Chapter 1
Overview of Insurance Industry
1.1 Introduction
1.2 History of Insurance Sector: International Scenario
1.3 Geneses of Indian Insurance Sector
1.4 Indian Insurance Sector in International Context
1.5 India’s Insurance Industry Reform (Development)
1.6 Structure of Indian Insurance Sector
1.7 Types of Insurance Products in India
1.8 Registered Insurance Companies in India
1.9 Market Share of Life Insurers in India
1.10 Geographical Distribution of Life Insurance Offices
1.11 SWOT analysis of Indian Insurance Sector
1.12 Growth Potential in Insurance Sector of India
1.13 Human Resource dimensions of Indian Insurance Sector
1.14 Conclusion
1.1 Introduction

Insurance is the most effective risk mitigation mechanism to reduce the vulnerability of the people from the impacts of disease, disability, untimely death, and natural catastrophes. In a developing country like India, the need for such a safety net is much greater, particularly at the low income levels where vulnerability to risks is much greater and social security programs are not effective due to poor governance. Insurance reform is a prerequisite for reforms in social security, health care system and financial markets. In developed economies, insurance companies and pension funds are major sources of long-term capital and have dominant shares (50 percent or more) in total financial assets. They provide funding for end-of-service indemnity, life insurance benefits, annuity and gratuity. They also increase the depth and liquidity in stock and bond markets, particularly in long-term bonds.

The underdeveloped state of India’s insurance industry meant that nearly 90 percent of its 400 million working population did not have access to any mechanism to finance quality health care for the family members; over 90 percent of its 200 million households did not have any life insurance to protect against untimely death of their earning members; over 95 percent of its farmers did not have any protection against floods, drought and natural calamities; and most importantly, almost entire low-income and below the poverty population did not have any protection against risk arising out of sudden shocks such as crop failure, hospitalization and untimely death in the family. Clearly, the potential of the insurance industry to contribute to India’s economic growth and mitigate risk faced by an overwhelming section of the population was not being fully harnessed.

1.2 History of Insurance Sector: International Scenario

The global insurance industry is one of the largest sectors of finance. It ranges from consumer to corporate and industrial insurance, and even reinsurance, or insurance of insurance. The major insurance markets of the world are obviously the US, Europe, Japan, and South Korea. Emerging markets are found throughout Asia, specifically in

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India and China, and are also in Latin America. With the internet and other forms of high-speed communication, companies and individuals are now able to purchase insurance and related financial products from almost anywhere in the world. Increasing affluence, especially in developing countries, and a rising understanding of the need to protect wealth and human capital has led to significant growth in the insurance industry. Given the evolving and growing socio-economic conditions worldwide, insurance companies are increasingly reaching out across borders and are offering more competitive and customized products than ever before.

Global insurance platform has witnessed a phenomenal change over the past decade. The forces of globalization and liberalization have brought the insurance companies across the world closer to each other than ever before. The insurance landscape has changed significantly over the years due to many unforeseen incidents around the world like 9/11, SARS, derailment of corporate governance, natural disasters like Tsunami, Hurricane Katrina etc. Outsourcing is another major development in the insurance sector.

Over the past ten years, global insurance premiums have risen by more than 50%, with annual growth rates ranging between 2 and 10%. In 2004, global insurance premiums amounted to $3.3 trillion. The global insurance market grew by 7.6% in 2007 to reach a value of $3,688.9 billion. In 2013, the global insurance market is forecast to have a value of $4,608.5 billion, an increase of 24.9% since 2007. Life insurance dominates the global insurance market, accounting for 59.7% of the market’s value. Europe accounts for 39.3% of the global insurance market’s value. Out of total global insurance premium, life insurance premiums accounted for 57 per cent (USD 2627 billion). This share is higher in advanced economies (58 per cent) than in emerging markets (52 per cent) mainly due to the low share of life insurance in the Middle East and Central & Eastern Europe.

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3 www.insuranceinfo.my-place.us
5 www.wsbi.org
1.2.1 Top 10 Global Markets for Insurance Premium

The global insurance scenario has undergone profound changes during the last few years, accentuated by the terrorist attack on the World Trade Center on 9/11/2001. Coincidentally, the major world stock markets suffered a steep decline in value towards the end of the last century, following the dot Com bubble burst and the unprecedented corporate scandals led by Enron and WorldCom. One estimate has put it that out of a total capitalization of $750 bn the WTC attack and the stock market failures due to the burst of dot com bubble alone wiped out a capital of $ 250 bn of the industry in one stroke. As per World Insurance Report published by reinsurance major Swiss Re, the global direct premium during 2011 fell by 0.8 per cent (Year 2010: grew by 2.7 per cent). The growth situation varied significantly by regions. While in the advanced markets, premium volume slipped by 1.1 per cent, the same grew in the emerging markets at 1.3 per cent. The growth also varied by lines of business. In the Western Europe, life premiums dropped steeply by 9.8 per cent. The North America witnessed a positive growth of 2.3 per cent in its life premium. In the emerging markets, though life premium dropped by 5.1 per cent partly due to new distribution regulations in China, non-life insurance reported a smart growth of 9.1 per cent. Following are top 10 Countries which had highest Premium during the financial year 2011-12.

**Table 1.1**

**World’s Top 10 Countries (Markets)**

(Total Premium figures in $billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial Year 2001-02</th>
<th>Financial Year 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>865.3</td>
<td>12779.5</td>
</tr>
<tr>
<td>Japan</td>
<td>504.0</td>
<td>6048.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>237.0</td>
<td>2962.5</td>
</tr>
<tr>
<td>Germany</td>
<td>123.7</td>
<td>1175.2</td>
</tr>
<tr>
<td>France</td>
<td>121.9</td>
<td>1219.5</td>
</tr>
<tr>
<td>Italy</td>
<td>63.1</td>
<td>618.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>58.3</td>
<td>466.4</td>
</tr>
<tr>
<td>Canada</td>
<td>46.6</td>
<td>372.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>36.5</td>
<td>255.5</td>
</tr>
</tbody>
</table>

Source: [www.bimaonline.com](http://www.bimaonline.com)
Table 1.1 shows world’s top 10 countries which are earning highest insurance premium during the financial year 2001-02 and 2011-12. Above table shows that United States stood first for earning insurance premium during last decade. It has earn 12779.5 $billions in the financial year 2011-12 which is almost 15 times greater then financial year 2000-01. Japan stood second in the world which earns insurance premium of $6048.2 billions during financial year 2011-12. Here, it can be noted that although Japan is second in the world it has almost half earning capacity then United States. The third country which has earned highest premium was United Kingdom. It has earned $2962.5 billions in financial year 2011-12. Germany, France and Italy stood 4th, 5th and 6th position respectively in earning capacity of premium throughout the world. South Korea and Canada stood at 8th and 9th Position in the world. Netherlands stood at 10th position with $255.5 billions as premium during the financial year 2011-12. It has been observed that premium earned by United States was almost 50 times greater than premium earned by Netherlands.

1.2.2 Top 5 Emerging Insurance Markets in the World
In 2011, global economic activity continued to be uneven. While growth in developed countries surprised on the upside, emerging and developing economies grew slower than anticipated. Positives were stronger than expected consumption in the United States, declining and eventually stable oil prices, and resilience in the face of supply-chain disruptions caused by the earthquake in Japan. The slowdown in emerging and developing countries was likely a result of early monetary policy action in reaction to rising headline inflation. The insurance sector appears to have weathered the challenges of 2011 well. Despite losses caused by an exceptional series of natural catastrophes in the Asia and Pacific region, non-life insurers and reinsurers appear to have recovered most of their capital over the course of the year. As per one International Report following are the top 5 emerging insurance markets in the world. Amongst the emerging markets, life premium income fell sharply as premium volume shrank in China and India. The introduction of tighter regulations governing bancassurance in China and the distribution of unit-linked insurance products in India resulted in a sharp fall in new life premium growth. Premium underwritten slipped by 15 per cent and 8.5 per cent in China and India respectively. In contrast, other emerging regions witnessed good growth. Premium underwritten went up by 9.4 per cent in the Middle East and 9.5 per cent in the Latin America. Overall, emerging markets’ share of global life premiums
decreased slightly from 14.2 per cent in 2010 to 13.9 per cent in 2011. The non-life insurance markets in emerging economies grew faster than the advanced economies in 2011. However, the year 2011 witnessed heavy natural calamities, such as the earthquake in Japan, the country’s worst on record in terms of magnitude.

