CHAPTER 2
DEVELOPMENT OF GENERAL INSURANCE IN INDIA

A: HISTORICAL PERSPECTIVE

2.1 EVOLUTION OF INSURANCE IN THE WORLD PERSPECTIVE

The growth of insurance is associated with the growth of trade, commerce and industry. It appears simultaneously with the existence of human society. Even at times when there were no financial instruments, insurance prevailed in the form of mutual help i.e. people helped each other. For example, if a house was burnt the other members of the community helped to build a new one. In the same way, if anybody else in the community faced a problem, others helped; otherwise neighbours would not receive help in future.

In the year 3000 B.C., Chinese merchants travelling dangerous rivers divided their wares across many ships to limit their loss in case any single vessel capsized. To reduce the impact of losses on anyone individual the merchants devised the plan of distributing their goods on each other’s boat. If one boat met with an accident, the loss was distributed automatically amongst all.

The Babylonian and Mediterranean traders also used a similar system which was recorded in the famous Code of Hammurabi 2250 B.C. The Code provided that a debtor did not have to repay his loan if any catastrophe made it impossible. In Iran, the Achaemonian monarchs used to insure their people officially through government notary offices. On the day of ‘Norouz’, the first day of the New Year, gifts were presented by the heads of different ethnic groups
and others to the monarch. When the value of the gift was more than 10,000 Derrik (Achaemonian gold coin), the issue was registered in a special office. Other gifts of lesser value were fairly assessed by the ‘confidants of the court’ and then registered in special offices. The purpose of registering the gifts was that whenever the person who presented the gift was in trouble the monarch would help him.³

In 600 A.D., the Greeks and Romans introduced the concept of ‘benevolent societies’. These societies cared for the families and paid for the funeral expenses of members upon death. Such type of societies existed in England too in the late 17th century.⁴

Turning to insurance in the modern sense, marine insurance started in Italy, during early thirteenth century, where ships carrying goods were covered against different known perils. Thereafter, insurance began to spread to other countries of the continent and then to United Kingdom through Lombard merchants who came to dominate British commerce and finance during the fifteenth century.⁵

Origin of modern insurance is thus attributable to individuals rather than insurance companies. A ship-owner or merchant seeking protection for the ship or cargo, prepared or circulated a sheet containing details of the ship, cargo, its destination and other pertinent information. People who agreed to accept a part of the risk wrote their names under the description of the risk and the terms of agreement. This practice of ‘writing under’, gave rise to the term, ‘under-writer’ as a person who accepts or rejects risks.⁶
After this the next important event was the Great Fire of London, in the year 1666. The fire raged for five days, flaring thousand houses and virtually destroying the city. An English physician named Nicholas Bourbon, entered the reconstruction business during the rebuilding of the city and opened an office in London to insure the newly built houses against loss by fire. This was the beginning of fire insurance in the world. Many under-writers also, who dealt exclusively in marine insurance, formed insurance companies for providing fire insurance.

The first known organised form of general insurance was in marine portfolio. It developed in U.K. at Lloyd’s Coffee House in Tower Street, London. The coffee house used to be a meeting place of merchants, bankers, captains and sea farers. While drinking coffee they used to discuss various problems and risks involved in marine transactions. Edward Lloyd was the owner of the coffee house. After some time, individual merchants started to underwrite marine risks which were in the form of modern insurance. Subsequently Lloyd’s Act was enacted facilitating other forms of insurance business. Presently Lloyd’s is the largest underwriter in the world. It is also the largest source of shipping and reinsurance information in the world.

The second of the modern branches of insurance was life insurance, in the year 1536. In the year 1693, an astronomer Edmond Halley (of Halley Comet’s fame) constructed the first mortality table, based on the statistical laws of mortality and compound interest. Several companies that followed this table failed. Then in 1762, the Equitable Society for the Assurance of Life and
Survivorship introduced the innovation of premiums that varied with the age of the insured and became immediately successful.\textsuperscript{10}

The first fire insurance company in U.S.A. was formed in Charles Town (presently Charleston) in 1732; named Friendly Society for Mutual Insuring of Houses, but it lasted only for a few years. Thereafter, an American, Benjamin Franklin, popularised the practice of fire insurance, in the form of perpetual insurance. In 1752, he and his associates, founded a company for providing fire insurance coverage named, Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin's company was the first to make contributions toward fire prevention. Not only did his company warn against certain fire risks, but it also refused to insure certain buildings where the risk of fire was high, such as all wooden houses.\textsuperscript{11}

The first capital joint stock insurance company in the United States was the Insurance Company of North America which was founded as an association in 1792 and later on incorporated in 1794. Its charter gave it broad underwriting powers to engage in all lines of insurance, but it restricted its activities to fire and marine insurance only. The Presbyterian Synod of Philadelphia in 1759 sponsored the first life insurance corporation in America, for the benefit of Presbyterian ministers and their dependents named, the Corporation for Relief of Poor and Distressed Presbyterian Ministers and the Poor and Distressed Widows and Children of Presbyterian Ministers.\textsuperscript{12}

Between 1759 and 1835, several other joint stock insurance companies were formed but none survived. In the mid-nineteenth century, 'casualty insurance', appeared in the form of accident insurance. Thereafter several
companies were formed in England and America, for benefitting rail-road passengers, other travellers, boiler explosion coverage, employer’s liability insurance etc. The first auto-liability insurance began in the United States in 1898, followed by workmen’s compensation insurance in 1910.\textsuperscript{13}

The Great New York Fire of 1835 was an unexpected large loss to be met by insurance companies and hence the need for adequate reserves was first felt by the insurance companies. Massachusetts in U.S.A was the first state to require companies by law (1837) to maintain such reserves. After the Chicago fire of 1871, reinsurance system was created whereby losses are distributed among many companies.\textsuperscript{14}

Germany too began a tradition of welfare programs in Prussia and Saxony in the 1840s to reduce outflow of citizens to American countries. In the 1880s, the then Chancellor introduced old age pensions, accident insurance, medical care and unemployment insurance in the country.\textsuperscript{15}

In the nineteenth century, western insurance companies started to expand their operations beyond the geographical boundaries of their countries. Thereafter, the significant change in the field of insurance was the enactment of Social Security Act of 1935 whereby the concept and acceptance of insurance as a means to achieve individual financial security was forced upon the insurance companies by the state that might not otherwise be available to individuals.\textsuperscript{16} After the Second World War, insurance sector experienced a boom.
2.2 EVOLUTION OF INSURANCE IN INDIA (UP TO 1947):

Insurance in India originated long ago. Earliest traces of insurance in India were seen in the form of marine trade loans. Insurance related activities have been mentioned in the famous writings like Manusmriti by Manu, Dharmashastra by Yagnavalkya and Arthashastra by Kautilya.\(^{17}\)

In ancient times people used to pool resources in order to tackle calamities like fire, floods, epidemics etc. The Aryans had the idea of community insurance more than 3000 years ago as mentioned in the Reeg Veda. The word ‘Yogakshema’ was used by which the Aryans meant some sort of communities which were formed to help out the families of deceased like protecting the widow, marrying off the girls etc.\(^{18}\)

The first life insurance company that started operations in India, in 1818, was Oriental Life Insurance Company, in Calcutta, which later on failed in the year 1834. Thereafter, in the year 1823 and in 1829, Bombay Assurance Company Limited and Madras Equitable Society started to function in Bombay and Madras respectively. In the year 1870, British Insurance Act was passed. Various insurance companies like Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were functioning in India during last part of 19\(^{th}\) century. At the same time, the major foreign insurance companies doing good business in India were Albert Life Assurance, Liverpool Insurance, Royal Insurance and London Globe Insurance. These foreign companies were indulged in tough competition with Indian companies.\(^{19}\)

These foreign companies only insured foreign lives and even if Indian lives were insured they were treated as ‘substandard’ and accordingly high

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\(^{17}\) Manusmriti, Dharmashastra and Arthashastra are ancient Indian scriptures.

\(^{18}\) Reeg Veda is an ancient Indian text that discusses the idea of community insurance.

\(^{19}\) British Insurance Act was a significant legal framework for insurance in India.
premiums were charged for insuring Indian lives. The first general insurance in India was seen in the form of marine insurance. This was because of the increase in marine business due to the industrial revolution in England. The first general insurance company to be established in India was Triton Insurance Company Limited, in Kolkata, in the year 1850, by the British. After that the first indigenous insurance company, Indian Mercantile Insurance Company Limited was set up in 1907, which transacted all classes of general insurance business in India.

Till the year 1912, insurance business was conducted without any specific guidelines and regulations. It was subject only to the Indian Companies Act, 1866. In the year 1905, when the Swadeshi Movement began, it had an impact on the insurance sector in India. Indigenous life insurance companies and provident societies sprung up for providing insurance facility to Indians. By then the need was felt to regulate the insurance business in India and as a result two legislations came up in the year 1912. These were:

1. Indian Life Assurance Companies Act and
2. Provident Assurance Societies Act;

These legislations were meant for regulating life insurance business of Indian insurers only. In the year 1914, the Government of India started to publish returns of insurance companies in India.

