Chapter - I

INTRODUCTION
# INDEX

Chapter - I

INTRODUCTION

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Annexure 1.1

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ANNEXURE FOR CHAPTER-I

1.1 List of Professional Papers Published Upto 1990

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CHAPTER I INTRODUCTION

I) STATEMENT OF THE PROBLEM

The theme of Research Thesis which I am submitting for Ph.D. degree in the discipline of Commerce of Pune University is "Operational Transformation of General Insurance during the period 1950 to 2000 and beyond".

Human Society has undergone substantial Macro Environmental changes in its Socio-Economic-Political and Technological characteristic during the post-1950 decades.

I am undertaking study of transformation of our Society's Micro Financial Service Sector of General Insurance which has taken place during the corresponding period to meet the demands of Society in new Macro Environment.

Based upon my observations of trends of Macro Environment changes and transformation of General Insurance during the above stated period under consideration, I will attempt to project their developments in the 21st Century.
Before I elaborate further the theme of my Research Thesis, I would like to narrate the process of its conceptual development which will serve as the background to the discussion in the thesis:

II) DEVELOPMENT OF RESEARCH THEME

The period 1950 - 1990 selected for study of Operational Changes in General Insurance Business, except for the initial eight years coincides with my active professional insurance career from 19th October 1959 when I joined The New India Assurance Company upto 30th June 1991 when I retired from the service of General Insurance Corporation of India and its post-retirement continuation through the activities of consultancy, teaching and research.

In post-Life Insurance Nationalisation period after 1956, The New India Assurance Company, then leading private sector Indian Insurance Company, established in 1919 by the house of Tatas, had to concentrate on vigorous development of their General Insurance Portfolio, albeit on long term sound basis, in domestic as well as international sectors. Trained manpower was to serve as the major source of
strength for New India in this task. With the limited scope for development of General Insurance business in pre-independence India, founder Chairman of New India Sir Dorab Tata had vision to develop New India as a worldwide company, starting its London branch operation, right from the inception of company operation in 1919. In post 1956 business strategy New India management successfully achieved expansion of global operation through agencies and branches in 68 countries, achieving by the end of the decade of 60s for India unique distinction of 3rd rank in International Market in terms of territorial spread.

After joining New India in 1959 batch of Management Trainee Officers, I had an opportunity to start my career in New India’s Foreign Service in September 1961 with posting at Lagos as Manager for West Africa, controlling company operations in Nigeria, Ghana, Sierraleone and other parts in the territory. From September 1961 to October 1982, I continued my active operation in overseas markets through successive assignments covering markets of Malawi, Zambia, Rhodesia (Zimbabwe), Mauritius, Trinidad, Hong Kong and China.
Number of changes were taking place in Macro-Environment of these markets with the emergence of independent nations constituting the group of Third World Countries. With the economic development of these newly liberated countries in the decade of 60s, the potentiality of development of insurance markets was expanding exponentially and along with this premium volume-wise expansion, steps were taken by the Governments in most of the countries, particularly in Africa, to either localise or nationalise insurance business thereby transforming structurally Third World Insurance Industry from Foreign dominated norm into Localised norm. New India’s Agency-Branch operation in Africa and Caribbean Region as well as in countries like Malaysia, Indonesia, Sri Lanka in South-East Asia was transformed by the end of the decade of 70s into either local company norm or limited to Reinsurance transaction.

