7.1 INTRODUCTION

The non-life insurance industry witnessed significant changes, with the entry of private participants in the market. The opening of the sector allowed foreign entities to operate in the market by entering in joint ventures with domestic companies. This was the beginning of deregulation of the insurance sector and was also the beginning of a modern era for this sector. In true sense the deregulation was complete when the rates of tariff were detariffed from 1st January 2007 for all classes of non-life insurance except Motor Third Party Liability. This developed stiff competition amongst the public and private insurers but at the same time this came as a boon to the customers. Liberalisation provided customers with more choice and better services from the insurers. A second generation of reforms was initiated in non-life insurance industry in 2007 with the removal of tariff rates. The market was free from administrative tariffs and now the insurers were at liberty to set their own rates, terms and wordings of the policies they sold in the market. The introduction of the “file and use” method of filing products with IRDA was done to control mis-selling of policies by the insurance in the detariff regime. The reforms in the sector resulted in innovative and new products entering the market. Customers were available with wider choice of products to choose from as well as with wider choice of service providers. The Tariff Advisory Committee which worked as the rate maker since its inception in 1968 was now assisting the IRDA. Detariffing has increased the role of insurers many folds. Apart from procuring business they are required to determine the extent of margins they would like to earn and also deciding on the wordings, rates, terms and conditions of the policy. With the de-tariffication of the industry the
insurers are required to introduce new products, new technologies, and intensive use of IT applications in this sector under a vigilant role of IRDA.

The changed scenario of the market calls for analysis of the performance of the entities operating in the market over the years. The present study has particularly been undertaken to gain insight into the impact of detariffication on various aspects under study. The performance of the insurance companies as such have been analysed on the selected parameters designed for the purpose of fulfilling the objectives. The analysis of the present study will help in formulation of financial strategy and operational decision making.

7.2 FINDINGS

The primary findings of the study have been summed up as follows:

- **Findings of objective -1**

1. The non-life insurance industry was nationalised in the year 1972 and then was liberalised in the beginning of the century. The reasons for the transition from nationalised to open market were incapability of the four public sector insurers to increase the penetration level which might have slowed down due to lack of competition; secondly the insurers restricted their area of operation to urban cities and towns and hence left rural areas untouched; again the operations of the insurers were not customer friendly leading to dissatisfaction among the customer; initiation of the New Economic Policy, 1991; need for regulation the sector; infusing competition; removal of monopoly of public insurers; global compulsion and to adhere to global best practices.
2. The liberalisation of the sector paved the way for entry of private companies in the market leading to stiff competition, aggressive marketing and distribution strategies, intensive use of information technology, product innovation, fast and better services to the customer, availability of variety of choices in terms of products as well as service providers to the customers, free pricing of services by insurance companies etc.

3. It is observed that the trend of insurance density and penetration is very poor before detariffication but has shown improvement after the industry was detariffed. On the non-life side, insurance penetration has increased marginally only from 0.55 percent in 2000 to 0.70 percent in 2014 while the insurance density has shown an increase from USD 2.3 in 2000 to USD 11.0 in 2014. Low insurance penetration and density indicate low performance on the part of the insurance companies operating in the untapped market. And also gives an idea that there is ample scope for new entrants.

4. Liberty Videocon and Magma HDI General Insurance Company were registered in 2012 and after that not a single company has registered with IRDA for starting operations in the non-life insurance sector in India. This points out towards the failure of the industry to attract new players.

5. The insurance industry experienced high number of registration during the initial years after liberalisation and then within a time period of ten years the process slowed down. This indicates that the industry have not succeeded in attracting and retaining the new entrants which may be due to hurdles faced by these entities in doing business in India.
• Findings of Objective-2

1. The FDI in insurance was subject to a cap of 26 percent which has been increased to 49 percent from March, 2015. Increment in Foreign investment is expected with the increase in the cap. But at the same time till date no new insurer has registered for operations in the non-life insurance market. Again it is expected that this will open up avenues for more players to enter the market, thereby making the industry more competitive and efficient.

2. The charging of service tax on insurance products has helped the government mop up substantial amount from the industry. For the Financial Year 2015-16, the service tax rate is higher than the previous year as it is coupled with the Swachh Bharat levy the taxes on non-life insurance premium are as much as 14.5%. The introduction and levying of service tax on insurance premium in India has substantially increased the cost of insurance which can be a strong reason for the middle and lower segment of society to avoid buying insurance. This increment in the premium will obviously affect the level of penetration in the country.

