CHAPTER 1

INTRODUCTION TO INSURANCE
1.1 INSURANCE INDUSTRY IN INDIA

From economic perspective insurance is a financial intermediation function by which individuals are exposed to a specified contingency. Each contributes to a pool from which participating individuals are paid. On the other hand, from legal perspective insurance is an agreement, the insurance policy or insurance contract, by which one party, the policy owner, pays a stipulated consideration called the premium to the other party, called the insurer, in return for which the insurer agrees to pay a defined amount or money or provide a defined service.

Historical Perspective

The history of insurance in India can be traced with the establishment of a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. All these companies operated in India but did not insure the lives of Indians. They were insuring only the lives of Europeans living in India. The first general insurance company known as Triton Insurance Company Ltd., was established in 1850. It was owned and operated by the British. The first indigenous general insurance company was the Indian Mercantile Insurance Company Limited set up in Bombay in 1907 (Sinha, 2005; Sharma and Agarwal, 2005). The wholly Indian-owned insurance company, namely, The New India Assurance Company Limited was incorporated on July 23, 1919 which commenced its operations in October the same year (Narayanan, 2006). Insurance in India started without any regulation in the nineteenth century. It was a typical story of a colonial era: a few British insurance companies dominating the market serving mostly large urban centres. After the independence, it took a dramatic turn. Insurance was nationalized. First, the life insurance companies were nationalized in 1956, and then the general insurance business was nationalized in 1972. Only in 1999 private insurance companies have been allowed back into the business of insurance with a maximum of 26% of foreign holding. The entry of the state bank of India with its proposal of bancassurance brings a new dynamics in the game, the dominance of the life insurance corporation and the general insurance corporation is going to stay despite private sector competition.

Insurance is a complex product where personalized service achieved through an intimate knowledge of customers and their histories with an insurance company- is critical to making sales.
As insurance options broaden and products grow more complex, customers seek superior, personalized service more than ever. Most insurance companies understand the virtues of a single, complete, real-time enterprise view of individual customers, and they have made great progress towards providing this view at customer touch-points throughout the enterprise. But it’s critical to note that this view should not be regarded as an end in and of itself- rather, it is a rich foundation to be used as a basis for a deeper, more advanced level of customer understanding.

1.2 HISTORY OF INSURANCE SECTOR

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. Some of the important milestones in the life insurance business in India are given in the table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Milestones in the life insurance business in India</th>
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<tbody>
<tr>
<td>1912</td>
<td>The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business</td>
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<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses</td>
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<tr>
<td>1938</td>
<td>Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.</td>
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<tr>
<td>1956</td>
<td>245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.</td>
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The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British. Some of the important milestones in the general insurance business in India are given in the table 1.2.
Table 1.2: Milestone’s in the general insurance business in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Milestones in the general insurance business in India</th>
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<tr>
<td>1907</td>
<td>The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business</td>
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<tr>
<td>1957</td>
<td>General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices</td>
</tr>
<tr>
<td>1968</td>
<td>The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.</td>
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There was no exclusive legislation to govern the activities of insurance companies during the 19th century. To control the operations of life insurance in India, the Indian Life Insurance Companies Act, 1912 was enacted. However, the first comprehensive legislation was introduced with the passing of Indian Insurance Act, 1938. The Act made provision for required equity capital to carry out insurance business, ceiling on shareholding pattern, strict control on investments, agency commission etc. Subsequently, a separate wing was established in the Ministry of Finance to administer the provisions under the Act (Sharma and Agarwal, 2005). Though a number of statutory laws and insurance Acts were passed from time to time to regulate and control the business, yet as many as 66 out of 215 life business companies perished between 1935 and 1955. This was largely due to growing business mismanagement and malpractices, manipulation of life funds to indulge in speculative trading, large scale liquidation of insurance companies, inter-locking of funds, and control and influence of large business houses which led to public disenchantment and resentment (Rajan and Dhunna, 2002). This led to the
nationalization of life insurance by amalgamating all private companies under one corporation, i.e., L.I.C. The number of companies in the general insurance sector increased steadily, and by 1972 their number had gone to 107. However, out of these 107 companies, more than 50% were in financially bad shape. Taking into account the bad health of private operators and vast fund mobilization potential in this sector, Government of India nationalized the General Insurance sector w.e.f. 1st January, 1973. It formed four subsidiaries, namely, (1) The New India Assurance Company Ltd., (2) The Oriental Insurance Company Ltd., (3) The National Insurance Company Ltd., and (4) The United India Insurance Company Ltd., with a holding company General Insurance Corporation of India.