In 1928, Indian Insurance Companies Act was enacted to obtain statistical information of both life and non-life business transacted in India. Information collected from this Act helped one to compare the average size face value of Indian insurance companies against their foreign counterparts. In 1928, the
average policy value of an Indian company was 619 USD against 1150 USD for foreign Companies. This shows that foreign companies were doing well during that period. In 1938 the average size of the policy sold by Indian companies had fallen to 532 USD and that of foreign companies had risen to somewhat 1,188 USD\textsuperscript{24}. Table 2.1 shows the state of affairs of the insurance business in India in the year 1928 and 1938.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Policy Value (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indian</td>
</tr>
<tr>
<td>1928</td>
<td>619</td>
</tr>
<tr>
<td>1938</td>
<td>532</td>
</tr>
</tbody>
</table>

*Source: Indian Insurance Commissioner’s report, 1929/23*

In the year 1937, the Government of India set up a Consultations Committee under the chairmanship of Mr. Sushil Chandra Sen, a well known solicitor of Calcutta. At that time about 199 insurance companies were operating in India.\textsuperscript{25} On the recommendations of the Committee, the Insurance Act of 1938 was passed. It was a comprehensive legislation covering both life and general insurance business. This Act defined the terms life and general insurance business and laid down extensive rules regarding deposits, supervision of insurance companies, investments, commission of agents, director’s appointment etc.\textsuperscript{26}

2.3 GENERAL INSURANCE IN INDIA DURING 1947-1972:

Immediately after independence in 1950, the Insurance Act of 1938 was amended to set up a Tariff Committee under the control of the General Insurance Council of India. Through this amendment, main lines of general insurance were
brought under the Tariff Committee (including Fire, Marine, and Miscellaneous). It was obligatory for all the insurers to follow the regulations made by the Tariff committee.

There were a large number of companies operating in India in the fifties and the level of competition was high. By 1956, there were 154 Indian insurance companies, 16 non-Indian insurance companies and 75 provident societies that were issuing life insurance policies. There were also allegations of unfair trade practices. This compelled the government to think over the reforms in insurance sector by which matters could be regulated.

In the year 1956, there was a great change in the life insurance sector in India. Life Insurance Corporation Act was passed in 1956 to nationalise life insurance business by forming Life Insurance Corporation of India. General insurance sector still remained in private hands. In the year 1957, the General Insurance Council, a wing of the Insurance Association of India was formed. This Council framed the code of conduct for ensuring fair and sound practices by insurance companies.

Then in the year 1968, the Insurance Act was again amended to regulate investments and set minimum solvency margins. The Tariff Committee was replaced by Tariff Advisory Committee (TAC). The TAC was an independent regulatory body which was authorised to frame rules regarding rates in general insurance business.

During those days it was felt that privately run general insurance companies in India failed to penetrate into the rural areas and also failed to deposite faith upon the insured. Therefore in 1972, general insurance business
was brought under state control with the passing of the General Insurance Business Nationalisation Act (GIBNA) which came into effect from 1st January, 1973.

At that time there were 107 general insurance companies operating in India. All these were amalgamated and merged to form four companies. The General Insurance Corporation of India was also incorporated as a holding company in November, 1972 and it commenced business on January 1, 1973 with the following four subsidiaries, namely,

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. National Insurance Company Limited</td>
<td>Kolkata</td>
</tr>
<tr>
<td>2. Oriental Insurance Company Limited</td>
<td>Mumbai</td>
</tr>
<tr>
<td>3. United India Insurance Company Limited</td>
<td>New Delhi</td>
</tr>
<tr>
<td>4. New India Assurance Company Limited</td>
<td>Chennai</td>
</tr>
</tbody>
</table>

2.4 RATIONALE FOR NATIONALISATION:

According to the first Annual Report of Insurance Regulatory Development Authority, "The reasons for the nationalisation of the industry are rather well known and concerned mostly the unethical practices adopted by some of the players against the interests of the insurance consumers."

In the late fifties the Indian government was pursuing public funds that needed captive funding. Life insurance industry with its huge life funds was viewed by the government as a good source. The reason why life insurance business was nationalized in the year 1956 came from a document produced by Mr. H.D. Malaviya on behalf of Indian National Congress. In the document Mr.
Malaviya had stated that there were four important claims to justify nationalization of life insurance. These were:

a) Insurance being a co-operative enterprise and India being a socialist country it was better for government to be in insurance business.

b) Indian private insurance companies were excessively expensive,

c) He argued that private competition had not improved services to the public,

d) Lapse ratios of life policies were very high.

On the basis of suggestions given by Mr. Malaviya, the government had framed its policy decisions to nationalise life insurance in 1956. But, general insurance business was not nationalised at that time. The reason forwarded by the then Finance Minister Mr. C.D. Deshmukh, in his speech, for not nationalising general insurance business was that general insurance is part and parcel of the private sector of trade and industry and functions on a year to year basis. Errors of omission and commission in the conduct of its business do not directly affect the individual citizen. Life insurance business, by contrast, directly concerns the individual citizens whose savings, so vitally needed for economic development, may be affected by any acts of folly or misfeasance on the part of those in control or be retarded by their lack of imaginative policy.

From this it may be interpreted that the government was of the view that the role of general insurance in economic development was less than that of life insurance business at that time hence it did not require nationalisation. But later on, the concept changed and finally, general insurance sector was also

The rationale for nationalisation was to regulate the general insurance sector which was earlier functioning without any control and hence there were severe chances of fraud. The General Insurance Business Nationalisation Act, 1972 was passed to provide for the acquisition and transfer of shares of Indian insurance companies to the government with the following objectives:

1. To serve better the needs of the economy,
2. Securing the development of general insurance business in the best interests of the community,
3. To ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment,
4. For regulation and control of such business and for matters connected therewith or incidental thereto.

According to section 2 of the General Insurance Business Nationalisation Act, 1972 the Act was meant for giving effect to the policy of the state towards securing the principles specified in clause (c) of Article 39 of the Constitution of India.

Clause (c) of Article 39 of the Constitution of India reads as follows, “that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.”

General Insurance Corporation of India was formed [Section 9(1)] for the purpose of superintending, controlling and carrying on the business of general
insurance. According to section 18 of General Insurance Business Nationalisation Act, 1972 the functions of General Insurance Corporation of India are as follows:

a) The carrying on of any part of general insurance business if it thinks it desirable to do so,

b) Aiding, assisting and advising the acquiring companies in the matter of setting up of standards of conduct and sound practice and in the matter of rendering efficient service to holders of policies of general insurance,

c) Advising the acquiring companies in the matter of investment of their funds,

d) Issuing direction to acquiring companies in relation to the conduct of general insurance business,

e) Encouraging competition amongst the acquiring companies as far as possible in order to render their services more efficiently.

The subsidiaries of General Insurance Corporation of India were entrusted with the duty of carrying on general insurance business to the best advantage of the community. The above mentioned functions of General Insurance Corporation of India and its subsidiaries according to the act indicate that there were several motives behind legislation.

It was expected that nationalization would facilitate standards of conduct and sound practices in general insurance, render efficient customer service and encourage fair and healthy competition amongst the subsidiaries. On the basis of the above discussion it may be concluded that nationalisation of general insurance was desirable on many grounds like:
a) **Distribution pattern:** Nationalised insurers would have a large reach and presence which was not possible for insurers operating at private level. Far and wide distribution of insurance offices was necessary for serving better the needs of the economy.

b) **Trust and faith:** One of the reasons why life insurance was nationalised was that the industry was plagued by fraud\textsuperscript{35}. At the time of nationalisation of life insurance, 25 insurance companies were already bankrupt and another 25 were on the verge of bankruptcy. People would have trust, faith and confidence in government run companies. So, it was quite necessary for the general insurance sector too, to be nationalized at that point of time.

c) **Promotion of insurance even in rural areas:** The private companies would not be much concerned about the economic development of the country. As such, they would never promote insurance in rural areas, which was very necessary for the economic development of the country. Private insurance companies would not have such a broad outlook.

d) **Minimizing frauds:** In case of most of the private insurance companies, there were clear attempts to defraud the insuring public\textsuperscript{36}. It was perceived that at least the government owned companies would never indulge in such fraudulent activities. Quoting Mr. C.D. Deshmukh, “Misuse of power, position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalise life insurance”\textsuperscript{37}.
B: GROWTH IN GENERAL INSURANCE BUSINESS (UPTO 2000)

Discussion made in the above sections reveal that the general insurance business in India was nationalised with certain objectives like serving better the needs of the economy, securing the development of general insurance business in the best interests of the community and ensuring that the operation of the economic system does not result in the concentration of wealth to the common detriment etc. The industry went through various ups and downs during this period. The progress of general insurance sector in India during the post-nationalisation (till the year 2000) is depicted with the help of the following analysis.

2.5 GROWTH IN GROSS DIRECT PREMIUM AND NET WRITTEN PREMIUM:

Table 2.2
Total Gross Direct Premium (GDP) during Pre-reform Period (in Rs. Crores):

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP in India</th>
<th>GDP outside India</th>
<th>Total GDP</th>
<th>Annual Growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>184</td>
<td>24</td>
<td>208</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>2175</td>
<td>104</td>
<td>2279</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>2796</td>
<td>117</td>
<td>2913</td>
<td>27.8</td>
</tr>
<tr>
<td>1991-92</td>
<td>3287</td>
<td>216</td>
<td>3503</td>
<td>20.3</td>
</tr>
<tr>
<td>1992-93</td>
<td>3792</td>
<td>278</td>
<td>4070</td>
<td>16.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>4449</td>
<td>317</td>
<td>4766</td>
<td>17.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>4959</td>
<td>312</td>
<td>5271</td>
<td>10.6</td>
</tr>
<tr>
<td>1995-96</td>
<td>6047</td>
<td>330</td>
<td>6377</td>
<td>21.0</td>
</tr>
<tr>
<td>1996-97</td>
<td>7021</td>
<td>327</td>
<td>7348</td>
<td>15.2</td>
</tr>
<tr>
<td>1997-98</td>
<td>7736</td>
<td>350</td>
<td>8086</td>
<td>10.0</td>
</tr>
<tr>
<td>1998-99</td>
<td>8759</td>
<td>399</td>
<td>9158</td>
<td>13.3</td>
</tr>
<tr>
<td>1999-2000</td>
<td>9522</td>
<td>460</td>
<td>9982</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports

Note: The symbol '-' indicates non-availability of data.
Table 2.2 shows that the total GDP has increased from Rs. 208 crores in 1973 to Rs. 9982 crores in 1999-2000. The GDP has increased by 48 times in a time span of 27 years which is commendable. The total GDP in India has increased from Rs. 184 crores to Rs. 9522 crores. Also, the premium income originating in India has gone up from the level of Rs. 24 crores to Rs. 460 crores. The growth has been on an increasing trend and the annual growth rates are also impressive throughout the nationalised period. However, the growth rate has declined during the last years of the nationalised regime, i.e. after 1995-96. The GDP has resulted not only from Indian but also from foreign operations. Thus, it is significant to note that the progress is not only in terms of Indian business but the public sector companies have been equally active about their foreign operations.