Table 1.2
Top 5 Emerging Markets (Countries) in the world
(Total Premium in $billions)

<table>
<thead>
<tr>
<th>County</th>
<th>Financial year 2011-112</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>17.3</td>
</tr>
<tr>
<td>China</td>
<td>13.4</td>
</tr>
<tr>
<td>India</td>
<td>7.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>6.1</td>
</tr>
<tr>
<td>Israel</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Source: www.bimaonline.com

Table 1.2 shows top 5 emerging Insurance Markets in the world. These countries ranked on the basis of premium earned during the financial year 2011-12. Among all the countries Taiwan stood first in emerging market with total premium earned $17.3 billions during financial year 2011-12. China has acquired $13.4 billions in financial year 2010-11 whereas India stood 3rd in the world for emerging markets in Insurance. India had recorded $7.2 billions during financial year 2011-12. It can be noted that Taiwan has recorded almost 2.5 times higher premium compared to India. Hong Kong and Israel stood 4th and 5th respectively in emerging Insurance markets in the world.

1.3 Geneses of Indian Insurance Sector
Insurance has a long history in India. It has been mentioned in the various scripts of Manusmrithi, Dharmashastra and Arthashastra. The basic work of insurance even in ancient India was same as today i.e. pooling of resources that could be re-distributed in times of difficulties and calamities such as flood, drought, fire and epidemics. So, the concept of insurance is not much new to India. No doubt, with the passage of time there have been several changes made in the concept of Insurance.

Insurance that we use today was started in India in 1818. During this time, Oriental Life Insurance Company was started by Anita Bhavsar in Calcutta. Its main purpose was to
serve the needs of European community. There was discrimination between the lives of foreigners i.e. English people and Indians during pre-independence era. If Indians took the insurance, then higher premiums were charged to them where as for English, it was lower. In 1870, Bombay Mutual Life Assurance Society has the honor of being the first Indian insurer company.

With a huge population base and large untapped market, insurance industry is a big opportunity area in India for national as well as foreign investors. India is the third largest life insurance market in the emerging insurance economies globally and is growing at 32-34% annually. This impressive growth in the market has been driven by liberalization, with new players’ significantly enhancing product awareness and promoting consumer education and information. The strong growth potential of the country has also made international players to look at the Indian insurance market. Moreover, saturation of insurance markets in many developed economies has made the Indian market more attractive for international insurance player.

India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. In the wake of reform process and passing Insurance Regulatory and Development Authority (IRDA) Act through Indian parliament in 1999, Indian Insurance was opened for private companies.

Liberalisation on the Insurance sectors has allowed the foreign players to enter the market with their Indian partners. Most of the foreign Insurers have joined within the local market. India offers immense possibilities to foreign Insurers since it is the world's most populous country having over a billion people. Insurance industry had ten and six entrants in life and non-life sector respectively in the year 2000-2001. The industry again saw two and three entrants in the life and non-life business respectively in the year 2001-2002. One additional entrant was made both in the life and in non-life business in 2004 and 2005 respectively. At present there are fourteen companies each

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6 iosrjournals.org/iosr-jbm/papers/Vol8-issue1/O081106115.pdf
in Life and General Insurance. The Funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

Private and Foreign entrants in the Insurance Industry made others difficult to retain their market. Higher customer aspirations lead to new expectations and compel him to move towards the insurer who provides him the best service in time. It becomes less viable for them even to maintain the functional networks or competitive standards and services. To survive in the Industry they analyze, the emerging requirements of the policyholders / insurers and they are in the forefront in providing essential services and introducing novel products. Thereby they become niche specialists, who provide the right service to the right person in right time. Following table shows the market share of all Life and Non Life insurance companies working in India during the financial year 2011-12.⁷

<table>
<thead>
<tr>
<th>MARKET SHARE (%)</th>
<th>LIFE INSURERS</th>
<th>NON – LIFE INSURERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. LIC</td>
<td>76.07</td>
<td>1. New India</td>
</tr>
<tr>
<td>2. ICICI Prudential</td>
<td>6.91</td>
<td>2. National</td>
</tr>
<tr>
<td>3. Bajaj Allianz</td>
<td>4.75</td>
<td>3. United India</td>
</tr>
<tr>
<td>4. HDFC Standard</td>
<td>2.98</td>
<td>4. Oriental</td>
</tr>
<tr>
<td>5. Brila Sunlife</td>
<td>1.72</td>
<td>5. ICICI- Lombard</td>
</tr>
<tr>
<td>6. Tata AIG</td>
<td>1.66</td>
<td>6. Bajaj Allianz</td>
</tr>
<tr>
<td>7. SBI Life</td>
<td>1.46</td>
<td>7. IFFCO-Tokio</td>
</tr>
<tr>
<td>8. Max New York</td>
<td>1.28</td>
<td>8. Tata-AIG</td>
</tr>
<tr>
<td>9. Aviva</td>
<td>1.08</td>
<td>9. ECGC</td>
</tr>
<tr>
<td>10. Kotak Mahindra Old Mutual</td>
<td>0.71</td>
<td>10. Royal Sundaram</td>
</tr>
<tr>
<td>11. ING Vysya</td>
<td>0.54</td>
<td>11. Cholamandalam</td>
</tr>
<tr>
<td>12. AMP Sanmar</td>
<td>0.46</td>
<td>12. HDFC-Chubb</td>
</tr>
<tr>
<td>13. Met Life</td>
<td>0.37</td>
<td>13. Reliance General</td>
</tr>
<tr>
<td>14. Sahara Life</td>
<td>0.03</td>
<td>14. Agriculture Insurance Co.</td>
</tr>
<tr>
<td>Private total</td>
<td>23.93</td>
<td>Private total</td>
</tr>
<tr>
<td>Public total</td>
<td>76.07</td>
<td>Public total</td>
</tr>
<tr>
<td>Grand total</td>
<td>100.00</td>
<td>Grand total</td>
</tr>
</tbody>
</table>

Source: www.irdaindia.org

⁷ www.irdaindia.org
Table 1.3 represents market share of all Life and Non Life Insurance companies working in India during the financial year 2011-12. In the above table shows, the private players in the life insurance business have increased their market share to 23.93 per cent. Among them ICICI prudential is ranked first in capturing the market followed by Bajaj Allianz and HDFC Standard. In the General Insurance sector the private players have captured 27.35 per cent. Among them ICICI-Lombard is ranked first, followed by Bajaj Allianz and IFFCO-Tokio. The healthy competition in the sector enabled the State owned insurers of our mother country to reduce its market share to 76.07 per cent and 72.65 percent in life and non-life business respectively. Moreover, private insurers have planned to increase their market share in the next five years. The public insurers have to enrich its approach to withhold its share.

1.4 Indian Insurance Sector in International Context

As per the World Insurance Report, published by the reinsurance major “Swiss Re”, the global direct premium during 2011 dropped by 0.8 per cent against a surge at 2.7 per cent growth witnessed in the previous year.\(^8\) Globally, life insurance premium accounted for 57 per cent of total insurance premium. This share is higher in advanced economies than in the emerging markets. During 2011, global life insurance premium dropped by 2.7 per cent to USD 2627 billion.\(^9\) The premium volume fell in Western Europe, China and India, whereas, it rose in Middle East and Latin America. As at end-September 2012, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national reinsurer. The life insurance industry recorded a premium income of ` 2, 87,072 crore during 2011-12 as against ` 2, 91,639 crore in the previous financial year, registering a negative growth of 1.57 per cent.\(^10\) While private sector insurers posted 4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, Life Insurance Corporation (LIC), the fully state owned insurance company, recorded 0.29 per cent decline (9.35 per cent growth in previous year),\(^11\) in its total premium underwritten. While the renewal premium accounted for 60.31 per cent (56.66 per cent

\(^8\) www.imf.org
\(^9\) www.isrj.net/UploadedData/2347.pdf
\(^10\) www.irda.gov.in
\(^11\) Annual report of IRDA 2011-12
in 2011-12) of the total premium received by the life insurers, first year premium contributed the remaining 39.69 per cent (43.34 per cent in 2011-12). During 2012-13, the growth in renewal premium was 4.77 per cent (6.23 per cent in 2011-12). First year premium registered a decline of 9.85 per cent in comparison to growth of 15.02 per cent during 2011-12.\textsuperscript{12}

1.4.1 Insurance Density in Selected Countries of world

Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison). India has reported consistent increase in insurance density every year since the sector was opened up for private competition in the year 2000. However, for the first time in 2011, there was a fall in insurance density. The life insurance density in India has gone up from USD 9.1 in 2001 to USD 49.0 in 2011 though it reached the peak of USD 55.7 in 2010. The insurance density of non-life sector reached the peak of USD 10.0 in 2011 from its level of USD 2.4 in 2001. Insurance density in selected countries can be represented in the form of graph as under.