Pre-Liberalization

The first General Insurance Company in India Triton Insurance Company Limited was set up in 1850 under the control of the British. Its first Indian counterpart, the Indian Mercantile Insurance Company Limited, launched its operations in Bombay in 1907. Although the general insurance business was not nationalized along with life insurance, a code of conduct for fair and sound business practices was framed in 1957 by the General Insurance Council (a wing of the Insurance Association of India). In 1968, the Insurance Act was amended to provide for greater control over the General insurance business. In 1971, the management of non-life insurers was taken over by the Government of India (GoI).

In 1972, it was announced that the Indian Non-life insurance sector was to be nationalized with effect from 1 January 1973. At that time there were 107 general insurance companies within the country. They were mainly large city-oriented companies of different sizes catering to the organized sector (trade and industry). Upon nationalization, these businesses were assigned to the four subsidiaries of the General Insurance Corporation (GIC) of India namely the New India Assurance Co Ltd (NIACL), Oriental Insurance Company Ltd (OIC), United India Insurance Co Ltd (UIIC) and the National Insurance Company Ltd (NIC). The goals behind this structure were:

- The subsidiary companies were expected to set up standards of conduct, sound practices and provision of efficient customer service in the general insurance business
- The GIC was to help control the expenses of the subsidiaries
• It was to help with the investment of funds for its four subsidiaries
• It was to bring general insurance to the rural areas of the country, by distributing business to the four subsidiaries, each operating in different areas in India
• The GIC was also the designated national reinsurer. By law, all domestic insurers were to yield 20% of their gross direct premium in India to the GIC
• All four subsidiaries were to compete with one another.

The risks underwritten by an insurance company in the Non-life segment are usually covered under fire, motor and miscellaneous insurance segments. The miscellaneous portfolio covers engineering, aviation, health, and other retail classes of risk. The rates, terms, and conditions that insurers could offer for their products were governed by the Tariff Advisory Committee (TAC), a statutory body created under the Insurance Act of 1938, the main insurance legislation in effect during the pre-liberalization period. Under this tariff system, premiums were fixed at the same rate for all companies, products were undifferentiated and coverage was limited in almost every segment. Non-life products were classified by whether they were regulated by tariffs: fire, insurance, motor vehicle insurance, engineering insurance and workers’ compensation, among others that came under tariff; and burglary insurance, mediclaim, personal accident insurance, among others that did not. In addition, specialized insurance (e.g. racehorse insurance) did not fall under tariff regulations. Further, the monopoly structure and the closing of the market to foreign and domestic private companies enabled domestic public insurers to freely conduct business without having to face any competitive challenges. Under this market structure, there was no need for brokers. Besides, brokers were effectively kept out of the country by regulations that prevented them from charging fees or commissions for their services.

Just as in the case of the life insurance sector, policy makers also had to consider bringing about policy reforms in the general insurance sector once the new industrial policy was introduced by the government of India in 1991. Moreover, the level of penetration in the general insurance segment was below even the level of penetration in the life insurance segment. As a result, the need for liberalization of the general insurance sector was also emphasized upon. Just like the life insurance sector, there was a need to offer wider range of innovative products to suit specific customer needs and to change people’s attitude towards general insurance.
Post Liberalization

The passage of the Insurance Regulatory and Development Authority (IRDA) Act of 1999 liberalized the India insurance market. The Act represents the Indian Government’s unanimous agreement, after years of deliberation, that opening the market to both Indian and foreign private companies could help the economy meet its growing insurance needs, spark insurance growth in rural areas, and promote India as a regional reinsurance hub. The specific provisions of the IRDA Act were to repeal the GIC monopoly and:

- Establish the Insurance Regulatory and Development Authority (the IRDA) to oversee and regulate industry operations
- Re-designate the GIC as a national reinsurer to which all of the country’s direct insurers must continue to yield 20% of their business
- Lift the ban on domestic private companies
- Open the market to foreign participants with certain restrictions.