<table>
<thead>
<tr>
<th>Year</th>
<th>NWP in India</th>
<th>NWP outside India</th>
<th>Total NWP</th>
<th>Annual Growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>-</td>
<td>-</td>
<td>222</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>1909</td>
<td>277</td>
<td>2168</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>2419</td>
<td>323</td>
<td>2742</td>
<td>26.5</td>
</tr>
<tr>
<td>1991-92</td>
<td>2945</td>
<td>505</td>
<td>3450</td>
<td>25.8</td>
</tr>
<tr>
<td>1992-93</td>
<td>3284</td>
<td>584</td>
<td>3868</td>
<td>12.1</td>
</tr>
<tr>
<td>1993-94</td>
<td>3681</td>
<td>746</td>
<td>4427</td>
<td>14.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>4102</td>
<td>777</td>
<td>4879</td>
<td>10.2</td>
</tr>
<tr>
<td>1995-96</td>
<td>5082</td>
<td>869</td>
<td>5956</td>
<td>22.1</td>
</tr>
<tr>
<td>1996-97</td>
<td>6041</td>
<td>693</td>
<td>6734</td>
<td>13.1</td>
</tr>
<tr>
<td>1997-98</td>
<td>6725</td>
<td>632</td>
<td>7357</td>
<td>9.3</td>
</tr>
<tr>
<td>1998-99</td>
<td>7732</td>
<td>670</td>
<td>8402</td>
<td>14.2</td>
</tr>
<tr>
<td>1999-2000</td>
<td>8648</td>
<td>716</td>
<td>9364</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports
Note: The symbol '-' indicates non-availability of data.
Net written premium indicates the gross domestic premium in excess of re-insurance ceded and includes, re-insurance accepted. Table 2.3 shows that the net written premium of general insurance sector has increased from Rs. 222 crores in 1973; to Rs. 9364 crores in 1999-2000. The net premium has increased considerably every year; however the annual growth rate has been low from the year 1992-93 to 1999-2000, except in the year 1995-96, when the growth rate was 22.1 percent. The net premium written in India has increased from Rs. 1909 crores in 1989-90 to Rs. 8648 crores in 1999-2000; while from foreign operations the net written premium has increased from Rs. 277 crores in 1989-90 to Rs. 716 crores in 1999-2000.

2.6 GROWTH IN INCOME:

Growth in income during the pre-reform period (1972 to 2000) is discussed taking four dimensions of income of a general insurance company. These are (i) Underwriting-result (ii) Profit before tax (iii) Net Profit and (iv) Investment Income.

i) Underwriting-results indicate the operating results from insurance business only. It means the profit/loss arising out of the underwriting operations of an insurance company. Underwriting is the process of selecting risks for insurance and classifying them according to their degree of insurability so that the appropriate rates may be charged for insuring them. The risks that do not qualify in the underwriting process may not be insured by the company.
Underwriting result is calculated as follows:

\[
\text{Underwriting result} = \text{Net Premium} - (\text{Increase in the Unexpired Risk Reserve} + \text{Expenses of Management} + \text{Claims Incurred} + \text{Commission of Agents})
\]

### Table 2.4

**Underwriting Results during Pre-reform Period (in Rs. Crores):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underwriting Results</th>
<th>Annual growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>(119)</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>(118)</td>
<td>0.84</td>
</tr>
<tr>
<td>1991-92</td>
<td>(77)</td>
<td>34.74</td>
</tr>
<tr>
<td>1992-93</td>
<td>(119)</td>
<td>(54.54)</td>
</tr>
<tr>
<td>1993-94</td>
<td>81</td>
<td>168.07</td>
</tr>
<tr>
<td>1994-95</td>
<td>(705)</td>
<td>(970.37)</td>
</tr>
<tr>
<td>1995-96</td>
<td>(646)</td>
<td>8.36</td>
</tr>
<tr>
<td>1996-97</td>
<td>(628)</td>
<td>2.78</td>
</tr>
<tr>
<td>1997-98</td>
<td>(384)</td>
<td>38.85</td>
</tr>
<tr>
<td>1998-99</td>
<td>(687)</td>
<td>(78.90)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>(1215)</td>
<td>(76.86)</td>
</tr>
</tbody>
</table>

*Source: GIC Annual Reports.*

*Note: The symbol ‘-' indicates non-availability of data.*

According to table 2.4, the general insurance sector has experienced underwriting profit in only two years during the nationalised period under study i.e. in the years 1973 and 1993-94. In most of the other years the sector had experienced heavy underwriting losses. At the end of the nationalised period, the amount of underwriting losses had been as high as Rs. 1215 crores with an annual growth rate of 76.86 percent. This shows that the underwriting operations do not result in underwriting profits.

ii) Profit before tax means the total of underwriting results, gross investment income and other incomes less other outgo. Table 2.5
indicates the profits before tax had been satisfactory for the general insurance sector during the nationalised period under study. In spite of heavy underwriting losses, the insurance companies had managed to earn profits. This is mainly due to the investment income which worked as a cushion. The profits before tax had increased from Rs. 38 crores in 1973 to Rs. 1152 crores in 1999-2000. However, the growth in the profits before tax has not been in an increasing pattern. The profits declined from Rs. 1082 crores in 1993-94 to only Rs. 503 crores in 1994-95.

Table 2.5

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit Before Tax</th>
<th>Annual growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>38</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>371</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>482</td>
<td>29.92</td>
</tr>
<tr>
<td>1991-92</td>
<td>669</td>
<td>38.80</td>
</tr>
<tr>
<td>1992-93</td>
<td>779</td>
<td>16.44</td>
</tr>
<tr>
<td>1993-94</td>
<td>1082</td>
<td>38.90</td>
</tr>
<tr>
<td>1994-95</td>
<td>503</td>
<td>(95.38)</td>
</tr>
<tr>
<td>1995-96</td>
<td>831</td>
<td>65.20</td>
</tr>
<tr>
<td>1996-97</td>
<td>1084</td>
<td>30.45</td>
</tr>
<tr>
<td>1997-98</td>
<td>1623</td>
<td>49.72</td>
</tr>
<tr>
<td>1998-99</td>
<td>1467</td>
<td>(9.61)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1152</td>
<td>(21.47)</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports

Note: The symbol '-' indicates non-availability of data.

iii) Net profit means profit before tax minus income tax deducted at source and provision for tax. Table 2.6 shows that the net profit had increased from Rs. 14 crores in 1973; to Rs. 874 crores in 1999-2000. The growth had been on an increasing trend since 1973, but it declined from Rs. 670 crores in 1993-94 to Rs. 377 crores in 1994-
95. Thereafter, again there was an increasing trend upto 1997-98. After that the net profits further decreased heavily from Rs. 1255 crores in 1997-98 to Rs. 1077 crores in 1998-99 and finally to only Rs. 874 crores in 1999-2000. This shows that the net profits went down dramatically towards the end of the nationalised period.

Table 2.6
Net profit during Pre-reform Period (in Rs. Crores):

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit</th>
<th>Annual growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>258</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>334</td>
<td>29.46</td>
</tr>
<tr>
<td>1991-92</td>
<td>428</td>
<td>28.14</td>
</tr>
<tr>
<td>1992-93</td>
<td>503</td>
<td>17.52</td>
</tr>
<tr>
<td>1993-94</td>
<td>670</td>
<td>33.20</td>
</tr>
<tr>
<td>1994-95</td>
<td>377</td>
<td>(43.73)</td>
</tr>
<tr>
<td>1995-96</td>
<td>551</td>
<td>46.15</td>
</tr>
<tr>
<td>1996-97</td>
<td>721</td>
<td>30.85</td>
</tr>
<tr>
<td>1997-98</td>
<td>1255</td>
<td>74.06</td>
</tr>
<tr>
<td>1998-99</td>
<td>1077</td>
<td>(14.18)</td>
</tr>
<tr>
<td>1999-2000</td>
<td>874</td>
<td>(18.85)</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports
Note: The symbol '-' indicates non-availability of data.

iv) The retained premiums can be invested by the companies in profitable avenues. Such investment portfolios earn some return like interest, dividends and realized gains on stock and constitute the investment incomes of the company. Table 2.7 shows that the investment incomes had been on an increasing trend during the nationalised period. The investment income had increased from Rs. 21 crores in 1973 to Rs. 2392 crores in 1999-2000. The annual growth rates are also
impressive but the annual growth rate has dropped drastically from 12.23 percent in 1998-99 to just 7.75 percent in 1999-2000.

