1.1 Introduction:

Human life is too uncertain; there may be sudden accidents in a person’s life or in business owned by him. A number of crisis such as earthquake, floods, accidents, death etc. arrive suddenly. Throughout history man has faced such sudden crisis. Due to these reasons a man faces so many casualties & losses. In the earlier time man had no facilities to fight or overcome such losses. Now-a-day we fortunately can overcome such sudden casualties by insuring ourselves & our assets. We cannot prevent natural calamities from occurring but we can minimize the losses due to them. The process of insurance has been evolved to safeguard the interest of people from uncertainty by providing certainty of payments at a given contingency. Not only does it serve the ends of an individual or special groups of individuals it tends to pervade and to transform our modern social order too. As the insurance consumer, you pay an amount of money, called a premium, to the insurer to transfer the risk.¹ the insurer pools all its premiums into a large fund, and when a policyholder has a loss, the insurer draws funds from the pool to pay for the loss.

India is fast emerging on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. All the vital industries and sectors of the country are registering growth and thus, luring foreign investors. And insurance sector is one of
them. With a huge Population and large untapped market, insurance happens to be a big opportunity in India. The insurance business grew by 47.93 per cent in 2005-06, surpassing the growth of 32.49 per cent achieved in 2004-05. However, insurance penetration in the country continues to be low.\(^2\)

Insurance penetration or premium volume as a share of a country’s GDP for the year 2005 stood at 2.53 per cent for life insurance and 0.62 per cent for non-life insurance. The level of penetration tends to rise as income increases, particularly in life insurance. India, with its huge middle class households, has exhibited potential for the insurance industry. This has made international players to look at the Indian market. Moreover, saturation of markets in many developed economies has made the Indian market all the more attractive for global insurance majors.\(^3\)

The total life insurance premiums market in India could grow from Rs 1,68,600 Crore in 2006-07 to Rs 12,30,000 Crore by 2010-11. The total non-life insurance premium is expected to increase at a CAGR of nearly 24.7 per cent for the period spanning from 2007-08 to 2010-11. With the entry of several low cost airlines along with fleet expansions by existing ones and increasing corporate aircraft ownership, the Indian aviation insurance market is all set to boom in a big way in coming few years. The home insurance segment is set to achieve a 100 per cent growth as latest inclusion by financial institutions have made home insurance obligatory for housing loans approval.\(^4\) Health insurance is poised to become the second largest business for non-life insurers in the next three years after motor insurance. A booming life insurance market has propelled the Indian life insurance agents into the top 10 country list in terms of membership. The major players in sectors are Life Insurance Corporation of India, Bajaj Allianz, ICICI Prudential, HDFC
Standard, and SBI Life under life insurance segments and New India, National Insurance, Oriental, United India, and ICICI Lombard under non-life insurance segments.

1.2 What Is Insurance?

There are different insurance companies that offer wide range of insurance options and an insurance purchaser can select as per own convenience and preference. Several insurances provide comprehensive coverage with affordable premiums. Premiums are periodical payment and different insurers offer diverse premium options. The periodical insurance premiums are calculated according to the total insurance amount. The main meaning of insurance is used as effective tools of risk management. Quantified risks of different volumes can be insured.\(^5\)

1 Insurance can be taken for a sum ranging from Rs 50,000 to Rs 300,000. Immediate payment of 50 per cent of sum assured and payment of an amount equal to 10 per cent of the sum assured every year from the establishment of affliction to the date of maturity or death, whichever is earlier.\(^6\) Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.
“Insurance is a social device providing financial compensation for the effects of misfortune, the payment being made from accumulated contributions of all parties participating in the scheme”.  

“Insurance is a contract by which the one party, in consideration price paid to him adequate to the risk, becomes security to the other party that he small net suffer lost damage on prejudice by the happening of the pails specified to certain things which way be exposed to him.”

Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance. The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

The concept behind insurance is that a group of people exposed to similar risk come together and make contributions towards formation of a pool of funds. In case a person actually suffers a loss on account of such risk, he is compensated out of the same pool of funds. Contribution to the pool is made by a group of people sharing common risks and collected by the insurance companies in the form of premiums. Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of
general insurance. The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

1.3 Types of Insurance:

There are two types of insurance.

1. Life Insurance.
2. General Insurance.

*Life Insurance:*

Man’s life is extremely precious. It is vulnerable to a number of sudden crises. Due to such crisis, a man may be ruined completely and even die. After his death, the family of the victim faces a lot of troubles. The income of the family diminishes and it is essential to devise some technique. For this we have a powerful technique called life insurance, which protects a man’s life and his family against sudden crisis. It not only insures a person’s life, but also helps in the child's education, child's marriage, and even after death the near and dear ones of the insured person gets a number of benefits.