Thus the Government of India restructured the General insurance industry by making GIC the ‘Indian Reinsurer’.

1.3 INSURANCE MARKET PRESENT

The insurance sector was opened up for private participation four years ago. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe.

There are now 29 insurance companies operating in the Indian market 14 private life insurers, nine private non-life insurers and six public sector companies. With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a detariffed scenario.
There is pressure from both within the country and outside on the Government to increase the foreign direct investment (FDI) limit from the current 26% to 49%, which would help JV partners to bring in funds for expansion.

There are opportunities in the pensions sector where regulations are being framed. Less than 10% of Indians above the age of 60 receive pensions. The IRDA has issued the first license for a standalone health company in the country as many more players wait to enter. The health insurance sector has tremendous growth potential, and as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society.

State Insurers Continue To Dominate: - there may be room for many more players in a large underinsured market like India with a population of over one billion. But the reality is that the intense competition in the last five years has made it difficult for new entrants to keep pace with the leaders and thereby failing to make any impact in the market.

Also as the private sector controls over 26.18% of the life insurance market and over 26.53% of the non-life market, the public sector companies still call the shots.

The country’s largest life insurer, Life Insurance Corporation of India (LIC), had a share of 74.82% in new business premium income in November 2005.

Similarly, the four public-sector non-life insurers – New India Assurance, National Insurance, Oriental Insurance and United India Insurance had a combined market share of 73.47% as of October 2005. ICICI Prudential Life Insurance Company continues to lead the private sector with a 7.26% market share in terms of fresh premium, whereas ICICI Lombard General Insurance Company is the leader among the private non-life players with an 8.11% market share. ICICI Lombard has focused on growing the market for general insurance products and increasing penetration within existing customers through product innovation and distribution.

Reaching Out To Customers: - no doubt, the customer profile in the insurance industry is changing with the introduction of large number of divergent intermediaries such as brokers, corporate agents, and banc assurance.
The industry now deals with customers who know what they want and when, and are more demanding in terms of better service and speedier responses. With the industry all set to move to a detariffed regime by 2007, there will be considerable improvement in customer service levels, product innovation and newer standards of underwriting.

**Intense Competition:** - in a detariffed environment, competition will manifest itself in prices, products, underwriting criteria, innovative sales methods and creditworthiness. Insurance companies will vie with each other to capture market share through better pricing and client segmentation.

The battle has so far been fought in the big urban cities, but in the next few years, increased competition will drive insurers to rural and semi-urban markets.

**Global Standards:** - while the world is eyeing India for growth and expansion, Indian companies are becoming increasingly world class. Take the case of LIC, which has set its sight on becoming a major global player following an Rs 280 crore investment from the Indian government. The company now operates in Mauritius, Fiji, the UK, Sri Lanka, and Nepal and will soon start operations in Saudi Arabia. It also ventured into the African and Asia-Pacific regions in 2006. The year 2005 was a testing phase for the general insurance industry with a series of catastrophes hitting the Indian sub-continent.

However, with robust reinsurance programmes in place, insurers have successfully managed to tide over the crisis without any adverse impact on their balance sheets. With life insurance premiums being just 2.5% of GDP and general insurance premiums being 0.65% of GDP, the opportunities in the Indian market place is immense. The next five years will be challenging but those that can build scale and market share will survive and prosper.

**1.4 PRESENT SCENARIO OF INSURANCE INDUSTRY**

- India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the
market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.

