1.1: INTRODUCTION:

Everyone fears the future as it is uncertain. Life is uncertain and so the livelihood and the property. We grow food grain by the cultivation of soil which is fed by rainfall, if rainfall does not occur it leads to crop failure and hardship for life. Even life itself may be attacked by disease, ailment which may lead to fatal consequences. The dwelling houses may face vagaries of weather; land on which house is located may be destroyed by disaster, natural calamities, civil commotion affecting the life, property and human civilization. In order to counter the consequential loss and sufferings that might arise can be to some extent mitigated by a device called insurance. The last decade has shown the increasing regularity of disastrous events in the world history, attack on World Trade Centre (9/11), Tsunami, Gujarat earthquake, 26/11 attack in Mumbai, falling of stock market, collapse of corporate like Enron, WorldCom, and the recent disaster in Uttarakand etc are to name a few. So it is seen that risk surrounds every individual and organization at all times. Every activity of individuals or organizations as a day to day operation exposes them to risk potential. With modern industrialization and inventions the risk to life and property has increased many folds. Knowing that this risk may bestow anyone at any time, attempts are made to minimize the risk which cannot be eliminated. At this point of time insurance comes to their rescue.

Insurance can be defined as “a contract whereby for specified consideration one party undertakes to compensate the other for a loss relating to a particular subject as a result of the occurrence of designed hazards.” Insurance is the mechanism of sharing the loss of a few among the many. The impact of risk on owner can be reduced by insurance. Insurance allows preparing for those situations where financial support is most needed. Non-life Insurance as a cooperative device shares the financial losses on a scientific
basis. Financially speaking in a non-life insurance contract which is for 12 months, one party is looser and the other is gainer. Although insurance imposes a little charge in the form of premium to the owner of the asset yet it protects the assets against the losses up to a certain level.

Today’s insurance environment is not the same as what we have seen in the past. It has become much more diversified because of shift in customer’s preference and competition. It has become imperative for the insurance companies to retain the customer by providing premium rates customized to the requirements of the customer. The insurance sector in India has come to a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost 190 years.

The business of insurance started with marine insurance business. The first insurance policy was issued in 1583 in England. The insurance in India dates back to 1818 when Oriental Life Insurance Company, Calcutta was established. The first company to be established in India in the non-life sector by the British was the Triton Insurance Company (1850). Bombay Mutual Life Assurance Society (1871) was the first Indian company which did not differentiate in premium between Indians and Europeans. The Mercantile Insurance Ltd. in 1907 was the first Indian company to transact all classes of non-life insurance business in India. The insurance industry in India has witnessed several regulations, laws and reforms from time to time. The first regulation in the insurance industry came in the year 1912 with the Indian Life Assurance Companies Act. This act was reviewed and comprehensive legislation called the Insurance Act, 1938 was enacted. The nationalization of the life insurance business in India in 1956 brought about
the formation of Life Insurance Corporation of India, giving it the sole monopoly of transacting life insurance business until the privatization of insurance business in India in 1999. In the year 1968 the Insurance Act was amended to regulate investments and to set the minimum solvency margins for insurers and in the same year the Tariff Advisory Committee (TAC) came into existence. In the year 1972 the General Insurance Business (Nationalization) Act was passed and came into effect from 1st January 1973, 107 non-life insurer’s transacting business in India were amalgamated to form four subsidiary companies National Insurance Co. Ltd., Oriental Insurance Co. Ltd., The New India Assurance Co. Ltd. and the United India Assurance Co. Ltd. under the holding company General Insurance Corporation of India (GICI), which was at the apex to oversee and supervise the subsidiaries under it. The economic reforms programme which was introduced in India in July, 1991 set up the ground for opening up of various sectors of Indian economy namely financial sector, insurance sector and banking sector to the global competition. These reforms led to the opening of the foreign direct investment in insurance which changed the ownership of the insurance sector from total government control to private ownership. The report submitted by R.N.Malhotra Committee made wide ranging recommendations paving the way for setting up of enactment of a separate insurance regulatory act i.e. Insurance Regulatory Act; setting up of IRDA as an apex regulating agency for the entire insurance sector of the country; entry of foreign players along with other institutional reforms. This reintroduced competition by opening up of the insurance sector to private and foreign players and delinking the four subsidiaries of GICI. This was the beginning of deregulation of the insurance sector and was also the beginning of a modern era for this sector.

The opening of the insurance industry to private players allowed both domestic and foreign companies to enter the market. Foreign insurance companies can enter into the
insurance sector in India only with an Indian partner, as a joint-venture, with a capital contribution up to a maximum of 26 percentage of the capital in the joint-venture. Entry of new foreign and local players in the market had again injected competition for the insurers. Privatisation of Indian insurance industry was done by keeping the public sector companies intact and allowing private players to participate. Over the years in the last century the insurance industry has witnessed a cyclical change of ownership from private to public and back to public. The IRDA has set up fairly strict standards for all aspects of the insurance business.

With the opening up of the sector in the year 2001 the non-life sector witnessed the registration of six private players. These entities were Bajaj Allianz General Insurance Company Limited, ICICI Lombard General Insurance Company Limited, IFFCO Tokio General Insurance Company Limited, Reliance General Insurance Company Limited, Royal Sundaram Alliance Insurance Company Limited, and Tata AIG General Insurance Company Limited. Of these companies Reliance, Royal, Tata AIG and IFFCO Tokio started operations in the very first year whereas Bajaj Allianz and ICICI Lombard started operations in the following year. This number kept on increasing year by year and at present as in March 2016, there are 23 non-life insurance companies operating in India, of which 6 are under public sector. The companies under public sector are the four subsidiaries of GICI now performing as individual entity, the Export Credit Guarantee Corporation Ltd. (ECGC) and Agriculture Insurance Company of India Ltd (AIC). The remaining seventeen are operating under the private sector. Of these seventeen insurers operating today only three insurers namely L&T General insurance company limited, Reliance and Shriram are fully owned by domestic investors without any share in the capital of a foreign entity.
Since 1972 with the nationalization of non-life insurance sector in India, fixation of tariff was also undertaken by the Tariff Advisory Committee (TAC). During the post nationalisation period it worked well; but with the opening up of the sector to private underwriters the fixation of tariff was at a centre stage of debate between the government, regulating agency, foreign insurers and domestic players. With the entry of private players in the non-life sector, there was consistent pressure for deregulating the pricing from the insurers as well as the intermediaries for allowing some space to the private players.

