CHAPTER IV

Impact of Economic Liberalisation on Insurance Sector in India
INTRODUCTION

The preceding chapter traced the development of insurance sector in India. The present chapter is devoted to an analysis of the impact of economic liberalisation on insurance sector in India. To make the study of impact more meaningful and purpose oriented, the entire chapter is divided into four sub-themes viz. (1) impact of economic liberalisation on the organization and structure of insurance sector, (2) impact of economic liberalisation on the legal framework of insurance sector, (3) impact of economic liberalisation on the volume of business of insurance sector and (4) impact of economic liberalisation on investment pattern of insurance sector.

1. IMPACT ON ORGANIZATION AND STRUCTURE

Initially, being in the hands of private enterprise, the Indian insurance industry became the monopoly of the government over the last 40 years. The sector consisted of the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) alongwith its four subsidiaries i.e. National Insurance Company, New India Assurance Company, United India Insurance Company and Oriental Insurance
Company. These public sector corporations operated through a network of branches throughout the length and breadth of the country.¹

Under the impact of globalization the organization and structure of this sector underwent a sea change. From state monopoly the insurance business was opened to private enterprise. The structure of this sector thus, changed and transformed into a joint sector where both the government undertakings and private entities are conducting insurance business. In the government segment of insurance sector, the existing corporations, viz., L.I.C. & G.I.C. with four subsidiaries continue to operate.

In the private segment of the Indian insurance industry there are about twenty private insurance companies. They are world renowned players in insurance business. The multinational insurers are indeed keenly interested in emerging insurance business in India because their home markets are saturated. The foreign companies are also attracted by the fact that, unlike many under developed countries, the Indian private sector is well developed and has the capacity to face any challenges posed by competition internally or externally.²
PROFILE OF SOME POPULAR PRIVATE INSURANCE COMPANIES:

Most of the new private entrants are international insurers and they have set up themselves in India by forming joint venture with the domestic enterprise. The big foreign players are Cardiff subsidiary or BNP Paribas (France), Sun Life of Canada, Prudential, Standard Life, Old Mutual, American Insurance Group, Royal and Sun Alliance and New York Life. The following table presents the details of foreign insurers who have entered the Indian Insurance Sector and the Indian insurers who are their partners in the joint venture.
## Table – 4.1
Growth of Foreign Entrants in Joint Venture with Indian Insurers

### LIFE INSURERS

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Reg. No.</th>
<th>Name of the Company</th>
<th>Indian Partner</th>
<th>Foreign Partner</th>
<th>Specialization</th>
<th>Date of Commencement of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>104</td>
<td>Max New York Life Insurance Corporation</td>
<td>Max India</td>
<td>New York Life USA</td>
<td>Life</td>
<td>26.03.2001</td>
</tr>
<tr>
<td>4.</td>
<td>107</td>
<td>Om Kotak Life Insurance Company</td>
<td>Om Kotak Mahindra</td>
<td>Old Mutual UK</td>
<td>Life</td>
<td>17.05.2001</td>
</tr>
<tr>
<td>5.</td>
<td>109</td>
<td>Birla Sun Life Insurance Company</td>
<td>Aditya Birla Group</td>
<td>Sun Life Canada</td>
<td>Life</td>
<td>19.03.2001</td>
</tr>
<tr>
<td>6.</td>
<td>110</td>
<td>Tata AIG Life Insurance Company</td>
<td>Tata Group</td>
<td>AIG USA</td>
<td>Life</td>
<td>02.04.2001</td>
</tr>
<tr>
<td>7.</td>
<td>121</td>
<td>AMP Sanmar Insurance Company</td>
<td>Sanmar Group</td>
<td>AMP Australia</td>
<td>Life</td>
<td>28.01.2002</td>
</tr>
<tr>
<td>8.</td>
<td>114</td>
<td>ING Vysya Insurance Company</td>
<td>Vysya Bank</td>
<td>ING Insurance Netherland</td>
<td>Life</td>
<td>01.09.2001</td>
</tr>
<tr>
<td>9.</td>
<td>116</td>
<td>Bajaj Allianz Insurance Company</td>
<td>Bajaj Auto</td>
<td>Allianz America Metropo-litan USA</td>
<td>Life</td>
<td>01.10.2002</td>
</tr>
<tr>
<td>10.</td>
<td>111</td>
<td>SBI Life Insurance Company</td>
<td>State Bank of India</td>
<td>Cardiff France</td>
<td>Life</td>
<td>15.06.2001</td>
</tr>
<tr>
<td>11.</td>
<td>122</td>
<td>Aviva Life Insurance Company</td>
<td>Dabar</td>
<td>Aviva UK</td>
<td>Life</td>
<td>06.06.2002</td>
</tr>
<tr>
<td>12.</td>
<td>117</td>
<td>Met Life India Insurance Company</td>
<td>Jammu &amp; Kashmir Bank</td>
<td>Metropolitan Life Insurance USA</td>
<td>Life</td>
<td>04.01.2002</td>
</tr>
</tbody>
</table>
### NON LIFE INSURERS