- Consumers remain the most important centre of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerisation of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies

- The insurance agents still remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are listed below.
  - Direct selling
  - Corporate agents
  - Group selling
  - Brokers and cooperative societies
  - Bancassurance

- Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money back policies, which is not considered very appropriate for long-term protection and savings. There is lots of saving and investment plans in the market. However, there are still some key new products yet to be introduced - e.g. health products.

- The rural consumer is now exhibiting an increasing propensity for insurance products. A research conducted exhibited that the rural consumers are willing to dole out anything between Rs 3,500 and Rs 2,900 as premium each year. In the insurance the awareness level for life insurance is the highest in rural India, but the consumers are also aware about motor, accidents and cattle insurance. In a study conducted by MART the results showed that nearly one third said that they had purchased some kind of insurance with the maximum penetration skewed in favour of life insurance. The study also pointed out the
private companies have huge task to play in creating awareness and credibility among the rural populace. The perceived benefits of buying a life policy range from security of income bulk return in future, daughter's marriage, children's education and good return on savings, in that order, the study adds.

1.5 INSURANCE PENETRATION

The growth in the insurance sector is internationally measured based on the standard of insurance penetration. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP). Likewise, insurance density is another well-recognized benchmark and is defined as the ratio of premium underwritten in a given year to total population (measured in US dollars for convenience of comparison). The Indian insurance business has in the past remained under-developed with low levels of insurance penetration. Post liberalization, the sector has succeeded in raising the levels of insurance penetration from 2.3(life 1.8 and non-life 0.7) in 2000 to 5.1(life 4.4 and non-life 0.7) in 2010.

The industry which reported a growth rate of around 10% during the period 1996-97 to 2000-01 has, post opening up of the sector, reported average annual growth of 15.85% over the period 2001-02 to 2010-11. In addition, the specialized insurers Export Credit Guarantee stakeholders in the health insurance industry to work together and suggest solutions on various relevant issues in the sector. During the last decade, the premium from health insurance products has grown from Rs 675 crore in 2001-02 to Rs11, 480 crore in 2010-11. The IRDA is also coordinating with and supporting insurance industry initiatives in standardizing certain key terminology used in health insurance documents, for better comprehension and in the interest of policyholders.

1.6 WHY SHOULD ONE INSURE?

One of the main reasons one should insure is to protect one’s belongings and assets against financial loss. When one has earned and accumulated property, protecting it is prudent. The law also requires us to be insured against some liabilities. That is, in case we should cause a loss to another person, that person is entitled to compensation. To ensure that we can afford to pay that compensation, the law requires us to buy liability insurance so that the responsibility of paying the compensation is transferred to an insurance company.
Insurance is generally categorized into two divisions:

1. Life Insurance
2. General insurance

1.7 WHO SHOULD BUY GENERAL INSURANCE?

Anyone who owns an asset can buy insurance to protect it against losses due to fire or theft and so on. Each one of us can insure our and our dependents’ health and well being through hospitalization and personal accident policies. To buy a policy the person should be the one who will bear financial losses if they occur. This is known as insurable interest.

1.8 RISK COVERED UNDER GENERAL INSURANCE

Non-life insurance companies have products that cover property against Fire and allied perils, flood storm and inundation, earthquake and so on. There are products that cover property against burglary, theft etc. The non-life companies also offer policies covering machinery against breakdown, there are policies that cover the hull of ships and so on.

- **Marine Cargo policy** covers goods in transit including by sea, air and road. Further, insurance of motor vehicles against damages and theft forms a major chunk of non-life insurance business.

- **Personal insurance** covers include policies for Accident, Health etc. Products offering Personal Accident cover are benefit policies. Health insurance covers offered by non-life insurers are mainly hospitalization covers either on reimbursement or cashless basis. The cashless service is offered through Third Party Administrators who have arrangements with various service providers, i.e., hospitals. The Third Party Administrators also provide service for reimbursement claims. Sometimes the insurers themselves process reimbursement claims.

- **Insurance of property**, it is important that the cover is taken for the actual value of the property to avoid being imposed a penalty should there be a claim. Where a property is undervalued for the purposes of insurance, the insured will have to bear a rateable proportion of the loss.
Accident and health insurance policies are available for individuals as well as groups. A group could be a group of employees of an organization or holders of credit cards or deposit holders in a bank etc. Normally when a group is covered, insurers offer group discounts.