During this process of change, my interest in the study of Dynamic Insurance Scenario was triggered and I prepared my first comprehensive paper on the 'Problems of third World Insurance' submitted to UNCTAD in 1975. The views expressed in this paper were based on my observations and discussions with participants in African Insurance Congress at
Mauritius (1972) and Caribbean Insurance Conference at Kingston - Jamaica in 1974. Changes in the structure of Insurance Industry in the Third World countries, like Nationalisation of Life Insurance in India in 1956 followed by Nationalisation of General Insurance in 1973 had their impact, in transforming relations of Insurance Industry of the developed countries with insurance industry of developing countries from direct insurance field into the field of provision of consultancy and services in the sector of reinsurance programme, special insurance schemes for Aviation-Hull and high-tech industrial / commercial risks, training of professional manpower, computerisation of insurance systems, processing of mega-size claims, etc. This aspect of relations between developed and developing insurance industry sectors was covered in my papers published during this phase of my career. But I also sounded caution about another important impact of this change in relations resulting in the percolation in the markets of developing countries of Excessive Competition Factor, which had already started in the decade of 70s its drastic transformation of underwriting control system of the developed markets of USA, UK, and Western Europe from conventional underwriting surplus basis into cash flow basis. During my assignments in Hong Kong market with its
distinction of highest competition density in World Market, I published a paper on the subject of underwriting problems of competitive market defining 'Three Basic Laws of Operation' and strategy to counteract their adverse effect on growth and profitability of business.

With my assignment in January 1983 as the Manager of New India's Foreign Department the field of my control and observations of scenario expanded to encompass all sectors of global market comprising - (1) Sector of developed markets of USA, Canada, UK, Western Europe, Australia, New Zealand, Japan, controlling 92% share of global market, (2) Sector of Communist countries led by USSR contributing 3% share of global market and (3) Sector of Third World Countries with their share of global market of 5%. With the opportunity of this wide exposure I could observe at closer distance the problems for survival of the Western developed Insurance Industry in conventional form under the simultaneous pressure of aggressive competition denying underwriters adequate premiums to meet escalation of property and liability claims and increasing management expenses, stiffening of statutory control and wide fluctuations in investment income. For my preparation of Five
Years' Corporate Plan for Indian General Insurance Industry's international operation and formulation of project for New India's direct operation in UK through joint-venture with Legal & General, I made in-depth analysis of Global Market trends based on the valuable data published from time to time by economic research departments of leading Reinsurers Swiss Re and Munich Re. My paper on International Scenario for New India Foreign Service Delegates' Conference in 1990 covered the theme of Changes in General Insurance Industry, with indications of likely future trends.

In 1988, I got an opportunity of exposure to India's domestic market in its most developed high-tech sector, through my assignment as the Assistant General Manager in control of New India's Tied Department which had distinction of premium-wise premier rank unit of Indian Insurance Industry. This department was established in 1955 restructuring of organization as the unit to develop and service exclusively mega-size accounts. Professional expertise was the hallmark of officers and staff of this unit described as the Flagship of New India Armada.
This assignment was valuable experience in understanding the problems of Indian Insurance Industry in its post-Nationalisation norm. In Senior Executives' Conference held at Jaipur in 1990, I had submitted on behalf of our Syndicate response to the 'Theme of Perestroika' recommending extensive decentralisation of power giving autonomy to subsidiaries and offering 30% share to public for their direct involvement in the management of Industry reducing thereby We-They dichotomy between clients and insurers, which is seen even in Western countries inspite of free play of Market forces.

My association with International market had also continued during this period through involvement in two major projects:

1) Organisation of Seminar at New Delhi (February 1990) of leading Insurers of South Asia /Pacific / Far-East Region. As the organizer and compere of this Seminar, I had to prepare report consolidating views expressed on insurance problems of economically most vibrant zone of our globe.

2) Preparation of basic reports on the establishment of Indian Nuclear Insurance Pool. Preparation of

In August 1990, after my promotion as General Manager on my request I was given an opportunity to work as Faculty Member in National Insurance Academy transferred to its newly built Pune campus. My special assignment was to develop Technical and Management of Portfolio courses for Senior Executives of GIC and subsidiaries and special insurance course for middle management level officers of foreign companies. Experience in organising these courses and International Risk Management Seminar for high-tech risks developed further my understanding of Changing Insurance Scenario.