Graph 1.1

Insurance Density in Top 21 Countries of World

Source: Swiss Re, Sigma No. 3/2012, data is in USD

\textsuperscript{12} www.irda.gov.in
Graph 1.1 shows Insurance density in Top 21 countries of the world. Insurance density can be represented as the ratio of premium underwritten in a given year to the total population of the country. Generally insurance density is measured in USD for common comparison through the world. Above chart shows the figures for Life Insurance and Non Life Insurance for financial year 2012. Here, it was observed that Insurance density of Switzerland was highest during that year. It was around 7850 USD during the financial year 2012. Japan stood second in Insurance density during financial year 2012. It recorded around 4000 USD for life insurance and 1500 USD for Non life insurance premium. United Kingdom stood 3rd during financial year 2012 for insurance density. It is very much clear from above chart that India stood on 20th position regarding insurance density in the world. It has recorded around 60 USD for life insurance and 50 USD for non life insurance premium. It can be concluded that there is wide scope of insurance in India.

1.4.2 Insurance Density in Asia and India’s status
The measure of insurance density reflects the level of development of insurance sector in a country. Insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density for every subsequent year. Following graph shows Insurance Density in India with comparison to top ten Asian countries.

Source: Annual Report of IRDA, 2012
Graph no. 1.2 shows insurance density in Asia and India’s status. The chart also shows top ten countries in term of insurance density. It is very clear from above chart that Japan stood first in insurance density in Asia. It has recorded around 5500 USD insurance density. Hong Kong and Singapore stood 2\textsuperscript{nd} and 3\textsuperscript{rd} respectively in case of insurance density. Here, it can be noted that India secured 9\textsuperscript{th} position in insurance density in Asia. The insurance density in India showed a continuous increasing trend since liberalization.

1.4.3 Insurance Penetration in Selected Countries

Insurance penetration is defined as the ratio of total premium collected to the total Gross Domestic Product (GDP) of an economy and is usually expressed in the percentage form. The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. It has been shown that insurance penetration and per capita income have a strong non-linear relationship. Insurance Penetration of top 20 countries in the world is shown as under. The data shows in USD billion for the financial year 2012.

<table>
<thead>
<tr>
<th>Country</th>
<th>Life</th>
<th>Non Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>5500</td>
<td>5500</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5000</td>
<td>5000</td>
</tr>
<tr>
<td>Singapore</td>
<td>4500</td>
<td>4500</td>
</tr>
<tr>
<td>India</td>
<td>900</td>
<td>900</td>
</tr>
</tbody>
</table>

Graph 1.3 shows insurance penetration of top 20 countries in the world. Insurance penetration is shown in USD billions during financial year 2012. The chart clearly
shows that Taiwan stood first in insurance penetration in the world. It recorded around 12 USD for Life business and 3 USD for non-life business in the world. It reveals from the above table that South Africa and United Kingdom stood 2\textsuperscript{nd} and 3\textsuperscript{rd} position respectively during the financial year 2012. World average penetration for life business and non-life business is around 4 USD and 3 USD respectively. It is very clear that India stood at 16\textsuperscript{th} position in entire world. India’s insurance penetration showed continuous increasing trend during last decade.

1.4.4 Insurance Penetration in Asia

Insurance penetration (premiums as a percentage of GDP) has remained stable at a relatively low level in the early 1990s. Total insurance penetration in India was 1.5\% in 1990 and was not much higher by the middle of the decade. The non-life insurers might also have led for the low non-life insurance penetration in the country, as compared to the penetration of the life insurance in India. Following chart shows Insurance penetration in Asia with comparison to India.

![Graph 1.4](image)

Source: Annual Report of IRDA, 2012

One of the important factors that influence insurance penetration is the capital requirement under the solvency margin. The pure term products provide simple life cover and it is believed that companies could design products, which could reach
various segments of the population in meeting their insurance needs, thereby enhancing insurance penetration. Chart 1.4 clearly shows insurance penetration in Asia. It is very clear from the above chart that Taiwan stood first and China stood last in insurance penetration. Chart also reveals that India stood at 9th position in Asia regarding insurance penetration. It is to be noted that penetration of insurance both life and non life showed increasing trend during financial year 2012.

1.4.5 Insurance Premium in Asia

The Indian insurance market is the 19th largest globally and ranks 5th in Asia, after Japan, South Korea, China and Taiwan. In 2012, total gross premiums collected amount to USD 17.3 billion, representing just under 0.6% of world premiums. Similar to the pattern observed in other regional markets, and reflecting the country’s high savings rate, life insurance business accounted for 78.5% of total gross premiums collected in the year, against 21.5% for non-life insurance business. This can be explained in the form of graph as under. Here figures are in USD billions.

Graph 1.5 shows the Insurance premium received in USD billions by Top 10 Asian Countries. Here, India has secured 5th position in Asia. Japan has received highest premium in USD billions during the financial year 2012-13 and secured first position in Asia. It is also to be noted that premium collected under life insurance is almost four
times greater premium collected under non-life insurance head. South Korea stood second and China stood at third position in entire Asia. Taiwan also collected higher premium than India and secured 4th position in Asia regarding collection of premium. It is a matter of great pleasure for Indian economy that it could secure 5th position in entire Asia in collection of premium during financial year 2012-13. It has been observed from above chart that in all top 10 countries premium collected under life insurance head is always greater than premium collected under non-life insurance segment.

1.5 India’s Insurance Industry Reform (Development)
The beginnings of the insurance industry in India date back to the nineteenth century when the first life insurance company was established at Kolkata in 1818. Subsequently, the first general insurance company commenced operations at Kolkata in 1850. Over the years the industry expanded, with numerous entities operating in both life and general insurance segments. The insurance business is normally classified into two segments viz. life and non-life. General insurance is part of the non-life segment and refers to fire, marine and miscellaneous insurance. The term “miscellaneous insurance” includes engineering, motor vehicle insurance, health insurance, etc. Significant milestones in the development of the insurance sector are described as under.

1.5.1 Insurance in India: Milestones
- 1938- Enactment of the Insurance Act, 1938, replaced earlier legislation and consolidated the law relating to both life and general insurance.
- 1968- Amendment of the Insurance Act, 1938 providing for, the establishment of the Tariff Advisory Committee (TAC) to fix, control and regulate premium rates and conditions of policies.
- 1972- Enactment of the General Insurance Business (Nationalization) Act, 1972, paving the way for the formation of the General Insurance Corporation of India (GIC) along with its four subsidiaries viz. the United India Insurance
Company (UIIC), the New India Assurance Company Limited (NIAC), the National Insurance Company Limited (NIC) and the Oriental Insurance Company Limited (OIC). These companies were given the exclusive privilege of carrying on general insurance business in India.

- **1994-** The Committee, headed by Shri R.N. Malhotra, submitted its report on the structure of the insurance industry making significant recommendations like allowing domestic and foreign operators entry into the sector and setting up an independent insurance regulatory authority.

- **1999-** The Insurance Regulatory and Development Authority (IRDA) Act, 1999 was enacted with the objectives of protecting the interests of holders of insurance policies and to regulate, promote and ensure the orderly growth of the insurance industry. The IRDA Act also amended the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972, withdrawing the exclusive privilege of the LIC and GIC and its subsidiaries of carrying on life and general insurance business.

- **2002-** The General Insurance Business (Nationalization) Act, 1972 was amended. Consequently, the four subsidiary companies of GIC became independent companies wholly owned by the Government of India. The role of GIC was restricted to the business of reinsurance.

