CHAPTER 5

FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 FINDINGS

Insurance business is one of the fastest emerging financial services in India. There is huge potential for general insurance business in India but the share of Indian non-life insurance premium in global non-life insurance premium is only 0.46 percent and India ranks 26th in this respect as per Swiss Re Sigma Report No. 2/2010. As per the same report, India ranks 76th in terms of insurance density and in respect of insurance penetration India ranks 31st in the world. If the general insurers reach out to the previously neglected and untouched areas and introduce a new cost-effective product range, efficient customer service and increase insurance awareness then India too will be able to climb the ladder and improve its position in the global context.

Present study has revealed that the reforms have certainly made some impact on the performance of general insurance sector in India. But the overall impact is not impressive considering the international scenario. The major findings of the study have been summed up as follows:

1) Total gross direct premium of public and private companies has substantially increased during the pre-reform as well as post reform period from Indian as well as foreign operations but the increase is not commensurate with the increasing national income, increasing population, increasing number of companies and untapped market.
2) Reforms have led to private sector entry and foreign participation through foreign direct investment in the general insurance business in India which is followed by an array of changes like appearance of new risks, new types of covers, aggressive marketing, fast services, up-gradation of information technology, customer empowerment through variety of choices, grievance redressal mechanisms, detariffication i.e. free pricing of services by insurance companies etc.

3) Existing public insurers who were monopolists in their field are now facing stiff competition from the private sector insurers and their foreign counterparts after reforms. These new insurers are equipped with new strategies, technical know-how, global experience and expertise, aggressive marketing tactics, upgraded technology etc. Thus, after reforms the insurance market has moved from an almost static to a dynamic competitive situation.

4) Although the performance of general insurance industry during the nationalised period was not very poor, but, there was little attempt on the part of the public sector insurers to increase the business. The public insurers lacked competitive spirit and restricted themselves to their geographical arenas. There was deterioration in services provided by public sector insurers. Their behaviour was not customer friendly. The market was a seller’s market with, ‘take it or leave it ideology’. Customers had but no choice than to resort to these companies which was the most probable reason for such apathy on the part of these public companies. Private
companies have made more room for themselves in the market mainly by paying greater attention to this aspect.

5) Although the general insurance industry had grown during pre-reform period in terms of premium income, profits, investment, investment incomes, introduction of new products, generation of capital reserves, investment in social sector, spread of insurance network on national as well as international basis, yet the insurance penetration was not impressive and insurance density too remained low as compared to other economies. The spread and growth of insurance is also very poor, if the trend of insurance density and penetration is considered for the post-reform period. On the non-life side, insurance penetration has increased marginally only from 0.54 percent in 1999 to 0.60 percent in 2009 while the insurance density has shown an increase from USD 2.4 in 1999 to USD 6.7 in 2009. Low insurance penetration and density indicate that the objectives of reforms have not yet been fulfilled as there is huge untapped market even after a decade of reforms. Hence, it follows that there is further scope for development in the industry.

6) Non-life insurance penetration and insurance density of India is far less compared to most other countries in Asia, Asian average and world average. Considering the number of companies that have flooded the general insurance market after reforms (twenty new general insurance companies have registered after the year 2000 till 31st October, 2010) the data related to insurance penetration and density presents a dismal picture of the state of affairs of the general insurance industry in India.
7) In spite of India being a rural based economy, there was very less scope for rural and non-traditional business during the nationalised period. There was no stipulation for fulfilling such requirements and the only initiative taken by the public insurers for increasing rural business was offering higher remuneration to agents for procuring this type of policies. This strategy was not effective, as it failed to motivate the agents who knew that the amount of premium generated from rural business was very low. The premium from rural business was practically nil in 1973 but it rose to 425 crores only i.e. 4 percent of the total gross premium income in the year 1999-2000. However, in the post reform period, IRDA has stipulated certain strict regulations for every general insurer to insure a certain portion of their business in rural and social sector. In spite of vast market coverage and distribution network, most of the public sector insurers could not fulfil even the minimum stipulated requirements in respect of rural and social sector. Only one public sector general insurer i.e. United India deserves praise as it has been able to fulfil the rural as well social sector obligations throughout the years under study.

8) So far as the private sector is concerned, the rural as well as social sector obligations have been fully complied with, in the years 2004-05, 2005-06, 2006-07 and 2009-10. One of the reasons for failure to meet such stipulations by the private companies in some years is that many private companies have registered in recent years and hence being new in the field, it becomes difficult for them to fulfil the stipulations. However, in this regard IRDA has already given certain concession to newcomers and there
is a provision for imposing penalty in case the obligations remain unfulfilled. The study reveals that the performance of private sector is better than the public sector in this respect.