<table>
<thead>
<tr>
<th>No.</th>
<th>Code</th>
<th>Name</th>
<th>Parent Company</th>
<th>Country</th>
<th>Segment</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>113</td>
<td>Bajaj Allianz General Insurance Company Ltd.</td>
<td>Bajaj Auto</td>
<td>Allianz America</td>
<td>Non-Life</td>
<td>08.05.2001</td>
</tr>
<tr>
<td>2</td>
<td>115</td>
<td>ICICI Lombard General Insurance Company</td>
<td>ICICI Bank</td>
<td>Lombard Canada</td>
<td>Non-Life</td>
<td>31.08.2001</td>
</tr>
<tr>
<td>3</td>
<td>106</td>
<td>IFFCO-Tokyo General Insurance Company</td>
<td>IFFCO Fertilizer</td>
<td>Tokyo Marine Japan</td>
<td>Non-Life</td>
<td>16.01.2001</td>
</tr>
<tr>
<td>4</td>
<td>103</td>
<td>Reliance General Insurance Company</td>
<td>Reliance Group</td>
<td>No Foreign Alliance</td>
<td>Non-Life</td>
<td>23.03.2001</td>
</tr>
<tr>
<td>5</td>
<td>102</td>
<td>Royal Sundram Alliance Insurance Company</td>
<td>Sundram</td>
<td>Royal and Sun Alliance UK</td>
<td>Non-Life</td>
<td>23.10.2000</td>
</tr>
<tr>
<td>6</td>
<td>108</td>
<td>Tata AIG General Insurance Company</td>
<td>Tata Group</td>
<td>AIG America</td>
<td>Non-Life</td>
<td>22.02.2001</td>
</tr>
<tr>
<td>7</td>
<td>123</td>
<td>Chola Mandlam General Insurance Company</td>
<td>Chola Mandlam Investment</td>
<td>Mitsui Marine Japan</td>
<td>Non-Life</td>
<td>01.09.2002</td>
</tr>
<tr>
<td>8</td>
<td>125</td>
<td>HDFC Chubb General Insurance Company</td>
<td>HDFC Finance</td>
<td>Chubb USA</td>
<td>Non-Life</td>
<td>17.10.2002</td>
</tr>
</tbody>
</table>


The above table shows that as many as 12 multinationals have entered into Indian insurance sector in the life insurance segment. In general insurance segment however, there are only 8 entrants so far.
The new entry is in the form of joint ventures. The reason is that the new legislations dispensation makes it mandatory for new players from abroad not to establish independent insurance business. They are required to participate in the equity of the Indian companies to the extent of 26 per cent. This limit has now been raised to 49 per cent.

The new entrants are entering a different market and hence, even though they have new products already, they cannot offer them in India as they are. It is necessary for them to tailor them to local conditions and customer needs, which is again a matter of time. Moreover, the existing insurers enjoying a strong brand presence well spread distribution networks and significant local knowledge and contact parameters, can be matched by new players only over a period of time. The latter will target market niches because most of them lack the local relationships necessary for successful retail operations. Public and private firms can coexist in liberalized markets and this can help enlarge the market.

Similarly, despite their experience and strength in other countries, it will still take some time for the new insurance companies to build up the high quality infrastructure capable of providing superior services. This is not just a matter of new technology and the hardware to sustain it, it is equally a question of building up a network of offices and branches as also of identifying recruiting, and in some cases training and retraining.
competent staff, especially on the marketing side. The existing companies took more than 25 years to setup their infrastructure. New players will naturally need time to match it.³

Another handicap for the new players relates to not having an easy access to reliable data for establishing right prices. Insurance is priced on a cost plus basis, where the cost in the expected claims payment, for which information of the actual claims paid in the past has to be available. Such data is available only with the nationalized companies, and not with the new entrants. The only data available to them are broad claims ratio published by the nationalized companies for the new entrants, which will have only limited use. Although there is every likelihood that most of the insurance prices will continue to be determined by the Tariff Advisory Committee (TAC) for some more time, private companies will have to collect, analyze and build their own claims data by the time the transition to free pricing is complete.

(i) Competitive Character of Insurance Sector:

The globalization has introduced for the first time competitive factor between public and private enterprise. Public sector insurance companies alongwith private insurance companies are now competing keenly with each other. These companies are emphasizing more and more on awareness of insurance needs by organizing various events at various
Offices, Hospitals, Bus Stands, Railway Stations, Fairs, Exhibitions, Seminars, Industries, Educational Institutes and Market Place etc. They are trying their best to enlighten people about the need and benefits of insurance.