- By mid-2004, there were 21 private sector insurance companies operating in India, alongside eight public sector companies. Of these, there were 14 life insurance companies comprising one public (the old monopoly) and 13 private companies. Most private companies had foreign participation up to the permissible limit of 26% of equity. One such charter worth special mention is the joint venture between the State Bank of India (SBI) and Cardif SA of France (the insurance arm of BNP Paribas Bank) – SBI Life Insurance Company Limited.

### 1.6 Structure of Indian Insurance Sector

Broadly analyzing, before the opening of the insurance sector, the state-owned LIC sold insurance as a tax-efficient savings instrument rather than just offering protection. Most customers were underinsured with little flexibility or transparency in their policies. With the entry of the private insurers, consumers are now turning to the private sector for new innovative products.
The LIC has traditionally sold life business using tied agents (in-house sales forces are not a traditional feature of the Indian life market). All life insurers have tied agents working on a commission basis only, and the majority of private-sector insurers have followed this approach in distributing life products. Nevertheless, as banks are now able to sell insurance products, bancassurance has made a major impact in life sales. Almost all private sector insurers have formed alliances with banks, with a few of the insurers using bancassurance as their major source of new business. Insurance in India can be sold out in following ways.

**Chart 1.1**

*Selling of Insurance Products in India*
1.6.1 Tied Agents
Tied agents have traditionally been the primary channels for insurance distribution in the Indian market. The LIC has branches in almost all parts of the country and has attracted local people to become their agents. The agents come from various segments within society, collectively covering the entire spectrum of society. Traditionally, a person who has lived in a locality for many years sells the products of the insurance company with a local branch nearby. While these agents may not have been sufficiently knowledgeable about the different products offered and may not have sold the best possible product to customers, the customers trusted the company and the agents as locals. While tied agents continue to be the prime channel for insurance distribution in India, they are increasingly being supplemented by other channels in the face of tougher competition.

1.6.2 Brokers
The Insurance Regulatory and Development Authority (Insurance Brokers) Regulations of 2002 set out the requirements for the licensing and operation of insurance brokers in India. The Regulations stipulate a minimum capital requirement of INR 35 million for direct brokers, and at the same time a 26% cap on foreign equity shares. As of November 2012, there were 1470 registered direct insurance brokers in India. While there are no official statistics on premiums generated by brokers, their short span of operation and the market’s reliance on other channels suggest their contribution to be relatively limited so far.

1.6.3 Direct Marketing
Direct marketing in the past was mainly in the form of direct mailing by banks to their accountholders marketing insurance products provided by their allied life insurers. However, only the insurers were allowed to sell these products. As banks and brokers are now allowed to sell life business direct, these types of direct mailings are likely to increase. Moreover, as the range of products available widens, sales contributed by direct mailing are expected to increase. At the same time, expenditure on advertising by insurers has also grown significantly as insurers attempt to gain attention from the public on a wide range of products and services, as well as educating them on the benefits of life insurance, and in particular, protection-type products.
1.6.4 E-commerce
The Internet has not been a major source of distribution for insurers. Of the population of over one billion in India, around 159.5 million people were estimated to be Internet users by 2013. Almost all life insurers have a website, where the services provided are mainly confined to accessing product information and rate quotes etc. Nevertheless, premium payments can now be made via credit card, the Internet, e-transfer, direct debit and bankers’ draft, and this should allow insurers to better develop an e-strategy.

1.6.5 Bancassurance
Bancassurance is emerging as an important new avenue of distribution of insurance in India. Some insurance companies like SBI Life are heavily devoting their resources to and successfully implementing bancassurance. According to the Reserve Bank of India (RBI), banks with at least INR 50 billion net worth and a three-year profit record may set up insurance companies subject to a 50% shareholding limit. A higher shareholding may be permitted by the RBI subject to the regulations set out in the Insurance Regulatory and Development Authority Act, 1999, where Indian promoters must gradually reduce shareholdings to 26% after the insurer has been in operation for ten years.

1.7 Types of Insurance Products in India
Depending on their objectives, there are at least three types of life insurance policy classifications. A life insurance policy could offer pure protection (insurance), another variant could offer protection as well as investment while some others could offer only investment. In India, life insurance has been used more for investment purposes than for protection in one’s overall financial planning.

Insurance is the most effective risk mitigation mechanism to reduce the vulnerability of the people from the impacts of disease, disability, untimely death, and natural catastrophes. In a developing country like India the need for such a safety net is much greater, particular at the low income levels where vulnerability to risks is much greater and social security programs are not effective due to poor governance. Insurance reform is a prerequisite for reforms in social security, health care system and financial markets. In developed economies insurance companies and pension funds are major source of
long-term capital and have dominant share (50 percent or more) in total financial assets. Following chart depicts types of insurance products sold in India.

**Chart 1.2**

**Types of Insurance Products in India**

Source: based on the products sold by Indian Insurance companies

**1.7.1 Life Insurance**

Life insurance is the most discussed stuff in the industry. Most of the people know about the insurance but they do not the difference of the same. The good thing about insurance is that the awareness has been increasing over a period of time. A decade back, people used to buy insurance because somebody forms their family or friends force him/her to buy it. But now people buy insurance to mitigate the risk. People have started understanding the need of an hour. Life insurance can be classified as whole life plan, endowment, term plan, money back plan and Unit Linked Insurance Plan (ULIP). Life insurance products can be categorised into three categories i.e. Pure Insurance Products, Insurance cum Investment Products and only Investment Products.
(A) Pure Insurance Product

1.7.1.1 Term Plans

Unfortunately, in the pure insurance category, there is only one product available which is called term insurance. Term insurance policy covers only the risk of your dying. You pay premium year on year to the insurance company and if you die, the insurance amount, called the Sum Assured, is paid out to the nominees. If you survive, you don’t get anything and lose the yearly premiums you paid. Since everything that you pay goes towards covering the risk on your life, term insurance is the cheapest. There are no investments clubbed with a pure term insurance plan. There is a variant of term insurance called term-insurance-with-return-of-premium wherein the premiums you pay are returned to you at the end of the policy term. The premium for such policies will obviously be more as compared to pure term plans.

(B) Insurance-cum-Investment Products

As the name goes, these are plans that provide insurance and along with it return on investments.

1.7.1.2 Endowment Plans

Take a term plan and add an offer of some returns on the premiums you pay – that is an endowment policy for you. If you survive the policy term, you get the sum assured plus the returns and if you die during the policy tenure, you still get the sum assured plus some returns. To get these returns along with the life cover, you end up paying more premiums. It is from these yearly premiums that the insurance company covers you for protection, invests to give you some returns and deducts administrative expenses. That makes the overall yield of an endowment plan somewhere between 4-7%. There are two types.

Without-profit endowment plans: These plans do not participate in the profits the insurance company makes each year. Apart from the sum assured, you could possibly

13 http://3swealth.com/insurance/
get a loyalty bonus, which is a onetime payout made in appreciation of sticking to the insurance company.

**With-profit endowment plans:** These plans share the profits the insurance company makes each year with the policyholder. So they offer more returns than without-profit endowment plans and are more expensive as well – that it, for all parameters considered same, the premiums will be higher than without-profit endowment plans. If beneficiary know at the beginning what the profit is, then he/she has picked up an assured returns insurance plan and this in insurance parlance is called guaranteed additions. In case the assurance is shaky or non-guaranteed, it is called bonuses. Bonuses are to insurance policies what dividends are to shares. None guaranteed. Watch out for these terminologies.

**1.7.1.3 Money-back plans**
Money-back plans are variants of endowment plans with one difference – the payout can be staggered through the policy term. Some part of the sum assured is returned to the policy holder at periodic intervals through the policy tenure. In case of death, the full sum assured is paid out irrespective of the payouts already made. Bonus is also calculated on the full sum assured and not the balance money left. Because of these two reasons, premiums on money-back plans are higher than endowment plans.

**1.7.1.4 Whole-life plans**
Term plans, endowment plans and money back plans offer insurance cover till a specified age, generally 70 years. Whole-life plans provide cover throughout your life. Usually, the policyholder is given an option to pay premiums till a certain age or a specified period (called maturity age). On reaching the maturity age, the policyholder has the option to continue the cover till death without paying any premium or enchasing the sum assured and bonuses.