9) The most important factors that led to reforms in the insurance sector were non-fulfilment of objectives of Life Insurance Corporation Act, 1956 and the General Insurance Business Nationalisation Act, 1972, the New Economic Policy, 1991, need for regulation, global compulsion, benefits of globalisation, positive effects of competition, need for larger resources for infrastructure development and lessons from other countries having developed insurance markets.

10) Public sector insurers have registered higher expenses during the post-reform period than the pre-reform period. The most important reason for this is the high cost incurred in marketing and updating technology to compete with the private insurers, excessive staff strength, huge administrative expenses due to expanded network and weak administrative control.

11) The gross direct premium of public sector insurers has been on an increasing trend before as well as after the reforms but the annual growth has been sluggish during the post-reform period compared to the pre-reform period. This is because of the entry of private sector insurers who have gradually captured a major share of the Indian insurance market. During the post-reform period the market share of public insurers has slipped and that of private insurers has increased from 8.93 percent in 2002-03 to 33.45 percent in 2009-10. This is a major cause of concern for the public insurers.
as they will have to undergo a lot of competitive pressure to sustain in the market.

12) The public sector insurers have registered huge underwriting losses throughout the pre-reform as well as the post-reform period. The ratio of underwriting losses is higher during the post-reform period. The private companies too have registered underwriting losses but their losses are very low compared to the public sector. Out of the private companies only Bajaj Allianz has earned underwriting profit on an average. A few other private companies have posted profits in the early years of their operations. This is because private insurers had limited business at that time. It was expected that after full phase detariffication from the year 2007-08, underwriting losses of companies would decrease but this is not the case.

13) One of the major reasons for higher underwriting losses of the public insurers is that they re-insure less and hence have high claims to be paid. Their operating expenses are also very high compared to the private sector. At the same time, public sector insurers are not choosy about their business and hence are prone to higher losses in loss making business portfolios like motor and marine. Although these portfolios generate high revenues for the company but at the same time have high claims ratio too. Private companies have minimum staff expenses, updated and fast technology at their disposal and less claims because of high re-insurance of their business. On the other hand private companies target more on creamy, lucrative and profitable business like fire, engineering etc. and avoid loss making areas. As a result, public companies have higher underwriting losses than the private sector.
14) The investment income of public sector insurers is high and compensates for their huge underwriting losses. The investment income of the public insurers in the post-reform period is higher than the pre-reform period and also higher than that of the private companies. This is because public insurers retain more of their business and re-insure less. These retained premiums are invested in profitable investment portfolios which in turn not only offset their underwriting losses but also increase their net earnings. Moreover, public companies have been in the field for long and hence have huge investment portfolios which also lead to higher investment income.

15) Public sector insurers re-insure less because they have a strong capital base and high capacity to bear risks. The situation is vice-versa for the private insurers. Since investment income of private insurers is less their net earnings are low compared to public sector. Although the underwriting losses of public sector are more than the private sector, yet higher investment income of the public sector offsets these losses and increases their net earnings more than that of the private insurers. Most probably, the private insurers have realised this and so, in the last three to four years they have retained more and are earning higher investment income than before.

16) Incurred claims ratio of public companies is more than the private sector because of two main reasons. Firstly, business in risky portfolios and secondly, less amount of re-insurance. Private sector is choosy about its business and re-insures more hence is prone to lesser claims. Also, the net earnings of both the public and private sector are not very satisfactory.
17) After nationalisation various products were introduced by the public insurers mainly on the basis of governmental policies and a few catered to the needs of the customers also. These policies were framed by the GIC along with Tariff Advisory Committee and the subsidiaries had no autonomy in this respect. After reforms, product development got a boost as it was necessary for every public and private company to introduce new products. Accordingly, companies were allowed to register new policies with the IRDA under file and use guidelines. In the post-reforms period, private sector has introduced more than 943 products while, public sector has filed only 159 products. Although private companies are more in number, but if we go through the list of new products registered by both the sectors, then it can be deduced that the private sector is more active in filing new products. However, most of the products filed are in the form of modification, repositioning, price-value changing or bundling of existing products under a new nomenclature.

18) The measures taken by IRDA so far suggest that the regulator has been moving in the right direction. It has not confined its role to the licensing of insurance companies and monitoring their activities but is also playing a developmental role in promoting competition and growth of the industry by issuing necessary regulations from time to time.