Tariff rates in insurance means the administered or fixed prices and non-tariff rates mean free rates or rates driven by the market forces. A tariff market is one where the premium rates, policy terms and deductibles are controlled and to be applied uniformly by all the underwriters. Detariffing which is the opening up of the market to free pricing and flexible policy terms and conditions was supported by all stakeholders. Understanding that dismantling of tariffs was the need of the hour but at the same time will reinforce competition; IRDA at the apex decided to follow process of detariffication in stages. Initially, IRDA allowed only the free pricing from 1st January, 2007 to 31st March, 2008 with existing terms and conditions of the policy. Flexi-wordings were allowed from 1st April, 2008. The segments under the tariff regime were Fire, Motor and Engineering. The opening up of this sector to private entities has led to the rating freedom in the interest of the consumers. As a result of detariffing the role of insurers has increased many folds. Apart from procuring business they are required to determine the extent of margins they would like to earn. There has been a drastic shift in the role of the insurers from being mere sellers of pre-packaged and pre-priced insurance covers to proving their efficiency as managers and proving competency in pricing as well as marketing of their product. Obviously with the de-tariffing the insurers are required to introduce new
products, new technologies, and intensive use of IT applications in this sector under the vigilant role of IRDA. New products entered the market modifying the earlier tariff based policy forms used by the insurers. The traditional tariff was decided by the Tariff Advisory Committee (TAC) is now framed by the board of directors of the insurers in consultation with the actuary and in compliance with the IRDA requirements.

The detariffied regime in India is still in infant stage. There has been a significant affect on the market behavior of the insurers under the detariffied scenario. The insurance industry in India has steadily prospered all through these years and is making huge growth in premium incomes even in the days of downturn. So in this juncture and at the back drop of de-tariffing the performance, image and branding of the insurance companies appear to be a big challenge in current Indian insurance market. Now after the introduction of full De-Tariff Regime- Insurance in India has become a “happening” industry. It is believed that, after licensing of Private players in 2000-2001, de-tariffing is the next big event in the Indian Non-life insurance field. By this time when the non-life insurance Industry opened the tariff knot, private players have grown rapidly to capture a good market share and helped pushing the industry growth rate and also creating the necessary mass awareness in the country. In the detariffied phase, which was initiated from 1st January 2007, the insurers were given freedom in pricing all policies except Motor Third Party policies (TP). Tariff restrictions were no longer binding and the insurers were permitted to structure the premium rates on the basis of the guide tariffs filed by the individual insurance companies.

Under the aforesaid background it is worthwhile to study the reforms in insurance sector and the impact of detariffication on the non-life insurance industry.
1.2: STATEMENT OF THE PROBLEM:

Insurance is the most developing sector in the Indian economy. By granting protection and hedge against the risk this sector has promoted the growth of the business enterprises. There is a close relationship between growth and insurance protection, higher is the economic growth the greater is the insurance coverage and vice-versa. Contribution of the insurance business has prompted the growth of economy and as a result it has direct impact on the economic development. To sustain economic development it is vital to have a well developed and evolved insurance sector, and this sector provides long-term funds required for the infrastructure development and at the same time strengthen the risk taking ability of infrastructure companies.

Every business activity is encumbered by risk and uncertainty as a result it becomes difficult to carry on its activities, insurance comes as a rescue to overcome this risk and uncertainty. It offers a hedge and protection against risk and uncertainty. The services offered by the insurance companies are compensated by the clients availing this service in the form of tariff which is revenue for the insurance entities. Traditionally this tariff was under the control of TAC (Tariff Advisory Committee). Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

One controversial aspect of India’s non-life insurance industry is its tariff regime, which dates back to the 19th century. The Tariff Advisory Committee (TAC) was established in
1968, and in 1999 became the rating arm of the IRDA. While the tariff system has been praised on the grounds of market stability and consumer protection, it has also been blamed for market distortions. Where price competition is pre-empted by detariffication, the insurers engage in non-price forms of competition from which consumers do not benefit. No doubt the continual entry of new private players coupled with the intense competition sparked off by the detariffication of non-life insurance sector has also resulted in strengthening the bargaining power of the customer and development of customer centric insurance products in the country. The impact of detariffication in terms of financial solvency and liquidity of insurance industry is of utmost importance.

1.3: REASON FOR SELECTING THE PRESENT STUDY:
The insurance industry in India is moving towards market-based pricing, but it is proceeding at a very slow pace. The present study has been undertaken to make a study of the contribution of insurance industry in the targeted growth of the economy in the detariffied scenario. The basis of this study is formed by research that arouse from an initial set of concern relating to the increasing countrywide expressions of concern over the detariffication of pricing of non-life insurance products as a result of liberalization and globalization of the Indian economy. Of even more pressing concern is how efficiently the detariffid regime is handled by the select enterprises. The non-life insurance industry in India is going through a sea change after introduction of detariffing. Other developed countries have also deregulated the prices of non-life products much earlier than India. The price war created because of deregulation in pricing in these countries resulted in bankruptcy of many insurance companies. However, the situation of bankruptcy in those countries has been ultimately taken care of by Governments through Mergers and Acquisitions, while in India no such problems have aroused.
The step of detariffing was taken to inject competition in the insurance sector and to improve the efficiency of the insurance companies and so this study has immense importance. The researcher proposes to study the various facets of reforms taking place in the insurance sector before and after the detariffied scenario. The researcher has also studied the practices to be followed by the insurers in product innovation and pricing of products in free market. The study will also find out if the open price regime has made the required effects in terms of financial solvency and liquidity. The insurance industry happens to be the one of the most growing industry in the country, and it has tremendous socio economic impact into the economy of India. So this research will generally help the insurance industry as a whole to identify pros and cons of detariffied scenario and suggest measures to insurers to face this threat. The study will contribute towards evaluating the impact of detariffication in the growth and expansion of horizon of insurance services and will also add in promotion of scope of insurance.