**1.7.1.5 Unit-linked insurance plans (ULIP)**
In all the above mentioned insurance-cum-investment products, you have no say on where your money is invested. To keep your money safe, most of these products will invest in debt. Unit-linked insurance plans give you greater control on where your premium can be invested. Think of them like mutual funds. The annual premium you
pay can be invested in various types of funds that invest in debt and equity in a proportion that suits all types of investors. You can switch from one fund plan to another freely and you can also monitor the performance of your plan easily. There are various charges to be aware of in a ULIP and is suitable for those who understand the stock market well. Of late, ULIPs qualified as the most abused insurance plan.

(C) Investment Products

1.7.1.6 Pension Plans

Pension plans are investment options that let you set up an income stream in your post retirement years by giving away your savings to an insurance company who invests it on your behalf for a fee. The returns you get depends on a host of factors like how much you contributed and when is it that you started, the number of years when you want the money to come to you and at what age that starts. When one buy the pension plan contract, if the payment to you (called annuity) starts immediately it is called an immediate annuity contract. However, if the payout starts after some years of deferment, it is called a deferred annuity.

1.7.2 Non – Life Insurance (General Insurance)

General insurance is basically non life insurance, which is meant for short period of time, ideally twelve month or less. Now a day, some companies make contracts for more than twelve month but not more than 5 years. Vehicle insurance, fire insurance, marine insurance etc. falls under general insurance category. General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event. General insurance typically comprises any insurance that is not determined to be life insurance. It is called property and casualty insurance in India and Non-Life Insurance in Continental European countries.

1.7.2.1 Car Insurance

Confused over which company to choose to get your lovable ride insured? Let us dispel all your doubts by getting you fast online quotes. Our experts are happy to help you choose the best policy in terms of premium, coverage and features. Compare online and save big bucks!
1.7.2.2 Two Wheeler Insurance
We know your love for your mean machine. That's why we bring to you the best of two-wheeler insurance. Get a comprehensive plan that covers you against damage done by you as well as to you. Whether you are looking to get a new plan for your two-wheeler or renew your existing plan, we help you find the best quotes as per your needs.

1.7.2.3 Travel Insurance
All packed up, ready to go … hey wait! Got your travel insurance? Get it right here. Whether you are off on a vacation with your family or on a business trip, you never know what might come upon you whilst abroad; always have your travel insurance to back you up. Find the right travel insurance with us.

1.7.2.4 Home Insurance
Want to insure your most treasured possession? Safeguard the structure and contents of your home against natural calamities and human misintents. Get a comprehensive coverage for the lowest premium rate. The best deal is just a click away!

1.7.2.5 Corporate Insurance
Employees are the biggest assets of any organization. Show them that you care with a Corporate Insurance that protects them against illnesses, personal accidents and other eventualities. We help you choose a plan that gives you the best coverage at minimal rates.

1.7.3 Health Insurance
Types of Health Insurance
With over 200 hundred plans available in the market, which can be segregated into 8 broad types of health insurance:

1.7.3.1 Cashless Mediclaim
Cashless Mediclaim plans are those which allow a policyholder to get admitted into a network hospital without the need of a paying any upfront admission fee and discharge fee as the same is paid by the health insurer. The cashless mediclaim reimbursement is capped to the level of sum assured the person has and the coverage’s under the plan.
1.7.3.2 Family Floater Plan
Family Floater Plans refer to those which cover the entire family under one plan. Under a family floater plan the people covered share the total health insurance available to them. The benefit under such a plan is that since a large group of people share the same insurance cover the premium to be paid is far lesser in case they all would have bought an individual plans for themselves.

Taking an example, if a family of 4 (2 Adults and 2 Children) takes a family floater plan then there premium for a health cover of say around Rs. 5 Lacs would be close to Rs. 10,000, whereas, if all of them had a separate plan of Rs. 5 Lacs their premium would have exceeded Rs. 12,000 easily.

1.7.3.3 Individual Health Insurance
Individual Health Insurance plan offer more protection to a policyholder, as in such a policy the policyholder can consume the entire amount alone without have to worry about sharing it with other members of his family incase of a floater policy.

1.7.3.4 Group Health Insurance
Whenever a large group of people say over 20 who work, stay or are bonded by some nature of job are willing to get a Health insurance plan, they should opt for a Group Health Policy. Under a group health policy people who may have adverse health condition can also easily get health cover due to the greater negotiating power that a group contains versus a individual policy.

1.7.3.5 Travel Health Insurance
Whenever a person is travelling outside the geographical boundary of his / her health insurance plan it is always advisable that they take a Travel Health insurance plan. This is advised so that the person in-case falls sick or has any other medical emergency abroad need not worry about the high cost of healthcare in a foreign land. This is also mandatory to buy before travelling to a certain countries.
1.7.3.6 Critical Health Insurance
A critical health insurance policy helps cover certain set of diseases as prescribed under a policy only. As the name suggest critical health insurance, they cover all those major diseases which are either terminal or can reduce the human body to a vegetative state. Some of these would include, Alzheimer's disease, blindness, deafness, kidney failure, major organ transplant, multiple sclerosis, HIV/AIDS contracted by blood transfusion or during an operation, Parkinson's disease.

1.7.3.7 Hospitalization
Hospitalization plans only pay a pre-fixed amount as per the level of coverage for the room rent only. These plans are cheaper when compared to full indemnity plans as they do not pay for any treatments and medicines used during the course of hospitalization, as they only pay for room rent.

1.7.3.7 Senior Citizen Health Insurance
As a person enters the golden age as many state of 60yrs, they start to lead a new life a life of a retired person. The needs and wants of a person at this age are completely different from those that they would have had at age 40 yrs or 50 yrs. Thus they need health insurance plans which are suited best for them at this age, but sadly enough there aren’t many. When a person above 60yrs of age goes to buy a health insurance plan he needs to check:

i. The network hospital closest to his residence
ii. Co-Payment options which will ensure his hospital bills are never stopped
iii. Lowest time frame for coverage of pre-existing disease
iv. Lowest amount of waiting period

1.7.3.8 Maternity Insurance
Standalone maternity insurance are a rarity, thus many insurers include this as a part of their regular policies and also critical illness policies that they specifically design for women. Under maternity insurance, the female is covered for any complication that arises during her pregnancy and related to child birth.
1.7.4 Reinsurance

The practice of insurers transferring portions of risk portfolios to other parties by some form of agreement in order to reduce the likelihood of having to pay a large obligation resulting from an insurance claim, can be known as Reinsurance. The intent of reinsurance is for an insurance company to reduce the risks associated with underwritten policies by spreading risks across alternative institutions. It is also known as "insurance for insurers" or "stop-loss insurance". Reinsurance is insurance that is purchased by an insurance company (the "ceding company" or "cedant" or "cedent" under the arrangement) from one or more other insurance companies (the "reinsurer") as a means of risk management, sometimes in practice including tax mitigation and other reasons described below. The ceding company and the reinsurer enter into a reinsurance agreement which details the conditions upon which the reinsurer would pay a share of the claims incurred by the ceding company. The reinsurer is paid a "reinsurance premium" by the ceding company, which issues insurance policies to its own policyholders.

1.7.4.1 There are two basic methods of reinsurance:

1. Facultative Reinsurance, which is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance is normally purchased by ceding companies for individual risks not covered, or insufficiently covered, by their reinsurance treaties, for amounts in excess of the monetary limits of their reinsurance treaties and for unusual risks. Underwriting expenses, and in particular personnel costs, are higher for such business because each risk is individually underwritten and administered. However as they can separately evaluate each risk reinsured, the reinsurer's underwriter can price the contract to more accurately reflect the risks involved.

2. Treaty Reinsurance means that the ceding company and the reinsurer negotiate and execute a reinsurance contract. The reinsurer then covers the specified share of all the insurance policies issued by the ceding company which come within the scope of that contract. The reinsurance contract may oblige the reinsurer to accept reinsurance of all contracts within the scope (known as "obligatory" reinsurance), or it may require the insurer to give the reinsurer the option to reinsure each such contract (known as "facultative-obligatory" or "facoblig" reinsurance).
There are two main types of treaty reinsurance, proportional and non-proportional, which are detailed below. Under proportional reinsurance, the reinsurer's share of the risk is defined for each separate policy, while under non-proportional reinsurance the reinsurer's liability is based on the aggregate claims incurred by the ceding office. In the past 30 years there has been a major shift from proportional to non-proportional reinsurance in the property and casualty fields.