Liability insurance covers such as Motor Third Party Liability Insurance, Workmen’s Compensation Policy etc offer cover against legal liabilities that may arise under the respective statutes— Motor Vehicles Act, The Workmen’s Compensation Act etc. Some of the covers such as the foregoing (Motor Third Party and Workmen’s Compensation policy) are compulsory by statute. Liability Insurance not compulsory by statute is also gaining popularity these days. Many industries insure against Public liability.

There are liability covers available for Products as well. There are general insurance products that are in the nature of package policies offering a combination of the covers mentioned above. For instance, there are package policies available for householders, shop keepers and also for professionals such as doctors, chartered accountants etc. Apart from offering standard covers, insurers also offer customized or tailor-made ones.

Fig: 1.1 source: www.esnips.com/information warehouse in insurance industry

![Insurance Industry Diagram](image-url)
1.9 The Role of Insurance in Economic Development

Such trends are important. They underline the message that a vibrant insurance industry is one of the keys to wider economic advance. This is scarcely surprising. Insurance aids economic development through its financial intermediation function in at least five ways:

1. **Insurance facilitates business:** - Modern economies rely on specialization and improvements in productivity, including productivity in financial services. Trade and commercial specialization demand, in turn, financial specialization and flexibility. Unless there is a wide choice of financial products – and this includes insurance products – with corresponding levels of innovation, developments in trade and commerce can be held back.

2. **Insurers provide risk management services:** - In their widest sense, these services cover risk pricing, risk transformation, and risk reduction. They are all essential services for a competitive market. Businesses and individuals need to transform their risk exposures in property, liability, loss of income and many other fields to achieve an optimum “fit” to their own needs. Again, life insurers enable individuals to manage their savings to match the liquidity, security and other risk profiles desired.

3. **Insurers offer risk management through risk pooling:** - This is the essence of insurance, taking underwriting and investment together. Pooling reduces volatility, if volatility is reduced, there is a smaller “risk premium” to be faced by insured’s and borrowers. And, through risk management, insurers can bring to bear economic incentives for reducing business risk exposures.

4. **Insurers play a key role in fostering efficient allocation of capital and economic resources:** - In assessing risks, they engage in an information function which requires them to evaluate firms, projects and managers. And they do so both in deciding whether to offer insurance and in their role as lenders and investors. In these ways, a vibrant insurance sector can act as a catalyst to economic growth.

1.10 RECENT DEVELOPMENT IN THE INSURANCE SERVICES SECTOR

In recent decades, the insurance services sector has undergone a series of changes in both the developed and developing world. Changes in the market structure showed two distinct trends.
The first was the gradual move towards privatization and liberalization – either autonomously by countries, through bilateral and regional agreements, or as a result of commitments undertaken in the GATS. The second trend, consolidation of insurance operations, is most pronounced in the global life insurance sector. The reason for this trend is essentially economic efficiency through economies of scale and consolidation of capital and human resources. As markets gradually become deregulated and admit competition, the financial services sector in general is seeing a natural process of mergers and acquisitions. In a competitive market only companies that have a large enough capital base to meet regulatory requirements and still make a profit are likely to survive.

Other trends include the following:

- **Technology and the Internet:** Technological developments have brought gains in cost, time and efficiency, which have led to new financial products and easy access to information on insurance companies and their products. Besides serving as a marketing tool, the Internet can be a useful and cheap global distribution channel for insurance products. However, the products sold online appear to be limited to personal insurance products. Larger insurance coverage, such as commercial insurance continues to rely on agents and brokers for advisory inputs. Technology use also makes possible the creation of customer databases and the integration of financial information, especially in risk assessment and monitoring activities.