1.4: SOCIAL RELEVANCE OF THE STUDY

In every socialistic country the state provides some social security to its individuals in the form of different types of schemes. Social Security is mentioned in Article 41 of the Directive Principles of State Policy of our constitution and states to make effective provision for securing the right to work, to education, old age, sickness and disablement and assistance in case of unemployment. In our country responsibility of social security rests on the shoulders of the state. The state has passed various laws from time to time to involve the insurance sector, compulsorily or voluntarily as a tool of social security. And a large part of these obligations are met through the mechanism of insurance as these insurance companies operating in India offer products to help the state reduce their burden. The insurance companies operating in our country are legally obliged to extend
the benefits of insurance to economically weaker sections of the society in the unorganized sector.

The mechanism of insurance is sharing of risk i.e. pooling and collecting funds from a large number of people in the form of premium and paying to those who suffer the loss in the form of claim. The IRDA guidelines on investments by insurers in India restricts the investment by the insurance companies in speculative ventures and thus contribute to the well being of society by making investments in economic development of the country. By providing insurance to individuals, firm and industries and compensating for losses suffered because of insured risk the capital of the country is protected and insurance cover encourages free investment thereby contributing to increased national production and economic development.

In today’s competitive world it is necessary for every individual or organization to take financial help from banks in the form of loans which require insurance policy as a collateral security to extend the loan. The funds mobilized by the insurance companies in the form of premium are diverted in to productive investments which in turn lead to the development of the country. The foreign exchanges earned by the insurance companies by operating in other countries contribute towards the national income of the country. Insurance companies are ideal source of long term debt and equity for infrastructure projects. As per IRDA regulations every insurer is required to invest 15% of their funds in infrastructure and social sector, and thus the growing insurance business will encourage infrastructure development in another way. The penetration of insurance in the year of its opening up to private entities in 2000 was registered at 2.1% (insurance penetration is total premium as a percentage of GDP). The coverage of insurance was largely concentrated among a selected class of the society. To overcome this situation the
IRDA set regulations to expand the coverage as well as to remove the imbalances in distribution of insurance products in terms of geographic locations and economic classes by equitable distribution of the insurance policies in both rural and urban areas. And the first step in this regard was the enactment of “Obligation of Insurers to Rural and Social Sectors Regulation” in 2002. The regulation makes it mandatory for every insurer both domestic and foreign operating in India to cover up policies in rural and social sectors on year wise prescribed targets. Under social obligation the insurers are required to issue a prescribed number of life policies on year wise targets and under rural obligation year wise targets are prescribed in terms of percentage of policies to be underwritten and percentage of total gross premium income written by both life and non-life insurers. The targets set by the IRDA are to be achieved by all the insurers mandatorily. In order to support the development and facilitate the growth of the sector, the insurance regulator Insurance Regulatory Development Authority (IRDA) came up with the micro insurance regulation in 2005. The insurance industry in India has steadily prospered all through these years and is making huge growth in premium incomes even in the days of downturn.

So the role of insurance sector in the overall development of the nation cannot be overlooked. The industry has very good prospects of growing in the future thereby making it essential to have a study on the impacts of reforms taking place in this industry. Detariffication of the non-life insurance products is a step towards globalizing Indian Insurance sector. The study will contribute towards evaluating the impact of detariffication in the growth and expansion of horizon of insurance services.
1.5: LITERATURE REVIEW

Review of literature provides the aspiration for undertaking the study and lays the foundation for one’s active investigation. It contributes to the scholarship of the investigator and gaps in knowledge. Contradictory findings help to find the area to be investigated. Published literature is a fruitful source by means of which a research is stimulated to device hypothesis by the researcher. As the researcher reacts to the design, findings and conclusions of other investigation he can get insight to incorporation into an improved research design. This chapter will provide a perspective to the subject of study.

The performance of the insurance companies in India pre and post detariffication is being studied here. Literature review emphasises the importance of the study and the relevance to the current scenario.

Literature review provides a closer look at the performance of the insurers and also to have an extensive reading of the subject matter. This also provides the information relating to the legal frameworks and regulatory frameworks in which insurers in India operate. Studies related to insurance have received attention from sociologists, economist, politicians, administrators, planners and the government as well. As such many literatures have been published in book form or in the journals or in newspaper. It is not possible to mention all the studies. Literature review in real sense is not the collection of concepts but is the literary work carried out in real time scenario. It provides a more practical preview and understanding of the subject matter. The earlier studies related to activities and performance of LICI and GICI but with liberalisation of the sector the focus has shifted more towards the comparative analysis of public and private sector.
While conducting the research work, related studies which are available to the present researcher are reviewed and a summary of these is presented below.

**J David Cummins and Sharon Tennyson** (1992), the researchers tried to find a remedy for the increase of Automobile Insurance Price. Compensation region falls into two categories, tort and no fault. The researchers have found out that the Price of auto insurance focuses on the behaviour of insurance companies. These companies are blamed for inflation of late 1980’s. Some companies will try to compensate their loss by adjusting it in the premium; these companies will lose their market share. State insurance department should make sure that insurance markets are competitive. Reducing excessive claim costs and ensuring competition in the insurance marketplace offer the best hope for controlling automobile insurance prices.

**T S Rama Krishna Rao** (2000) opined that 1999-2000 was a land mark year in the history of Indian insurance industry as the year 2007 was another watershed for the industry. According to him Detariffication from first January 2007 would totally change the complexion of the non-life industry. Financial inclusion was being emphasized in various forms and that the insurance industry will have to play a vital role by providing health insurance and other insurance products for the poor.

