitive and complicated business environment, it is imperative for professionals to primarily focus on value creation through a continuous improvement in their efficiency and expertise levels. With liberalization and insurance reforms, even to maintain the existing market by the insurers has become very crucial and hence insurers have to be the forerunners in their performance and efficiency.

Insurance industry in India is undergoing a paradigm shift. It is significantly affected by the dynamics in external environment which comprises new regulatory framework, a variety of new products, new marketing and distribution channels, new approaches to underwriting and claims processing and increasing use of latest technology. The insurance liberalization makes the acquisition of insurance business in India an important place and role to play in the financial sector of Indian economy and also globally. Privatization experiences dynamic and versatile changes in the insurance industry. The private insurers have to take measures in expanding
their reach to the small and medium urban centers and also a good number of villages as a way to expand their insurance market.

Insurance liberalization and reforms have brought about a remarkable change in the Indian insurance market. This has given greater autonomy to life insurance companies as a way to improve their performance and act as independent companies with economic and financial motives. It has put the insurance sector and also the total economy on a path of progress and sustained development. It plays its genuine role in supporting the strongly growing economy. The insurance business during the post-liberalization regime may expect greater variety of products, efficiency in the delivery of service by the new and efficient distribution channels, efficiency in customer service and pro-active regulatory framework. This has shown that India, after China, has significant potential for market expansion.

The liberalized insurance market in India has been able to generate considerable interest and awareness among people. Insurance field is creating new horizons of attracting talent and as a result leads to reduced unemployment. Insurance, at present, has become a more complex and a difficult business to do. The occurrence of risks and their outcomes have been magnified significantly because of the large-scale operations of different business organizations due to the globalization, liberalization and privatization policies adopted by the Government. But, with the entry of private players after insurance liberalization, the rules of the insurance business have been completely changed. The entire insurance regulation vests with the responsibility of the Insurance Regulator i.e. the IRDA.

The outcome of insurance liberalization over a period of ten years has been positive and is identified as the beginning of new era with many heights to reach. This is clearly evidenced by an overview of the life insurance industry during the post-liberalization period through Table 1.4. It clearly shows an unprecedented growth spurt. The number of players has increased
from one to 23 and the number of life offices from 2,199 to 12,018. The strength of employees and also the agents has also increased significantly. Renewal premium, an indicator of sustained growth of the industry, has also increased. There is also an increase in the other growth variables like the total premium, insurance penetration and insurance density. Despite good performance, there is an urgent need to adopt a more professionalized approach to ensure bright future in the life insurance market.

Table 1.4

Indian Life Insurance Industry – An Overview

<table>
<thead>
<tr>
<th>Growth Variables</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000-01</td>
</tr>
<tr>
<td>Number of Players</td>
<td>1</td>
</tr>
<tr>
<td>Capital Employed (Rs. in crores)</td>
<td>5</td>
</tr>
<tr>
<td>Number of Branches</td>
<td>2199</td>
</tr>
<tr>
<td>Number of Employees (in lakhs)</td>
<td>1.16</td>
</tr>
<tr>
<td>Number of Agents (in lakhs)</td>
<td>1.15</td>
</tr>
<tr>
<td>New Business Premium (Rs. in crores)</td>
<td>9707</td>
</tr>
<tr>
<td>Renewal Premium (Rs. in crores)</td>
<td>27462</td>
</tr>
<tr>
<td>Total Premium (Rs. in crores)</td>
<td>34898</td>
</tr>
<tr>
<td>Insurance penetration as a percent of GDP</td>
<td>1.39</td>
</tr>
<tr>
<td>Insurance Density as a premium to population (US$)</td>
<td>7.60</td>
</tr>
</tbody>
</table>

Source: Compiled and Calculated from the Annual Reports of IRDA

INSURANCE PENETRATION AND DENSITY

The level of insurance activity of any country is measured by the concepts of insurance penetration and insurance density. The insurance penetration indicates the amount of insurance premium collected on different insurance products as a percentage to the country’s Gross Domestic Product. Insurance density is measured as a percentage of insurance premiums to total population.
India is a country of highly diverse population mix in terms of social, economic, religious and cultural conditions. These characteristics of population contribute to diverse risk behavior. A large section of the population is not interested in eliminating risk through proper risk cover. Awareness levels about the ways of eliminating their risk are also very low. The spending patterns of the people are also changing and huge resources are needed for consumption. The average individual is spending a very little percentage of disposable income on insurance cover over a life time. All this has resulted in low insurance penetration and also density.