*General Insurance:*

In the process of production rapid changes exemption in global Market observed after industrial revolution. Also banking technology and other transportation recourses were developed but consequently the risks associated with these also increased. To cover these risks ‘General Insurance’ has come into existence. On 13th May 1971 the General
insurance is nationalized. In the business and industries disasters like, fire, floods, and theft are emerged. To overcome these General insurance provide assistance to loss. Usually General insurance divided into following claims. Fire insurance, Marine Insurance, Accident Insurance, Motor Insurance, Crop Insurance, Permanent Sickness Insurance, Live stock Insurance, Burglary Insurance, Aviation Insurance, Engineering Insurance, Workmen’s Compensation Insurance, Export Risk Insurance.

- **Automobile Insurance:** Usually automobile insurances cover damages and legal financial expenditures of the automobile driver.
- **Health Insurance:** Health insurance cover the expenditures associated to treatment and medical expenditures.
- **Credit Insurance:** Borrowers often fail to repay debts, loans and mortgages due to certain unavoidable circumstances, credit insurances can be of great help during such crisis.
- **Property Insurance:** Property protection insurance provides protection from risks associated to theft, fire, floods etc.

This type of insurance can be further classified into specialized forms as follows:

- Fire insurances.
- Earthquake insurances.
- Flood insurance.
- Home insurance

At present insurance market is much vibrant than before and this has an impact on the rates of different insurance premiums. Type of insurance companies can be categorized into two main divisions –
• **General Insurance Companies:** Usually covers non-life insurance policies. Home insurances, automobile insurances, pet insurance, etc, typically fall under the category of general insurances. General insurance is tailored to offer payment on the basis of the loss from specific financial events.

• **Life Insurance Companies:** The companies, dealing with life insurance, pension products and annuities are life insurance companies.

Insurance companies are usually identified as stock companies. Insurance is a device for indemnifying an individual against loss and in the recent past due to natural calamities, few insurance companies have suffered financial setback. Premiums of little insurance have suddenly gone uphill as plenty of insurance providers have become insolvent. While selecting an insurance company, financial strength of the company must be considered as viability of the insurance provider is extremely crucial.

1.4 **Brief History of Insurance:**

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years.¹¹
The Chinese traders, traveling treacherous river rapids would distribute their goods among several vessels, so that the loss from any one vessel being lost would be partial and shared, and not total. The Babylonian traders would agree to pay additional sums to lenders, as the price for writing off loans, in case of the shipment being stolen. The great Fire of London in 1666, in which more than 13000 houses were lost, gave a boost to insurance and the first fire insurance company, called the Fire office, was started in 1680. In India insurance began in 1818 with life insurance being transacted by an English company, the Oriental Life Insurance Co. Ltd. The first Indian insurance company was the Bombay Mutual Assurance society Ltd. Formed in 1870 in Mumbai. This was followed by the Bharat Insurance Co. in 1896 in Delhi, the Empire of India in 1897 in Mumbai, the United in Chennai, the National Indian and the Hindustan Cooperative in Kolkata. By the year 1956 when the life insurance business was nationalized and the Life Insurance Corporation of India (LIC) was formed on 1\textsuperscript{st} September 1956, there were 170 companies and 75 provident fund societies transacting life insurance business in India. After the amendments to the relevant laws in 1999, the LIC did not have the exclusive privilege doing life insurance business in India. By 31.8.2007 sixteen new life insurers had been registered and were transacting life insurance business in India.

The history of the Indian insurance sector dates back to 1818, when the Oriental Life Insurance Company was formed in Kolkata. A new era began in the India insurance sector, with the passing of the Life Insurance Act of 1912. The Indian Insurance Companies Act was passed in 1928. This act empowered the government of India to gather necessary information about the life insurance and non-life insurance organizations operating in the Indian financial markets. The Triton Insurance Company Ltd formed in 1850
and was the first of its kind in the general insurance sector in India. Established in 1907, Indian Mercantile Insurance Limited was the first company to handle all forms of India insurance.\textsuperscript{14}

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company in Indian. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society.

Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The \textit{Swadeshi movement} of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no
legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.\(^{15}\)

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all
insurable persons in the country, providing them adequate financial cover at a reasonable cost.

LIC continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and is moving fast on a new growth trajectory surpassing its own past records. LIC has issued over one crore policies during the current year. It has crossed the milestone of issuing 1,01,32,955 new policies by 15th Oct, 2005, posting a healthy growth rate of 16.67 per cent over the corresponding period of the previous year. From then to now, LIC has crossed many milestones and has set unprecedented performance records in various aspects of life insurance business. The same motives which inspired our forefathers to bring insurance into existence in this country inspire us at LIC to take this message of protection to light the lamps of security in as many homes as possible and to help the people in providing security to their families.