**Srivastava D C and Srivastava S** (2001), made an attempt to trace the growth of insurance study in India and to examine its existing structure. The study is diversified encompassing the relation between insurance services and economic development, role of the state in regulating the insurance activities, prospects of insurance industry compared to other countries, product pricing, tariff structure, reinsurance, risk management.
A.K. Jain (2004) revealed that waves of liberalization have done wonders to bring the insurance occupation to the status of a career with a bright future. The average mindset, particularly of younger generation in India is very amenable to these changes in insurance as an avenue where exhilarating opportunities are opened up in changed environment.

Sinha Tapen (2005), in his studies on the evolution of insurance in India opined that India with over a billion people was fast becoming a global economic power and in the next decades to come he expected that India will become an attractive insurance market, with a relatively youthful population. This paper examined the Indian insurance industry, right from the details of the regulatory regime that existed before independence. Based on the economic estimates that were available, the paper provided projections of segments of the market for 2025. He also suggested realizing the potentials and designing product as per demand in the market and that insurers need to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products.

Mishra K C (2005) in his case study presented the story of Indian insurance industry in post-liberalization era. The case study revealed that at the dawn of liberalization the insurers were into new operational platform. The new Indian and foreign players in the industry started to tap the unexplored market and the task of IRDA as regulator was to check the solvency of insurers and to provide protection to the policyholders.

Bernand Giles and Tang Tjun (2005) in their case study of Chinese Insurers on building of professional capabilities presented the maneuvering strategies that were necessary to be adopted by Chinese life insurers to ensure a strong foothold in the local market.
Sharma B L (2005) has made an attempt to study the contribution of general insurance industry in India with special reference to the north eastern region.

Sinha Tapen (2006), in his studies conducted on the prospects and challenges of the Indian insurance industry suggested that, for the insurance industry to benefit from detariffication, it will have to strengthen its operation over a wide range of parameters. There is a need of government involvement in pushing for greater data sharing among insurers and that after detariffication, one task of the IRDA will be to make sure that motor insurance is a product of competition and not collusion.

Chennappa D (2006) has studied the result of liberalization of Indian insurance sector by comparing the premium collection and growth of various public and private sector insurance companies. But growth of premium cannot be the sole criteria for determining the status of the insurance companies and there could have been other criteria which were not taken into consideration.

Min Douglas (2007) has studied the impact of detariffication of fire class on the overall profitability of eight active private insurers in India, just after passing of few months of detariffication regime. The study asserted that there has been a dramatic impact of detariffication. The growth rate has fallen down and the premium rates have also come down especially in fire class and expected that the further market growth will be slow because of the detariffication. The expected trends by the researcher in the detariffied scenario are increased retention by the insurers, lower reinsurance premium rates, minimum premium, sliding scale commissions etc.

Lloyd’s (2007) in their report of the detariffication scenario in India revealed that because of difficulty in projecting the behaviour of market players and responses of the IRDA, in the medium to long term, these reforms are expected to lead to more dynamic
growth. This report served as a market intelligence piece and, provided a detailed background on the Indian non-life insurance sector. The report analyzed the key components driving market conditions and took account of changes likely to occur within the regulatory environment in the next three years. The impact of liberalization dynamics was analyzed on a class-by-class basis. Detariffication had been associated with a period of adjustment in order to be prepared for a virtually complete detariffied market, Indian insurers have to pursue detailed analyses of risks based on occupation, sum insured and geographic area to prepare for the new detariffied regime.

The study of Rama Devi KPGL, (2007) resulted in an indication that with the detariffing, though the industry driven tariffs were abolished, the principles of risk classification, underwriting and claims experience still prevailed. Access to information, data sharing, collection and assimilation was critical for profitable pricing whether it was governed by external tariffs or internal guide rates. An urgent need was felt to strengthen the National Data Repository on Insurance and TAC so as to assume the role in an effective way. Ineffective market discipline was identified as one of key issues as a threat to emerging markets by the International Association of Insurance Supervisors (IAIS). It was highlighted that brokers will have a key role to play in product development process while the Regulator to ensure market discipline and to bring discipline in the market place the role of well informed public was very significant and that the key to effective market discipline lied in public disclosure and consumer education.

Bhattacharya Anabil (2007) focuses on the steps from the regulator towards detariffication, guidelines on “File and Use”, the process of preparation for underwriters, the challenges to be faced by insurers. The likely effects of detariffication have also been highlighted in the study. A short description of features of detariffication of the global
insurance market is mentioned by comparing the scenarios of Japan and Europe. The researcher reported in the paper and pointed out that various factors enable to face the detariffication threat and at the end some suggestions are given to insurers, underwriters, regulators, brokers and customers so as to move the road ahead.

In another study by **Ramadevi KGPL** (2007) attempt has been made to find out if rating has gone scientifically after detariffing and also the price-war and the using of the File and Use system. She has studied how the IRDA was intending to prepare the insurance industry for the challenges thrown by de-tariffing and guide the insurance industry for orderly movement towards de-tariffied market during the transition phase and using of new File & Use guidelines as an effective tool.

**Rao C S** (2007) reported that Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent detarrification in the non-life domain has provided a great deal of operational freedom to the players.

**Sabera** (2007) indicated that the Government of India liberalized the insurance sector in March 2000, which lifted the entry restrictions for private insurance players, allowing foreign players to enter into the market and start their operations in India. The entry of private players helps in spreading and keeping the operation in the Indian insurance sector which in turn results in restructuring and revitalizing of public sector companies.

**Sinha R P** (2007) has made an in-depth study on the penetration level of general insurance in India in respect of technical and scale efficiency and total factor productivity in a three-input framework for the years 2003-04,2004-05. His study concluded that public sector dominate the private sector insurance business in terms of
mean technical efficiency in constant returns to scale, while the mean technical efficiency in terms of variable returns to scale is enjoyed by the private sector insurance.

Rao G V (2008) has made a study on the need to have good corporate governance standards for the insurers operating in the detariffied scenario, although after the corporate debacles of Enron and WorldCom have created awareness in the minds of the customer and the management of good corporate governance.