- **Break-up of the service being supplied:** In the goods and services sector, this trend has been fairly obvious. In the insurance services sector, it could mean the fragmentation of distribution, underwriting, administration and fund management into distinct function provided by different entities. This disaggregation could be useful for developing countries, which could then invest in capturing specific markets such as policies administration, marketing, claim settlement/processing and (depending on the level of skills and harmonization of qualifications acquired) fund management, accounting and underwriting.

- **Closer ties between insurers and banks:** Ties between insurers and banks have increased, either through bancassurance (a combination of banks and insurers) or conglomerates (broader financial groups). In the past five years, many banks and insurers
have joined forces, motivated by expected synergies, economies of scale and higher revenues from cross-selling each other’s products, especially in Europe. While the extent of actual synergies remains to be seen, both bancassurance and financial conglomerates pose new challenges for regulators. Not only have insurers recently diversified into banking and asset management products, but new, often complex and sophisticated risk management products have been created. These new products create challenges for regulation and supervision in terms of understanding them, identifying their precise impact and deciding on the most appropriate supervisory approach.

- **Offshore centres:** - Off shoring centres aim to attract international insurance business by providing an attractive legislative environment, good infrastructural facilities, tax concessions and liberal incorporation requirements. Between 2003 and 2004, the number of financial institutions with offshore operations grew 39 per cent globally. This trend is being replicated, though cautiously, in the insurance services sector. Still other trends include the shifting focus of regulation from what is being sold to how it is being sold, newer insurance challenges for Governments and investors (such as coverage for terrorist and catastrophe risks) and, given the proliferation of liability cases (particularly in the United States), the emergence and growth of liability insurance.

1.11 **Benefits and challenges for developing countries from the presence of foreign insurers**

The advantages of foreign insurers include substantial financial strength, which enables them to take on risks (especially commercial insurance risks) which domestic insurance companies are unable or unwilling to take on; market credibility globally, which makes international investors more willing to invest; technological and industry know-how; and risk management and asset liability management in the context of international/global markets. Developing countries, however, have some concerns about the liberalization of the insurance sector. These relate to issues such as the following:

- **Integrity of the sector:** - Given the importance of the insurance sector in mobilizing savings and investment funds, there are concerns related to insolvencies, mismanagement of insurance funds and newer financial products, among others.

- **Anti-competitive practices:** - Admission of large insurers could result in anticompetitive practices, including predatory pricing of insurance products and replacement of
government monopolies with dominant insurance firms’ products as a result of, among other reasons, privatization. All of this may negatively impact domestic insurance suppliers.

- **Selective marketing to high value clients** (individuals or companies) while lower-value clients and sectors are ignored
- **The need to promote domestic insurance suppliers and nascent industry**
- **Potential loss of employment** in the case of privatization of publicly owned insurance companies
- **Weak insurance supervisory and regulatory authorities**

Finally, foreign insurers in emerging markets face difficulties. These include market access barriers, discriminatory insurance regulations, lack of transparency, cultural differences, political risks, alignment of insurance products and services with needs in emerging markets, insufficient insurance expertise and lack of adequately trained insurance professionals, as well as regulatory differences.

1.12 INTRODUCTION TO GENERAL INSURANCE

The general insurance business in India is governed by the Insurance Act, 1938 which is based on the British Insurance Act. The Act was amended in 1969 for ‘social control’ to govern the general insurance business on healthy lines. However, it was felt that there still existed some scope for improvement. In view of this, on May 13, 1971 the government nationalized the general insurance industry by an ordinance which became the General Insurance (Nationalization) Act, 1972. At that time there were 63 domestic insurance companies and 44 foreign insurance companies operating in India. The managements of all the 107 companies were taken over by the Government and accordingly the General Insurance Corporation (GIC) was formed as a government company in November 1972. The GIC as the holding company is entrusted with the task of superintending, controlling and carrying on the general insurance business in the country. Its subsidiaries in all the four zones of the country viz., the Oriental Fire & General Insurance Company (now known as the Oriental Insurance Co. Ltd.), the National Insurance Company Ltd., the New India Assurance Company Ltd. and the United India Insurances Company do all classes of direct business of general insurance except aviation which is done by the GIC.
In 1993, with the view of liberalizing the insurance sector, the government appointed the Malhotra committee to recommend the road map needed for opening up the insurance sector in the country. This was done to induce the much needed competitiveness in the industry which had become stagnated. The insurance market which was underdeveloped in the country slowly started to open up and increase its cover with the entry of the private players in 1999 when the government opened up the sector. The insurance industry was thrown open to private sector in 2000; it witnessed the entry of players like ICICI Prudential, Bajaj Allianz, HDFC Standard life to name a few. These private players have customized products and introduced innovations in annuity or pension products apart from offering better services to the customers.