Important Milestones in the Life Insurance Business:

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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</thead>
<tbody>
<tr>
<td>1818</td>
<td>Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.</td>
</tr>
<tr>
<td>1870</td>
<td>Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.</td>
</tr>
<tr>
<td>1912</td>
<td>The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.</td>
</tr>
<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.</td>
</tr>
<tr>
<td>1938</td>
<td>Earlier legislation consolidated and amended to by the</td>
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Insurance Act with the objective of protecting the interests of the insuring public.

| 1956:          | 245 Indian and foreign insurers and provident societies are taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India. |

Source: [http://www.medindia.net](http://www.medindia.net)

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

### 1.5 Importance of Life Insurance:

Life Insurance is considered to be an important part of an individual’s investment portfolio, not necessarily to accumulate wealth, but to feel financially secure. Other than this when you opt for a life insurance policy you enjoy other benefits also, like tax-deduction options, and in some cases long term capital gains. What is important when you opt for a policy is the term and plan related to that particular policy. Always remember Life Insurance is primarily made keeping your family and those who are dependent on you in mind. There are various companies that would ask you to opt for a policy from them, and incase if you are an amateur investor and try to push things in a hurry, you might end up settling for a wrong deal. Here, we will discuss on a few guidelines that an individual should follow prior to opting for a policy or while assessing an insurance plan.
When you decide to invest in Life Insurance, it is imperative that you understand your financial status, your future liabilities & commitments and then opt for a policy that would suit your needs in the longer run. Insurance is by and large regarded as one of the best savings cum investing scheme. Students who earn while studying and those who take up full time employment after their studies see insurance as a profitable scheme to regulate their savings. Important factors that an individual needs to understand prior to opting for Life Insurance Policies are 1) Requirements, term (duration) and premium to be paid 2) Nature and benefits of the policy in the longer run & 3) Coverage of the policy. The need and income of an individual helps him decide the amount of Life Insurance _Premium. The insured should also think about the benefits that he and / or his nominee will receive before deciding to go for a particular policy. Life insurance covers the risks of loss due to the death of the insurer. Hence it is advisable that before you purchase the policy; take a look at the plan of the policy in detail. Most of the Life Insurance Companies would provide you with a ULIP (Unit Link Insurance Plan). Consulting an expert or your friends, & other reliable sources like the internet, that would provide accurate data helps. Analyzing the different categories of insurance, conducting a proper market research, checking your financial constraints where you ensure that you pay your insurance premiums simultaneously is important.16

Ideally all life insurance companies invest the insurance premium funds in the various types of projects meant for developments and attractive returns. This project varies from government funded bonds to private companies. As an investor and depending upon your risk tolerance you can divide your investment funds in various modes which can be Balance, Maximizer, and Minimizer. Balance fund manager will invest your fund
equally in government sector bonds as well as in private sector. In Maximizer mode your complete fund is invested in private equity market, which completely depends on market conditions. This fund at times may give you unexpected results and at times may even ruin your principal amount. In the last type of investments the fund is completely engaged in government bonds, wherein risk is almost null with assured returns.

Like other investment modules Life Insurance also has advantages and disadvantages. The prime advantage is financial security for the obvious reasons. It helps facilitates economic movements. Life insurance companies collect premiums from multiple investors hence gathering large funds. This money is used to finance trade and other financial development activities. Last but not the least it helps in reduction of tax payments. Policy holders are entitled to claim income tax exemptions for paying the premiums. The amount and the extent to which they are allowed depends on other factors like the persons income and if the insurer is a private player or run by the state. Drawbacks include incompetent facilities as all Life Insurance Companies are not able to provide the exact kind of life insurance policy as desired by consumers. Moreover the services of insurance agents could sometimes do more bad than good. Some of them try to convince their clients to invest more or to choose certain policies which are not much beneficial to the clients. A person will find himself in trouble if he invests more than what is actually required. But as the number of advantages out numbers the disadvantages, investing in Life Insurance is always considered to be a good move.

Another important factor that needs attention during the framing of the policy is Life Insurance Quotes. Life Insurance quotes are the prices at which life insurance policies are proposed to be sold and vary from company to
company or individual to individual, mainly depending on the term of the policy. Other important issues that address the quotes are age and income, the physical features and family details of the insurer. The time through which an insured pays the premium for the policy is called Life Insurance term. On a general basis, there are no standard premiums as far as term insurance is concerned. A person can decide the amount to be paid on the basis of his requirements in terms of coverage and affordability in terms of finance. As of now the top 5 life insurance companies in India are Reliance Life Insurance, HDFC standard Life insurance, Bharti-axa life insurance, ICICI Prudential life and off-course LIC India. The following companies were considered after being judged on parameters such as the insurance quotes, the term that the insured had to pay the premium for, the cover that the policy was covering, etc, etc. All in all getting an insurance done for yourself at the earliest, once you start earning is an excellent way to get your financial future secured.