Lalitha A (2008) has revealed in her studies that non-life insurers had sold the insurance products as retailers of insurance products than as marketers, as the products had fixed price tags. But the dtariffication has brought the marketing process into focus highlighting the inadequacies of the present marketing format and has also suggested the insurers to change their corporate personalities and reintroduce themselves to their customers.

Mustaq Ahmed (2008) in his research has made a comparative study of various public and private life insurance companies in India in respect of marketing strategies.

Rachappa S (2008) examined the trends and evaluated the progress of life insurance sector in India. The study carried on by him is exhaustive in nature and covers all the aspects of life insurance.

Sinha Anubhav Shekar (2008) states that introduction of general insurance industry is the backbone of a country’s risk management system; participation of insurance companies in financial market provides liquidity in the market. The role of insurance during these three periods has been studied with reference to various angles like socio economic development of the country etc.
Rao G V (2009) have found that neither the insurer or the customer or the IRDA have tried to bring innovations in services as a part of the insurance contract. Behavior of customers to purchase insurance products for realization of claims need to be changed. As per this view claim services after sales carry a charge and customers need to be aware of it. Products and price are almost constant, the only differentiating factor is service which customers value as an addition; insurers should understand what customers’ value and charge them for it.

Care Ratings (2009) in their research about the impact of detariffication has revealed that the abolition of tariffs has led to a virtual price war in certain lines of business like Fire, Motor-OD and Engineering insurance resulting in an adverse impact on the profitability of insurance companies. Tariffs of the Third Party Motor pool insurance are controlled by the regulator and are insufficient to compensate the risk involved which results in higher losses in this class of business. As a result, most of the private insurance companies had so far been reluctant to transact this particular class of business. The detariffication of general insurance sector has also resulted in strengthening the bargaining power of the customer and development of customer centric insurance products. While the customer has benefited beyond a doubt on account of the detariffing, the impact on the insurers has been less promising so far on account of the price wars and the resultant underwriting losses.

Rajendran R. and Natarajan. B (2009) researched that after 1991 the Indian life insurance industry has geared up in all respects, and was forced to face a lot of healthy competition from many national and international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the mutual fund posed serious challenges before LIC. It was
found that the businesses in and outside India, as well as the total business of LIC are always in an increasing trend. The collected and analyzed data proved that the LPG (Liberalization, Privatization and Globalization) was incorporating a positive influence on LIC of India and its performance.

**Basavanthappa C and Rajanalkar L** (2009) in his paper stated that the private insurance companies have been performing well over the year. The market share of private life insurance companies were increasing over the years which have created a lot of opportunity for them. There was a cut throat competition in this sector which would be beneficial to all. To get the competitive advantage over the competitor, companies bring out the innovative products and provide various facilities to the customer.

**Eling and Luhnen** (2010) in their paper have provided new empirical evidences on frontier efficiency measurement in the international insurance industry. The study contains a broad efficiency comparison of 6462 insurers of 36 countries. Different countries, organisational forms and company sizes are compared considering life and non-life insurers. The study detects a steady technical and cost-efficiency growth in international insurance market from 2002-03 with large differences across countries.

**Doron Ziv-Av** (University of Hamburg) in their study “Competition versus Regulation in the Insurance Market: A law and Economic Analysis of Policy and Institutes” found out that both insurance regulation and competition protection are economically justified, this research showed the roots of the tension between these two branches. It surveyed how policy and authority tensions are dealt with by the law and by the courts in the three jurisdictions (The European Union, United States and Israel).

**Shendey B K and Neelkant Rao** (2010), in his paper titled “Trends in Insurance Industry in India since 21st Century” opined that the privatization of insurance industry
increases the growth of this sector and the monopoly of LIC has been overcome. The total life insurance premium has increased fourfolds since liberalization of insurance industry. He also stated that the life insurer continuously focuses on the product innovation and new schemes to increase its policyholder base.

Singh and Kumar (2011), in their research paper have compared the efficiency and productivity of public sector general insurance companies in the pre and post reform periods using Data Envelopment Analysis. The pre-reform period has been taken from the year 1993-94 and the post-reform period has been taken from 2000-01 to 2007-08. The results indicate that the efficiency of the public sector general insurance companies is higher in the post-reform period compared to the pre-reform period.

Chaudhary. S. And Priti. K. (2011), made a study on the position of LICI with indicators like growth in number of offices, number of individual agents, number of products and riders. The analyses revealed growth in terms of number of offices, agents as well as in terms of products. ULIP was a new product private players were more smart in marketing than LIC.

Bhatt Shilpa R., (2012), conducted a study on the financial performance appraisal of Life Insurance Corporation of India as a result of liberalisation policy of the government. The performance of the LICI is compared with the performance of the private sector using the parameters total life insurance premium, market share of insurers, new policies underwritten, operational performance growth in net profit and settlement of claims.

Sharma S. (2012), made a study on the impact of reforms in general insurance sector in India, taking the parameters like Gross Direct Premium, Underwriting Results, Incurred Claims, Market share, Operating Expenses, Net Retention, Net Investment Income, Net
Earnings, Product Development, Rural and Social Sector Obligations and Efficiency Analysis of Insurance companies before and after reforms.

Prabakaran.V., Velmurugan.M.(2012), conducted an analysis of the performance of LIC by taking number of policies issued, first year premium collected and the profit earned before payment of tax liabilities as the parameters. The study revealed there has been a consistent growth in the profit earned before tax from the domestic market but in case of business outside India some fluctuations have been observed. First year premium shows an upward trend in all the years under study except the year 2007-08. And in terms of number of policies sold the performance have improved every year inspite of cut throat competition in the market.

Darzi T A (2012), conducted a comparative study of the financial performance of the four public sector and select eight private sector insurance companies using the CARAMEL parameters capital, adequacy, asset quality, reinsurance, management soundness, expenses and profitability and liquidity. The study covered five years duration from 2004-05 to 2008-09 using statistical tools mean, standard deviation, f test and regression growth model.