3. Non-life insurance penetration and insurance density of India is far less compared to most other countries in Asia as well as among the BRICS. Although there are good numbers of companies operating in the sector yet the poor performance of the industry presents a dismal picture of the state of affairs. Among the BRICS nation the penetration level of South Africa beats all the other nations. Surprising that India with the second highest population of the world depicts a very poor level of penetration and density compared to other nations of the world. Despite increase in premium collected by both public and
private sector insurers the level of penetration remains at lowest. This reflects that though market is expanding but not exploited to the fullest.

4. Insurance density which measures the per capita spending on insurance indicates that India is among the lowest spending nations among the select Asian nations in respect of purchasing insurance. The non-life insurance penetration in India is very low compared to the international standards and reveals that India is far behind the other Asian countries.

5. The penetration level of insurance business has expanded since 2007 and has gone up owing to the tie up arrangement of insurance companies with banks. Under such tie up arrangements the insurers get directly all the business done by the bankers. Recently, IRDA has removed the restriction on the bankers regarding bancassurance arrangements. The new regulation allow one bank to become the bancassurance partner to more than one insurer both life and non-life insurance. This initiative has been undertaken to improve the insurance penetration. (Assam Tribune, 7th August, pg 5).

- Findings of Objective -3

1. After nationalisation of the non-life sector till the implementation of detariffication the prices on insurance products were set by the Tariff Advisory Company (TAC) and as such the insurers under the public sector offered similar type of products. Absence of regulatory control made the insurance products affordable only by the rich and the poor were never approached by the insurers. Therefore, no innovation in product development was carried out by the operating entities during that period.
2. Technological, biotechnological and manufacturing innovations are being safeguarded by the inventors through a legal system called patent under Indian Patents Act 1972. But as per Indian Patent Act, insurance product is not considered as patentable product and the product cannot be stopped from being copied by the other entities in the market.


4. Noteworthy that after liberalisation of the insurance sector during the pre-detarriff period the highest number of products were registered by the private sector insurers. The private sector insurers have taken the credit of introducing new products in the market which include weather insurance, Mutual Fund Package Policy, Pollution Liability Package Policy, Event Insurance, Kidnapping and ransom Insurance and Export Credit (Short Term) Policy etc.

5. In the post detarrification period, private sector has introduced more than 943 products while, public sector has filed only 159 products. However, most of the products filed are in the form of modification, repositioning, price-value changing or bundling of existing products under a new nomenclature.

6. The private sector succeeded in capturing the market in terms of number of products during both the pre and post detarriff period. Although the public sector insurers have enjoyed the monopoly of operations for more than two decades yet they lacked to provide anything new to their
customers this speaks of their experience and incapability to understand the needs of the market. This gives a good impression that the entry of private players have not only infused competition in the market but also benefitted the customers by providing them with more choice.

7. An analysis of the annual reports of IRDA for various years reveals that after price deregulation the tariff for fire insurance has decreased while on the other hand tariff rate for motor insurance has increased owing to adverse claim ratio in Third Party claims experienced by the insurers.

8. After liberalisation of the sector the ‘file & use’ system of product filing was in use. With the deregulation of pricing in the sector; amendments were made to the existing file and use regulation. But after detariffing of the sector it was felt that the degree of development was far less than what was expected and as such it became necessary to make corrections in the existing guidelines taking into consideration the actual experience and evolving needs of all stakeholders. As a result the “Use & File” was initiated.

9. One of the most significant changes introduced by the Revised Guidelines on Use & File system is the role of the Product Management Committee (PMC). All Insurers are required to form a PMC which include high level officers, Appointed Actuary of the company, Chief Underwriting Officer, Chief Financial Officer, Chief Marketing Officer, Chief Risk Officer, Compliance Officer and Head Reinsurance officers of the Insurer. The role desired to be played by the product management committee is that of an internal regulator to monitor the operations throughout the life cycle of
the insurance product. All products filed either under File and Use or Use and File has to be approved by Product Management Committee before sending to IRDA.

10. Another significant change in the Revised Use and File Guidelines is each product to be sent for approval by IRDA must be signed by a lawyer domiciled in India.

11. Earlier for all the category of products to be introduced in the market were approved by IRDA under the File and Use method. But now under the new guidelines retail products are to be filed under File & Use procedure while the commercial products are to be filed under the Use and File procedure.

12. The Revised Guidelines on Use & File are definitely a significant step towards a self regulated regime from a time bound regime. Now the Insurers will be required to carry out their own internal due diligence and certification with significantly increased responsibility on the management of the Insurance companies.