1.6 Life Insurance as Investment:

Insurance is an attractive option for investment. While most people recognize the risk hedging and tax saving potential of insurance, many are not aware of its advantages as an investment option as well. Insurance products yield more compared to regular investment options, and this is besides the added incentives (read bonuses) offered by insurers. You cannot compare an insurance product with other investment schemes for the simple reason that it offers financial protection from risks, something that is missing in non-insurance products. In fact, the premium you pay for an insurance policy is an investment against risk. Thus, before comparing with other schemes, you must accept that a part of the total amount invested in life
insurance goes towards providing for the risk cover, while the rest is used for savings. In life insurance, unlike non-life products, you get maturity benefits on survival at the end of the term. In other words, if you take a life insurance policy for 20 years and survive the term, the amount invested as premium in the policy will come back to you with added returns. In the unfortunate event of death within the tenure of the policy, the family of the deceased will receive the sum assured. Thus insurance is a unique investment avenue that delivers sound returns in addition to protection.

1.7 Life Insurance as Risk Cover:

First and foremost, insurance is about risk cover and protection - financial protection, to be more precise - to help outlast life's unpredictable losses. Designed to safeguard against losses suffered on account of any unforeseen event, insurance provides you with that unique sense of security that no other form of investment provides. By buying life insurance, you buy peace of mind and are prepared to face any financial demand that would hit the family in case of an untimely demise. To provide such protection, insurance firms collect contributions from many people who face the same risk. A loss claim is paid out of the total premium collected by the insurance companies, who act as trustees to the monies. Insurance also provides a safeguard in the case of accidents or a drop in income after retirement. An accident or disability can be devastating, and an insurance policy can lend timely support to the family in such times. It also comes as a great help when you retire, in case no untoward incident happens during the term of the policy. With the entry of private sector players in insurance, you have a wide range of products and services to choose from. Further, many of these can be
further customized to fit individual/group specific needs. Considering the amount you have to pay now, it's worth buying some extra sleep.

1.8 Life Insurance as Tax Planning:

Insurance serves as an excellent tax saving mechanism too. The Government of India has offered tax incentives to life insurance products in order to facilitate the flow of funds into productive assets. Under Section 88 of Income Tax Act 1961, an individual is entitled to a rebate of 20 per cent on the annual premium payable on his/her life and life of his/her children or adult children. The rebate is deductible from tax payable by the individual or a Hindu Undivided Family. This rebate is can be availed up to a maximum of Rs 12,000 on payment of yearly premium of Rs 60,000. By paying Rs 60,000 a year, you can buy anything upwards of Rs 10 lakh in sum assured. (Depending upon the age of the insured and term of the policy) This means that you get Rs 12,000 tax benefit. The rebate is deductible from the tax payable by an individual or a Hindu Undivided Family.20

Rate of Income-Tax

| 1. Where the total income does not exceed Rs.1,50,000/- | Nil |
| 2. Where the total income exceeds Rs.1,50,000/- but does not exceeds Rs.3,00,000 | 10 Percent of the amount by which the total income exceeds Rs.1,50,000/- |
| 3. Where the total income exceeds Rs.3,00,000/- but | Rs. 15,000/- plus 20 percent amount by Which the total income exceeds |
|
| 4. Where the total income exceeds Rs.5, 00,000/- | Rs.5, 00,000/- plus 30 percent of the amount by which the total income exceeds Rs.5, 00,000/- |

**In case of ladies below 65 years of age who is resident of India.**

**Rate of Income-Tax**

| 1. Where the total income does not exceed Rs.1, 80,000/- | Nil |
| 2. Where the total income exceeds Rs.1,80,000/- but does not exceed Rs.3,00,000 | 10 Percent of the amount by which the total income exceeds Rs.1, 80,000/- |
| 3. Where the total income exceeds Rs.300000 /- but does not exceed Rs.5, 00,000/- | Rs. 12,000/- plus 20 percent amount by which the total income exceeds Rs.3, 00,000/- |
| 4. Where the total income exceeds Rs.5, 00,000/- | Rs.52, 000/- plus 30 percent of the amount by which the total income exceeds Rs.5, 00,000/- |

| 1. Where the total income does not exceed Rs.2,25,000/- | Nil |
| 2. Where the total income exceeds Rs.2,25,000/- but does not exceed Rs.3,00,000 | 10 Percent of the amount by which the total income exceeds Rs.2,25,000/- |
| 3. Where the total income exceeds Rs.300000 /- but | Rs. 7500/- plus 20 percent amount by |
4. Where the total income exceeds Rs.5,00,000/-.

Which the total income exceeds Rs.3,00,000/-. 

Rs.47500/- plus 30 percent of the amount by which the total income exceeds Rs.5,00,000/-. 