Table 2.7
Investment Income during Pre-reform Period (in Rs. Crores):

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Income</th>
<th>Annual growth (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>1989-90</td>
<td>449</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>566</td>
<td>26.06</td>
</tr>
<tr>
<td>1991-92</td>
<td>752</td>
<td>32.86</td>
</tr>
<tr>
<td>1992-93</td>
<td>859</td>
<td>14.23</td>
</tr>
<tr>
<td>1993-94</td>
<td>957</td>
<td>11.41</td>
</tr>
<tr>
<td>1994-95</td>
<td>1150</td>
<td>20.17</td>
</tr>
<tr>
<td>1995-96</td>
<td>1475</td>
<td>28.26</td>
</tr>
<tr>
<td>1996-97</td>
<td>1697</td>
<td>15.05</td>
</tr>
<tr>
<td>1997-98</td>
<td>1978</td>
<td>16.56</td>
</tr>
<tr>
<td>1998-99</td>
<td>2220</td>
<td>12.23</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2392</td>
<td>7.75</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports
Note: The symbol '-' indicates non-availability of data.

2.7 OTHER PERFORMANCES OF GENERAL INSURANCE BUSINESS:

(a) Increase in the number of offices:

There has been a significant increase in the number of total offices (Table 2.8) which is indeed praiseworthy. As against the figure of 789 offices in 1975 the number of 4175 offices in 2000 is indeed appreciable. There has been an increment of (4175-789) i.e 3385 offices which indicates spread of general insurance in every nook and corner of the country thus carrying the spread of general insurance throughout the country.
Table 2.8
Growth of General Insurance Network during Pre-reform Period:

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Branch Offices</th>
<th>No. of Divisional Offices</th>
<th>No. of Regional Offices</th>
<th>Total No. of Offices</th>
<th>Increase (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>529</td>
<td>240</td>
<td>20</td>
<td>789</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>882</td>
<td>368</td>
<td>22</td>
<td>1272</td>
<td>61.22</td>
</tr>
<tr>
<td>1985</td>
<td>2003</td>
<td>681</td>
<td>47</td>
<td>2731</td>
<td>114.80</td>
</tr>
<tr>
<td>1992</td>
<td>3090</td>
<td>1101</td>
<td>72</td>
<td>4263</td>
<td>56.13</td>
</tr>
<tr>
<td>1995</td>
<td>2997</td>
<td>1128</td>
<td>77</td>
<td>4202</td>
<td>(1.43)</td>
</tr>
<tr>
<td>2000</td>
<td>2783</td>
<td>1299</td>
<td>92</td>
<td>4175</td>
<td>(0.64)</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports
Note: The symbol '-' indicates non-availability of data.

(b) Increase in Number of Employees:

The nationalisation of general insurance companies has also solved the unemployment problem to a great extent by providing ample employment opportunities to a vast section of population. There has been a huge increase from 27033 employees in 1975 to 84429 employees in 2000 (table 2.9). The annual growth in the number of employees is also impressive but the growth has declined in the last years of nationalised period.

Table 2.9
Increase in Number of Employees during Pre-reform Period:

<table>
<thead>
<tr>
<th>Year</th>
<th>Class I</th>
<th>Class II</th>
<th>Class III</th>
<th>Class IV</th>
<th>Total No. of Employees</th>
<th>Increase (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>3306</td>
<td>4294</td>
<td>15303</td>
<td>4130</td>
<td>27033</td>
<td>-</td>
</tr>
<tr>
<td>1980</td>
<td>5488</td>
<td>9096</td>
<td>21886</td>
<td>4278</td>
<td>40478</td>
<td>49.74</td>
</tr>
<tr>
<td>1985</td>
<td>7845</td>
<td>12365</td>
<td>25345</td>
<td>5004</td>
<td>50559</td>
<td>24.90</td>
</tr>
<tr>
<td>1992</td>
<td>15220</td>
<td>13639</td>
<td>42789</td>
<td>11328</td>
<td>83030</td>
<td>64.22</td>
</tr>
<tr>
<td>1995</td>
<td>15327</td>
<td>13168</td>
<td>44845</td>
<td>11221</td>
<td>84561</td>
<td>1.84</td>
</tr>
<tr>
<td>2000</td>
<td>15813</td>
<td>12688</td>
<td>45491</td>
<td>10437</td>
<td>84429</td>
<td>(0.16)</td>
</tr>
</tbody>
</table>

Source: GIC Annual Reports
Note: The symbol '-' indicates non-availability of data.
(c) Insurance Penetration and Insurance Density during Pre-reform Period:

The insurance penetration is defined as gross domestic premium as a percentage of gross domestic product. In the year 1997 the insurance penetration in India was as low as 0.56 percent whereas the average for Asia and the World was 1.90 percent and 3.06 percent respectively. Insurance density defined as premium per capita was USD 2.2 in India in 1997 whereas the average for Asia and the World was USD 46.4 and USD 176.8 respectively.38

Again, in the year 1999, the insurance penetration was as low as 0.53 percent whereas the average for Asia and the World was 1.71 percent and 2.95 percent respectively. Insurance density was USD 2.4, in India, in 1999 whereas the average for Asia and the World was USD 40.4 and USD 151.9 respectively.39

Thereafter, in the year 2000 the insurance penetration was as low as 0.55 percent whereas the average for Asia and the World was 1.76 percent and 2.96 percent respectively. Insurance density was USD 2.3 in India, in 2000 whereas the average for Asia and the World was USD 40.9 and USD 145.5 respectively.40

The above data can be presented in the form of a table for clear understanding:
Table 2.10
Insurance Penetration and Insurance Density
in India and the World

<table>
<thead>
<tr>
<th>Year</th>
<th>Insurance Penetration (in percentage)</th>
<th>Insurance Density (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>India</td>
<td>Asian Average</td>
</tr>
<tr>
<td>1997</td>
<td>0.56</td>
<td>1.90</td>
</tr>
<tr>
<td>1999</td>
<td>0.53</td>
<td>1.71</td>
</tr>
<tr>
<td>2000</td>
<td>0.55</td>
<td>1.76</td>
</tr>
</tbody>
</table>

3. World Insurance in 2000: Another Boom Year for Life Insurance; Return to Normal Growth for Non-Life Insurance, Sigma-Swiss Re, No.6/2001

Table 2.10 shows that the insurance penetration and insurance density of general insurance sector had been very low compared to Asian and world average. Low insurance penetration indicates that spread of insurance business had been relatively poorer and a large section of the insurable population was isolated from insurance coverage. Insurance density had also been very low. Although, insurance density is positively correlated with per capita income which is quite low in India, but the surprising aspect is that insurance density is even lower compared to several developing countries whose per capita income is even lower than India.41

(d) Increase in geographical spread:

In the year 1999-2000, general insurance industry had operations in 30 countries of the world other than India. Out of these in 16 countries, the operations were directly conducted by General Insurance Corporation of India and its subsidiaries while in the other 14 countries the operations were through
subsidiary and associated companies. Following is the list of countries in which the corporation or a subsidiary company was working:-

i). Direct operations (16 countries): Aruba, Nepal, Australia, Netherland, Bahrain, Oman, Fiji, Philippines, Hong Kong, Saudi Arabia, Japan, Thailand, Kuwait, UAE (United Arab Emirates), Mauritius and United Kingdom.

ii). Indirect operations through subsidiary or associated companies(14 countries): Barbados, Nigeria, Dominica, Sierra Leone, Guyana, Trinidad & Tobago, Ghana, St. Lucia, Jordan, Antigua, Kenya, Siberia, Malaysia and Singapore.

e) Other relevant statistics relating to the performance of insurance sector are as follows:\n
a) The net claims payable were at Rs.7586 crores in 1999-2000 as against Rs.1123 crores in 1973. The expenses including management expenses, commission and other outgo which were Rs.68 crores in 1973 increased to Rs.2510 crores in 1999-2000.

b) The total investment increased from Rs.355 crores in 1973 to Rs.16659 crores in 1999-2000.

c) The paid up capital and free reserves increased from Rs.37 crores and Rs.62 crores in 1973 to Rs.375 crores and Rs.7745 crores in 1999-2000 respectively.
d) The total number of insurance products in the general insurance industry was around 175 in 1999-2000, but only a few i.e. 40 to 50 products have dominated the market.

e) The rural and non-traditional business which was practically nil in 1973 has gradually increased and in 1999-2000 the premium collected through this business was only about Rs. 425 crores, constituting only 4 percent of the total gross premium income.

Thus, the general insurance industry had grown during nationalisation in terms of premium income, profits, investments, investment incomes, introduction of new products, innovating new covers for weaker sections of the society, generation of capital reserves, investment in social sectors, spread of insurance network on national as well as international basis etc. However, though geographical spread was increased, insurance penetration was not impressive and insurance density remained low as compared to other economies.43
The year 1991 marked the beginning of economic reforms in India. The effect of the economic reforms was felt on the financial sector and insurance industry was no exception. In the backdrop of such reforms the Government of India set up a high powered Committee on insurance sector reforms, under the chairmanship of Shri R.N. Malhotra, former Governor of the Reserve Bank of India. The Committee was set up to suggest on the creation of a more efficient and competitive financial system suitable for the requirements of the economy. The Committee submitted its report on 7th January, 1994.

The Malhotra Committee was formed, “to examine the structure of the insurance industry, to assess its strength and weaknesses in terms of the objective of providing high quality services to the public and serving as an effective instrument for mobilization of financial resources for development, to review the then existing structure of regulation and supervision of insurance sector and to suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment.”