I had opted for assignment at National Insurance Academy as in April 1990 I had registered at University of Poona for Ph.D. offering as my subject 'Operational Transformation of General Insurance Industry 1950-2000'. In September 1991, I got an opportunity to work as an Advisor to Mitsui Marine and Fire Insurance Company of Japan, for developing
their operations in India and other member countries of SAARC region. Along with other members of global insurance industry, Insurance Markets constituting sub-continent of India have also commenced their new phase of transformation to meet the demands of New global and domestic Macro-Environment scenario. My study of their problems injected new vigour and depth in the development of my Research Theme.

As you will note from the above narration the theme of Research has evolved from my professional interactions with the changing environment of operation. The desire to consolidate my experience in the form of a paper was always latent. But it was activated into the commitment to submit a thesis for Ph.D. only due to the kind appreciation and supportive response given by my guide Principal Dr.C.G.Vaidya after his perusal of two consolidated volumes of my 30 published papers, shown to him in 1988. But for his encouragement transformation of my professional experience into the theme of Doctoral Thesis would not have taken place. I would also like to express my deep gratitude to New India and GIC managements and colleagues for the wonderful opportunity of wide range of assignments during my professional career, from which has emerged this exercise of study of the
problems of General Insurance Industry in Dynamic Macro-Environment. My experience in the organisation of Courses, Seminars, Research activities and publication of journal at National Insurance Academy (NIA) Pune, provided the right type of prelude to this Research Project for which I would like to thank NIA management and colleagues.

III) SIGNIFICANCE OF STUDY

I would now like to elucidate on the significance of the theme "Operational Transformation of General Insurance Industry during the period 1950 - 1990 and beyond" selected for study.

1) The significance of the theme is in its perfect fit to the phase through which the insurance industry is passing at present both in its global as well as domestic form. The decade of 90s is drastically transforming Macro-Characteristics of human society and under its impact significant changes are taking place in the structural and operational norms of various organisations which serve diverse socio-economic-technological needs of community. Constituent units of Financial Service Sector like Banking, Insurance, Mutual
Funds are restructuring themselves to meet the demands of new environment.

2) General Insurance enterprise starting in its inceptive Marine Insurance form of Bottomry Contract 2100 year BC in ancient Babylonia has now developed into vitally important part of Global Financial infrastructure fulfilling the role of Umbreîla of Financial Security for society's technological advance and socio-economic welfare. Magnitude of its operation can be judged by noting that it generates global annual premium of US$ 1000 billion from community contribution and pays every year matching amount in claims to reimburse policyholders' financial loss arising from accidental disasters in modern production sector or transit systems, catastrophies of nature and man-made upheavals of riots, civil commotion or terrorist acts. With the changes in Macro-Environmental backdrop in which insurance industry has to operate, transformation in its structure and operation is imminent for preserving its utility as an essential financial service. However, for successfully achieving this task of transformation of established norm without splintering or crashing its edifice, it is vitally important for the professionals managing Insurance
Industry, administrators exercising statutory control on it and policyholders utilizing its service for their multi-sectoral needs, to evolve through consensus a new form of industry through smooth transition maintaining its link of continuity with the past.

3) For this purpose, study of operational transformation of Insurance industry during the period of post-war decades is useful. The pace of change in the operational norm of General Insurance Industry has kept pace with the changes in Macro-Socio-Economic-Political transformation. The change from the inceptive Marine Insurance form of Bottomry Contract into Standard Marine Insurance Policy took place during the period 2100 BC to 16th Century. Development from the stage of individual entrepreneurs underwriting Marine Insurance into large size of Insurance Companies writing all types of conventional insurance policies took place during 1600 AD to 1950 AD. This process of changes has now gathered unprecedented momentum introducing radical transformation of the conventional form into new types of Non-Conventional insurance covers and the wide-spread Industry of large, medium and small size companies in developed and developing sectors.
of International Market may turn into limited number of mega-size multi-national companies from developed sector dominating business in Frontierless Global Market.