1.9 Indian Insurance Sector Reforms:

After a long period of a monopolistic environment, the insurance sector in India was opened to private participation with the enactment of the Insurance Regulatory and Development Authority Act (IRDA), 1999. Since then, the number of participants operating in life, general and reinsurance, in both the public and private sectors, has increased. The opening up has augured well for the sector which has witnessed introduction of new products in recent years. In the field of life insurance, a wider choice is presently available to the customers, with products being tailor-made to the needs of the insured. Insurers are putting in much more research into development of products both in the life and general segments. Reforms have created competition in the insurance sector and given the customers a wide choice not only in the matter of insurance companies, but also in terms of insurance products. However, the impact of increased competition is yet to be felt on insurance penetration. With banks having already been allowed to undertake insurance business, banc-assurance market has also come up in a big way.\textsuperscript{21}
1.10 Malhotra Committee in 1993:

The formation of the Malhotra Committee in 1993 initiated reforms in the Indian insurance sector. The aim of the Malhotra Committee was to assess the functionality of the Indian insurance sector. This committee was also in charge of recommending the future path of insurance in India. The Malhotra Committee attempted to improve various aspects of the insurance sector, making them more appropriate and effective for the Indian market. The recommendations of the committee put stress on offering operational autonomy to the insurance service providers and also suggested forming an independent regulatory body. The committee submitted the report and some of the key recommendations included:

- **Structure:** Government stake in the insurance Companies to be brought down to 50 per cent. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate.

- **Competition:** Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector. No Company should deal in both Life and General Insurance through a single entity. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies. Postal Life Insurance should be allowed to operate in the rural market. Only one State Level Life Insurance Company should be allowed to operate in each state.

- **Regulatory Body:** The Insurance Act should be changed. An Insurance Regulatory body should be set up. Controller of Insurance—a part of the Finance Ministry should be made independent.
• **Investments:** Mandatory Investments of LIC Life Fund in government securities to be reduced from 75 per cent to 50 per cent. GIC and its subsidiaries are not to hold more than 5 per cent in any company (their current holdings to be brought down to this level over a period of time)

• **Customer Service:** LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology to be carried out in the insurance industry.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crores. The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body i.e. The Insurance Regulatory and Development Authority.

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. The other
decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products.

The Insurance Regulatory and Development Authority Act of 1999 brought about several crucial policy changes in the insurance sector of India. It led to the formation of the Insurance Regulatory and Development Authority in 2000. The goals of the IRDA are to safeguard the interests of insurance policyholders, as well as to initiate different policy measures to help sustain growth in the Indian insurance sector. The Authority has notified 27 Regulations on various issues which include Registration of Insurers, Regulation on insurance agents, Solvency Margin, Re-insurance, and Obligation of Insurers to Rural and Social sector, Investment and Accounting Procedure, Protection of policy holders' interest etc.\textsuperscript{23}

1.11 Protection of the Interest of Policy Holders:

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

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

- The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policyholders with regard to payment of claims.

- It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.

- All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.

- The Authority takes up with the insurers any complaint received from the policyholders in connection with services provided by them under the insurance contract.

India insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector has been allowed to flourish, and as Indians become more familiar with different insurance products, it may be called as 'Golden Age' for the Indian insurance industry.
1.12 Private Life Insurance Companies:

In a rapidly expanding insurance market some private life insurance companies are extended in life insurance business. Bajaj Allianz, Reliance life insurance, ICICI Prudential life insurance, Birla Sun life, HDFC Standard etc. are playing the main role in private life insurance company, These private life insurance companies have competed with life insurance corporation of India. Last year 2008-09 life insurance corporations had more than a million agents and it plans to increase this by at least 25 percent this year. To compete with LIC, private life insurance is also recruiting agents. Reliance life Insurance is adding 90000 agents and 2500 managers, while MetLife and Max New York life insurance are increasing their advisor’s strength by 30000 agents by the end of the current financial year.

The gross written premium of Bajaj Allianz life insurance, which is third largest among private insurance companies , for nine months ended December 2008 is leaner at Rs.6726 crore against Rs. 5219 crore. It sells eight million policies in the Indian market, and business premium for the nine months ended December 2008 is Rs. 3003 crore against Rs. 3780 crore during the same period Birla Sun life has achieved premium of Rs. 2204 crore as against Rs. 953 crores in the previous year. Birla sun life branches have expended from 137 to 339. The number of agents has growth from 56000 to 115000. ICICI prudential life insurance has achieved a total premium of Rs. 9918 crore, registering a growth of 28 percent. For nine month ended Dec.2008 ICICI prudential has over 270000 advisors and relies pertly on the parent bank’s branch network to sell its policies.24
1.13 An Overview of Insurance Business:

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP. Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This it is an indicator that growth potential for the insurance sector is immense.

A well-developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country.

