ABSTRACT OF THESIS

TITLE: OPERATIONAL TRANSFORMATION OF GENERAL INSURANCE INDUSTRY DURING THE PERIOD 1950 TO 1990 AND BEYOND

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.

II) DEVELOPMENT OF RESEARCH THEME

The period 1950 - 1990 selected for the study of Operational Changes in General Insurance Industry except for the initial eight years coincides with my active professional Insurance Career as an executive of The New India Assurance Co. Ltd. working in various official capacities in diverse sectors of Global Insurance Market including India.

From my observations of changes in the Macro-Environment in the various sectors of Global General Insurance Market and corresponding changes in the structural and operational norm of their Micro-General Insurance Industry emerged the theme of this research paper establishing interlinkage between the Macro-Environment characteristics of society and the structural and operational norm of Micro-General Insurance Industry serving its Insurance needs.
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 Umbrella 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$ 900 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
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.6500 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 - 1995) 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 and 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 Paper 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.
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 corelation 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

This paper limits its scope to study specific problem of interlinkage between Macro-Environment and operational norm of Micro-General Insurance Industry in selected case studies of representative markets of developed and developing sectors of Global Insurance Industry.

Analysis of data about Macro-Environment and Micro General Insurance Industry, collected from recognised International and domestic authoritative sources is made on strictly objective basis without introduction of any subjective element associated with consideration from ideological preference aspect. Exchange of views with Insurance and Financial Service Sector professionals and their responses to my various research papers published during past six years of study, provided valuable source of secondary data besides primary data compiled from recognised professional journals, treatises and published research papers and my professional experience.
VII) HYPOTHESIS

Hypothesis on which rests the theme of this paper 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. On the basis of above study of development of Global General Insurance Industry in general and three case studies in particular, it has been possible to establish validity of the Hypothesis defining the Law of Linkage between the Macro-Environment characteristics of Society and Operational Norm of Micro-General Insurance Industry serving its Insurance needs.

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 have been 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 are 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 correlation interlinking them has been tested. Positive correlation established, as per this review further validates 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.


IX) LIMITATIONS

Individual effort in dealing with the complex subject of 'Prospects and Problems of Global and Domestic General Insurance Industry' is subject to obvious limitations in covering all aspects of study. Inspite of efforts to cover as wide a range of data as possible some omissions are likely to remain. In projection of future scenario of Macro-Environment there is large element of conjecture lacking in mathematical precision. Nevertheless,
attempt has its significance in the tradition of eminent insurance professional Jaroslav Tuma who had courage in 1950, when the Cold War between Western and Eastern blocks of post-war bi-polar World was at its explosive climax to predict in his 'Primer of (Reinsurance) Administration', "evolution of new socio-economic order out of compromise between Liberal and Solidarist systems, similar to other manifestations of natural life, to regulate antagonistic economical strifes which produce disturbing effects in all other sectors of individual and social activities." 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 trigger amidst Insurance Professionals', 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.

a) Development of Corelation Matrix between Macro - Environment and Micro - General Insurance Industry Norm.

b) Models for demonstration of Interlinkage.


Sequence of Phases of Development

1) Origin of Insurance Practice in Ancient Human Civilization 2000 BC.

a) Contribution of Babylonian and Indian Civilization

b) Origin of Marine Insurance
2) Insurance Development from 2000 BC to 14th Century:
   
a) Development of General Average Practice
b) Guild Schemes of Insurance Protection

3) Insurance development in 14th Century. Contribution of Commercial - Cultural Renaissance of Italy.

4) Insurance Development in 15th and 16th Centuries of Explorers' Age under Spanish Enterprise.

5) Global Insurance Development in tri-centennial period - 17th to 19th Centuries of Commercial Capitalism, industrial revolution and colonial expansion under leadership of British hegemon - Development of Marine - Fire - Miscellaneous Accident insurance practice in conventional form.

7) Development of Japanese Insurance Industry
during the period 1600 to 1950.

8) Development of Indian Insurance Industry
during the period 2000 BC to 1950.

For each of the above phases Macro environment
and Micro General Insurance Norm are considered
in following aspects:

A) **Macro Environment Form**
   
   a - Political development level
   b - Economic development level
   c - Social development level
   d - Technological development level

B) **Micro General Insurance Sector Norm**
   
   a - Development of Insurance Practice
   b - Types of Business
   c - Statutory Control
   d - Management Norm
   e - Development Organization
   f - Social-Welfare Role
   g - International Transactions
For each of this phase inter-relation is tested for its impact on the progressive development of General Insurance Business in the multi-sectoral dimensional norm as established in 1950. For Markets reviewed as Study Cases Hypothesis is tested during their various phases of development resulting in the final stage of their 1950 norm.

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

a) Transformation of Global Political Structure:

i) End of Colonial Era
ii) Emergence of Third World Block
iii) Formation of Bi-polar World
iv) Collapse of Bi-polar World

b) Shift in Economic power centres. Economic Scenario... USA - Western Europe - USSR - China - India.

c) Unprecedented quantum and pace of change in Scientific Development.
d) Emergence of Third Wave Civilisation Social Values.


a) Structural Change
b) Basic Change in Financial Norm
c) Shift from Manpower intensive to Technology intensive Administrative Systems
d) New products under Comprehensive package.


Change from Free Market Norm :
- Mixed Norm under Social Control
- Nationalised Norm

VII) Projection of Future Trends for Indian General Insurance Industry passing through the process of restructuring in the decade of 90s in tune with changes in Macro-Environment norm.

Prospects and Problems for smooth transition from Nationalised Norm -> Twin Sectoral Norm -> Communitised Norm to fulfil needs of Society in Democratic Welfare State with Technologically Modern Production Sector.


Developing Sector: Restructuring of conventional form of General Insurance Industry in diverse forms in tune with quantum and pace of modernization of their production and financial service sector and transformation of Feudal Society into Democratic Welfare State.

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