19) Except the net retentions and net earnings there was a significant difference observed in the performance of public insurers before and after reforms in respect of parameters like annual growth in GDP, underwriting results, incurred claims, market share, operating expenses and investment incomes.
Thus, the null hypotheses that there is no significant difference between the performance of public sector general insurance companies during the pre-reform period and post-reform period is rejected in case of six out of eight parameters.

20) Also, except the annual growth in GDP, operating expenses and net earnings, there was a significant difference observed in the performance of public and private insurers in respect of parameters like underwriting results, incurred claims, market share, net retentions and investment incomes. Thus, the null hypotheses that there is no significant difference between the performance of public and private general insurance companies during the post-reform period is rejected in case of five out of eight parameters.

21) The mean technical efficiency (CRS) of public companies for the post-reform period is 82 percent while that of private companies is 85 percent. Thus the technical efficiency of private companies is 3 percent higher than that of public companies. Technical efficiency of public companies shows a decreasing trend over the years while that of private companies shows an increasing trend. Thus the analysis reveals that technical efficiency of private general insurance companies is higher than that of public companies.

22) The mean pure technical efficiency (VRS) of public companies for the post-reform period is 96 percent while that of private companies is 91 percent. The pure technical efficiency of public companies is 5 percent higher than that of private companies. Thus the analysis reveals that pure technical
efficiency of public general insurance companies is higher than that of private companies.

23) The mean scale efficiency of public companies for the post-reform period is 86 percent while that of private companies is 94 percent. The scale efficiency of private companies is 8 percent higher than that of public companies. Thus the analysis reveals that scale efficiency of private general insurance companies is higher than that of public companies.

24) Public companies have shown CRS only in the preliminary years and DRS in the later years. Not a single public insurer has enjoyed increasing returns to scale in any of the years in the post-reform period. Private companies have mostly enjoyed CRS and IRS. DRS has been observed only in a few years and that too in case of some private companies only.

25) The private companies display higher efficiency scores (except in case of pure technical efficiency) as well as better returns to scale than public companies. Thus, the study reveals that private general insurance companies are more efficient than the public general insurance companies.

26) In case of technical efficiency, the overall mean of public and private sector combined is 84 percent. The overall mean of both public and private insurers was 83 percent in 2002-03 but it declined to 75 percent in the year 2005-06. In the later years, overall mean has improved and hovered around 85 percent on an average. In 2009-10, the overall mean was 86 percent. Thus, the overall mean technical efficiency has improved in the post reform period.
27) In case of pure technical efficiency, the overall mean of public and private sector combined is 93 percent. The overall mean score of both public and private insurers was 89 percent in 2002-03 and increased to 96 percent in the year 2004-05. After some variations, the overall mean was 95 percent in 2009-10. Thus, the overall mean pure technical efficiency has improved in the post reform period from 89 percent in 2002-03 to 95 percent in 2009-10 i.e. by 6 percent.

28) In case of scale efficiency, the overall mean of public and private sector combined is 90 percent. The overall mean score of both public and private insurers was 92 percent in 2002-03 and after some variations was 91 percent in 2009-10. Thus, the overall mean scale efficiency has decreased during the post reform period by a marginal 1 percent only.

29) Overall mean technical efficiency score is 84 percent, overall mean pure technical efficiency score is 93 percent and overall mean scale efficiency is 90 percent for the post-reform period under study. Overall mean technical efficiency has increased from 83 percent in 2002-03 to 86 percent in 2009-10. Overall mean pure technical efficiency has increased from 89 percent in 2002-03 to 95 percent in 2009-10. However, scale efficiency has marginally decreased from 92 to 91 percent. Thus the study accepts the hypothesis that the overall efficiency of general insurance sector has improved after reforms.
5.2 SUGGESTIONS:

1) The general concept in the minds of many people in India is that insurance means 'life insurance'. They are either not aware of general insurance facilities or are not habituated to general insurance and think it as a loss making affair but realise its importance only after they experience a loss. IRDA and general insurance companies should plan strategies on how to increase general insurance habits amongst the people by conducting mass awareness programmes, seminars, public interest marketing instead of depending upon the agency-force (insurance intermediaries) only of the insurance companies for this uphill task. Such programmes should be especially directed towards those who need general insurance but lack knowledge and guidance. Instead of concentrating upon high income bracket customers only, companies should aim towards lower income people also.