Insurance Regulatory and Development Authority (IRDA) also brought an end to the monopoly of individual agents of public sector insurance companies who used to sell Life Insurance as well as General Insurance by getting licences and agencies without going for proper training. IRDA introduced compulsory training and exams for agents to gain knowledge and to make insurance sales need based. IRDA (protection of policyholders interests, 2002, has laid down some regulations mainly focusing on the policyholders interest who have often, been overlooked in the past, faced problems in dealing with the powerful insurers in various matters like production of various documents, claim settlement etc.

The new and modern face of the life insurance provider in India has changed the perception of the target audience to view insurance not as a compulsory tax saving instrument, but as a means to lead a worry free and secured life. The opening up of insurance in India and the subsequent entry of private players into the market have drastically changed the entire approach to customer service. Before privatization, only a small
number of agents offered complete post-sales customer service. The private insurers, taken together, have created a pool of over one lakh well trained life advisors during the last four years. Insurance companies are today investing heavily on the tied agency force. Today, the insurance sales persons are not just agents whose job is to sell any policy. They have transformed into “Advisors.”

The advisor should be capable of giving the right advice to consumers, with respect to the policy, the sum assured and planning for the various stage of life. The advisor is the bridge between the company and the consumer. Therefore, the insurance company will need to ensure that the bridge is firmly in place. Most companies have made significant investment in training and retention of advisors. The way forward is to have specialized training programmes for advisors that are aimed at better technical understanding of the insurance product and also for better relationship skills. The industry is on a growth path. The expectation was that they had to compete with public sector units who were very strong and whose reach was formidable. The public sector companies are inherently strong, they have adequate capital base they only have to plan their work on risk management and risk appraisal. These core skills are missing today. The private sector has entered at a critical juncture when the market was hardening and profitability definitions were changing.
The insurance buyers essentially found it hard to get any policy support, especially at the time of claim settlement. Since 2000-2001 there has been paradigm shift in their roles. Many sellers approach hygiene of insurance. The focus now is an offering a variety of products supported by the rigorous service initiatives across the life of the product with privatization. Customers often gauge insurers in terms of their products, premium, premium rates and services.

It would be fairly normal to say that induction of competition in this sector has led to a much better market penetration through development of new markets bringing about qualitative upgradation and enrichment of the sales process. Higher levels of professionalization among the intermediaries develop world class system and process, provide to the insuring public convenient channel of distribution, a fuller range of customize products which address all their perceived insurance needs to their satisfaction, adopt best market practices, with transparent and fair in dealings and keep the consumer regularly informed about the product details and other policy condition.⁶

In the liberalized scenario, modern marketing techniques are introduced. Insurance companies are being forced to adopt strictly professional approach in marketing. The insurers face the challenge of changing the uninspiring public image of the industry. Although even
customized combination of coverage, easy payment plans, risk
management advice and convenient and quick claim handling. An
important marketing set up would have to virtually develop into a sort of
an insurance supermarket with a sophisticated product range that will be
able to match world class standards and expectations as well as establish
a sophisticated distribution system and servicing standard of international
levels.

(ii) Change in Financial Structure:

The provision of the Insurance Regulatory and Development
Authority (IRDA) ensure the entry in insurance sector of only those
private companies which have sound financial backing. Insurers whether
domestic or foreign or in joint venture are required to have a minimum
paid up capital of Rs, 1 billion. They are also required to invest
policyholders fund only in India. Further, the international companies
were permitted initially to have minority equity holding of 26 per cent in
this capital structure. In the third face of economic reforms this limit has
been extended to 49 per cent. IRDA, for time being prohibits 100 per
cent foreign equity in insurance. The Indian promoters is permitted to
divest only after 10 years to the Indian public through a public offering
shares. The underlying tone of the 49 per cent capital for foreign insurer
is to ensure that financial interest substantially rests, with the Indian
promoters permitting to foreign co-promoter a definite say in the
direction and management.

It is important to note that 49 per cent level is the bargained
solution by the privatization proponents. The Indian partners, in most of
the new insurance companies, have already passed on total operational
control to their foreign partners in anticipation of the Foreign Direct
Investment (FDI) limit being raised to 74 per cent. The foreign insurers
cannot be prevented from tightening their hold over the Indian insurance
industry by just pegging the FDI limit at 26 per cent. They can take over
control, whatever be the FDI limit. The foreign insurers contain some
strengths and weaknesses. Their strength is their bottomless pockets.
They can invest any amount of money. Their weakness is lack of patience
they can start a life insurance company, but would prefer to expand and
consolidate through a series of acquisitions they have neither the patience
nor the expertise to build an organization, brick by brick, over a period, as
the LIC and GIC along with its four subsidiaries viz. National Insurance
Company, New India Assurance Company, United India Insurance
Company and Oriental Insurance Company has done.