Jain, (2013) conducted a research on the financial performance of life insurers operating in India from 2007-2008 to 2011-2012 i.e. after the world economic crisis. Secondary data was evaluated and presented in tabular form in terms of number of policies issued, operating expenses, and market share of insurers in terms of first year premium, total premium and number of offices. The study revealed that although the life insurance business had shown a growing trend during the study period yet due to the world economic slowdown foreign insurers were losing their interest in the business in India which resulted in the closing down of many entities.
Venkatesh M (2013) in his paper “A Study of Trend Analysis in Insurance Sector in India” discusses the history of insurance and analyzes the life insurance industry in India. The study reveals that Indian insurance sector is increasing rapidly and trend percentages are increasing over the year. The author also focuses of insurance density and stated that in spite of higher insurance growth rate India has less insurance density as compared to world density.

Kumari Hymavathi T (2013), in their paper “Performance Evaluation of Indian Life Insurance Industry in Post Liberalization” stated that the life insurance industry has achieved a tremendous growth in the amount of premium collected after the opening of it for private sector. On the basis of financial performance analysis of insurance industry, it can be conclude that the performance of insurance business shows a favourable growth. Further, the study suggests that for sustainable growth of life insurance industry, it is necessary to provide innovative product and better facilities to policy holder. The study also reveals that liberalization has a significant impact on the growth of Indian life insurance business.

Sharma S, Sikidar S (2014), made a study to evaluate the penetration and outreach achieved by public and private sector non-life insurance companies. A comparative analysis of the performance of public and private sector non-life insurers with regard to volume of business, growth in premium, expansion of operational network and underwriting performance was also evaluated for six years from 2007-08 to 2012-13.

Kumari T.H. & Dorthy B. C. (2014), in their paper based on secondary data a performance evaluation of SBI for 10 years from the year 2001-02 to 2010-11 have been carried out using CARAMEL parameters.
Dar & Bhat (2015) conducted a study on the financial performance of select public and private life insurers using three parameters Capital adequacy, Earnings and Profitability and Liquidity from the CARAMEL model using the statistical tools Mean, Standard Deviation and T test. The study reveals that the capital adequacy level of the private entities under study is better than the mean capital adequacy level of public entities. Earnings and Profitability of the public insurers is much better than that of the private insurers during the period of study under review.

Bardhan, Dey, Adhikari (2015),“carried out a study on the solvency position of select life insurers under public and private sector for a period of seven years from 2006-07 to 2012-13 using ANOVA test as statistical tool. LICI and nine insures from private sector were selected as sample. A rank analysis was also carried out which interpreted ICICI to have a very strong solvency as compared to other selected insurers. The study depicts that the overall solvency position of LICI, SBI, HDFC and ICICI is very poor and reveals that these life insurers operating in the market are depended more on debt capital than on equity capital. This indicates a warning situation for the shareholders in case the company goes into liquidation.

1.6: GAP IN EXISTING LITERATURE

The literature reviewed by the researcher, carried out by different authors and institutions provided various dimensions, on the study of insurance reforms and product pricing. It is seen from the studies carried out by the different authors and institutions that they have not shown the linkage of the performance of the non-life insurance sector in pre-detariff and post-detariffed scenario. Although a lot of literature is available on performance after liberalisation but there is scarcity regarding the availability before and after the detariffed era. Secondly the available literature are based on comparative analysis between selected
public and private sector entities which do not give a very clear picture of the performance of the non-life insurance market. The available literatures are based on selected number of parameters which restricts the area covered. Again most of the studies are devoted to describing the existing phenomenon or to evaluate the ongoing detariffication but the impact of detariffication on all the companies operating in the market both under public and private sector as well have not been studied. The reasons may be many, either it may be because scope of these studies does not permit or the time and cost may be a limiting factor. Therefore under the above mentioned grounds it becomes immensely important to carry out a research on the performance of insurance entities in de-tariffed scenario.

1.7: THE PRESENT STUDY AS AN ATTEMPT TO FILL UP THAT GAP

The review of literature gives an idea that in spite of so many literatures available on marketing of insurance products, growth of premium, impact of insurance on socio-economic development of the country etc. yet there still exists a gap. Hence there is a need for the study to know whether detariffication has made the required effects or not and to suggest the areas where modifications or changes or control are required and thus the need for a systematic study can be justified. There are no major works prevailing in this field, and not much research work has come to the notice of the researcher. Detariffication in India is at the infant stage and so there is scarcity of literature and not much research work has come to our notice which happens to figure among world’s most populist country. In this backdrop, the present study is an inclusive attempt and includes highlighting of the quantitative impact in the post liberalization era for non-life insurance industry and more particularly for the period after detariffication which has received less attention in the economic literature. Therefore, the importance of such type of study is felt. This will help the enterprises to orient themselves towards facing the competition.
Because of intensive competition it has become imperative for the insurance companies to retain the customers by providing them the insurance products at the premium rates customized to the requirements of the customer. Hence forth the present work has been undertaken to fill up the gap in the existing work. Hence the present study is necessary to fill up that gap and to create a new stock of knowledge. In view of the above research literature, although various aspects of insurance industry have been studied and their impact has well been discussed.

1.8: OBJECTIVES OF THE STUDY:

The present research enquiry has been undertaken with the following objectives:

1) To study the evolution of insurance;

2) To study the detariffication process undertaken in non-life insurance sector;

3) To examine the practices followed in product pricing and product innovation in non-life insurance sector in the de-tariffed regime;

4) To analyse the impact of detariffication on non-life insurance companies.

1.9: HYPOTHESIS TESTING

To achieve the objectives of the study, the following hypotheses have been formulated:

\[ H_{01} \]: There is no significant difference between the performance of public sector and private sector non-life insurance companies during the pre-detariff and post-detariff period.
**H₀₂**: There is no significant difference in the pre-detariff and post-detariff performance of public sector non-life insurance companies.