4) Indian General Insurance Industry which has developed from its modest beginning in the 19th Century as agency units of British Insurers, has now developed into financially strong Nationalised Industry writing annual premium income of Rs.7350 crores, with growth and profitability characteristics which are satisfactory as per International norm. Distortions have undoubtedly crept in our Industry's operation during the post-Nationalisation period (1973 - 1997) affecting its efficiency of service to clientele. Restructuring of our Insurance Industry is therefore vital for ensuring its successful contribution to the process of Liberalisation of Economy which is now National Objective accepted by all political parties. But whilst achieving this goal of transforming present State Monopoly form of our Insurance Industry into a new form constituted of twin sectors of Public Sector Insurance Institutions and Foreign & Private Sector Insurers, care has to be taken to ensure smooth
transition with retention of healthy financial characteristics of our Insurance Industry which will strengthen us to develop further our participation in Global Market to a meaningful level.

5) In this context study presented in my Research Thesis will be significant. It will cover historical development from ancient civilisation to the present day pointing out on the basis of compiled data possible inter-linkage between Macro-Environment characteristics and Micro-Insurance Sector norms. It gives operational data compiled from recognised authoritative sources for all sectors of Industry in general and Indian General Insurance Industry in particular during the period 1950 - 1990.

6) Based upon the analysis of above data, projections are presented of trends likely to develop in 21st Century in various sectors of International Market and our domestic market against diverse Macro-Environment backdrops expected to evolve there.

7) Objective approach has been adopted in presenting factual data as well as projection of future trends to enable readers to derive their
conclusions. However, it is admitted that my professional experience of 3¾ decades and commitments developed during this period have contributed to some extent subjective element to my design of New India Model for Indian General Insurance Industry.

IV) OBJECTIVE OF STUDY

Objective of my study can be summarised as follows:

1) To find out from the review of historical development of General Insurance from its inception in rudimentary form 2000 BC to its fully developed conventional form in 1950 whether any correlation exists between changes in the Macro Environment of Human Society and changes in the operational characteristics of General Insurance taking place during the corresponding period?

2) If as per observations emerging from the study defined under item 1, correlation is established between changes in Macro Environment and changes in operational norm of General Insurance, to study the impact of Macro-Environment changes in post 1950-decades on the transformation of General Insurance during the corresponding period.
3) Based upon the observations of trends for the period 1950-90, to project the new form of Macro-Environment of Human Society and new norm of its Micro Financial Service Sector of General Insurance in the 21st Century.

V) THE SCOPE OF STUDY

The scope of study will cover following items:

1) Definition of Macro Environment of Human Society stating its principal vectors of Frame.

2) Definition of Micro Financial Service Sector of General Insurance Stating constituent characteristics of its operational norm.

3) Conceptual Formulation of Corelation between Macro Environment Form and operational norm of its micro General Insurance Sector.

4) Checking validity of the above stated conceptual correlation under item 3 on the basis of the review of historical development of General Insurance from 2000 BC to 1950 AD.

5) Study of transformation of Global General Insurance and Indian General Insurance Industry in
post-1950 decades against the backdrop of Macro Environment changes during this period.


VI) RESEARCH METHODOLOGY

a) Objective Approach

Subject of Macro-Environment Norm or Models for Financial Sector Institutions like banking or insurance invariably gives rise to discussions which tend to develop subjective approach orientation. Even professional executives are firmly committed to their predilections and prejudices on political, economic, sociological and technical themes and in the heat and fury of justification of one's Utopian Model, objective analysis of data gets at best secondary importance only as and when, it serves to justify one's subjective hypothesis. To avoid this situation, this paper will not consider relative merits or weaknesses of Models of Macro-Environment or Micro-Insurance Industry from any ideological preference aspect but measure their performance only by
application of yardstick of results recorded in the data published by recognised authoritative sources. Analysis of data recorded on the operation of General Insurance Industry during the period 1950 to 1995 will be made strictly on objective basis and in extrapolating the future trends either of Macro-Environment or Micro-General Insurance Industry, subjective element will be limited to the minimum extent possible by presenting all types of likely scenarios.

b) Sources of data and observations

As explained in the narration on the conceptual development of the theme under consideration, it is outcome of my professional interaction to the changes in the environment of my professional career. Observations made during the various assignments in respect of Environment changes and their impact on the operation of New India Assurance Company serve as the major source of data collected through experience. Practical cases quoted in this paper for supporting views on some points, will be from this sources. This data will be Primary Data for my study.
Major Sources of data compiled through reading can be classified as follows:

**Macro Environment**


2) **Financial Journals** - Economist, Economic Times, etc.