1.7.4.2 Functions
Almost all insurance companies have a reinsurance program. The ultimate goal of that program is to reduce their exposure to loss by passing part of the risk of loss to a reinsurer or a group of reinsurers. In the USA, insurance, which is regulated at the state level, permits an insurer only to issue policies with a maximum limit of 10% of their surplus (net worth), unless those policies are reinsured. In other jurisdictions allowance is typically made for reinsurance when determining statutory required solvency margins.

(A) Risk transfer
With reinsurance, the insurer can issue policies with higher limits than would otherwise be allowed, thus being able to take on more risk because some of that risk is now transferred to the reinsurer. The reason for this is the number of insurers that have suffered significant losses and become financially impaired. Over the years there has been a tendency for reinsurance to become a science rather than an art: thus reinsurers have become much more reliant on actuarial models and on tight review of the companies they are willing to reinsure. They review their financials closely, examine the experience of the proposed business to be reinsured, review the underwriters that will write that business, review their rates, and much more. Almost all reinsurers now visit the insurance company and review underwriting and claim files and more.

(B) Income Smoothing
Reinsurance can make an insurance company's results more predictable by absorbing larger losses and reducing the amount of capital needed to provide coverage. The risks are diversified, with the reinsurer bearing some of the loss incurred by the insurance company.

(C) Surplus Relief
An insurance company's writings are limited by its balance sheet (this test is known as the solvency margin). When that limit is reached, an insurer can do one of the following: stop writing new business, increase its capital, or (in the USA) buy "surplus relief".

(D) Arbitrage
The insurance company may be motivated by arbitrage in purchasing reinsurance coverage at a lower rate than they charge the insured for the underlying risk, whatever the class of insurance. In general, the reinsurer may be able to cover the risk at a lower premium than the insurer because:

- The reinsurer may have some intrinsic cost advantage due to economies of scale or some other efficiency.
- Reinsurers may operate under weaker regulation than their clients. This enables them to use less capital to cover any risk, and to make less prudent assumptions when valuing the risk.
- Reinsurers may operate under a more favourable tax regime than their clients.
- Reinsurers will often have better access to underwriting expertise and to claims experience data, enabling them to assess the risk more accurately and reduce the need for contingency margins in pricing the risk.
- Even if the regulatory standards are the same, the reinsurer may be able to hold smaller actuarial reserves than the cedant if it thinks the premiums charged by the cedant are excessively prudent.
- The reinsurer may have a more diverse portfolio of assets and especially liabilities than the cedant. This may create opportunities for hedging that the cedant could not exploit alone. Depending on the regulations imposed on the reinsurer, this may mean they can hold fewer assets to cover the risk.
- The reinsurer may have a greater risk appetite than the insurer.

(E) Reinsurer's Expertise
The insurance company may want to avail itself of the expertise of a reinsurer, or the reinsurer's ability to set an appropriate premium, in regard to a specific (specialised) risk. The reinsurer will also wish to apply this expertise to the underwriting in order to protect their own interests.
(F) Creating a manageable and profitable portfolio of insured risks
By choosing a particular type of reinsurance method, the insurance company may be able to create a more balanced and heterogenous portfolio of insured risks. This would lend greater predictability to the portfolio results on net basis (after reinsurance) and would be reflected in income smoothing. While income smoothing is one of the objectives of reinsurance arrangements, the mechanism is by way of balancing the portfolio.

1.7.4.3 Types of Reinsurance
(A) Proportional
Under proportional reinsurance, one or more reinsurers take a stated percentage share of each policy that an insurer produces ("writes"). This means that the reinsurer will receive that stated percentage of the premiums and will pay the same percentage of claims. In addition, the reinsurer will allow a "ceding commission" to the insurer to cover the costs incurred by the insurer (marketing, underwriting, claims etc.). The arrangement may be "quota share" or "surplus reinsurance" (also known as surplus of line or variable quota share treaty) or a combination of the two. Under a quota share arrangement, a fixed percentage (say 75%) of each insurance policy is reinsured. Under a surplus share arrangement, the ceding company decides on a "retention limit" - say $100,000. The ceding company retains the full amount of each risk, with a maximum of $100,000 per policy or per risk, and the balance of the risk is reinsured.14

The ceding company may seek a quota share arrangement for several reasons. First, they may not have sufficient capital to prudently retain all of the business that it can sell. For example, it may only be able to offer a total of $100 million in coverage, but by reinsuring 75% of it, it can sell four times as much. The ceding company may seek surplus reinsurance simply to limit the losses it might incur from a small number of large claims as a result of random fluctuations in experience.

(B) Non-proportional

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14 Enterprise risk management (ERM): High-impact Strategies by Kevin Roebuck
Under non-proportional reinsurance the reinsurer only pays out if the total claims suffered by the insurer in a given period exceed a stated amount, which is called the "retention" or "priority". For instance the insurer may be prepared to accept a total loss up to $1 million, and purchases a layer of reinsurance of $4 million in excess of this $1 million. If a loss of $3 million were then to occur, the insurer would bear $1 million of the loss and would recover $2 million from its reinsurer. In this example, the insured also retains any excess of loss over $5 million unless it has purchased a further excess layer of reinsurance. The main forms of non-proportional reinsurance are excess of loss and stop loss.

(C) Excess of loss reinsurance
It can have three forms - "Per Risk XL" (Working XL),\(^{15}\) "Per Occurrence or Per Event XL" (Catastrophe or Cat XL), and "Aggregate XL". In per risk, the cedant's insurance policy limits are greater than the reinsurance retention. For example, an insurance company might insure commercial property risks with policy limits up to $10 million, and then buy per risk reinsurance of $5 million in excess of $5 million. In this case a loss of $6 million on that policy will result in the recovery of $1 million from the reinsurer. These contracts usually contain event limits to prevent their misuse as a substitute for Catastrophe XLS.

(D) Catastrophe
In catastrophe excess of loss, the cedant's retention is usually a multiple of the underlying policy limits, and the reinsurance contract usually contains a two risk warranty (i.e. they are designed to protect the cedant against catastrophic events that involve more than one policy, usually very many policies). For example, an insurance company issues homeowners' policies with limits of up to $500,000 and then buys catastrophe reinsurance of $22,000,000 in excess of $3,000,000. In that case, the insurance company would only recover from reinsurers in the event of multiple policy losses in one event (e.g. hurricane, earthquake, flood).

\(^{15}\) Enterprise risk management (ERM): High-impact Strategies by Kevin Roebuck
(E) Aggregate XL
Aggregate XL affords a frequency protection to the reinsured. For instance if the company retains $1 million net any one vessel, $5m annual aggregate limit in excess of $5m annual aggregate deductible, the cover would equate to 5 total losses (or more partial losses) in excess of 5 total losses (or more partial losses). Aggregate covers can also be linked to the cedant's gross premium income during a 12 month period, with limit and deductible expressed as percentages and amounts. Such covers are then known as "Stop Loss" contracts.

1.7.5 Micro Insurance
Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved. This definition is exactly the same as one might use for regular insurance except for the clearly prescribed target market: low-income people. The target population typically consists of persons ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products. The institutions or set of institutions implementing Microinsurance are commonly referred to as a Microinsurance scheme.

1.7.5.1 Different Meanings of Microinsurance
Microinsurance is insurance with low premiums and low caps / coverage. In this definition, “micro” refers to the small financial transaction that each insurance policy generates. “General Microinsurance product means health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule-I appended to these regulations”; and “life Microinsurance product” means any term insurance contract with or without return of premium, any endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis, as per terms stated in Schedule-II appended to these regulations as those within defined (low) minimum and maximum caps. The IRDA’s characterization of Microinsurance by the product features is further complemented by their definition for Microinsurance agents, those appointed by and acting for an insurer, for distribution of Microinsurance products (and only those products).
Microinsurance is a financial arrangement to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. The author of this definition adds that microinsurance does not refer to: (i) the size of the risk-carrier (some are small and even informal, others very large companies); (ii) the scope of the risk (the risks themselves are by no means “micro” to the households that experience them); (iii) the delivery channel: it can be delivered through a variety of different channels, including small community-based schemes, credit unions or other types of microfinance institutions, but also by enormous multinational insurance companies, etc.