Making condition more favourable for fully Indian owned
companies to enter the insurance sector and barring FDI in such
companies can do this. The present minimum capital requirement for an
insurance company is the highest in the world and the solvency margin requirements, the most stringent. The foreign insurers have been so designed as to keep an Indian entrepreneur from entering the insurance sector on his own. The capital actually required and a comparison of the solvency margin requirements.

The Insurance Regulatory and Development Authority (IRDA) has also played an extremely positive role in the regulation and development of the sector. Overall, the result of four years of privatization has been extremely positive and the future looks very bright indeed. The Indian insurance industry will soon be one of the longest and one of the vibrant in the world and has truly gorgeous prospect for customers in this beautiful and exciting sub-continent called India.

The key finding of the study is that the word ‘private’ has a very negative image among rural folk, causing worry and passing challenges to private insurance companies.

(iii) Change in Insurance Products:

The insurance sector has also been undergoing tremendous changes due to the entry of foreign players with their new products and service delivery system. To survive in an open market system, insurance companies need to create an environment of understanding for the
investing public by disseminating information and educating them about the relative benefits of their insurance products. The private players have been busy devising specific strategies to reach out to specific segments of the market, with innovative products. The insurance companies are now concentrating on offering products on the lines of building blocks, wherein the consumers can tailor – make a product by adding only those features that he wants, from a menu of features. The insurance companies have also been attempting to educate the consumers on various products. With the entry of private players in the sector, the IT investment in back office and frontline customer service have increased significantly. The private players have been busy devising specific strategies to reach out to specific segments of the market with innovative products.

The initial innovations come in the form of rider benefits. Product innovations followed, especially in the area of children’s education on the traditional product side; and whole life and retirement plan products on the unit linked platform. As the market matures, there will be further innovative products especially for the rural and group sectors, as well as in annuities.

Post liberalisation, the range of insurance products has expanded. The unbundling of products allows customers to follow a modular
approach. Unit linked products are gaining fast popularity while health related products are widely available.

Products and services have seen dramatic improvement with almost every product now available in the life insurance space. Customers are now looking at insurance as complete financial solution offering stable returns coupled with total protection. With increasing complexities in the market place, the maturity levels of the market and potential life cycles keep changing and the existing products may face obsolescence from demand side or supply side factors. An analysis of product with reference to market growth rate and market share offer hints for product strategies.

Products with relative share in growth markets (nick named cash cows) will produce healthy cash flow. Product with high relative shares in high growth market require large amounts of cash to sustain growth but have strong market position that will yield high reported profits. Products with low relative share in rapidly growing markets require large cash inflows to finance growth borrowing the basic concepts from the product market matrix of the Boston consultant group. Insurance companies may harvest or divest the dog and utilize the cash cows to make question marks into stars.

Several products in the existing general insurance business fall into the ‘dog category’. An analysis of product development obsolescence
helps companies divest such products. Products arising out of statutory requirements (like motor) or socio-financial compulsion characterize the feature of cash cows. Such products could be mass market with innovative and new channels in place.

The products demanding new packing and coverage of risks that are not readily available in the market and are having high potential of market growth, be it group (like farmer package, shopkeepers package, group mediclaim) or mega project insurance infrastructure (power projects, telecom projects) could be seen as stars. Products with less certainty about market share but high market growth (such as software and perhaps some varieties of managed healthcare) could be seen as wildcats.

New private sector companies have entered the insurance market in India and at least, as of now, they have not rushed into introducing too many new products in the market. Most of the products introduced by them are of the following type. Almost all of them have come out with traditional products such as endowment, money back, whole-life and annuity. While the new insurers are offering much the same products, they have made them attractive by providing riders and combinations there of which introduce diversity in the market. The value addition will be in terms of the quality of services provided. Endowment and money
back policies are standard products, but when attached with various riders, either one or a combination of these riders in value addition is unbelievable. The main reason is that riders can be attached at a nominal cost. For example, by the application of a term rider to the extent of the sum assured, in endowment become a double cover endowment. All the new players have this provision. Birla Sun Life grants a term rider upto double the sum assured, while Allianz Bajaj goes upto three times, making the endowment policy a triple quadruple cover. All these companies allow the term rider under the money back and whole life policy also.

Some companies have come out with a rider titled ‘spouses insurance’ which makes an endowment policy a ‘joint life one.’ Birla Sun Life began its operations with the launching of three flexi-products (endowment, money backa and whole life) styled after the universal life for the first time in India. ING-Vysya came out with the anticipated whole life policy combining features of money back and whole life policies. ICICI prudential come out with an annuity policy followed only recently by HDFC and SBI life. Tata AIGs have also introduced a policy for overseas students namely ‘student guard’ for students travelling overseas for higher studies.10
Impact of Economic Liberalisation on Insurance Sector in India

In the changed situation, the Indian film industry has also felt the need for an insurance cover. Thus, the United India Insurance Company Ltd. has insured more than 20 films with a total production outlay in excess of Rs. 100 million.