**H₀₃**: There is no significant difference in the pre-detariff and post-detariff performance of private sector non-life insurance companies

### 1.10: RESEARCH METHODOLOGY:

In conformity with the objectives stated above, the research methodology adopted to make a systematic enquiry of the problem has been narrated hereunder:-

**A) Units of study:**

The liberalisation of the insurance industry in 2000 has witnessed entry of many world class insurance players into the Indian market by entering into a joint venture with an Indian entity. This has led to the entry of domestic business barons too into this newly opened up sector. The present research is an impact analysis of operational and functional performance of both public and private sector non-life insurance companies operating in the national market. Non-life insurance companies operating in the public and private sector registered with the IRDA after the liberalisation of the market have been selected as the sample for the present research. All the public and private sector non-life insurance companies operating in India are selected for the purpose of the study. Companies registered after liberalisation of the sector have been selected so as to make a better comparison of the performance of the sector in the pre-detariff and post-detariff period. Data pertaining to all the non-life insurance companies registered with IRDA since the financial year 2000-01 to 2014-15 have been considered for the analysis.

List of the companies registered with IRDA are as follows.
Public Sector Companies: The public sector entities selected for the purpose of research are -

1. National Insurance Co. Ltd., (1906)
2. New India Assurance Co. Ltd., (1919)
3. United India Insurance Co. Ltd., (1938)

Private Sector Companies: The private sector entities selected for the purpose of research are -

1. HDFC ERGO General Insurance Company Ltd.(27.09.2000)
5. TATA AIG General Insurance Company Ltd.(22.01.2001)
6. Bajaj Allianz General Insurance Company Ltd. (02.05.2001)
7. ICICI Lombard General Insurance Company Ltd.(03.08.2001)
9. Future Generali India Insurance Company Ltd. (04.09.2007)
11. Shriram General Insurance Company Ltd.(08.05.2008)
12. Bharti AXA General Insurance Company Ltd.(27.06.2008)

15. L & T General Insurance Company Ltd. (09.07.2010)

16. Liberty Videocon General Insurance Company Ltd. (22.05.2012)

17. Magma HDI General Insurance Company Ltd. (22.05.2012)

B) Sources of information:-

The study is a research work mainly based on the secondary sources of information. The secondary data required for the study have been collected from several published reports, text books on insurance, journals, magazines, and bulletins, annual reports and newsletters issued by the companies, IRDA reports, official records, economic newspapers, websites and published reports of Government of India, published and unpublished PhD theses, annual reports of the public sector insurance companies and also the private sector insurance companies, annual reports of General Insurance Corporation of India and also the annual and quarterly reports of IRDA, World Insurance Report from the year 2000-2001 to financial year 2013-2014 have been collected. The regulations issued by IRDA have been a basic source of information. Interviews with the executives of the insurance companies have been conducted to access the impact of detariffication on non-life insurance products pricing and mechanism of detariffication.

Many newspaper articles have provided data on growth rates of insurance companies and the relative market share of non-life insurance companies. Besides, the text books issued by National Insurance Academy, Pune and Insurance Institute of India, Mumbai provide a good deal of information about insurance. “The Journal” published by Insurance Institute of India, Mumbai is also a remarkable source of information. Other than these
the annual reports of IRDA and the public as well as private sector insurance companies were the prominent source of information.

C) **Type of data:**

Data for the purpose of the present study pertains to the following parameters:

1. Number of Policies issued.
2. Growth in Gross Written Premium.
3. Market Share enjoyed by Public Sector non-life insurance companies vis-a-vis Private sector non-life insurance companies.
4. Spread of operational network under tariff regime.
5. Operating expenses of non-life insurers
6. Maintaining the Solvency margin during detariff regime as per the stipulated norms of IRDA.
7. Penetration into the Social and Rural Sector as per the IRDA direction.
8. Retention Ratio
9. Management Soundness Ratio
10. Expense Ratio
11. Claims Ratio
12. Combined Ratio
13. Investment Income Ratio
14. Return on Equity (ROE) Ratio
15. Liquidity Ratio.

D) **Tools of data analysis:**

For the first three objectives, narrative analysis has been done and wherever necessary the analysis is substantiated with the help of quantitative and financial data. For the last
objective, the data are being calculated in the form of ratios and have been presented in tabular form which is followed by analysis. The statistical tools that have been used for the purpose of analysis are:

- Mean,
- Standard Deviation,
- t-test
- f test and
- CAGR (Compound Annual Growth Rate).

**MEAN:**

The mean has been calculated using the given formula:

\[
\text{Mean (}\overline{x}\text{)} = \frac{\sum x}{N}
\]

where, \(\sum\) = symbol for summation

\(x = \text{observations}\)

\(\sum x = \text{sum of the series of observations}\)

\(N = \text{number of observations}\)

**E) Data analysis and interpretation**

The data have been classified into public and private sector non-life insurance companies for the pre-detariff and post-detariff period. The period after liberalisation and before implementation of detariffication is termed as pre-detariff period. And the period after implementation of detariffication is termed as post-detariff period. For a better understanding of the performance of the insurance companies the data have been presented in the form of charts.
1.11: SCOPE OF THE STUDY

The scope of the present research work has been indicated as follows –

a. Academic scope

b. Geographical scope

c. Periodic scope

d. Operational scope

a. **Academic scope** – it is a research investigation under a Ph.d programme, to bring out the practice of detariffication following the opening up and liberalisation of the insurance industry. The thesis will also bring out the truth relating to the impact of detariffication on the performance of the public and private sector entities in non-life insurance industry by making a comparative analysis. Impact of detariffication on the industry has been evaluated and comparison between the pre-detariff and post detariff period has been done.

b. **Geographical scope** – this will indicate those insurance companies with national perspective. The liberalisation of the insurance industry in 2000 has witnessed entry of many world class insurance players into the Indian market by entering into a joint venture with an Indian entity; leading to the entry of domestic business barons too into this newly opened up sector. The present research is an impact analysis of operational and functional performance of all the public as well as private sector non-life insurance companies operating in the national market.