Insurance functions on the concept of risk pooling, and likewise, regardless of its small unit size and its activities at the level of single communities, so does Microinsurance. Microinsurance links multiple small units into larger structures, creating networks that enhance both insurance functions (through broader risk pools) and support structures for improved governance (i.e. training, data banks, research facilities, access to reinsurance etc.). This mechanism is conceived as an autonomous enterprise, independent of permanent external financial lifelines, and its main objective is to pool both risks and resources of whole groups for the purpose of providing financial protection to all members against the financial consequences of mutually determined risks.

1.7.5.2 Microinsurance Delivery Models
One of the greatest challenges for Microinsurance is the actual delivery to clients. Methods and models for doing so vary depending on the organization, institution, and provider involved. As Dubby Mahalanobis states, one must be thorough and careful when making policies, otherwise Microinsurance could do more harm than good. Tricky challenges In general, there are four main methods for offering Microinsurance the partner-agent model, the provider-driven model, the full-service model, and the community-based model. Each of these models has their own advantages and disadvantages.

(A) Partner Agent Model
A partnership is formed between the micro insurance(partner as MFI) scheme and an agent (insurance companies), and in some cases a third-party healthcare provider. The
Microinsurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, Microinsurance schemes benefit from limited risk, but are also disadvantaged in their limited control. Micro Insurance Centre is an example of an organization using this model.

(B) Full Service Model
The Microinsurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering Microinsurance schemes full control, yet the disadvantage of higher risks.

(C) Provider-Driven Model
The healthcare provider is the Microinsurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.

(D) Community-Based/Mutual Model
The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

1.8 Registered Insurance Companies in India
Indian insurance sector has remained on rails even in the toughest of the times, thanks to the Insurance Regulatory and Development Authority (IRDA)'s tough and conservative apparatus. A sound insurance segment ensures better economic development as indicated by a study which states that 1 per cent increase in insurance penetration leads to 13 per cent reduction in uninsured losses and 22 per cent reduction in taxpayers' contribution to recovery following a natural catastrophe.
Table 1.4
Registered Insurers in India
(As on 30th September, 2012)

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>1</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>General Insurance</td>
<td>6</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>44</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report – 2012-13

At the end-September 2012, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in general insurance business. In addition, GIC is the sole national reinsurer. Of the fifty-two companies presently in operations, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in general insurance and one in reinsurance. The remaining forty-four companies are in the private sector. Following table shows number of public and private insurance companies working in India.

1.9 Market Share of Life Insurers in India
Life insurance industry is capital intensive, and insurers are required to infuse capital at regular intervals to fund both the new business strain and to expand their infrastructure base including expenses on initial operations, training costs for development of the distribution channels, creating niche markets, achieving reasonable levels of persistency. The experience of the insurance markets globally indicates that companies in the life sector take seven to ten years to break-even. On the basis of total premium income, the market share of LIC increased marginally from 69.77 per cent in 2011-12 to 70.68 per cent in 2012-13. Accordingly, the market share of private insurers has gone down marginally from 30.23 per cent in 2011-12 to 29.32 per cent in 2012-13.
# Table 1.5
Market Share: Life Insurers

<table>
<thead>
<tr>
<th>Insurers</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regular Premium</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>56.71</td>
<td>64.58</td>
</tr>
<tr>
<td>Private Sector</td>
<td>43.29</td>
<td>35.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Single Premium</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>81.26</td>
<td>80.58</td>
</tr>
<tr>
<td>Private Sector</td>
<td>18.74</td>
<td>19.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>First Year Premium</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>68.84</td>
<td>71.85</td>
</tr>
<tr>
<td>Private Sector</td>
<td>31.16</td>
<td>28.15</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Renewal Premium</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>70.48</td>
<td>69.91</td>
</tr>
<tr>
<td>Private Sector</td>
<td>29.52</td>
<td>30.09</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Total Premium</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>69.77</td>
<td>70.68</td>
</tr>
<tr>
<td>Private Sector</td>
<td>30.23</td>
<td>29.32</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2012-13

Table 1.5 shows the market share of Private and Public companies working in India with respect to Regular Premium, Single Premium, First Year Premium, Renewal Premium and Total Premium for two consecutive financial years i.e. 2011-12 and financial year 2012-13. Comparing regular premium during these two years, LIC still holds the market by acquiring share of 64.58 per cent during financial year 2012-13 which was higher by almost 8 per cent comparing to previous year i.e. 56.71 per cent. During the same period, market share of private insurance companies gone down and it reached at 35.42 per cent in financial year 2012-13 from 43.29 per cent in the financial year 2011-12. Comparing single premium plans of insurers in India, share of LIC was much higher i.e. 80.58 per cent than consolidated share of all private companies i.e. 19.42 per cent during the financial year 2012-13. It is also to be noted that in single premium plan market share of LIC has marginally reduced in the financial year 2012-13 compare to financial year 2011-12. Comparing first year premium of LIC and private
insurance companies, LIC holds 71.85 per cent market share during financial year 2012-13 which was higher than previous year. It can be concluded that still people of India is having higher trust than private insurance providers. It is clear from the above table that renewal premium in LIC has marginally decreased from 70.48 per cent during financial year 2011-12 to 69.91 per cent during financial year 2012-13.

1.10 Geographical Distribution of Life Insurance Offices

The Indian insurance sector has witnessed significant growth - the number of life policies in force has increased nearly 12-fold over 2000-2010, and health insurance policies nearly 25-fold. Factors like better terms, availability of a wide variety of products (like unit-linked insurance products, whole life, maximum net asset value (NAV) guarantee etc), and government incentives have boosted the growth of the industry. Private and public insurance companies have their own offices in almost all part of India. Following table shows geographical distribution of life insurance office in India as on 31st March, 2013.

Table No. 1.6
Geographical Spread of Life Insurance offices in India

<table>
<thead>
<tr>
<th>Insurance Companies</th>
<th>Metro Cities</th>
<th>Urban Area</th>
<th>Semi Urban Area</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>741</td>
<td>1393</td>
<td>3822</td>
<td>1756</td>
<td>7712</td>
</tr>
<tr>
<td>LIC</td>
<td>365</td>
<td>563</td>
<td>970</td>
<td>1557</td>
<td>3455</td>
</tr>
<tr>
<td>Industry</td>
<td>1106</td>
<td>1956</td>
<td>4792</td>
<td>3313</td>
<td>11167</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2012-13

Table 1.6 depicts geographical spread of Life Insurance offices in India as on March 31, 2013. Here, geographically India is divided into four major parts, i.e. Metro Cities, Urban Area, Semi Urban Area and Others. Metro Cities included only six cities i.e. Delhi, Mumbai, Chennai, Kolkata, Hyderabad and Bangalore. Urban area covers cities with grade A, B-1 and B-2 class cities of the HRA classification. Semi-urban cities include C class cities of the HRA classification and others cover places which are not listed in the HRA classification. Graphically this can be shown as under.
Graph 1.6 shows geographical distribution of offices of private insurance companies in India as on 31st March, 2013. It is very clear from the graph that private insurance company focuses on semi urban area as it had almost 50 per cent offices in this area. It may be because, there is wide scope of selling of insurance products in this area as most of the cities in India comes under this segment. Private insurance companies had only 10 percent of its office in Metro cities. It may be because most of the people of this area are doing online transaction as non availability of time. Private insurance companies also target urban areas. They have 18 per cent office which are located in this area.

Graph 1.7 shows geographical distribution of LIC offices in India as on 31st March, 2013. It is to be noted that LIC is working in India for more than five decades; their
strategy for selling insurance in India is completely different from private insurance companies. Above graph clearly shows that LIC is having its offices most in the areas which is not covered under metro, urban and semi urban area. LIC knows that India is living in villages and small towns. LIC is having its around 45 per cent offices in these rural or under developed areas in India. LIC is also having 28 per cent offices in semi urban areas which account almost 70 percent of LIC business. It can be stated from the above graph that LIC is having less number of offices in metro cities and urban areas in India.