The new weather insurance scheme is introduced by ICICI Lombard General Insurance Company to the Indian farmers, Bajaj Allianz general insurance company is offering personal accident cover to pilgrims taking the Amarnath Yatra in the terrorist – striking Jammu and Kashmir. Most personal accident plans of insurance companies exclude terrorism coverage, which in the case of Jammu and Kashmir has become most essential. SBI Life Insurance Company cover the plantation workers of the Bombay Burmah Trading Corporation Tea Estate near Coimbatore. Life Insurance Corporation of India introduced a unique policy namely Varistha Pension Bima Yojana for Indian citizens at the age limit of 55 years and above. This scheme is being launched to provide an annual return of 9 per cent. In the line of Life Insurance Corporation of India, ICICI Lombard General Insurance Company launched overseas travel insurance for senior citizens between the age limits of 71-85 years. This policy meet the needs of approximately 1 lakh senior citizens per year, that are mainly traveling overseas to the America, Europe and Middle East.
Health Insurance:

Health insurance is a very important area, where insurance industry should and could contribute a lot to the society-particularly to the handicapped segments of the society.

Health insurance with a business of over Rs.1000 crores is virtually non-existent. Today only 2.5 per cent of the population is covered by health insurance policies. Whereas countries across the globe have adopted health insurance in a big way through various means.¹¹

Four years down the line, there has been no appreciable progress. While the potential is huge, the impediments to growth need to be addressed. The premium rates have remained high and customer service and health care infrastructure continues to be extremely poor. The health insurance sector has also not taken off due to a number of reasons like high capital requirements, lack of database for actuarial calculations, inefficient Third Party Administrator (TPA) network etc. Although positive signals have emanated in this segment of insurance business much more needs to be done.

Pension Plans:

The pension business in India is treated as being part of life insurance business. Till recently, the Life Insurance Corporation (LIC)
was the sole provider of life insurance, and hence, in the normal course, would have been the sole provider of pensions. Private sector employers have a choice between LIC and a self-administered trust at the funding or accumulation stage. Once the employee retires, an annuity is taken out with LIC. The LIC also provides an option of annuity for life with return of corpus to the beneficiary on the death of the annuitant. In the above scheme of things, most of the working population, including the self-employed, farmers, professionals, small businessmen and traders, are left to fend for themselves. It is estimated that only about 11 per cent of the working population in India enjoy old age security benefits. Others make do with the Public Provident Fund (PPF) Scheme, some avail of LIC schemes like Jeevan Suraksha, Jeevan Dhara and Jeevan Akshaya.¹²

The main players in this section include LIC, SBI Life, ICICI Prudential, HDFC Standard Life, Birla SunLife, Om Kotak Mahindra, and Aviva. In 2001-2002, the total pension business by these companies accounted for Rs. 2500 crores.

The pension market has been abuzz with activity with most of the private players offering products. This is one area where the action is likely to hot up in future, what with the extended lifespan possible now, given the vast improvement in medical facilities. Tata AIG has also launched a pension policy named Nirvana in April, 2003. It provides a
guaranteed 10 per cent addition along with Reversionary and Terminal Bonus. Various types of riders are also attached to it.

**Rural Insurance Plan:**

Life insurers recently registered with IRDA are fully aware of the genuine aspirations of the consumers and the new players would perform in a manner beneficial to them. IRDA has notified a series of new regulations stipulating conditions for new insurers in the rural sector. It has set a limit of 7 per cent in 1st year, 9 per cent in 2nd year, 12 per cent in 3rd year, 14 per cent in 4th year and 16 per cent in 5th year of its total policies for new insurers in the rural sector and similarly, in the social sector, 5000, 7000, 10000, 15000 and 20000 lives are to be insured in the 1st, 2nd, 3rd, 4th and 5th financial year respectively for a life insurer. The obligations of existing insurers, as on the date commencement of IRDA Act, shall be decided by the Authority after consulting them and the quantum of insurance business to be done shall not be less than what has been recorded by them for the accounting year ended 31st March 2002.

(iv) **Change in Insurance Distribution Channels:**

It is a universally accepted fact that the distribution channel is the core driver of any business and insurance business is no exception. In a service industry, distribution channels significantly determine its success
or failure in the market because the reach of the service is dependent on
them. New initiatives always bring new puzzles to solve.

Expanding reach is the Mantra today of all insurers and particularly
the private sector companies achieving this quickly, efficiently, and cost
effectively. Basically, any vehicle of distribution, other than traditional
primary channels (agency and brokerage) can be termed as alternative
channels.

Noted insurance consultant Bary Robkin clearly predicted, “the
winds of change are blowing.”