Insurance is a federal subject in India. There are two legislations that govern the sector- The Insurance Act- 1938 and the IRDA Act- 1999. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.
The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49 percent. The opening up of the sector is likely to lead to greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. In the private sector 12 life insurance and 8 general insurance companies have been registered. A host of private Insurance companies operating in both life and non-life segments have started selling their insurance policies since 2001.

1.14 Life Insurance Market:

The Life Insurance market in India is an underdeveloped market that was only tapped by the state owned LIC till the entry of private insurers. The penetration of life insurance products was 19 percent of the total 400 million of the insurable population. The state owned LIC sold insurance as a tax instrument, not as a product giving protection. Most customers were under-insured with no flexibility or transparency in the products. With the entry of the private insurers the rules of the game have changed. The 12 private insurers in the life insurance market have already grabbed nearly 9 percent of the market in terms of premium income. The new business premiums of the 12 private players have tripled to Rs 1000 crore in 2002-03 over last year. Meanwhile, state owned LIC’s new premium business has fallen.\textsuperscript{27}
Innovative products, smart marketing and aggressive distribution. That's the triple whammy combination that has enabled fledgling private insurance companies to sign up Indian customers faster than anyone ever expected. Indians, who have always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer. The growing popularity of the private insurers shows in other ways. They are coining money in new niches that they have introduced. The state owned companies still dominate segments like endowments and money back policies. But in the annuity or pension products business, the private insurers have already wrested over 33 percent of the market. And in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 percent of the customers. The private insurers also seem to be scoring big in other ways- they are persuading people to take out bigger policies. For instance, the average size of a life insurance policy before privatization was around Rs 50,000. That has risen to about Rs 80,000. But the private insurers are ahead in this game and the average size of their policies is around Rs 1.1 lakh to Rs 1.2 lakh- way bigger than the industry average.

1.15 Non-Life Insurance Market:

In December 2000, the GIC subsidiaries were restructured as independent insurance companies. At the same time, GIC was converted into a national re-insurer. In July 2002, Parliament passed a bill, delinking the four subsidiaries from GIC. Presently there are 12 general insurance companies with 4 public sector companies and 8 private insurers. Although the public sector companies still dominate the general insurance business, the private players are slowly gaining a foothold. According to estimates,
private insurance companies have a 10 percent share of the market, up from 4 percent in 2001. In the first half of 2002, the private companies booked premiums worth Rs 6.34 billion. Most of the new entrants reported losses in the first year of their operation in 2001.\textsuperscript{28}

With a large capital outlay and long gestation periods, infrastructure projects are fraught with a multitude of risks throughout the development, construction and operation stages. These include risks associated with project implementation, including geological risks, maintenance, commercial and political risks. Without covering these risks the financial institutions are not willing to commit funds to the sector, especially because the financing of most private projects is on a limited or non-recourse basis. Insurance companies not only provide risk cover to infrastructure projects, they also contribute long-term funds. In fact, insurance companies are an ideal source of long term debt and equity for infrastructure projects. With long term liability, they get a good asset-liability match by investing their funds in such projects. IRDA regulations require insurance companies to invest not less than 15 percent of their funds in infrastructure and social sectors. International Insurance companies also invest their funds in such projects.

Insurance costs constitute roughly around 1.2-2 percent of the total project costs. Under the existing norms, insurance premium payments are treated as part of the fixed costs. Consequently they are treated as pass-through costs for tariff calculations. Premium rates of most general insurance policies come under the purview of the government appointed Tariff Advisory Committee. For Projects costing up to Rs 1 Billion, the Tariff
Advisory Committee sets the premium rates, for Projects between Rs 1 billion and Rs 15 billion, the rates are set in keeping with the committee's guidelines; and projects above Rs 15 billion are subjected to re-insurance pricing. It is the last segment that has a number of additional products and competitive pricing.

Insurance, like project finance, is extended by a consortium. Normally one insurer takes the lead, shouldering about 40-50 per cent of the risk and receiving a proportionate percentage of the premium. The other companies share the remaining risk and premium. The policies are renewed usually on an annual basis through the invitation of bids. Of late, with IPP projects fizzling out, the insurance companies are turning once again to old hands such as NTPC, NHPC and BSES for business.29

1.16 Re-Insurance Business:

Insurance companies retain only a part of the risk (less than 10 per cent) assumed by them, which can be safely borne from their own funds. The balance risk is re-insured with other insurers. In effect, therefore, re-insurance is insurer's insurance. It forms the backbone of the insurance business. It helps to provide a better spread of risk in the international market, allows primary insurers to accept risks beyond their capacity settle accumulated losses arising from catastrophic events and still maintain their financial stability. While GIC's subsidiaries look after general insurance, GIC itself has been the major reinsurer. Currently, all insurance companies have to give 20 per cent of their reinsurance business to GIC. The aim is to ensure that GIC's role as the national reinsurer remains unhindered.
However, GIC reinsures the amount further with international companies such as Swisse (Switzerland), Munichre (Germany), and Royale (UK). Reinsurance premiums have seen an exorbitant increase in recent years, following the rise in threat perceptions globally.