13. The use & file system is justified on the grounds that for the development of innovative products in non-life sector it is necessary to go for experimentation first regarding its sustainability in the market. Experimentation followed by testing, refinement to the product if required and then finalising the product by IRDA will be beneficial to both insurers and policyholders.
• **Findings of Objective -4**

The impact of detariffication under the selected parameter on the non-life insurance business has been highlighted below:

1. The impressive growth registered in the number of policies issued by both the public and private sector non-life insurers throughout the period of study is a remarkable feature of the industry. At the same time it has been observed that the level of penetration and insurance density of the country is very low indicating high potential lying untapped.

2. Although the insurance companies under both public and private sector have succeeded in substantially increasing the total gross direct premium underwritten by them during pre-detariff as well as post-detariff period but the increase is not commensurate with the increasing national income, increasing population, increasing number of companies and the untapped market.

3. In terms of number of policies issued although the four public sector insurers have depicted a good growth yet they have lost their market to the new private players. In a period of fifteen years after liberalisation the private players have succeeded in issuing nearly fifty percent of the total policies sold in the market. The healthy growth in the number of policies issued by the private sector non-life companies over the years point towards their success in increasing their market share.

4. After liberalisation and privatisation of the insurance sector the market share of public non-life insurers have decreased with each passing year which speaks that the public at large is accepting the foreign players and thus forcing the public sector insurers to lose their market share to the private sector.
5. The improvement in the premium of the non-life industry can be attributed to various factors such as awareness among the masses, growth of health care products market, increasing demand for automobiles in the country which indirectly creates demand for insurance, upward revision of the motor tariff rates in July, 2002 which were not revised for a long period and extensive growth of the economy.

6. The private entities depicted an unhealthy growth in terms of area of operation. Although the number of offices operated by the private sector insurers are on a rise year after year yet the penetration level is very low. As on 31st March, 2015 the four public sector non-life insurers have offices at 606 districts out of 640 districts in the country while the private sector cover only 285 districts.

7. As the contracts of non-life insurance are renewable annually and liability is for a shorter duration so there is not much pressure on the non-life insurers to maintain the required liquidity ratio as per the general requirements. However, taking into consideration the claims liabilities, the insurers are required to maintain more funds in liquid form so as to honour their obligation in time.

8. The overall non-life insurance industry have faced an increase in operating expenses which are mainly incurred by the private insurers in branch expansion and maintenance of branches, developing brand strength, maintaining mandatory solvency margin as stipulated by IRDA, creating distribution channels to reach the masses etc.

9. Maintenance of solvency being important criteria the insurers were required to submit yearly status report to IRDA. From the financial year 2007-08 i.e. the year of introduction of de-tariffication in the industry; the insurers are required
to submit quarterly report to the insurer in June, September, December and March regarding their compliance with the stipulated requirements.

10. Although endeavours have been made by IRDA and the insurers as well to promote insurance in rural areas yet it is an irony that the proportion of business done in rural areas is far below the total performance in other areas. This makes it clear that if obligation to perform in rural and social sector was not made mandatory the new entrants would have never ventured to operate in those areas as they are functioning only under compulsion. Underwriting in rural and social sector business include implementation of a long term strategy to penetrate rural markets as well as focusing on products which cater to the specific requirements of the rural and social sectors.

11. The public sector insurers have succeeded in complying with the IRDA requirements of maintenance of solvency margin and the performance of the private insurers indicates improvement in the solvency margin this speaks of their growing business.

12. The private sector insurers require infusing additional capital from time to time so as to raise the underwriting capacity. The public insurers because of the availability of strong base created during the pre-liberalised era are not facing the requirement to infuse additional capital.

13. In case of public sector insurers there is significant difference in the performance of the insurers during the pre and post detariff period with regards to Retention Ratio, Management Soundness Ratio and Liquidity Ratio. While Expense Ratio, Claims Ratio, Combined Ratio, Investment Income Ratio depicted an insignificant difference.
14. In case of private sector insurers there is significant difference in the performance of the insurers during the pre and post detariff period with regards to Retention Ratio and Management Soundness Ratio. While in case of Expense Ratio, Claims Ratio, Combined Ratio, Investment Ratio, Return on Equity Ratio and Liquidity parameters there is an insignificant difference during the pre-detariff and post-detariff period.

15. There is significant difference in the performance of the public and private sector insurance companies during the pre-detariff and post-detariff period under the various parameters studied.

16. The private sector insurers are making high expenses on branch expansion, networking to capture the market share from the untapped market which has increased the expenses. The companies with high expenses are those which have just started operations or are not more than six years old in the market. While the companies which started early have been able to control their expenses to an acceptable degree. Therefore, we strongly believe the insurance companies cannot sustain their operation simply on premium collected but at the same time they require sustainable investment base to support the negative deficit in premium collection.