This change is being largely driven by carriers/distributors who
want to maximize their earnings tapping insurance potential of their client
contact base, capitalized on communication technologies, changing life
styles and increasingly growing segment of younger age buyers, who are
very comfortable with technology. However, it is very clear that life
insurance companies where the cost of acquisition is very high through
traditional channels as high as 45 percent using alternative distribution
channels is a good value proposition to invest in and explore as it can
clearly bring about cost reduction. For non-life insurers, particularly in
India, where the cost of acquisition does not exceed 15 percent (due to
regulations), the value proposition offered by alternative distribution
channels becomes increasingly less luring unless they find ways and means to go beyond the Lakshman Rekha.

**Third Party Administrator (TPA):**

A new intermediary known as the Third Party Administrator (TPA) has been introduced in the year 2001 in the field of Health Insurance. The intermediary is responsible for providing an insurance company with highly specialized services to support the administration and management of their health insurance products. These TPAs are to provide cashless services at hospitals, voice-based call centre support for policyholders, claims administration services and medical cost management.¹⁴

The creation of this new category of intermediary saw the beginning of a new era in health insurance in India. The insurance industry has been slow in picking up the concept of health insurance administration through TPAs. Nonetheless, the public sector general insurance companies have announced that they will soon include TPA services as part of their mediclaim policies and allow the consumer to avail of this service. Private players have taken the lead and engaged TPAs to help them service policyholders who have taken health covers. IFFCO-TOKIO Marine General Insurance, ICICI Lombard General Insurance, Reliance General Insurance and Royal Sundaram General Insurance have already signed up their respective TPAs.
The idea behind bring TPAs is to reduce the high claim ratios by eliminating fraud cases. While TPAs network with hospitals and interactions with doctors is expected to reduce claims substantially, insurers also with to improve customer relationship through their TPAs.

**Agents and Corporate Agents:**

The liberalized environment in which the insurance companies, both life and non-life, have been operating over the last three years have witnessed a growth in the intermediation process. The agents have been known to be vital link between the insurers and the insured. The agent, who works on commission basis, is recruited, trained and supervised normally by a development officer. Agents and corporate agents who interface with customers need to demonstrate that they possess the technical and sales abilities to sell and service insurance covers. Customer regard them as experts in their line of business. Many companies, firms, NBFC’s, cooperative societies and panchayat are also taking corporate agencies to market insurance products. It is seen that such a venture enables these institutions to augment their income, to leverage their hold on their existing customer base and to increase the productivity of their employees.
Brokers:

Brokers are professionals who bring together the insured and insurers, carry out work preparatory to insurance contracts and, where necessary, assist in the administration and performance of such contracts, in particular when claims arise. Brokers have a relatively more important role to play in free markets than in markets regulated partly or fully by tariffs. They are increasingly becoming professional risk managers. Primary responsibility of brokers is towards the insured. They put across requirement of their clients before insurers and obtain from them appropriate insurance products. Whenever standard products are not adequate, they prepare a “manuscript policy” and negotiate with the insurer to optimize satisfaction of their clients. As brokers negotiate with many insurance companies, they also act as catalysts of competition in the insurance market. A vast range of products can not be handled easily by a single type of intermediary and hence, the world over, brokers have been found to be the right medium. Insurance brokers are specialist professionals and are really the agents of the customer and receive their remuneration out of the premium paid by the customer. The brokers arrange the covers, scrutinize the policy wordings and negotiate the claims of behalf of the clients.
Until October 2002, direct broking was not permitted in Indian general insurance. There were only brokers dealing in reinsurance arrangements. They were engaged in arranging reinsurance, coverage for large risks from the international reinsurance market and made an attempt to obtain favourable and appropriate terms for reinsurance at competitive and affordable rates. The Indian insurance (Amendment) Bill 2001, which sought to open up the Indian insurance market to brokers with the passage of the Bill, the Insurance Act, 1938 stood amended. Subsequent to this, on October 16, 2002, the IRDA issued the insurance brokers regulations 2002. The 2002 IRDA Brokers Act in 2002, permitted overseas insurance and reinsurance brokers to enter the market but with the same Equity Cap as that governing the operation of foreign insurers and reinsurers. Thus, foreign brokers must also form a joint venture with an Indian partner in order to establish an Indian broking house. Since the Act enabled the brokers to enter the Indian market for the first time, many brokers have since January 2003, already entered this field. This, in turn, means additional competition in the market where the customer has a wider choice and will benefit in terms of quality of service and pricing.

The 2002 IRDA legislation established four broker categories, one of which broker must select when applying for a licence.\[16^\]

**Category 1A:** Direct General Insurance Brokers
Category 1B: Direct Life Insurance Brokers

Category 2: Reinsurance Broker

Category 3: Composite Broker

Category 4: Others, for example, insurance consultants and risk management consultants.

Each category has different solvency margins and capital adequacy ratios and all categories need professional indemnity insurance at different minimum levels.