1.17 The Share of Private Insurance Company in Indian Insurance business:

India’s insurance business will reach a level of Rs.20 billion in the next two years from the current level of Rs.500 billion, according to an industry lobby. A growth of over 200 percent is likely to be seen in Indian insurance business by 2009-10 in which private insurance business would grow at 140 percent in view of aggressive marketing techniques. The state-owned insurance companies’ growth rate will be 35-40 percent. According to Assocham, in the last couple of years, the insurance sector had grown by 175 percent and the trend will emerge still better because of huge potential. On account of intense marketing strategies adopted by private insurance players, the market share of state-owned insurance companies like GIC, LIC and others have already come down to 70 percent in last four-five years from over 97 percent, and more intense competition is likely to be witnessed in the near future.

The private insurance players’ entry into insurance sector is still restricted since India has yet to open it up liberally. But even then, their rate of return to their subscribers and policy holders is estimated at about 35 percent against 20 percent of domestic insurance companies. Moreover, the state-run companies have limited number of policies to offer to their
subscribers while the private players offer many more policies with premium amount and maturity period. Interestingly, the private sector insurance players have started exploring the rural markets in which until recently the state-run companies had the monopoly. The share of private insurance players would increase substantially. At present, India’s life insurance premium, as a percentage of GDP, was 1.8 percent against 5.2 percent in the US, 6.5 percent in Britain and eight percent in South Korea.³¹

1.18 Financial Security, Saving and Awareness of Insurance:

In most developed countries, governments provide financial benefits to citizens who are eligible on grounds of unemployment, sickness, old age, disability etc through government-aided social security programmes. The situation in developing countries like India is very different. Here, unemployment insurance is unheard of and state pension barely covers a small fraction of the Indian public. Healthcare is often thinly or sporadically provided, education is typically limited to primary school, and assistance to the infirm and disabled is usually negligible. The sheer size of population and the acute resource constraints make it difficult for governments to provide robust social security programmes.

Since India is the largest democracy in the world with enormous socio-economic and cultural diversity, the limited capacity of some households to protect themselves against contingencies (that threaten to lower their living standards) tends to be the primary factor that determines their levels of investments, their ability to take advantage of economic and social opportunities for their financial advancement. There is not
much awareness about the need for financial protection, and most life insurance policies are regarded as a tax-saving tool or even a pure investment. Only a minuscule percentage of the population, particularly salary earners and businessmen, own life insurance.

Financial risk is essentially an assessment of earnings, spending and saving patterns of households and the financial products they invest in order to protect themselves against financial risks. There were 205.9 million households in the country in 2004-05, of which 30 per cent (61.4 million) lived in urban areas and the rest (144.5 million) in rural areas. The average household in India has an annual income of Rs 65,041 and an expenditure of Rs 48,902, leaving it with a surplus of Rs 16,139 to save and invest. There is a large segment of people—including businessmen, professionals, farmers, artisans and others—who remain financially unprotected and outside the purview of any form of financial protection. Even those who own life insurance policies are generally under-protected. A financially secure country cannot be built on the base of a small population of financially secure households. If we, as individuals, are financially well-protected, our nation will emerge stronger financially.

Due to the lack of a social security system, over 80 per cent of Indians save. However, less than a fourth of these savings finds its way into financial instruments. While two thirds of all savings are kept in the form of liquid assets—in cash, in the bank and in post office deposits—around a fifth of all investments are in the form of premium on insurance policies, as compared to just 7 per cent in the case of shares/debentures. Indian households have different reasons for keeping some money as savings—ranging from
emergencies to marriages and social events, children’s education and gifting. Saving for emergencies emerges as the top-most priority for Indian households with 83 per cent households saving for this purpose. Children’s education is another key priority – almost 81 per cent households save for this need. Nearly 69 per cent households in India save for reasons of old age financial security whereas 63 per cent households save to meet future expenses towards marriages, births and other social ceremonies. Nearly 47 per cent households save to buy or build a house and a similar percentage is saving to improve or enlarge their business. 36 per cent of households in the country prefer to keep their savings at home. More than half of Indian households (51 per cent) prefer to save by keeping their savings in bank deposits. Households opting for post-office deposits account for just 5 per cent. Cooperative society deposits, chit funds, bonds are some of the other modes of saving. Only 2 per cent households opt for purchasing insurance policies.32

Awareness about insurance is quite high in India. Around 78 per cent households are aware of insurance products. Despite this, ownership of insurance products is low only 24 per cent households in the country own a life insurance cover. At the all-India level, for all households, while the average sum assured of a life insurance policy in the country is Rs 27,951, the average premium paid is Rs 1,227 and this represents 4 per cent of the household disposable income. If, however, the insured households alone are considered, their average premium payments work out to Rs 5,007, with the sum assured of Rs 114,450.33

Urban India is more aware of life insurance – 90 per cent of urban
households are aware of life insurance, as opposed to 73 per cent rural households. Life insurance awareness is also a function of factors like occupation, age, education and size of the landholdings. The salaried class is most aware about insurance. Nearly 95 per cent salaried households are aware about insurance compared to 89 per cent households that are engaged in non-agricultural self-employed work followed by agricultural households (77 per cent) and labour households (63 per cent).

