CHAPTER-III

THE INDIAN INSURANCE INDUSTRY

3.1 INTRODUCTION

Ever Since the mankind existed was ready for some type of sacrifice to avoid the evil consequences of flood and fire. The same instinct is now in today’s businessmen to secure themselves against loss and disaster. This instinct was the main reason for the birth of Insurance. Beginning date of Insurance is almost 6000 years back but it largely developed in the past few centuries, particularly after the industrial era.

Penetration of insurance critically depends on the availability of insurance products and services. Huge untapped market, proliferation of schemes, new product innovations, perception of insurable risks of Indian consumers, competitive pressures arising from integration of bank and insurance, impact of information technology, and the role of insurance industry in financial services industry are some of the forces which shape the competitive structure of the insurance industry. The insurance companies have a pivotal role in offering insurance products which meet the requirements and expectations of the customers and, at the same time, are affordable.

India insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with the period from 2010 – 2015 is the 'Golden Age' for the Indian insurance industry.
3.2 OVERVIEW OF INDIAN INSURANCE SECTOR

3.2.1 History of Insurance

A contract of insurance may be defined as a contract whereby, one person, called the ‘insurer’, undertakes, in return for the agreed consideration, called the ‘premium’ to pay to another person, called ‘assured’, a sum of money or its equivalent on the happening of a specified event. The aim of all insurance is to make provisions against dangers which beset human life and dealings. Those who seek it endeavor to avert disasters from themselves by shifting possible losses on the shoulders of others who are willing for pecuniary consideration, to take risk thereof, and in the case of life assurance, they endeavor to assure to those dependent on them a certain provision in case of their death, or to provide a fund out of which their creditors can be satisfied.

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular (Sinha, 2007).

3.2.2 The British Period

The advent of life insurance business in India was with the establishment of the oriental life insurance company in 1818 in Calcutta. This company however failed in 1834. 1870 saw the enactment of the British insurance Act. This era, however, was dominated by foreign insurance offices which did good business in India. The Indian
life assurance companies act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian insurance companies act was enacted to enabled the government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the insurance public, the earlier legislation was consolidated and amended by the insurance act, 1938 with comprehensive provisions for effective control over the activities of insurers.

3.2.3 The Nationalized Period

The insurance amendment act of 1950 abolished principal agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The government of India, therefore, decided to nationalize insurance business. In nationalized era an ordinance passed on 19th January, 1956 nationalizing the life insurance sector and Life Insurance Corporation came into existence in the same year. LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies-245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the insurance sector was reopened to the private sector. Due to new liberalization, privatization and globalization, the insurance sector was reopened to the private sector (Srivastava and Srivastava, 2001).

3.2.4 The Liberalized Period

The insurance regulatory and Development Authority was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA opened up the market in august 2000 with the invitation for application for registrations. The bill allows foreign equity stake in domestic private insurance companies to maximum of 26% of the total paid-up capital and seeks to provide statutory status to the
insurance regulator. Foreign companies were allowed ownership of up to 26%. In December, 2000, the subsidiaries of the general insurance corporation of India were restructured as independent companies and at the same time GIC was converted into a national reinsurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

3.3 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

3.3.1 Composition of Authority under IRDA Act, 1999

As per the section 4 of IRDA Act' 1999, Insurance Regulatory and Development Authority (IRDA, which was constituted by an act of parliament) specify the composition of Authority. The Authority is a ten member team consisting of:

(a) A Chairman;
(b) Five whole-time members;
(c) Four part-time members,

(all appointed by the Government of India)

3.3.2 Duties, Powers and Functions of IRDA

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA.

(1) Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

(2) Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include, -
a. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
b. Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
c. Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
d. Specifying the code of conduct for surveyors and loss assessors;
e. Promoting efficiency in the conduct of insurance business;
f. Promoting and regulating professional organizations connected with the insurance and re-insurance business;
g. Levying fees and other charges for carrying out the purposes of this Act;
h. Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
i. Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
j. Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
k. Regulating investment of funds by insurance companies;
1. Regulating maintenance of margin of solvency;

m. Adjudication of disputes between insurers and intermediaries or insurance intermediaries;

n. Supervising the functioning of the Tariff Advisory Committee;

o. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);

p. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

q. Exercising such other powers as may be prescribed.

3.3.3 Protection of Interest of Policy Holders

IRDA has the responsibility of protecting the interest of insurance policy holders (Gupta, 2005). Towards achieving this objective, the Authority has taken the following steps:

- IRDA has notified Protection of Policyholders Interest Regulations 2001 to provide for: policy proposal documents in easily understandable language; claims procedure in both life and non-life; setting up of grievance redressal machinery; speedy settlement of claims; and policyholders' servicing. The Regulation also provides for payment of interest by insurers for the delay in settlement of claim.

- The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policyholders with regard to payment of claims.
• It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.

• All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.

• The Authority takes up with the insurers any complaint received from the policyholders in connection with services provided by them under the insurance contract.

3.4 COMPONENTS OF INSURANCE SECTOR

Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool (Palande and Shah, 1999).

Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.

• Definition of Insurance:

Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to
indemnify the other party on happening of an uncertain event in case of general insurance.

The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

- **Definition of Insurer:**

  Insurance company that issues a particular insurance policy to an insured. In case of a very large risk, several insurance companies may combine to issue one policy.