**Micro Insurance Sector**

1) **Publications** - Best’s review, Reinsurance, Policy Holder, Sigma.

2) **Journals** - British, Japanese, Indian Insurance Association / Institute journals.
3) **Research Papers** - Swiss Re, Munich Re, Geneva Association Papers.

4) **Treatises**

   (Insurance) - Raynes, Tuma, Carter, Hurren, Berliner, Benjamin, Davision, Sharma, Zajdlic, Caffin, Giarini, Stahel.

   (Management) - Terry, Munsinger, Ouchi, Handy, Drucker, Harvard Institute and Indian Institute of Management papers.

Secondary data collected from above mentioned sources has been modified wherever necessary to suit the topic of my research.

5) **Primary data** - Feedback received from professionals from Insurance, Banking, Civil Service, Academic, Commercial Sectors in response to my various papers on different themes associated with insurance sent to them from time to time has been taken into consideration for this study. Conferences, Seminars in overseas countries and India in which I had participated as a delegate or observer have been useful for exchange of views with eminent persons from Insurance and other allied professions and
information thus collected, besides conference reports, is a vital source for data.

6) **Constituent Research Papers** - Major part of this Thesis has evolved out of my following papers published during the period April 1990 to June 1997:

1. 'Socio-Economic Scenario During The Decade of 90s' - (December 1990 issue of 'Dnyanajyoti' - National Insurance Academy, Pune, journal)

2. 'Privatization of Indian General Insurance Industry - Is There A Case?' - June 1991 issue of 'Dnyanajyoti'.

3. 'Quo-vadis for General Insurance Industry in Developing Countries?' - April 1992 issue of 'The Geneva Papers' (Switzerland).

4. 'Plan 2100 for Indian General Insurance Industry' - published in May 1993 - submitted to General Insurance Corporation of India and Ministry of Finance (Govt. of India).

5. 'Communitization of General Insurance Industry' - December 1993 issue of 'Dnyanajyoti' also
6. 'Malhotra Committee's Report under Underwriters’ Scrutiny' - published in February 1994. Submitted to General Insurance Corporation of India and Ministry of Finance (Govt. of India). Published in extracts form in 'Arthamanthan' and 'Insurance Times'.


circulated by Geneva Papers Association for members and acknowledged by Chartered Insurance Institute London, for reference book in their Library.
- Views submitted to Ministry of Finance (Govt. of India).


I have also used at appropriate places material from twenty-four professional papers prepared by me during the period of three decades of professional career. The list of the papers is included in the Annexure 1.1 for reference.

VII) HYPOTHESIS

Hypothesis on which rests the theme of this Thesis is stated as follows:

"General Insurance Industry is the offspring of Socio-Economic, Political and Technological evolution of Human Society. Operational Norm of General Insurance Industry transforms in tune with Macro-Environment changes to develop its capacity to provide adequacy of insurance cover to meet the demands of society with excellence of service subject to limits of Financial constrain and commercial feasibility for operation in new form."
VIII) OUTLINE OF THESIS

Sequence of steps of my study can be summarised as follows:

1) Formulation of the Hypothesis as stated above.