Awareness about life insurance increases with age. Households with chief earners in age groups of 46-55 years, 56-65 years and 65+ years are more aware (81 per cent each) about insurance than the younger age groups. Similarly, households that have larger landholdings are more aware of insurance than those with relatively smaller landholdings or the landless: only 66 per cent of households among the landless and 72 per cent among marginal farmers (0.1-2 acres) are aware of insurance. Percentages rise to 86 per cent and 87 per cent among farmers with medium (4-10 acres of land) and large (10-plus acres) landholding respectively. Awareness of insurance is largely linked to income levels. Nearly 90 per cent of the top income quintile group (Q5) and 81 per cent in the 60-80 per cent income quintile group (Q4) in rural India are aware of insurance products. To an average Indian, life insurance is the most important form of insurance. At the all-India level, about 86 per cent of households aware about the insurance considered life insurance as the most important product among all insurance products such as health (6 per cent), crop (3 per cent) and automobile (5 per cent) insurance.34
The main reason why insured households save for emergencies and not for their old age is the fact that, by and large, they feel quite secure about their ability to live off their savings after retirement, and to be able to find another job within months of losing the current one. At the all-India level, 23.2 per cent of insured households said they were very confident about the stability of their household income, and another 51 per cent said they were confident.

An indicator of the kind of financial planning most households undertake is the time they believe it will take to recover from a loss of income compared to their level of confidence about the stability of their incomes. So, 35 per cent of insured households believe it will take them less than six months to be able to replace their current incomes in case of a disruption. More uninsured households are unsure of the time frame by which they would be able to find alternative income (38 per cent) compared to insured households (30 per cent). More insured households claim they would be able to find alternative income (26 per cent) within a year, compared to those who do not own insurance (19 per cent).

1.19 The Journey of LIC:

The insurance sector in India has experienced a 360-degree journey over a period of more than a hundred years. Its transition from an open competitive sector to nationalization and then back to a liberalized market characterizes this phenomenon. The insurance sector was brought under the government wrap within ten years of independence. Since then, till the re-opening of the sector in the 1990s, the state-owned companies functioned under the deluge of bureaucracy and inefficiency but still had millions of...
policyholders, as there were no alternatives. During this period, any suggestion regarding the opening up of the sector was met with harsh criticism and agitation from insurance employees unions. The government (1991-1996) that introduced reforms in various sectors of the economy could not bring about a change in the insurance sector and the present liberal structure, despite criticism from some of its left support groups. The argument behind opening up of the sector was consumer-centric, which claimed that opening up insurance would give better products and service to consumers; the opponents of privatization argued that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment.  

Although the insurance sector was opened to competition again in 1999-2000, it still has some way to go before we can gauge its true performance.

1.20  50 Years of LIC:

Life Insurance Corporation of India was established on September 1, 1956 and was celebrated its Golden Jubilee. While inaugurating the Golden Jubilee Year on September 1, 2005 at Lucknow, the Prime Minister, and Dr. Manmohan Singh said, over the last five decades, LIC has done remarkably well in serving the cause for which it was created. Its long journey in the service of our country, from its launch on 1st September 1956, mirrors the journey of our economy. From infancy, and the teething troubles associated with it, through years of growth and development, and the challenges associated with it, LIC has entered the phase of maturity, capable of facing competition. This has been the saga of our economic development since independence too”. He also said that LIC has played an important role in the building of the modern Indian economy. The insurance sector is a key
building block in our overall financial framework. It performs the necessary risk distribution function for individuals and firms. Along with pension funds, it also mobilizes long-term savings. Both these functions are critical for the growth of the economy. LIC has earned for itself a pride of place in the hearts of millions of Indians through its various schemes and by the work it has done to alleviate distress in situations caused by natural disasters.37

Over 3.5 crore people living below the poverty line or marginally above the poverty line, are covered under the social security schemes of LIC. Self-employed communities like fishermen, weavers, rickshaw pullers and petty traders require insurance cover against the ups and downs of life and the market. Serving and servicing the needs of such groups can also be a commercially viable proposition. When we visualize an India that is free from the clutches of poverty, unemployment and illiteracy, LIC will have to play a significant role in achieving this vision.
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