- **Definition of Insured**

  The person, group, or property for which an insurance policy is issued,

3.5 MAJOR LIFE INSURANCE PLANS

3.5.1 Whole Life Insurance or Whole of Life Assurance

Whole Life Insurance is a life insurance policy that remains in force for the insured's whole life and requires (in most cases) premiums to be paid every year into the policy. There are several types of whole life insurance policies. New York State defines six traditional forms: non-participating (aka “non par”), participating, indeterminate premium, economic, limited pay, and single premium. A newer type is known generally as interest sensitive whole life. Other jurisdictions may classify them differently, and not all companies offer all types. There are as many types of insurance policies as can be written in their contracts while staying within the law's guidelines.
3.5.2 Non-Participating

All values related to the policy (death benefits, cash surrender values, premiums) are usually determined at policy issue, for the life of the contract, and usually cannot be altered after issue.

This means that the insurance company assumes all risk of future performance versus the actuaries' estimates. If future claims are underestimated, the insurance company makes up the difference. On the other hand, if the actuaries' estimates on future death claims are high, the insurance company will retain the difference.

3.5.3 Participating

In a participating policy (also par in the USA, and known as a with-profits policy in the Commonwealth), the insurance company shares the excess profits (variously called dividends or refunds in the USA, bonus in the Commonwealth) with the policyholder. Typically these refunds are not taxable because they are considered an overcharge of premium. The greater the overcharge by the company, the greater the refund/dividend. For a mutual life insurance company, participation also implies a degree of ownership of the mutuality.

3.5.4 Indeterminate Premium

Similar to non-participating, except that the premium may vary year to year. However, the premium will never exceed the maximum premium guaranteed in the policy.

3.5.5 Economic

A blending of participating and term life insurance, wherein a part of the dividends is used to purchase additional term insurance. This can generally yield a
higher death benefit, at a cost to long term cash value. In some policy years the dividends may be below projections, causing the death benefit in those years to decrease.

3.5.6 Limited Pay

Similar to a participating policy, but instead of paying annual premiums for life, they are only due for a certain number of years, such as 20. The policy may also be set up to be fully paid up at a certain age, such as 65 or 80. The policy itself continues for the life of the insured. These policies would typically cost more up front, since the insurance company needs to build up sufficient cash value within the policy during the payment years to fund the policy for the remainder of the insured's life.

3.5.7 Single Premium

A form of limited pay, where the pay period is a single large payment up front. These policies typically have fees during early policy years should the policyholder cash it in.

3.5.8 Interest Sensitive

This type is fairly new, and is also known as either excess interest or current assumption whole life. The policies are a mixture of traditional whole life and universal life. Instead of using dividends to augment guaranteed cash value accumulation, the interest on the policy's cash value varies with current market conditions. Like whole life, death benefit remains constant for life. Like universal life, the premium payment might vary, but not above the maximum premium guaranteed within the policy.
3.5.9 Term Life Insurance or Term Assurance

Term life insurance is life insurance which provides coverage at a fixed rate of payments for a limited period of time, the relevant term. After that period expires coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments and/or conditions. If the insured dies during the term, the death benefit will be paid to the beneficiary.

Term insurance is the least expensive way to purchase a substantial death benefit on a coverage amount per premium dollar basis over a specific period of time. Term life insurance is the original form of life insurance and can be contrasted to permanent life insurance such as whole life, universal life, and variable universal life, which guarantee coverage at fixed premiums for the lifetime of the covered individual. Term insurance is not generally used for estate planning needs or charitable giving strategies but for pure income replacement needs for an individual. Many permanent life insurance products also build predetermined cash value over the life of the contract, available for later withdrawal by the client under specific conditions. However, on most cash value policies like Whole Life insurance, the only way to receive the cash value is to cash out the policy.

The beneficiaries receive the face value of the insurance but NEVER the cash value with Whole Life policies. Financial advisers generally advise buying term life insurance and investing the difference elsewhere to those who still qualify to contribute to other tax-deferred investment growth such as IRA's or 401k's. Term insurance functions in a manner similar to most other types of insurance in that it satisfies claims against what is insured if the premiums are up to date and the contract
has not expired, and does not expect a return of Premium dollars if no claims are filed (Abhishek, 2002).

3.6 KEY PLAYERS OF THE INDIAN LIFE INSURANCE INDUSTRY

The following are the registered insurance Players in India:

3.6.1 In Public Sector

**Life Insurance:** Life Insurance Corporation (LIC) of India,

3.6.2 In Private Sector

- Bajaj Allianz Life Insurance Company Limited
- Birla Sun Life Insurance Co. Ltd
- HDFC Standard life Insurance Co. Ltd
- ICICI Prudential Life Insurance Co. Ltd.
- ING Vysya Life Insurance Company Ltd.
- Max New York Life Insurance Co. Ltd
- Met Life India Insurance Company Ltd.
- Kotak Mahindra Old Mutual Life Insurance Limited
- SBI Life Insurance Co. Ltd
- Tata AIG Life Insurance Company Limited
- Reliance Life Insurance Company Limited.
- Aviva Life Insurance Co. India Pvt. Ltd.
- Shriram Life Insurance Co, Ltd.
- Sahara India Life Insurance
- Bharti AXA Life Insurance
- Future General Life Insurance
- IDBI Fortis Life Insurance
- Canara HSBC Oriental Bank of Commerce Life Insurance
Indian insurance companies offer a comprehensive range of insurance plans, a range that is growing as the economy matures and the wealth of the middle classes increases. The most common types include: term life policies, endowment policies, joint life policies, whole life policies, loan cover term assurance policies, unit-linked insurance plans, group insurance policies, pension plans, and annuities. General insurance plans are also available to cover motor insurance, home insurance, travel insurance and health insurance. Due to the growing demand for insurance, more and more insurance companies are now emerging in the Indian insurance sector. With the opening up of the economy, several international leaders in the insurance sector are trying to venture into the India insurance industry.