2) Testing and Verification of Hypothesis:

Process adopted for testing hypothesis is to review historical development of Global General Insurance Industry from its inception in rudimentary Marine Insurance form of Bottomry Contract in 2000 years BC in Hamurabi's Babylonia to its full development in conventional multi-sectoral global form in 1950. Upper limit for time frame is kept at 1950 as it serves as the reference point for the study of transformation of General Insurance Industry during the period 1950 to 1990 and future years as per the objective of research project. For historical review to be adequately representative of global scenario following three markets have been selected as case studies to prove conjecture expressed in Hypothesis:
i) British Insurance Market
ii) Japanese Insurance Market and
iii) Indian Insurance Market.

British Insurance Market has been the cynosure of development of International General Insurance Industry during the period 1500 to 1950 with maximum contribution to the development of theory and practice of General Insurance business and most extensive territorial spread of its operation. British Insurance Industry is historically most suitable sample from the sector of developed countries from West for testing Hypothesis. Japanese Insurance Industry has unique features which distinguish it from the norm of Insurance Industry of Western developed markets. It is therefore selected for testing whether Hypothesis is applicable to its case. Indian market is a typical case of Third World Insurance Sector of developing countries, it is therefore selected as a case study for testing Hypothesis. If on the basis of these three case studies Hypothesis is found valid we can accept its applicability to all sectors of Global Market.

3) Review of Changes in the Macro Environment of Human Society during the period 1950 to 1990:
In this review following major changes in global scenario will be given due consideration.

i) Changes in Political Scenario:
ii) Changes in Economic Scenario
iii) Changes in Technological Scenario
iv) Changes in Social Scenario

4) Survey of changes in the operation of General Insurance Industry in global market 1950 to 1990

For this survey following changes in global Insurance Industry norm will be considered in depth for all sectors of global market.

i) Changes in Structure of Global Market
ii) Statutory Changes
iii) Financial Norm Changes
iv) Technological Norm changes
v) Development Strategy Changes
vi) Management Norm Change
viii) International Scenario Change
5) From the above review of changes during 1950 - 1990 in Global Macro Environment and Operational Norm of Global General Insurance Industry, the corelation interlinking them will be tested. If positive corelation is established, it will further validate hypothesis formulated for this thesis.

6) Survey of Changes in Macro Environment and General Insurance Industry of India during the period 1950 to 1990

7) Projection of Future Trends:

a) The concluding part of the report deals with the Future Scenario of General Insurance Industry arising from the likely transformation of Macro-Environment backdrop in diverse sectors of International Insurance Market.

The significance of my study is not in its capacity to predict with certainty the outcome of present dynamic phase in history of General Insurance but in its utility to
Administrators' and Policyholders' discussions and exchange of views from which may emerge solution to the problem of Restructuring Indian General Insurance Industry for serving with excellence insurance needs of our people in the 21st Century.

X) SCHEME OF CHAPTERS

Sequence of Chapters constituting this thesis is as follows:

I) Introduction.

II) Theoretical elaboration of the inter-relation between the Macro Environment and General Insurance Business.


IV) Transformation of Macro Environment during the period 1950 to 1990.


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LIST OF PROFESSIONAL PAPERS PUBLISHED
UPTO 1990


3) Problems of Motor Insurance in Trinidad (Submitted for Special Insurance Supplement of Trinidad Newspapers for Trinidad Institute) - January 1974.


6) Problems of Insurance Industry in Mauritius (Submitted to Minister of Finance) - 1972.

7) General Insurance Industry in India (Submitted in KRIC Seminar at Seoul) - 1980.

8) Organised the Insurance Stall in the Indian Industrial Exhibition in Hong Kong giving the information on the Indian Insurance Industry. From the panels prepared as per my design, the Technical Brochure on Indian Insurance Industry is prepared - April 1977


11) Lectures given to New India Officers on Foreign Insurance and Megasize Insurance Management (1984 - 89).

12) Prepared Script of the paper read by New India's CMD on the subject of "Insurance Survey Career" as address to the Insurance Academy - Trinidad and Tobago (1984)
13) Insurance Challenge in Developing Countries (Paper for talk by New India's CMD at Mauritius Institute) - 1989.


16) Dynamics of International Insurance (Paper read at New India's Foreign Representative Conference) - February 1989.


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