From the above discussion it can be understood that the Malhotra Committee was formed by the government with the following objectives:

a) To examine the structure of the insurance industry,

b) To assess the strength and weaknesses of insurance sector in terms of the objective of providing high quality services to the public and serving as
an effective instrument for mobilization of financial resources for development,
c) To review the existing structure of regulation and supervision of insurance sector,
d) To suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment,
e) To make specific suggestions regarding Life Insurance Corporation and General Insurance Corporation in order to improve their functioning,
f) To make recommendations on the role and functioning of the intermediaries and surveyors in the insurance sector,
g) To make any recommendations on the matters incidental to the development of insurance in the country.

The recommendations made by the Malhotra Committee were discussed in a series of consultation meetings with the Chief Executives of the insurance industry, unions of LIC/GIC and subsidiaries and consumer interest groups, Chambers of Commerce and Industry and academicians. The recommendations of Malhotra Committee were also discussed in the Consultative Committee of Parliament, for the Ministry of Finance.45

The Malhotra Committee conducted a market survey among users, non-users of insurance, LIC agents, corporate clients etc. to find out their satisfaction levels in respect of Life Insurance Corporation of India and to assess their perceptions regarding the opening up of the insurance sector 46. On the basis of the findings of the study and statistics provided by LIC it was found that in spite of certain positive features like widespread coverage of insurance, mobilization
of large savings for national development and trust, faith and confidence in the hearts of the Indian public, LIC suffered on many counts like,

a) The marketing and services network of LIC was inadequate as per customer needs,

b) Insurance awareness was low,

c) Unit linked insurance plans were unavailable,

d) Insurance covers were costly,

e) Savings were significantly lower compared to other savings instruments,

f) LIC was overstaffed,

g) Work culture was unsatisfactory in the offices,

h) Trade unionism led to growth of restrictive practices,

i) LIC was lagging behind in the use of information technology which impeded development of the sector,

j) The functioning of LIC was in constraint due to excessive governmental interference.

Some of the major recommendations that were put forward by the committee (on the basis of the findings of such studies), in respect of insurance sector reforms are as follows:

a. There should be establishment of an independent regulatory body for insurance in lines with Securities and Exchange Board of India,

b. Private sector should be permitted to enter the insurance industry with a minimum paid up capital of Rs. 100 crore. However, capital requirement should be lower for co-operative sectors entering the insurance business,
c. Foreign insurance companies should also be allowed to enter by floating Indian companies preferably in joint venture with Indian partners,
d. Life Insurance Corporation of India should be converted into a company with its capital to be raised to Rs. 200 crores, 50% to be owned by the government and the rest by the public at large with suitable reservations for its employees.
e. The capital of General Insurance Corporation should also be raised to Rs.200 Crores with similar composition like LIC,
f. All insurance companies should be treated on equal footing and governed by the provisions of the Insurance Act, 1938. The Office of the Controller of Insurance, a part of Finance Ministry should be restored its full function under the Act,
g. Postal life insurance should be permitted to transact life insurance business in rural areas,
h. GIC should function exclusively as a reinsurance company. Its four subsidiaries should be completely de-linked by acquisition of entire stock by the Government,
i. Capital of each subsidiary of GIC should be raised to Rs.100 crores with 50% equity held by the government and the rest by the public at large,
j. Commission structure of agents should be improved to make it an effective instrument for procuring business from rural and even non-obligatory areas,
k. Insurance companies should develop insurance plans for rural and economically backward sections and should ensure a specified portion of business in these areas,

l. Claims should be settled within specific time frame. LIC should pay interest on delay in payments beyond 30 days,

m. Insurance companies should be encouraged to set up Unit Linked Insurance Plans,

n. Computerisation of operation and updating of technology should be carried out in the insurance sector,

o. Thrust should be laid upon selective recruitment and training programmes of insurance intermediaries,

p. Tariff Advisory Committee should function as a separate statutory body,

q. Mandatory investments of LIC Life Fund in government securities should be reduced from 75% to 50%. GIC and its subsidiaries also, not to hold more than 5% in any company.

On the basis of the recommendations of the Malhotra Committee, various changes have been introduced in the insurance sector. Insurance Regulatory Authority was formed as a voluntary body in the year 1996. In the year 1999, on March 16th, the Indian Cabinet approved the Insurance Regulatory Authority Bill. But, before the bill could be approved by the Indian Parliament, the Bharatiya Janata Party (BJP) government fell and the Insurance Regulatory Bill came to a halt. Again, when the BJP government came into power the Insurance Regulatory and Development Authority Act (IRDA) was passed on December 29, 1999.

2.9 THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT, 1999:

The Insurance Regulatory and Development Authority Act was enacted by the Indian Parliament on the 29th of December, 1999 on the basis of the recommendations of the Malhotra Committee, by the Government of India. The Act provided a new impetus to the insurance sector in India. The IRDA Act was formed with the following mission:

1) To provide for the establishment of an authority,
2) To protect the interests of holders of insurance policies,
3) To regulate, promote and ensure orderly growth of the insurance industry,

Section 3(1) of the act provides for the establishment of the Insurance Regulatory and Development Authority (IRDA), as an authority to fulfil the requirements of the Act. The IRDA shall be a body corporate with one chairperson, not more than five whole-time members and not more than four part-time members. The Act comprises of six chapters divided into 32 sections and 3 schedules. The various chapters covered under the Act relate to the following:
a) **Chapter I (Sections 1 and 2):** It consists of the preliminary, short title, extent, commencement and definitions under the Act.

b) **Chapter II (Sections 3 to 12):** It contains provisions relating to establishment of IRDA, its composition, tenure and allowances of members and chairman, removal from office, bar on future employment of members, administrative powers of chairperson, meetings, vacancies, officers and employees.

c) **Chapter III (Section 13):** It contains provisions relating to transfer of assets and liabilities of Interim Insurance Regulatory Authority.

d) **Chapter IV (Section 14):** It is the most important chapter as it lays down the duties, powers and functions of the Authority.

e) **Chapter VI (Sections 15 to 17):** This chapter contains provisions relating to finance, accounts and audit, grants by central government, constitution of funds etc.

f) **Chapter VII (Sections 18 to 32):** This chapter consists of the various miscellaneous provisions under the Act.

The Act has made various amendments to the Insurance Act, 1938 vide its First Schedule. These amendments prohibited insurers other than Indian insurance companies to carry on insurance business in India and also restricted investments of the funds of the policy holders outside India. Further, the amendments provided for the following:

a) Requirements as to paid-up equity capital for both insurers and re-insurers,
b) Manner of divesting of excess shareholding by promoters,
c) Manner and conditions of investment,
d) Maintenance of required solvency margins at all times by the insurers,
e) Issue of licence to insurance agents, intermediary and surveyors by the Authority and also suspension and cancellation thereof;
f) Obligation of insurers to compulsorily undertake specified percentage of insurance business in rural and social sector,
g) Enhanced penalties for contravention of and failure to comply with the provisions of the Act and offences by companies;
h) Powers of Authority to make regulations as required by the Act.

The Second Schedule of the Act seeks amendments to the Life Insurance Corporation Act, 1956. The schedule inserts Section 30A which reads as follows:

“Exclusive privilege of Corporation to cease- Notwithstanding anything contained in this Act, the exclusive privilege of carrying on life insurance business in India by the corporation shall cease as and from the commencement of the Insurance Regulatory and Development Authority Act, 1999 and the corporation shall, thereafter, carry on life insurance business in India in accordance with the provisions of the Insurance Act, 1938.”

Also, the Third Schedule to the Act seeks to amend the General Insurance Business (Nationalisation) Act, 1972 by inserting Section 24A which reads as follows:

“Exclusive privilege of Corporation and acquiring companies to cease- Notwithstanding anything contained in this Act, the exclusive privilege of the
Corporation and the acquiring companies of carrying on general insurance business in India shall cease as and from the commencement of the Insurance Regulatory and Development Authority Act, 1999 and the Corporation and acquiring companies shall, thereafter, carry on general insurance business in India in accordance with the provisions of the Insurance Act, 1938."

Thus, the two amendments removed the exclusive monopoly of Life Insurance Corporation of India and General Insurance Corporation of India and its subsidiaries to carry on life and general insurance business respectively in India.

Section 14(1) of the Act prescribes the duties of IRDA. It says that the authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

Again, section 14(2) of the Act lays down the powers and functions of the Authority which shall include the following:

a) issue to the applicant a certificate of registration; renew, modify, withdraw, suspend or cancel such registration;
b) protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance,
c) specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
d) specifying the code of conduct for surveyors and loss assessors;
e) promoting efficiency in the conduct of insurance business;
f) promoting and regulating professional organisations connected with the insurance and re-insurance business;
g) levying fees and other charges for carrying out the purposes of this Act;
h) calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business;
i) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
j) specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
k) regulating investment of funds by insurance companies;
l) regulating maintenance of margin of solvency;
m) adjudication of disputes between insurers and intermediaries or insurance intermediaries;
n) supervising the functioning of the Tariff Advisory Committee;
o) specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f);
p) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
q) exercising such other powers as may be prescribed.

Section 25 of the Act requires the establishment of an Insurance Advisory Committee to advise the Authority on matters relating to the making of the regulation under section 26 and other matters as may be prescribed.