c. **Periodic scope** – Detariffication was implemented with effect from 1st January, 2007 with the opening of the tariff rates for all the non-life business except the motor third party. The insurance market in India was opened to private players in the year 2000-01. So, the periodicity of the present study
ranges from the financial year 2000-01 to 2014-2015 i.e. after liberalization of the insurance industry in India. The periodicity has been divided into two parts i.e. from 2001 to 2007 (prior detarification) and from 2007 to 2015 (after detarification). The reason for using the year 2007 as the cut off year is that, 2007 is a landmark year in the history of insurance sector in India as the detarification of non-life insurance products was initiated on 1st January, 2007. and for better analysis. Thus, the period from 2000-01 to 2006-2007 has been taken as the pre-detariff period and the period from 2007-08 to 2014-15 has been taken as post-detariff period.

d. Operational scope – the operational scope will include the method of product innovation and filing followed in the non-life insurance industry since the nationalisation of the industry in 1972 till date. The study will also throw light on the impact of detariffication in general on the insurer and the insured for select parameters and evaluate the financial performance of the public and private sector non-life insurers during the pre-detariff and post-detariff period.

1.12: LIMITATIONS OF PRESENT STUDY

The following are the limitations of the present study:

1. The study is based mainly on secondary sources and hence the study carries all the limitations inherent with the secondary data.

2. Sometimes the data collected from different source and agencies may not tally.

3. The study does not include the impact of reforms on the service quality of insurance companies, from customer’s point of view.
1.13 GLOSSARY

- **Bancassurance**: it is a method of distribution of insurance products by making a tie up with commercial bank.

- **Claim**: an obligation of the insurer under the contract of insurance.

- **Claims ratio**: it is the sum of insurance benefits and claims recovered from reinsurers plus outstanding claims divided by net premium earned by an insurer.

- **Combined ratio**: it is a sum of claims ratio and expense ratio. A combined ratio of less than 100 indicates an underwriting profit.

- **Commission**: Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.

- **Detariff**: allowing an industry to price its products (both goods and services) at market value and deregulation of control over prices so as to foster competition. Detariffication in insurance is the removal of price mechanism from controlled prices administered by the Tariff Advisory Committee.

- **Earned Premium**: The total amount of revenue earned by an insurer as premium in any financial year is termed as earned premium.

- **Expense ratio**: The percentage of premium utilised towards the payment of the costs of acquiring, underwriting, and servicing insurance.

- **Gross written premium**: the total amount of premium written and assumed by an insurer before providing for reinsurance and ceding commissions.

- **Incurred Claims**: incurred claim is the liability of an insurer which has arisen as an obligation towards the contract of insurance.
• **Insurance:** it is an economic device of risk management which is used to hedge against the risk of an uncertain loss. It is transfer of loss from one party to the other for a consideration called the premium. The party which undertakes the risk is called insurer i.e. the insurance company and the party whose risk is covered is called insured i.e. the policyholder.

• **Insurance penetration:** Gross written premium measured as a percentage of gross domestic product (GDP) of a nation.

• **Insurance density:** Insurance density is defined as the ratio of Gross written premium to total population.

• **Investment Income:** The revenue earned by an insurer in any financial year from the sources other than premium income. The total revenue earned by the insurer in any particular financial year is the sum of earned premium and investment income.

• **Insured:** the party who pays the premium to the insurer and is covered by an insurance policy.

• **Insurer:** an entity authorized and registered by IRDA to carry on the business of providing insurance coverage in consideration of premium received from the policyholder.

• **Loss Ratio:** the percentage of incurred losses to earned premiums.

• **Net Income:** total revenues from an insurer's operations less total expenses and income taxes.

• **Net Premiums Written:** it represents the Gross premium written less reinsurance ceded. It is the amount of premium earned by an insurer on selling a policy and is the amount of liability that an insurer has towards the policyholder.
• Net underwriting profit: Excess of premium earned after providing for all expenses directly attributable to underwriting activities, excluding investment income.

• Operating Expenses: expenses made by the insurer in order to run the insurance business; this includes office rent, expenditure on printing stationeries and other office expenses.

• Policy: it is the written contract of insurance between the insurer and the policyholder which serves as a documentary evidence of the contract of insurance and includes all clause, riders, and endorsements of the policy.

• Premium: The amount of money an insurance company charges from the policyholder for undertaking the insurance coverage.

• Privatisation: allowing private sector entities to set up industries which were earlier reserved for the public sector.

• Profit - A measure of the competence and ability of management to provide viable insurance products at competitive prices and maintain a financially strong company for both policyholders and stockholders.

• Reinsurance: It is an arrangement whereby an original insurer who has insured a risk insures a part of that covered risk again with another insurer, that means reinsures a part of the risk in order to diminish his liability.

• Retention rate: The percentage of written premium retained by a primary insurer.

• Solvency – the financial position of an insurer which indicates sufficient assets, capital, surplus and reserves so as to be able to meet liabilities on time. Maintenance of solvency margin by all the insurers is mandatory to be eligible to transact insurance business and meet liabilities.
• **Underwriter** - The individual trained in evaluating whether to accept the proposal of insurance and also to determine the rates at which the cover can be provided.

• **Underwriting**: The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned and rejection of those risks that do not qualify.

• **Underwriting Expenses Incurred**: the expenses like net commissions, salaries, advertising costs etc which are incurred by insurer to generate net premiums.

• **Underwriting Expense Ratio**: The ratio of underwriting expenses incurred by an insurer to net premiums written. This represents the percentage of net premiums written utilized towards underwriting expenses, such as commissions to agents and brokers, state and municipal taxes, salaries, employee benefits and other operating costs.

• **Underwriting risk**: underwriting risk reflects the capacity of an insurer to undertake a risk.

• **Underwriting Profit/Loss**: It is the difference between the total premium earned in a financial year and the total expenses made in that financial year. A positive ratio indicates that the underwriting experience was profitable and a negative ratio indicates that the business was not profitable.
REFERENCES