Banacassurance:

Another important development in the Indian insurance industry is that of intermediating marketing. Using banks is likely to be the big emerging trend. Already most of the large public and private banks are busy experimenting with the marketing of insurance. It is conceivable in India that the Banacassurance model could emerge as the eventual market leader in sales volumes. Many factors weigh heavily in the favour of Banacassurance including the branch member and reach to individual customers. Banacassurance is the process of selling insurance product through banks. Bank insurance is an organization, which, in addition to providing money transactions, leading services, manufactures and sells insurance products. In the broadest sense, by Banacassurance, it is the provision of a complete range of banking, investment, and insurance
products and services to meet the individual needs of the bank’s customers and its associates. It is considered as a value added service to the customers of the bank and is now expected to become an important and major challenge after ‘Manufacture’ and ‘distribution’ of insurance products through banks.

In concrete terms Banacassurance, which is also known as a “Allfinaz” describes a package of financial services that can fulfil both banking and insurance needs at the same time.

Life as well as general insurance product can be marketed through Banacassurance, life insurance selling has been preferred by many perhaps as savings is a common factor and easily appreciated in both insurance and banking. The bank can start an insurance company to create their own products and market them through the usual intermediaries like individual as well as corporate agents, brokers etc. and also through their own banks’ network branches.

The Banacassurance model is becoming popular day by day and the share of business contributed by agents is on a decrease. Over a one-fourth of the private life insurance industry’s income is generated through alternative channels of distribution.
Internet Marketing:

The internet plays a very important role for promoting sales of the insurance products and also provides detailed information regarding the companies' policies, products, and future plans. The internet has proved to be one of the most potent and low-cost sale channels all over the world. The sales through this channel can be enhanced, especially when customer profiling, suitable product recommendation, and finally, the purchase of the policy itself. Post-sale policy servicing can also be done through the internet itself. The bank intends to significantly enhance its internet capabilities in the insurance distribution business as it views a great potential in the internet for acquiring and servicing the customers.¹⁸

The internet can be used to offer supportive services in insurance, like the proposal forms, claims, claim intimations, and E-mail correspondence. It has also featured for calculating premiums not more than a single minute. The purpose is to encourage E-communication between the insurers and the customers. For this computer literacy level in the offices of insurers has to be 100%, which sadly is not the case. Even departmental communications are exchanged on costly faxes and mobile phones. Over a period of time, customers would deal with insurers on the internet for many of their requirements. Insurers have the
responsibility to be ready when this happens and also encourage their customers to use internet communication.

Call Centres:

One of the cost effective ways for locating prospects is to make available customer data, particularly for personal lines of the motor vehicle owners, to call centers, to mail product literature, to existing customers and seek their performance on telephone for buying additional covers they correctly do not have. Once the interested prospects are located the direct marketing specialists can takeover.

The call centre is an expensive but effective channel which can generate quality insurance leads.19 The call centre Customer Service Officer (CSOs) interact with a number of customers each day. At the end of the insurance training sessions, the CSOs start generating referrals for the insurance. This is an expensive mode of getting referrals, but the leads generated are of good quality and conversion rates have been higher.

Direct Marketing:

Insurers seem more comfortable with ‘direct marketing’ through company’s officials. Selling activities is now entrusted mainly to development officers. Corporate customer building is entrusted to managers of branches and divisions. The managers are also entrusted
with a variety of other important duties of which marketing and selling is only one of them. Their current primary role is managing and not marketing.\textsuperscript{20}

In a competitive environment the insurers have to redraw their structure to give primacy to selling, servicing and creation of new markets. Unless the structure fixes accountability for creation of new markets and marketing as key performance area of explosive officials, the distribution channels will suffer neglect and have to rely on their own capabilities without corporate support.\textsuperscript{50} The insurers have their data captured to monitor the performance of their branches and divisions, the distribution centre of their policies. But they singularly lack data on their individual customers in respect of their profiles, performance and profitability.

**Mandatory Training for Insurance Intermediaries:**

One of the important changes made by the Insurance Regulatory and Development Authority (IRDA) Act, 1999 is to insist that the new insurance agents should be trained for 100 hours and pass the prescribed test. This was done with the view to preparing the agents to market life as well as General Insurance in the right manner and to enable them to render proper service to their customers. The new companies that have come into the industry are recruiting new agents and getting them trained.
Some companies have designated them as ‘Advisors,’ Financial Consultants and such other nick titles.

The training covers should include both classroom and practical components: The classroom training should be consisting of:

- Code of conduct and legal liabilities, attitude
- Product knowledge, with stress on product designing
- Investment pattern under the IRDA Act
- Solvency margin and share of capital
- Market and outcome of market research vis-à-vis rules for advertising and publicity
- Value added service before and after the sale
- Information technology

The practical training, at first instance, should include:

- The office – its outlook and purpose
- Process of working, including basis of underwriting or risks
- Office discipline and expectations from an intermediary
- Paperwork and use of information technology
- The role of an intermediary and that of the office (underwriting marketing, product designing and so on)
The passing percentage of marks initially was 50 per cent but, with the number of agents failing the mandatory examination to quality as an insurance agent going up, the IRDA has lowered the pass mark to 35 per cent with retrospective effects.