IRDA has issued 47 regulations since its inception till 8th June, 2011 covering various important topics like registration of companies, assets, liabilities and solvency margin of insurers, social and rural sector obligations, officers’ and employees’ regulations, investment, protection of policyholder’s interest, licensing of insurance agents, micro insurance, advertisements, etc.
2.10 THE MILESTONES IN GENERAL INSURANCE IN INDIA AFTER NATIONALISATION (till 2000):

Table 2.11 shows the important events of general insurance industry from its nationalisation in the year 1972 till privatisation in the year 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>Nationalisation of general insurance business in India.</td>
</tr>
<tr>
<td>1993</td>
<td>Malhotra Committee on insurance sector and deregulation set up.</td>
</tr>
<tr>
<td>January 1994</td>
<td>Malhotra Committee submitted its report.</td>
</tr>
<tr>
<td>January 1995</td>
<td>Setting up of Mukherjee Committee.</td>
</tr>
<tr>
<td>1996</td>
<td>Setting up of (interim) Insurance Regulatory Authority.</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted but not made public.</td>
</tr>
<tr>
<td>August 1997</td>
<td>IRDA Act withdrawn following opposition to foreign participation.</td>
</tr>
<tr>
<td>November 1997</td>
<td>Government of India cleared greater autonomy to LIC and GIC.</td>
</tr>
<tr>
<td>June 1998</td>
<td>Union Budget announced opening up of insurance sector.</td>
</tr>
<tr>
<td>January 1999</td>
<td>Notification of IRDA as a statutory authority.</td>
</tr>
<tr>
<td>October 1999</td>
<td>Approval of IRDA Bill by the cabinet with FDI limited to 26%.</td>
</tr>
<tr>
<td>February 2000</td>
<td>Insurance Bill presented in the budget session.</td>
</tr>
<tr>
<td>October 2000</td>
<td>Private insurance companies are back.</td>
</tr>
</tbody>
</table>

Source: Various.

It may be deducted that after the Malhotra Committee recommendations in 1994, insurance sector reforms were inevitable. However, the process took a long time and finally in the year 2000, private companies were allowed to enter into insurance business.

It will be in the fitness of the subject to search for the causes which are responsible to bring reforms in insurance sector of the country. The following section is devoted to analyse these factors that are responsible for reforms in insurance sector.
D. FACTORS RESPONSIBLE FOR REFORMS IN INSURANCE SECTOR
IN INDIA

2.11 REFORMS IN INSURANCE:

With the passing of the Life Insurance Corporation Act in 1956 and General Insurance Business Nationalisation Act in 1972 both life insurance and general insurance business respectively were brought under state control. Insurance business was nationalised on account of many reasons as discussed earlier. After this there have been several developments in the history of insurance. In due course of time it was felt that the insurance sector had to be restructured again by allowing private participation and foreign investment. Several reasons along with certain historical developments-nationally and globally, persuaded the Government of India to open up the sector. The important factors that led to opening up of the insurance sector, domestically and externally are discussed below:

1. Non-fulfilment of objectives of Life Insurance Corporation Act, 1956
4. Need to regulate insurance sector,
5. Lessons from other countries,
6. Global compulsions,
7. Positive effects of competition,
8. Benefits of globalisation,
9. The need for larger resources for infrastructure development.

These factors are explained below in details:

2.11.1 Non-fulfilment of Objectives of Life Insurance Corporation Act, 1956:

The LIC Act was incorporated on 19\textsuperscript{th} of June 1956 to provide for nationalisation of life insurance business in India by transferring all life insurance business to the Life insurance Corporation of India. The main objective of nationalisation was to spread life insurance business more widely and particularly to rural areas with a view to reach all the insurable persons in the country, providing them adequate financial cover at a reasonable cost.\textsuperscript{49} The Life Insurance Corporation was formed in September, 1956 with the following other objectives:

1. To maximize mobilization of people's savings by making insurance linked savings more attractive,

2. To hold investors money in trust, and to deploy the funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return,

3. To conduct business with utmost economy and with the view that the money belongs to the policyholders.

When the Malhotra Committee conducted studies to find out the perception about LIC by the Indian public, it discovered that LIC was very
popular but it suffered on several counts. Some of the problems perceived by
the Committee in respect of LIC were as follows:

1. The marketing and services network of LIC was inadequate as per
customer needs,
2. Insurance awareness was low,
3. Unit linked insurance plans were unavailable,
4. Insurance covers were costly,
5. Savings were significantly lower compared to other savings
   instruments,
6. LIC was overstaffed,
7. Work culture was unsatisfactory in the offices,
8. Trade unionism led to growth of restrictive practices,
9. LIC was lagging behind in the use of information technology which
   impeded development of the sector,
10. The functioning of LIC was in constraint due to excessive
governmental interference.

Also, according to a speech by C.D. Deshmukh, Finance Minister of India
in the year 1955, nationalization of life insurance business was justified on three
grounds:

1. The government wanted to use the resources i.e. capital of insurance
   companies for its own purpose,
2. Government wanted to increase the market penetration of insurance companies by reducing cost of issuing policies and extending life insurance coverage to the rural public,

3. Government found the number of failures of life insurance companies to be unacceptable.\(^{51}\)

The first ground was justified as the government succeeded in channelizing the resources of life insurance business into infrastructure. 84 percent of LIC’s investment portfolio comprised of exposure to the public sector\(^{52}\). The RBI Weekly Supplement, Oct. 11, 2003 also revealed that 52 percent of the outstanding stock of government securities were held by only two public sector institutions, namely- State Bank of India and Life Insurance Corporation of India in equal proportions.\(^{53}\)

But the second ground for nationalization was unjustified because nationalization neither reduced the cost of issuing life insurance policies nor did it actually induce rural penetration. Regarding the cost of issuing life insurance policies the table 2.12 can be observed:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OVERALL EXPENSES OF LIC (as a % of premium income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>27.7</td>
</tr>
<tr>
<td>1963</td>
<td>29.3</td>
</tr>
<tr>
<td>1982</td>
<td>27.9</td>
</tr>
<tr>
<td>1992</td>
<td>21.5</td>
</tr>
</tbody>
</table>

Source: LIC Annual Report (Various Years)
The Malhotra Committee Report states that although it seems that the overall costs have decreased after nationalization in 1956, yet the real picture was quite different. Actually, the above calculation excluded group policies from its calculation. These group policies are cheaper to sell and these policies did not exist till 1958. Hence, the decrease in cost after 1963 was not due to nationalization but because of introduction of group insurance policies.\textsuperscript{54}

Also, so far as the rural penetration is concerned one can refer to the explanation given by Prof. Sinha in his paper\textsuperscript{55}. According to him, LIC did not expand in the rural areas but only served the rural rich at the high cost of reduced profitability of the company. This can be explained as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of individual rural policies (in percent of total individual policies sold nationwide)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-69</td>
<td>36</td>
</tr>
<tr>
<td>1970-79</td>
<td>29</td>
</tr>
<tr>
<td>1995-1999</td>
<td>57</td>
</tr>
</tbody>
</table>

\textbf{Source: LIC Annual Report (various years)}

According to Prof. Sinha, the decrease in individual rural policies in the seventies is due to the fact that the people residing in the rural areas had been falling since 1950. But after 1980, the rural population began to increase remarkably. Thus, the increase in the percentage of rural policies during nineties is because of increased rural population and not because of the efforts of LIC.

Also, on the basis of value of these insurance policies sold, it was seen that throughout the years the value of individual life insurance policies sold in the rural areas as a percentage of total value of all individual life insurance policies
never exceeded 40%. During the nineties, even if the number of individual rural life insurance policies increased, the value of those policies did not. It can be deduced that there were more policies sold with a smaller average value.

Again, if the value of average individual life policies sold in the rural areas as a percentage of the average of all the individual life policies sold nationwide is taken as the basis, the following figures emerge:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural individual life policies sold to the total individual life policies sold nationwide (in percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>84</td>
</tr>
<tr>
<td>1970</td>
<td>74</td>
</tr>
<tr>
<td>1990-1999</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: LIC Annual Report (various years)

The figures indicate that the percentage of value of rural policies was very high in comparison to the value of nationwide rural policies, while, the per capita income in the rural and urban areas had a 50% difference i.e. if average rural income was 100; the average urban income was 150 for most of the states. Prof. Sinha therefore deduced that individual life insurance policies in the rural areas were only bought by wealthy rural households and not by the needy average households.

On the basis of the above discussions it may be concluded that nationalization of life insurance was quite unsuccessful on vital grounds as attainment of objectives was an illusion. In the light of such a situation, it seemed imperative for the Malhotra Committee to recommend reforms in the life insurance sector.
2.11.2 Non-fulfilment of Objectives of General Insurance Business Nationalization Act, 1972:

General insurance business was nationalized in the year 1972 i.e. sixteen years after the nationalization of life insurance sector. This was done by enacting the General Insurance Business Nationalisation Act, 1972. As a result, General Insurance Corporation of India i.e. GIC was incorporated with its four subsidiaries. According to the Preamble to the Act, the GIC and its subsidiary companies were expected to fulfil the following objectives:

a) To set up standards of conduct and sound business practices in the general insurance sector and rendering efficient customer service,

b) GIC was to help in controlling the expenses of the subsidiaries,

c) GIC was to help the subsidiaries in the investment of funds,

d) GIC and its subsidiaries would bring in general insurance business to the rural areas of the country,

e) GIC would act as a domestic reinsurer,

f) All the subsidiaries would compete with each other.