17. The Claims Ratio and Combined Ratio indicate underwriting losses by all the insurers. It has been evident from the analysis that the insurers are incurring losses from their core business activity of underwriting but are able to sustain in the market because of the incomes generated from investments.
7.3 SUGGESTIONS

1. Liberalisation of the insurance sector was done to remove the monopoly of public sector insurers but the rapid decline in the market share of the public sector insurers every year creates an alarming situation. The public sector insurers need to develop proper planning, improvement in management soundness, curtail expenses relating to branch expansion, appointment of personnel etc. to get back their earlier market share.

2. Increase in FDI limit for the insurance sector would open up avenues for more players to enter the market, thereby making the industry more competitive and efficient. Further, in case of the existing players who are unable to inject fresh funds due to the high contribution of 74 per cent, increase in the foreign stake would facilitate their ability to shore up the equity base of the insurers. Infusion of more equity will improve the return of total assets on equity capital employed and will also improve solvency position of the insurers.

3. IRDA does not provide any patent or copyright protection to any promoter of a new insurance product. This gives a chance to other insurers to sell identical products in the market by mere intimation to IRDA. Giving copyright protection can go a long way in forcing insurers to develop their own products matching the needs of the customer.

4. Products approved by IRDA are for lifetime. A product once approved by IRDA cannot be withdrawn from the market before the expiry of five years. But every product in the market other than insurance product has a life cycle. The same should apply to insurance products as well.
5. To retain maximum risk by themselves and increase their return on investments the insurers need to manage their reserves efficiently.

6. Proper selection of risk especially by public sector insurers to reduce underwriting losses. Evaluation of risk, underwriting techniques followed by the insurer and product pricing contribute towards reduction in underwriting losses of the insurers.

7. To sustain in the rural market the insurers need to launch policies with affordable premium rates as well as simple to understand.

8. Monitoring of solvency margin of the insurers on quarterly basis has put a check on the unsound and unethical practices of depicting better financial position by the insurers. There should be similar quarterly check on the expenses of the management by the regulator. This will not only improve the profitability but also assure the long term sustainability of the company. Reduction in management expenses will ultimately improve the combined ratio of the insurers.

9. Private sector insurers holding low amount of investments pay their underwriting liabilities out of the capital. This may affect the long term financial position of the insurer. Therefore to assure their long term existence in the market the insurers should raise their capital.

10. IRDA has imposed restriction on investment by the insurers; these guidelines need to be amended so as to allow investment by insurers in profitable avenues. This is again necessary to absorb the increasing underwriting losses faced by the insurers.
11. All products should be priced by the insurer according to their degree of profitability. Pricing of products should be done separately for each segment keeping in mind their profitability and past experience; this will improve the overall profit from operations. Customisation of products offered will trigger competition among the insurers and reduce prices of insurance products.

12. To make profit out of underwriting activities proper risk selection is of utmost importance. But at the same time improvement in market share of the insurers is also demanded. But increase in market share should not be at the cost of underwriting profit.

13. Listing of the insurance companies on the stock exchanges and allowing them to raise capital through share market will obviously result in profitability of the insurers and at the same time will contribute towards writing-off the underwriting losses incurred by the insurers.

14. To make improvement in the expenses of management, new channels of distribution which are cost efficient should be employed rather than depending on traditional agency mode. This will put restriction on marketing expenses of the insurer.

15. Use & File should be implemented for the retail insurance products also so as to have a life cycle for each product of insurance.

16. Increase in FDI limit to 49% will increase flow of capital which will lead to expansion of business and generation of employment. Insurers need to take advantage of the situation by infusing more capital and improving their solvency position.
17. The government has also shown its keenness to upgrade the level of penetration. The IRDA Regulation, 2013 allows to make tie-up arrangements with more than one bank. This will serve as an advantage to the insurers by making arrangements with banks where they do not have any branches and thus increase the coverage area. This will increase the area of operational network of the insurers manifold and improve the level of penetration.

1.4 CONCLUSION

The traditional insurance business in India was left at the domain of private sector insurers during the British rule. Under the Queen Victorian legacy the Insurance Act, 1938 was passed to control the business of insurance in India. The act aimed at protecting the British soldiers deployed in war efforts in different British Colonies across the globe. The area of insurance coverage to the non-life insurance sector was extended in the shape of Marine insurance to protect from the perils of the sea, Motor insurance to provide protection to the owner of the vehicles, further the business activities particularly tea manufacturing, crude oil extraction, managing agents and merchant traders to protect the merchandise and other tradable activities.