- **Restructuring of the General Insurance Segment:** A notification, at the request of the Insurance Regulatory and Development Authority (IRDA) was issued, which called for the splitting up of the reinsurance business from the general insurance business within the GIC. The General Insurance Business (Nationalisation) Amendment Act, 2002 was passed by both Houses of Parliament and consented by the President of India on August 7, 2002. The GIC was de-linked from its four subsidiaries. Each subsidiary, with their headquarters based in the four largest metropolitan areas, became independent. Consequently, GIC now undertakes only reinsurance business, while the four public sector undertakings (PSUs) – National Insurance Company Limited (NIC), New India Assurance Company Limited (NIACL), Oriental Insurance Company Limited (OIC) and United Indian Insurance Company Limited (UIIC) continued to handle the General insurance business. However, the government still remains the sole owner of the four former GIC subsidiaries. Further, GIC has now ceased to do any direct business in India, except for crop insurance. As the sole reinsurer in the domestic reinsurance market, GIC provides reinsurance to the direct general insurance companies in the Indian market.

- **Innovation and Expansion:** After the opening of the sector to private players, several new products were introduced. They included products liability, corporate cover, professional indemnity policies, burglary cover, individual and group health policies, weather insurance, credit insurance, travel insurance and so on. Some of these products were completely new (e.g. weather insurance) while others were already available through the public insurance companies. Areas in the country which were previously uninsured
were slowly and gradually starting to go in for insurance cover. As a result, the general insurance market in India expanded. General insurance companies are also known as Non-Life Insurance companies. There are a total of 23 non-life insurers operational in India. There is a mix of public sector and private sector companies with the last decade seeing a lot of new private sector companies entering the sector. Most of the private sector players have entered the market in partnership with international companies - there are exceptions to this though.

Apart from the retail policies like health insurance, auto insurance, home insurance, shop insurance and travel insurance there are a lot of corporate insurance solutions which general insurance companies provide. Corporate insurance solutions include fire insurance, plant and machinery insurance, marine insurance, burglary insurance to name a few..

1.13 LIST OF GENERAL INSURANCE COMPANIES

- Agriculture Insurance Company
- Apollo Munich Health Insurance
- Bajaj Allianz General Insurance
- Bharti Axa General Insurance
- Cholamandalam MS General Insurance
- Export Credit Guarantee Corporation
- Future Generali General Insurance
- HDFC ERGO General Insurance
- ICICI Lombard General Insurance
- IFFCO Tokio General Insurance
- L & T General Insurance
- Max Bupa Health Insurance
- National Insurance
- New India Assurance
- Oriental Insurance
- Raheja QBE General Insurance
- Reliance General Insurance
- Royal Sundaram General Insurance
- SBI General Insurance
- Shriram General Insurance
- Star Health Insurance
- Tata AIG General Insurance
- United India Insurance
- Universal Sompo General Insurance
The graphical representation of this graph shows that there is an equal increase in the number of insures in public sector general insurance companies and private sector general insurance companies. This shows that at every year there is an increase in the number of insures and from this we come to know that both the sectors are penetrating in India at faster rates by adopting various CRM strategies.