It was observed by the Malhotra Committee that ‘the behaviour of the general insurance employees was not customer friendly’\(^58\). So far as controlling of the expenses was concerned, the situation was not too encouraging either. The operating expenses as a percentage of premium income did fall from 30% in 1973 to about 24% in 1980, but after that there was no significant decrease.\(^59\) In respect
of investment of funds, GIC had very low rates of return. General insurance companies were far too conservative in managing their equity portfolios.\textsuperscript{60}

Regarding rural expansion too, it was seen that very few policies were introduced to cater to rural needs like cattle insurance, crop insurance etc. But, there was no obligation upon the insurers to insure a specified proportion of the total insurance business from the rural sector. Only certain initiatives were taken up for encouraging rural business like, high commission was offered to agents for non-traditional i.e. rural business. GIC did succeed in retaining large amounts of reinsurance business domestically but the subsidiaries of GIC were overstaffed.\textsuperscript{61}

So far as the competition amongst the subsidiaries was expected, it was seen that there was no such feeling amongst them. Each of the company tried to capture its own market territories, region-wise.\textsuperscript{62} Excessive control over operations of subsidiaries by GIC, unreasonable settlement of claims amount, low speed in claim settlement, inaccuracy in payments, mishandling of grievances and little research and development efforts were the problem areas.\textsuperscript{63} GIC and the four subsidiary companies had built up a strong base, achieved substantial growth, acquired good technical expertise, but their coverage was almost restricted to entities required to buy insurance compulsorily and as such it was practically unable to reach the common man through personal lines of business, health covers etc.\textsuperscript{64}

On the basis of these discussions it may be concluded that there was a dire necessity of reforms in the general insurance sector. This was the main reason
that led to reforms being recommended by the Malhotra Committee, in general insurance sector too.

2.11.3 Economic Policy, 1991:

The reforms in the insurance sector were mainly an outcome of the Indian Economic Policy of 1991. It was only because of the economic reforms in the nineties that the Malhotra Committee was formed to examine the structure of the insurance industry, to assess its strength and weaknesses, to review the existing structure of regulation and supervision of the insurance sector and to suggest reforms for strengthening and modernizing the regulatory system of insurance in tune with the changing business environment.

Like many other developing countries, India also launched its massive economic reforms in the year 1991 under the pressure of economic crisis. Basically, the crisis was created due to the unmanageable balance of payments position and a socially intolerable high rate of inflation since eighties. The inflation rate (as measured by point to point changes in the Wholesale Price Index) had climbed to the socially and politically dangerous double digit level, hitting 12.1 percent in the year 1990-1991. The then Prime Minister, Mr. P.V. Narasimha Rao converted the prevailing economic crisis into an opportunity for economic reforms. Dr. Man Mohan Singh, an economist rather than a politician was introduced into the cabinet as the Finance Minister.

Although, reforms were initiated in India since the beginning of economic planning in 1951, yet the policymakers stuck to centralized economic planning
with extensive regulatory controls over the economy. However, these planning efforts were half-hearted, self-contradictory and often self-reversing in parts.66

The idea about reforms initiated by Narasimha Rao Government also drew heavily from export-oriented and globally connected strategies of development which were successfully practised by advanced Asian countries like Japan, South Korea, Malaysia, Singapore, Indonesia and Thailand. These countries had witnessed rapid growth rates after implementing reform strategies. Unlike these countries, India had earlier embarked upon a policy of import substitution and relatively closed economy model of development. A discussion paper on economic reforms published by the Ministry of Finance in July, 1993 quoted,

"The fundamental objective of economic reforms is to bring about rapid and sustained improvement in the quality of the people of India. Central to this goal is the rapid growth in incomes and productive employment... The only durable solution to the curse of poverty is sustained growth of incomes and employment.... Such growth requires investment: in farms, in roads, in irrigation, in industry, in power and, above all, in people and this investment must be productive. Successful and sustained development depends on continuing increases in the productivity of our capital, our land and our labour. Within a generation, the countries of East Asia have transformed themselves. China, Indonesia, Korea, Thailand and Malaysia today have living standards much above ours.... What they have achieved, we must strive for."67

The major economic reforms launched in India since the year 1991, were mainly in respect of the following:
a) **Macroeconomic Management Stabilization Policies:** This aspect mainly dealt with the problems of fiscal and revenue deficits in the country. Such deficits were mainly caused due to excessive employment in government sectors, uneconomical pricing of goods and services by public sector enterprises, growing interest burden, mounting subsidies and rising defence expenditures. As such, reform measures like reducing subsidies, reducing public investment expenditure and public expenditure on social welfare were taken up by the government. Also, tax reform measures were initiated to expand tax base, abolishing export subsidies, nationalizing sales tax, providing tax incentives for infrastructure and export oriented sectors, simplifying tax administration system etc. At the same time, government also tried to generate resources through divestment of some public sector enterprises.

b) **Structural Economic Reforms:** These reforms have been sector specific and especially in respect of areas like trade policy, external sector, industrial policy, infrastructure sector policies, divestment/privatization policies, financial sector policies and policies for attracting foreign direct investment (FDI) etc. The major reason for these reforms has been to open India’s market to international competition, removing exchange rate controls, encouraging private investment, liberalizing access to foreign capital etc.68

The outcome of the new economic policy was L-P-G i.e. Liberalisation-Privatisation-Globalisation.
Liberalisation meant removing industrial licenses stipulation on all industries except a few industries that were of strategic importance.

Privatisation was concerned with disinvestment, selling of government equity- partially or wholly and mergers and acquisition by government run companies etc. It reduced the role of public sector and thereby increased the role of private sector. Privatization was done by selling part of equity of public sector units to the public.

Globalisation was concerned with free flow of technology, labour and capital between different countries, outsourcing and removal of trade barriers etc. i.e. integrating the country with the rest of the world. Globalisation involved creation of networks and activities for transcending economic, social and geographical boundaries.

These steps would not only improve the performance of public sector units but would also provide strong impetus to the flow of foreign direct investments. In this context some public sector units (PSU’s) were granted special status as navratnas and miniratnas by providing them with greater managerial and operational autonomy in decision making.

The L-P-G model led to many changes in the financial sector. Insurance was no exception. Till then insurance sector was operating under direct government control. In the backdrop of the New Economic Policy it was quite necessary for the Indian Government to think about the insurance sector reforms as it was an integral part of the financial structure of the economy. Hence, Malhotra Committee was set up in the year 1993 and the recommendations that were put forward by the Committee were strongly in favour of reforms in the
insurance sector. The Committee recommended privatization of the insurance
sector, permitting FDI and setting up of an independent regulatory body called
Insurance Regulatory Development Authority (IRDA).

2.11.4 Need to Regulate Insurance Sector:

The life and general insurance sectors in India were nationalized in the
years 1956 and 1972 respectively. In the backdrop of the new Economic Policy it
was found that there was a dire need to bring about changes in the finance sector
and hence the insurance sector as well. As per the first Annual Report of the
Insurance Regulatory Development Authority:

“Nationalisation has lent the industry solidity, growth and reach which is
un-paralleled. However, along with these achievements there also grew a feeling
of insensitivity to the needs of the market, tardiness in adoption of modern
practices to upgrade technical skills coupled with a sense of lethargy which
probably led to a feeling amongst the public that the insurance industry was not
fully responsive to customer needs.”

It was therefore that the Malhotra Committee felt that the sector should be
opened up for private participation so that a feeling of competition would
inculcate amongst the various insurers and this would offer market advantage to
the customers also. Moreover, the reforms would also ensure better insurance
penetration, which was very low for India compared to some other Asian
countries. However, such changes when introduced would lead to entry of several
private players in the field, particularly the foreign companies. In such a case
there would be high chances of misuse of shareholders’ or policyholders’ funds
by the insurance companies. Insurance companies are repositories of public trust
and it would become necessary to regulate their business to ensure that such trust could be continued in future. Moreover, insurance cash flows are directed towards investments in the social sector, development of infrastructure etc.

Because of all these reasons, the Malhotra Committee felt that there was not only a need to regulate, supervise or monitor the insurance sector but there was also a need for such a regulatory body to play a developmental role too. Hence, to ensure accountability by all the insurers it was quite necessary at that moment to put into place, an effective regulatory as well as a development regime, which would look after the workings and activities of all the insurance companies operating in India.

Thus, one of the major reform measures that were recommended by the Malhotra Committee was setting up of an independent regulatory body. Consequent to such recommendation, Insurance Regulatory Development Authority was set up as a statutory, autonomous body in April, 2000 to protect the interest of the policyholders' and to regulate, promote and ensure orderly growth of the insurance industry.