2) It has become very necessary for public insurance companies to undertake measures for improving their performance as they were the subject of criticism before reforms and every activity of public insurers is now being judged in comparison with the private insurers. Public insurers are now compelled to review their philosophy and methods of working to gear up for competition. They must respond to competition by doing things better, faster and cheaper. If the general insurers reach out to the previously neglected and untouched areas and introduce a new cost-effective product range and efficient service, only then they will be able to sustain in the
market. The public sector companies should leverage upon their strengths to give a tough challenge to the private companies.

3) Since customer is the focus of insurance business so not only is extensive marketing required but also the manner in which the customer is served needs close attention. The customer of today is well aware, well informed and judicious with a variety of options at his doorstep. Hence, every company should try to offer best services not only to retain the clientele but also to gain the advantage of word-of-mouth marketing which is possible only through a satisfied customer. Existing public insurers should re-write their policies in this regard.

4) There is huge scope for personal lines insurance, health insurance and property insurance in India. Companies should embark upon these areas and try to develop more and more products suitable for these requirements. Only launching a product may not be sufficient and hence the companies should also chalk out a mechanism for efficient distribution of the products and after sales services.

5) For decreasing the high operating expenses the surplus employees who have been an inevitable part of the public sector insurers should be downsized. Various schemes like Voluntary Retirement Schemes have been taken by the companies in this regard but care should be taken that this should be implemented keeping in mind the interests of the employees' also. New recruitments should be done only in areas which strictly require manpower and more stress should be on updating technology and equipment so that work may be done faster at the click of finger tips.
6) Many people in the insurance industry are not versed with insurance business but have been hired by the companies only because of their experience in other industries and not expertise. This may adversely affect the efficiency of the organisation. So, at the time of recruiting new staff, high standards and qualifications have to be set. Insurers should attract, retain and develop only those employees who are open to change, creative, value team work, and deliver some value to the firm.

7) One other measure to reduce the operating expense of the insurance companies may be to close non-remunerative branches and function in such areas through intermediaries only.

8) Indian insurance industry should consider programmes like Continuous Professional Development as developed in United Kingdom, which require a professional to update himself with developments in techniques through seminars, training programmes etc. Universities may consider including more and more specialised courses relating to insurance as this will help in creating people ready for insurance jobs with a good deal of knowledge on the subject.

9) Apart from GIC, other foreign insurers should also be allowed to open branches in India. This will result in lower cost of re-insurance and also create a hub for Asian re-insurance market in India.

10) In order to maintain solvency margins as stipulated by IRDA and support business growth, insurance companies have to continuously expand their capital base. This is a difficult task for the private Indian companies who are already under the pressure of 74 percent capital staking. In this case,
government may consider increasing the equity stake of foreign companies from 26 percent to 49 percent. This will not only solve the capital inadequacy problem but also augment flow of more technical know-how from overseas and better customer service. However, this step should be taken by the government only after planning a proper strategy and setting regulations in this regard.

11) Lot of money is spent by the insurance companies in recruitment and development programmes of the insurance intermediaries while most of them turn out to be ineffective. In order to reduce marketing and distribution expenses, insurers should stress more on bancassurance (i.e. selling insurance through banks), mallasurance (i.e. selling insurance through shopping malls), corporate agents, direct marketing (through tele-marketing or e-mails), e-marketing etc. These concepts are becoming increasingly popular these days and insurance companies need to concentrate more on these channels to increase their sales.

12) In rural areas, for distribution purpose, help may be taken from NGO’s, SHG’s, Village Panchayats etc. Also, in case of rural business, instead of individual policies like personal accident, health policy, farm assets; live stock etc. a composite product may be developed to suit the rural requirements. Rural business should be looked upon as an opportunity and not as an obligation by the companies.

13) Although the investment income of public sector insurers is high and compensates for underwriting losses yet the prospects of high investment
income in future is uncertain, keeping in mind the volatile state of affairs of
the capital markets and deepening economic crisis in the world. Hence, the
insurers should concentrate more on their underwriting operations and try to
devise mechanisms to reduce their underwriting losses to the extent possible
instead of relying upon uncertain investment incomes.

14) Private sector companies should broaden their capital base so that they
become strong enough to bear risks. This will decrease their dependence on
re-insurance and increase their retention which will ultimately lead to better
earnings.

15) In spite of various policies catering to the agricultural sector there are very
limited beneficiaries of these policies. Many instances of farmer suicides
prove this. Initiative should be taken by the central government in
collaboration with the state agencies to develop awareness about agriculture
insurance and encourage such habit so that farmers can be relieved from the
vagaries of nature. This is very important for an agro-based economy like
India. It will lead to financial prosperity of the agriculturist society as well
as the nation.