However, transformation of the economy is quite apparent from the noticeable changes that have occurred in the sectoral composition of output. The share of services in the national income has increased steadily with corresponding fall in the contributions of agriculture and industry over the years. A large number of structural changes have also been taken place in an economy to register a higher growth rate.

The Indian economy has also got an unprecedented growth spurt. Its Gross Domestic product is 8 per cent and more. This high rate of growth of an economy is the result of increased incomes of Indian population and as a result, their standards of living have improved significantly. This increases the business volumes of insurers as a greater part of the economy’s increased income is spent on acquiring financial assets and more so on insurance policies. The changes in the rates of growth and savings are considered very important factors to denote insurance penetration and density.

The CSO defines saving as “the excess of current income over current expenditure and is the balancing item on the income and outlay accounts of producing enterprises and households, government administration and other final consumers”\(^2\). Gross domestic savings in an economy include the

savings of the public, private and household sectors. Table 1.5 shows the percentage of gross domestic savings amongst household, private corporate and public sectors. It clearly shows that the household sector occupied a prominent place in the percentage of gross domestic savings. This is clearly evidenced by a favourable economic atmosphere present in the Indian economy during the period. Though there are some small fluctuations in the aggregate savings of the household sector, it creates a strong foundation for the development of life insurance industry in India.

**Table 1.5**

**Sector-wise Distribution of Gross Domestic Savings**

(As per cent of GDP at current market prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Savings</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Household Sector</td>
<td>Private Corporate Sector</td>
<td>Public Sector</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>23.3</td>
<td>6.6</td>
<td>2.3</td>
<td>32.2</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>23.2</td>
<td>7.5</td>
<td>2.4</td>
<td>33.1</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>22.9</td>
<td>8.0</td>
<td>3.6</td>
<td>34.4</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>22.6</td>
<td>8.7</td>
<td>5.0</td>
<td>36.4</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>22.6</td>
<td>8.4</td>
<td>1.4</td>
<td>32.5</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>24.1</td>
<td>9.5</td>
<td>2.4</td>
<td>36.0</td>
<td></td>
</tr>
</tbody>
</table>


Records and Reports of the Planning Commission, New Delhi

In India, it is found that most of the saving is done in the household sector, whereas in the western countries major saving is done in the private corporate sector. However, the share of the household sector in gross domestic savings has not been stable. Despite the fluctuations in the household's share in the gross domestic savings, the ratio of gross saving in
the household sector to the gross domestic product has recorded considerable increase over the period. Further, the absolute level of saving in the household sector has risen in both urban and rural areas, but the growth of saving in the two areas has not been at a uniform rate.

The concentration of wealth and income in cities has increased which has facilitated growth of saving in this area. In rural areas, despite increasing income inequalities, saving in the household sector has increased only marginally. This inadequate growth of saving is presumably due to the lack of a widespread network of financial institutions in the countryside.22

With market penetration in metros nearing saturation, the next step for the insurance industry is to enter the vast semi-urban and rural parts of the country. In a country with a larger insurance market potential in rural areas, mass marketing is a profitable and cost-effective option for gaining good market share by the insurers and the rural sector is a perfect ideal for mass marketing. The low income group and the people below the poverty line are also the biggest opportunity and potential for business to the insurers. But, these groups are the toughest and very difficult to penetrate. Low cost, pure risk cover and micro insurance programmes may make a dent on the penetration into these groups.

The insurance potential is unlimited. But, unless the insurable population is catered to the right products in the right way, it would not be possible to attract new customers. Insurance has remained a grossly less-understood concept, especially in the rural and semi-urban areas. At present, the insurance industry is working hard to improve awareness of the benefits of the life insurance products to a good number of prospects through different insurance literacy, public education and training programs.