2.11.5 Lessons from other Countries:

Apart from the above mentioned factors, insurance reforms were also encouraged in India because other Asian countries had largely benefitted with the privatisation, globalisation and regulation strategies of the insurance sector. It was high time for the Indian government to initiate similar measures especially because of the changes brought in by the erstwhile New Economic Policy of
1991. Brief details about the experience of some developed Asian insurance markets is given below:

a) JAPAN: Japan has one of the most developed and advanced insurance sector in the world. The Japanese insurance sector was deregulated in the mid-nineties by revising the Insurance Business Law, 1995. It was revised for the first time in fifty years in order to promote competition and enhance efficiency through regulation. Traditionally, only the Insurance Division, Ministry of Finance regulated the insurance sector in Japan but in the year 1998, Financial Supervisory Agency was established to supervise all the financial activities. Later on, Financial Services Agency was incorporated as an independent body in the year 2000 to succeed Financial Supervisory Agency. Under the new Business Act, both foreign insurers and domestic insurers receive the same treatment. Japan is the leading insurer in Asia in terms of insurance density (premiums per capita in US dollars), which was as high as 3979 in the financial year 2009-10. The insurance penetration (premiums as percentage of Gross Domestic Product) was 9.9 in the year 2009-10, owing to which Japan occupies the fourth position in Asia.

b) SOUTH KOREA: South Korean insurance industry is one of the most developed economies in Asia and the world. Life insurance market accounts for a larger share of South Korean insurance business. The life insurance sector was deregulated way back in the
year 1987 which led to entry of foreign insurers in the form of joint-ventures with local companies or the acquisition of domestic players. After the Asian financial crisis of 1998, South Korean insurance industry has rapidly expanded on the back of regulatory developments, government support, economic growth and rising income levels. According to a research report, “South Korean Insurance Industry Forecast to 2012”, the market will continue to grow at a faster pace in the coming years.\textsuperscript{73} According to South Korea Insurance Market Intelligence Report-2011 Edition, the opening up of the South Korean insurance industry has led to its overall improvement.\textsuperscript{74} The insurance sector is regulated by the Financial Supervisory Service which was established on January 2, 1999 by consolidating the four supervisory bodies i.e. Banking Supervisory Authority, Securities Supervisory Board, Insurance Supervisory Board and the Non-Bank Deposit Insurance Corporation. According to Swiss re Reports, the insurance penetration and insurance density of South Korea for the year 2009-2010 were 1890.3 percent and 10.4 USD respectively.\textsuperscript{75}

e) **CHINA:** Chinese insurance industry too is an excellent example of upcoming insurance sector in Asia. The People’s Insurance Company of China was established in the year 1949. Before 1949, China’s insurance industry was mainly controlled by foreign companies operating in Shanghai. From 1949 to 1976 the insurance industry in
China was very dull. The industry was opened up for private sector in the year 1980 when first of non-state insurance company was set up. After that, a number of foreign companies started to obtain licenses to operate in the country. The People’s Bank of China which is the Central Bank of China controlled the insurance activities in China prior to the year 1998. Later on, the Chinese Insurance Regulatory Commission was set up in the year 1998 to regulate the Chinese insurance products and services market and to maintain legal and stable operation of the insurance industry. The insurance penetration and insurance density of the People’s Republic of China was 3.4 percent and 121.2 USD respectively for the year 2009-2010.

d) INDONESIA: Indonesia is a developing economy and faces almost same problems that are being faced by India. In Asia, Indonesia has a huge growth potential next to India and China. The deregulation process in Indonesia began in the seventies and finally insurance sector was deregulated in the year 1983. Being a highly untapped market, Indonesia offers profitable business opportunities to many foreign companies who have entered into joint ventures with local companies there. At the end of the year 2009, there were 283 companies in Indonesia owning insurance business licenses. The Insurance Commissioner under the Ministry of Finance is responsible for the registration, control and regulation of all insurance business.
The insurance penetration and insurance density of Indonesia during the year 2009-2010 were 1.3 percent and 31.7 USD respectively.79

e) TAIWAN: Taiwan is one of the fastest growing countries amongst the developing economies of the world. Taiwanese insurance industry has been growing mainly on account of liberalization policies introduced by the government in 1986, increased consumer awareness as well as the growing economy. At the end of 2009, there were 54 insurance companies in Taiwan, of which 31 were engaged in life insurance business and 23 in non-life insurance sector. Insurance Bureau is the official organization that regulates the insurance industry in Taiwan. The Insurance Section of the Department of Monetary Affairs was upgraded to the Department of Insurance on July 1, 1991. Later on, with the passing of the “Organic Act” governing the establishment of Financial Supervisory Commission, the Insurance Bureau of the Financial Supervisory Commission was set up on July 1, 1994. According to statistics released by the Taiwan Insurance Institute at the end of 2010, there were 54 insurance companies in Taiwan.80 The insurance penetration and insurance density of Taiwan during the year 2009-2010 were 16.8 percent and 2752.1 USD respectively.81 It is worth mentioning that Taiwan has the highest insurance penetration in the world as per the Swiss re Report Statistics.
f) HONGKONG: Hongkong offers an excellent environment for insurers amidst a global trend of convergence. After the liberalized regional insurance market during the nineties, many foreign insurers and reinsurers have set up or expanded their business in the region. Because of the Closer Economic Partnership Arrangement (CEPA) between Hongkong and China, a number of foreign insurers and reinsurers have announced plans to establish their ventures in the country. The regulatory framework applicable to Hongkong insurance industry is set out in the Insurance Companies Ordinance passed in 1983. The Insurance Authority (IA) is the regulatory body responsible for protection of insured's interest and promoting the general stability of the insurance industry. The office of the Commissioner of Insurance was set up by the IA in 1990 to administer the Insurance Companies Ordinance. Recently, on June 24, 2011, the Hongkong government has announced detailed proposals on the establishment of an Independent Insurance Authority (IIA). The insurance penetration and insurance density of Hongkong during the year 2009-2010 were 11 and 3304 respectively. It is worth mentioning that Hongkong insurance market has the second highest insurance penetration and insurance density in Asia.
2.11.6 Global Compulsions:

India was a founder member of the General Agreement on Tariffs and Trade (GATT) in 1947 and eventually become a member of World Trade Organisation (WTO) in 1995. Being a signatory of WTO it was necessary for India to open up its borders for foreign investments. It is no longer a matter of choice.\textsuperscript{85} It was believed that the opening up of competition would fuel competition in the Indian insurance market. Being an underdeveloped insurance market, India had enormous potentiality and opportunity for growth and for this it was necessary to have a judicious mix of regulation and healthy competition in the market in the form of private and global participation. Meaningful and healthy competition would induce insurers to seek out new market potentials with energy, widen the financial base in the economy and also provide a financial support to the economy.

In U.S.A., a developed economy, the contribution of insurance companies to capital market funds, government bonds and securities is 16 percent as against just one percent in the developing countries.\textsuperscript{86} At the same time, competition would result in improved services to customers in the form of better products, reasonable prices, quick services etc leading to a dynamic market responding to the needs of the customers and the economy. This would also induce the existing public sector entities to change their ways of working towards greater efficiency. Thus, the demand for privatisation was not lack of profits, as the Indian insurance market had been earning profits, but it was the mainly the resulting efficiency that was the major pushing factor in this respect.
2.11.7 Benefits of Globalisation:

Insurance sector in India needed reforms not only because of the global compulsions, as stated above, but also because there were various benefits that would accrue to the country as a result of globalisation of the insurance industry. Globalisation of the sector would invite large foreign investments on one hand and access to improved technology, improved products and services, global experience and expertise of participating foreign companies, new concepts and market expansion on the other hand.

Moreover, in the era of globalisation it was impossible for a country to operate in isolation because of close economic, social and political interdependence. At the same time the global experience of the main developed Asian insurance markets, as explained above are a pointer to the fact that globalisation brings with a host of benefits. At the same time there was a risk that excessive foreign participation could drain the resources of our country and harm the indigenous industry. For this reason, the foreign participation had been restricted to 26 percent only.

2.11.8 The Need for Larger Resources for Infrastructure Development:

Insurance is one of the main agencies for mobilising funds required for creating infrastructure for economic development in a country. Although the public sector insurance companies contributed a lot to the government treasury through taxes, dividends and investment in government bonds, the growing infrastructural and development needs were of such extraordinarily large magnitude that they could not be met by government or their agencies alone. In
such a situation private and foreign participation was the best solution to the problem. Private as well as global participation, along with public sector, under regulations could successfully harness the untapped market potential by garnering huge funds and their investments.

On account of these reasons it was quite obvious that there was a need for regulation and reforms in insurance sector which would intensify the pace of economic development. Similar reforms in other countries have been highly beneficial and India too is on the path of reaping the fruitful benefits of such reforms. The role of IRDA is very crucial in respect of such reforms and it should constantly monitor the activities of the insurance sector and frame guidelines so that the basic objective of reforms may be met.
END-NOTES:


4. Vaughan & Vaughan, op.cit. pg 72

5. ibid., pg 73

6. ibid.

7. ibid.


10. ibid. pg 73

11. ibid.

12. ibid.

13. ibid.


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23. Tripathi and Pal, op cit., pg 27


25. Tripathi & Pal, op cit., pg 27


29. Kumar, op cit., pg 36


33. Sinha, op cit.

34. ibid.


36. ibid.


41. Srivastava & Srivastava, op cit., pg 70-76

42. Srivastava & Srivastava, op cit., pg 79


47. Srivastava & Srivastava, op cit., pg 339-342


49. LICI, date last visited 12-06-2010, www.licindia.in/history.htm


54. Malhotra Committee Report, 1994, Chapter V, Section 5.5, pg.34


56. Sinha, op cit.

57. ibid.

58. ibid.

59. Malhotra Committee Report, 1994, Chapter II, Section 2.22, pg.15

60. Malhotra Committee Report, 1994, Appendix IX, pg.15

61. Malhotra Committee Report, 1994, Chapter VI, Section 6.9, pg.47

62. Malhotra Committee Report, 1994, Chapter XII, pg.88-89

63. Sinha, op cit.


65. Palande, Shah and Lunawat, op cit., pg 48

66. Ministry of Finance, Government of India, Economic Survey, New Delhi, various years


70. ibid.


75. ‘South Korean Insurance Market Intelligence’, date last visited 22-08-2011, www.arkstore.com/reports/South-Korea-Insurance-market-Intelligence-40706.html

76. Swiss Re, Sigma, No. 2/2010, op cit.


78. Swiss Re, Sigma, No. 2/2010, op cit.


82. Swiss Re, Sigma, No. 2/2010, op cit.
85. Swiss Re, Sigma, No. 2/2010, op cit.
86. Palande, Shah and Lunawat, op cit., pg 62
87. ibid., pg 73
88. ibid., pg 72