1.14 SWOT ANALYSIS OF INSURANCE SECTOR

Strengths/Opportunities

- The intense competition brought about by deregulation has encouraged the industry to innovate in all areas; from underwriting, marketing, policy holder servicing to record-keeping
- Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products
- Competition in a deregulated environment will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services
- Innovations in distribution and improvements in market penetration will follow as public and private insurers compete to market their products
• Allowing insurers to issue their own policy wordings and set their own rates will enable underwriters to tailor products to meet client needs
• The existence of stringent licensing requirements ensure that only adequately capitalized and professionally managed companies are eligible to carry out insurance and reinsurance
• The Insurance Regulatory Development Authority of India’s (IRDA) emphasis on quarterly reporting/monitoring of insurer solvency will enhance capital adequacy and transparency
• Licensed brokers are very much part of the intermediary structure and only those with adequate capital, professional experience and expertise will be licensed by IRDA.

Weaknesses/Challenges

• Premiums rates will remain under pressure due to intense competition on the more profitable lines.
• Falling premium income without a corresponding reduction in claims is likely to drive down profits.
• Reinsurance is likely to cost more as treaty reinsurers reduce ceding commissions to compensate for the lower rates following deregulation.
• Public and private sector insurers’ greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.
• Private insurers need to raise more capital, otherwise growth could be constrained since reliance on reinsurance for capital relief is not always viable or available.
• Traditional distribution channels, especially tied agents, need to be improved to match the new product offerings.
• There is general lack of transparency as financial and operational data for insurers are not readily available as none of India’s insurers are directly listed on stock exchanges.
• Like all developing economies on a fast track, the shortage of trained insurance professionals and technicians at all levels cannot be remedied in the short term.
• Natural catastrophes will always be present; the Indian sub-continent is vulnerable to cyclones, floods, hurricanes and earthquakes, and until there is a national capacity (similar to the terrorism pool) to manage losses, dependence on overseas reinsurers will continue.
1.15 IMPORTANCE OF GENERAL INSURANCE

Fig1.2: Importance of General Insurance

<table>
<thead>
<tr>
<th>INDIVIDUAL ASPECTS</th>
<th>ECONOMIC ASPECTS</th>
<th>SOCIAL ASPECTS</th>
<th>NATIONAL ASPECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>Safety against risk</td>
<td>Stability in family life</td>
<td>Increase the national savings</td>
</tr>
<tr>
<td>Provide mental peace</td>
<td>Basis of credit</td>
<td>Development of employment opportunity</td>
<td>Helps in development opportunities</td>
</tr>
<tr>
<td></td>
<td>Encourage loss prevention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase efficiency</td>
<td>Reduction of cost</td>
<td>Encourage alertness</td>
<td>Develops the money market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contribution to the development</td>
<td>Earns foreign exchange</td>
</tr>
<tr>
<td>Contribution to the conservation of health</td>
<td>Promote foreign trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Capitalizes the savings</td>
</tr>
<tr>
<td>Cover for legal liability</td>
<td>Development of big industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security to the mortgaged property</td>
<td>Increase in efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Awareness for future</td>
<td>Protection to employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit facility</td>
<td>Tax exemption</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
General Insurance covers are necessary for every family. It is important to protect one’s property, which one might have acquired from one’s hard earned income. A loss or damage to one’s property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, Cyclones etc have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident.

A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury. Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks etc. They need to cover their liabilities as well. Financiers insist on insurance. So, most industries or businesses that are financed by banks and other institutions do obtain covers. But are they obtaining the right covers? And are they insuring adequately are questions that need to be given some thought. Also organizations or industries that are self-financed should that they are protected by insurance. Most general insurance covers are annual contracts. However, there are few products that are long-term.

1.16 Conclusion

This chapter deals with an overview of insurance sector. The chapter covers introduction on insurance with number of terms on insurance like insurance present scenario, insurance penetration, risk covered and beneficiaries etc. the chapter also reveals the history of general insurance in the world as well as in India, back ground and definition of general insurance, importance and function of general world as well as in India, back ground and definition of general insurance, importance and function of general insurance, role of insurance in economic development, its recent development, number of insures in India, SWOT analysis of insurance sector. The chapter deals with the regal framework of insurance, the policies of general insurance companies and products of general insurance companies.
REFERENCES

- Modi, Manisha S., (2011), A comparative performance study of general insurance public sector companies in India”.