The scenario of insurance business in India has been changing over the years. After independence in 1947, as a part of the development and planning initiatives of the government the life insurance business was nationalised in 1956 and the non-life insurance business was nationalised in 1972 by establishing GICI with its four subsidiaries. But the performance of the nationalised insurance entities was not up to the mark. The deficiencies in their performance were poor penetration and outreach, untouched rural market, vast segment of the population were outside the insurance
network. The recommendations of the R.N. Malhotra Committee in 1994 paved the way for opening up of the insurance sector to global competition and establishment of regulator of insurance business in India. So IRDA as a regulatory agency was set up to monitor the working of both public and private entities and also to protect the interest of the policyholders and other stakeholders. Some of the functions earlier discharged by the Insurance Council of India were vested with IRDA. It monitored the licensing for private insurers and at the same time permitting FDI in insurance subject to a formation of a joint venture between a foreign and Indian entity and with a maximum ceiling limit of 26%. However this limit in insurance sector was further liberalised with a ceiling limit of 49% in March, 2015.

Reforms in the non-life insurance industry has been a continuous process, in 2007 the fixation of tariff by the insurance companies was liberalised by introducing de-tariffication of the premium structure. Detariffication in the non-life industry exposed the insurance sector to more competition and forcing the entities to design their premium structure within their risk perception subject to some ceiling limit prescribed by the IRDA. Thereafter in 2014 Service tax was levied on insurance companies forcing them to revise their tariff structure so that the incidence of service tax may not be borne by the insurance companies but was passed on the policyholders, finally the premium level have gone up. The entry of private players triggered competition among the insurers leading to tremendous developments in the insurance sector. The performance of the insurance industry after liberalisation is witnessing dramatic changes and excellent growth in terms of expansion of the market, growth in premium collected and improvement in the financial position of the insurers, improvement in customer services, product development, better use of
information technology, growth of the economy etc. The public sector insurers who enjoyed monopoly prior to liberalisation were facing cut throat competition from the new entrants.

The implementation of detariffication has witnessed underwriting losses to the insurers. At the same time the position of private insurers is better than public sector insurers. This speaks of the inefficiency of the public insurers in their core underwriting activity and points towards the need for improvement in the risk selection and risk rating strategies of the public sector insurers. After detariffication the non-life the insurers are left alone to justify that they possess the expertise to price the market risk. And in these years post detariffication they have to some extent succeeded in bridging the expertise gap which is necessary for their existence in the market. Although the non-life insurance companies operating under public and private sector have succeeded in grabbing the market after de-tariffication yet a urgent requirement on the part of the insurers is necessary to monitor their expenses, improve management soundness and liquidity position so as to sustain in the market in the long term. With the increase in the FDI cap from 26% to 49% it is expected to attract more foreign insurers into the Indian market which may create a threat to the existing insurers. There stands an urgent need to monitor the product pricing by the insurers. The IRDA as the regulator of the insurance market needs to monitor the activities of the insurer from time to time so as to safeguard the interest of the policyholders. The reforms have encouraged industry participants to adopt global standards. Liberalisation of the insurance industry has brought in improvements and positive changes in the performance of the industry. The public sector insurers are updating themselves to sustain and retain their market share. And thus are adapting to
best of technologies, product development and underwriting practices. On the other hand the private sector insurers in joint ventures with foreign entities have poured in the market the world class underwriting skills, expert and experienced personnel, advanced technological developments and product innovation. Although the position of the industry cannot change in a day but this has led to overall progress of the industry as well as the economy. After detariffication of the non-life insurance industry the insurers are left alone to justify that they possess the expertise to price the market risk. And in these years post detariffication they have to some extent succeeded in bridging the expertise gap which is necessary for their existence in the market.

7.5 SCOPE FOR FURTHER RESEARCH

As the study proceeded some developments were observed in key functional areas and simultaneously were discussed briefly, however, keeping in view the various unexplored areas which emerged will pave way for further scope for research in the area of insurance sector. The key areas include:

i. Decrease in the market share of non-life public insurers can be studied.

ii. Implication and impact of the increase in FDI cap to 49% on the non-life insurance industry.

iii. Implication of service tax on insurance products.

iv. Role of IT and distribution channels in the modern period.

v. Solvency position of the non-life insurance companies.

vi. Contribution of non-life insurance industry towards the rural and social sector.
vii. The present research focuses only on comparative performance of the public and private sector non-life insurance companies in India, a future research can be done to analyse the comparative performance of both life and non-life insurance companies.

viii. A global comparative analysis of the performance of non-life Insurance companies can also be analysed.