The details regarding insurance penetration and density in India during 2001 to 2010 are given in Table 1.6. It shows a phenomenal development registered by the life insurance industry during the period. This is clearly evidenced by the increased level of penetration from 2.15 to 4.90 per cent in 2010 and also density from US $ 9.1 to US $ 52.7. With regard to a small decline in insurance penetration from 4.10 per cent to 4.00 per cent during 2006 and 2007, a stable 4.00 per cent in 2008, the main reason is the financial crisis and the impact of economic meltdown. This results in a significant decline in the demand for single premium and also unit-linked products by the customers. Despite remarkable development, the life insurance market in India is far behind the developed insurance markets of Europe and United States.

**Table 1.6**

**Life Insurance Penetration and Density in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Penetration (per cent)</th>
<th>Density (US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.15</td>
<td>9.1</td>
</tr>
<tr>
<td>2002</td>
<td>2.59</td>
<td>11.7</td>
</tr>
<tr>
<td>2003</td>
<td>2.26</td>
<td>12.9</td>
</tr>
<tr>
<td>2004</td>
<td>2.53</td>
<td>15.7</td>
</tr>
<tr>
<td>2005</td>
<td>2.53</td>
<td>18.3</td>
</tr>
<tr>
<td>2006</td>
<td>4.10</td>
<td>33.2</td>
</tr>
<tr>
<td>2007</td>
<td>4.00</td>
<td>40.2</td>
</tr>
<tr>
<td>2008</td>
<td>4.00</td>
<td>41.2</td>
</tr>
<tr>
<td>2009</td>
<td>4.60</td>
<td>47.7</td>
</tr>
<tr>
<td>2010</td>
<td>4.90</td>
<td>52.7</td>
</tr>
</tbody>
</table>

Source: Annual Reports of IRDA

Insurance and poverty do not go together. It is totally a subject which lies beyond the affordability line of the poor. It is the bounden duty of the Government, as a custodian of the Community at large, to see as many poor
and below-poverty line people as possible are to be brought under the scope of insurance with the introduction of social security schemes. As a result, the insurance penetration and density may also be increased significantly in the future.

Further, financial security is an essential integral of inclusive growth. A look at the 11th plan document will reveal that it speaks very expansively of inclusive growth. It underlines an apparent and widespread perception that the benefits of economic growth were simply bypassing too many people. That is the reason why the Eleventh Five-year Plan, 2007-12, has provided a sharp orientation to the theme of faster and more inclusive growth. It clearly promises the attainment of a sustainable balance between growth and inclusion. The economic growth during 2010-11 was 8.5 per cent, but well above 8 per cent was registered in 2009-10.

Providing security to people by the Government provides socio-economic justice to them. In particular, lower and middle class people must need this security. It is a more dynamic concept and also an indispensable weapon in the hands of the Government to mitigate the hardships caused to the people due to poverty, malnutrition, simple illness, accident, chronic ailment and death. Life insurance is a relevant means here to provide social security and hence it is an integral part of the overall social security framework of a country. The life insurance industry in our country has had a potential to reach the levels of financial protection through insurance which the developed countries achieved.

24 "GDP to grow by up to 9.5%, Moody’s", The Hindu, June 5, 2011.
COMPETITIVE ENVIRONMENT

Liberalization introduced competition in the industry with the advent of private sector companies promoted by Indian and foreign business groups. Globalization has augured well for the industry and the consumers. The competition may make the life of the insurance customers easier and better in the years to come.

In a competitive environment, the prime objective of all insurers is to attract a maximum number of customers to undermine the competitive strength of other rival firms. To achieve the objective by one way or the other, the insurers may ignore the standards and best practices set by the industry. Hence, to supervise the business activities of the insurers and also to guide them in the proper perspective, the place of a regulator assumes dire importance. In the age of extensive competition, the insurance companies are required to work hard to have a competitive edge over others.

The biggest beneficiary of the competition amongst life insurers is the customer. A wide-variety of insurance products, professional consultancy to customers and customer-focused service are some of the benefits available to customers. It is also made important to remain in constant touch with the customers’ needs and expectations many times a year. The competition among insurance players has created increased insurance awareness and also helped to expand the insurance market. It has increased the efficiency of all insurers.