1.11 SWOT analysis of Indian Insurance Sector
1.11.1 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
1.11.2 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

1.12 Growth Potential in Insurance Sector of India

Insurance is one of the fastest growing sectors in India. Hardly 6% of the population of the country has covered by life Insurance. The penetration is as low as 0.9% in general insurance. Health Insurance has reached to merely 3% of the population. In country like USA, where the population is @ 35 crores, there are more than 6000 companies are engaged in insurance business. In India, population is more than 110 crores and hardly 52 companies are working in Insurance Sector. If we assume that only 50% population is insurable, still we need 10,000 companies to cater the need of 55
crore people. Only Life Insurance sector has grown to certain extent and people say that I wish to purchase LIC policy for my car or LIC policy for stocks in my factory. Only compulsory policies of general insurance sector have been sold like motor policies and fire and industrial policies. Large number of general insurance products is not even known to the employees of general insurance companies. Thanks to electro mechanical equipments, scientific development and commercialization of medical profession, health insurance penetration has reached to 3% of population. Still this number is very poor comparing to developed countries. Central Government has targeted Life Insurance Penetration to 40%, Health Insurance at 30% and General Insurance at 15% of the population by 2030. This will create very huge potential for development in insurance Sector. The insurance business was merely 12 Billion US $ by 2000 which has reached to approximately 100 Billion US $ by 2012 and is now expected to grow 1000 Billion US $ by 2020 and 5000 Billion US $ by 2030.

Approval of Bill of 49% FDI in Insurance sector is long awaited. Once it is enacted, the number of insurance companies may rise to @ 150 to 200 in next 7-8 years. There is immense potential for insurance industry to grow. At present there are 24 Life, 27 Non Life and 1 Reinsurance, thus total 52 Insurance companies are in insurance business. Out of this, 4 companies are working exclusively as Health Insurance Companies. 334 insurance broking companies, 800+ corporate agents and thousands of banks have entered in insurance business. Third Party Administer (TPAs) Companies in Health Sector are 29 and TPAs growing in Automobile and Legal Sector. The specialized functions in insurance sector are slowly outsourced and lot many new companies will enter in this area. International insurance surveyors, loss assessors, adjuster, underwriters, claim settlers, have already entered in India and expanding their business activities. Even the world insurance and finance giants like Warren Buffet, Lloyds, Munich Re, Swiss Re, have entered in India.

Health insurance is developing as separate branch of Insurance. It is expected that the number of health insurance companies will be equal to the number of life insurance companies in near future. Bancassurance is also developing as Separate branch of Insurance. People is India have more faith in banks than insurance agents. Many banks have already entered into insurance business and lot more in pipeline. Banks find insurance as growth vehicle. At present only GIC of India is the reinsurance company
in the country. But government is now thinking over allowing many more international reinsurance companies in India. In few years, we may find 5 independent branches of insurance in India as Life, General, Health, Bancassurance & Reinsurance.

India is becoming Insurance Hub of the world. Giant insurance companies from across the globe are outsourcing core insurance functions to India. IT infrastructure in the country and new generation Indian Talent are attracting world insurance business for core functions for cost effective solutions. Indian software companies are leading in this race. Even BPO in Insurance Sector is growing very fast. All this require technical and domain skills sets of Insurance functions. This IT, ITES and BPO business in Insurance Sector from outside India is expected to rise to 1000 Billion US $ by 2025.

It is believed that next boom is in insurance sector. Insurance will play key role in boosting economy further. In India, next 25 years will be dominated by Insurance Sector. The growth is expected at horizontal as well as vertical levels. It will be from inside the country and from outside the country.

1.13 Human Resource dimensions of Indian Insurance Sector
Competitive advantage of an industry can be generated from Human Resources (HR) and company performance is influenced by a set of effective HRM practices. Scope of Indian Insurance sector has shown following dimensions for HRM.

1.13.1 Employability Potential in Insurance Sector
As insurance sector is growing with 20% rate, there will be a huge requirement of Insurance professionals in the country.

1. NSDC Report – National Skill Development Corporation has estimated the job creations of 2 Million persons in insurance and banking sector by 2021 in its latest report.

2. CII Report - The recent survey of Confederation of Indian Industries estimated that there is a need of @ 21 lakhs insurance educated employees by 2025.

3. ASSOCHEM Report on Insurance Sector – It has pointed out on employability potential in Insurance Sector in its latest report. The report has estimated manpower requirement to be 30 Lakhs by 2030.
The job creation in insurance sector will be across the country as insurance business is spreading across the country. The innovative distribution channels will play a vital role in insurance penetration and of course, technology will be a great supportive tool for this development. The manpower is required across the country. Insurance companies, banks and financial services providers are focusing and spreading network in rural markets as it has huge potential. It will generate huge employability not only at Metro and urban areas but at semi urban and rural levels, too.

At present there are 52 companies, 334 brokers, 1200 + banks, 29 TPAs, 2000 IT, ITES & BPO companies, 400 surveyor and other insurance services provider companies are working in India. The number will rise to double or triple in next 8 to 10 years. These companies will have offices across the country and will generate jobs across the country.

1.13.2 Career Development Path in Insurance Sector
Till IRDA, insurance career was dominated by selling activity. It is the assumed misconception that any career in insurance sector will have to be connected with selling of insurance products. The Insurance Agents and Development Officers community in the country has coloured insurance policy selling with either begging of insurance or forcing for insurance. The rebating in insurance premium has eroded insurance profession as under privileged one. After IRDA and entry of corporate insurance companies, the face of insurance career was always compared with the face of poor insurance agent. Career in Insurance was always neglected one and approach towards it was one of the ridiculous one.

But the situation is now changing drastically. Career in Insurance is not merely a selling activity. Insurance Sector requires domain technical knowledge. The employees with core insurance competency can only grow henceforth. After a decade of privatization, corporate companies have understood that insurance is not a FMCG product and one must possess technical skills and fundamental knowledge to exist & grow in this market. Servicing will be key for growth and for this, one require domain expertise.
For new entrants, any graduation with specialized diploma in insurance domain like underwriting, claims, motor insurance, health insurance, bancassurance, reinsurance, liability insurance, aviation insurance, engineering insurance, agricultural insurance, marine insurance, etc will be helpful to enter in insurance sector. One has to improve his academic qualification and scope of skills by adding various diplomas from various streams of insurance. As one grows with experience, this academic excellence and expansion will improve his employability and scope of promotions and growth. For existing employees, one has to improve his academic position along with experience. Mere experience will not help beyond certain limit. The government raised FDI cap in insurance to 49% from 26% through a notification issued by the DIPP\(^1\) and steep increase in number of insurance companies, the existing employees will have clear advantage to grow. But for this, they must obtain domains skills and competency through academic enhancement. The present employee in insurance sector should focus on overall and multi dimensional development in his capacities, skill sets and academic qualifications. The candidate with multifaceted core skills will have better opportunities over general candidate. He should not limit himself only to underwriting or claims. He should always seek for more and more knowledge. One can select a sector of insurance like Life or general or health for developing his career path but he should be equipped with qualifications and skills of other sectors also. It will widen the scope of opportunities available to him.

1.13.3 Skill Sets Requirements by Insurance Sector
At present, man power requirements are basically skilled based. Employees with academic qualifications are encouraged for promotions. Fresher with academic qualification in insurance are preferred. At present, Insurance Companies recruit fresher and train them for 6 months or one year. But the attrition rate is so high that more than 42 % of new recruits leave the company. Insurance companies are seriously concerned over the expenditure on training and the rate of turnout. They are looking for employees who have been already trained and having domain academic qualifications. Insurance Companies have found that domain knowledge will improve selling, servicing, operations and all other functions. New companies prefer persons with experience and academic qualifications. Skill sets required by the insurance sector are underwriting skills, claim handling skills, operational skills, servicing skills, risk assessment and classification skills, insurance product skills, distribution channel operating skills, coordination skills, IT skills with domain knowledge, insurance accountancy skills, etc.

1.14 Conclusion
India is among the most promising emerging insurance markets in the world. With globalization, the insurance community in each country is becoming an integral part of the international insurance community. As the national markets are more reinsurance dependent, and would remain so for long, they would be better able to tackle reinsurers and the reinsurance markets, if the insurers are more knowledgeable of the logic, emotion and science of approach of reinsurers towards risks and their classification. The market information the domestic insurer would be able to exclusively provide is the individualized risk characteristics and the risk behaviour of the proposer. The insurance business is at a critical stage in India. Over the next two decades we are likely to witness high growth in the insurance sector for three reasons. Growth in income also helps the insurance business to grow. In addition, increased longevity and aging population will also spur growth in health and pension segments. The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., insurance penetration and insurance density. These two are often used to determine the level of development of the insurance sector in a country.
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