16) Since the spread and growth of insurance is very poor, the IRDA and Indian
government should encourage more insurance business. Companies may be
given special recognition or incentives for their services in those areas
where market penetration is weak or nil. IRDA should closely monitor the
activities of the insurance companies and point out those areas where more
business should be stressed upon by the insurers. Emphasis should be given
upon training programmes by experts upon how to cover more and more people and areas so that insurance penetration and density increases.

5.3 CONCLUSION:

The reforms in the insurance sector leading finally to the opening of the sector for private and foreign participation have been introduced on the recommendations of the Malhotra Committee. The rapidly changing economic scenario, political changes, social values and cultural patterns have transformed lives in urban and rural areas. The cumulative impact of these factors has introduced an element of uncertainty, changed the risk-profiles which has further increased the need for insurance protection amongst the masses. This has led to tremendous developments in the insurance sector.

The post-reform insurance industry panorama is witnessing dramatic changes and excellent growth in terms of market expansion, product development, better use of information technology, expeditious customer services, social and rural sector development, growth of the economy etc. The market which was earlier dominated by a few stabilised public players is now witnessing new players who have a competitive edge.

However, the Indian insurance market is so under-insured that there is enough room for everyone and it all depends upon the creativity and competitive spirit of these insurance companies as to how much they are able to make out of it. The reforms have resulted into adverse underwriting results for the public sector general insurance companies. They have incurred underwriting losses higher than the pre-reform period as well as higher than that of the private
companies. On the other hand, the high investment incomes of the public sector insurers have compensated for their underwriting losses and as a result, they have been able to leave behind the private sector so far as the net earnings are concerned. But, the public insurers need to devise steps to improve their underwriting results as investment incomes are uncertain.

The best outcome of the reforms is that the public insurers have shed their monopolistic attitude and are displaying better efficiency and customer oriented services unlike the pre-reform period. The private insurers are well equipped with global competencies and are also banking on the advantage of poor performance of public sector insurers in the past. They have thrown a tough challenge before the public insurers and are gradually gaining grounds by capturing the market share of public insurers. Increasing the FDI cap in insurance sector from 26 percent to 49 percent may go a long way in improving the position of the private insurers.

The IRDA has been playing its regulatory and developmental role very well and is expected to revolutionise the insurance sector further in the right direction. Regulations have been issued by the IRDA from time to time encompassing various issues which are very important. Some regulations have facilitated insurance facilities for the economically vulnerable, socially backward and rural masses as an obligation on the part of the insurance companies. This will lead to tremendous economic growth and development of a country like India, where majority of the people belong to lower income strata and rural areas. At the same time, the new policies initiated by the government in respect of reforms attempt to facilitate creation of an efficient and profitable market through
removal of entry barriers, easing product restriction and product pricing. The reforms have encouraged industry participants to adopt global standards.

Privatisation cannot be the immediate panacea to all the ills in the system but it provides an enabling environment and can be assumed to be a first step towards positive change. Thus, it cannot immediately enhance efficiency and profitability of the insurance sector. However, the experiences of a number of developing economies including India show that in the long run privatisation will lead to overall progress of the industry as well as the economy.

Realising the vast potentiality in health sector, agriculture sector and export-import trade, companies providing these specialised services have also come up which is a good sign, as specialisation is a further step towards proper development of the industry. Reforms have also solved the unemployment problem to a great extent. With new intermediaries and new distribution channels, the insurance market has witnessed a phenomenal growth.

Numerous changes taking place from time to time would continue to throw up new challenges to the Indian insurance sector. Focussed attention and capacity, coupled with the willingness to change on the part of the insurance companies will only help in truly realising the objectives of liberalisation. The private insurance companies will have to refrain themselves from sticking to their narrow profit oriented approach and contribute to improving the economy and more vitally for securing protection to the citizens at large. The existing as well as new players will have to devise strategies to retain and enhance their market share by providing better service standards and creating new benchmarks.
5.4 SUGGESTED AREAS FOR FURTHER STUDY:

The study covers the impact of reforms in general insurance sector in India taking certain parameters. There still remains scope for further research on the topic. The suggested areas for further study are as follows:

1) Research may be done to assess the impact of reforms on life insurance sector in India.

2) Research may also be done to find out the impact of reforms on the customer satisfaction levels of insurance companies.

3) Research may be done to assess the impact of reforms in general insurance sector taking other parameters like solvency margins, investment portfolios etc.

4) Research may also be done to compare general insurance performance of India with different countries.