**Customer Service and Education:**

Customer service and education is an area where new companies are clearly ramping up by bringing in their best international practices, operational efficiency through efficient use of technology. Customer servicing and education today have clearly become the focal point of insurance companies. There is a greater sensitivity is dealing with the customers.

The customers of today know quite a good deal more about insurance, their risk exposures, insurance pricing and claim settlement. They have access to consultants, brokers and other intermediaries to learn from. They are more commercial minded and understand what they have bought more clearly and are aware of their contractual rights. They are fussy and do not hesitate to complain about shoddy services. Customers have begun to put more value on convenience and on speedier disposal of problems. Time and saving on their personal works has become a primary item of value.
Given a wide choice of availability of insurance providers, customers are discriminatory in their selection of insurer. They look at price, coverage and track record of insurers and their reputation and informality in business dealings before they make up their minds. Today’s customers are less relationship oriented and more commercially minded. They drive hard bargains, are better informed and are skillful negotiators as befits their trained commercial instincts.

In the changed environment insurers perceiving the need for a vibrant force of agents to meet the aspirations of the policyholders, training of the agents, has been laid down as one of the prerequisites for recruitment of the agents. Accordingly, insurers have accredited divisional and regional training centers to impart training to the agents as per the norms laid down by the Insurance Regulatory and Development Authority (IRDA). Today, for most insurers, customer servicing occupies the highest priority. Further, the notification of the regulations pertaining the policyholders, has also laid down benchmarks for customer service and education.22

Most insurers generate reports based on Information Technology (IT) platforms on such aspects as policy insurance, claims reported, claims paid, claim outstanding, claims disposal ratio, online premium paid, endorsements and grievance redressal ratio. Insurers have taken up
customer relationship management projects for their customer service centers i.e. call centers. Further, with the new amendments in the Insurance Act, 1938, insurers have also been exploring possibilities of setting up web-based points of sales system for retail and mid-market products.

General Insurance as well as Life Insurance Corporations of India have taken steps to link all their branches through the computer network. The companies have established arrangements with various Internet gateways to also allow payment of premiums through the internet. They also setup Kiosks in various parts of the country, offering policyholders access to policy information.

With insurance industry fast emerging as “Buyers” market, insurers would have to gear themselves up to provide quality customer service and in this information technology would play a key role. Those insurers who are capable of responding to the needs of customers, in terms of both products offered and servicing thereafter, shall emerge as leaders in the evolving competitive environment.

**M-Commerce in Insurance:**

In M-commerce, the customer with his email address will be using the internet to access bank or other websites in order to check position,
compare offers (car insurance, home contents covers, pension schemes, health insurance and others) and initiate transaction through their personal computer. The commercial transaction will be through the pressing of the button as if a commercial game model is played.\(^{23}\)

The future of M-commerce is all to come and insurance may be one of the best to benefit from it. The internet capable cell phones used by the business and other users will demand M-commerce benefits at the place and time of their convenience. Insurance will be among the first and largest user of the developments in E-distribution. The younger generation and students community will be insurance sensitized with the thrilling and advantageous arena of M-commerce insurance products. Given the advantageous costs involved in operating M-commerce environment, means of access must be devised to ensure that users can be online at almost any time and place with synergy on detailed policy conditions broadcasting side by side, in particular radio-waves mode, so that standard details can be further accessed by the customer with a transistor in his ear audio system. For instance, digital television/transistor providers now offer internet access because many people spend most of their leisure hours viewing / hearing and have become used to their audio visual TV and its operation.
The mobile phone or cell phone has reached high levels of acceptability with a significant part of the younger and economically active population is sensitized for its usage. A mobile phone can be used critically anywhere even when standing on delayed flights or even on delayed city bus. It is obvious reality that gives major advantage that the mobile phone has over the hardware because, with increasingly busy lines, most people want to make full use of every moment wherever possible. It is at this juncture that M-commerce has become the nature solution with an increasing inclination to control our own affairs, including our financial lives with least expensive time element.

In insurance financial service sector, early application of M-commerce programme is a necessity for customer convenience and for increased market penetration. There might will be value in offering sales and maintenance of general insurance products other M-commerce due to the reason general insurance is highly sensitized to price and feature with tariff shackling freedom consciousness. This can be effectively delivered by M-commerce with cost-effective mechanism saving time and costs. It is also possible to hold information from several sources for comparison purposes.
2. IMPACT ON THE LEGAL FRAMEWORK

The opening up of the insurance sector, in the wake of economic liberalisation policy, necessitated changes to be brought about in the legislations related to the conduct of insurance business. The operation of the insurance business due to entry of private players required to be regulated and the interests of the buyers of insurance products demanded safeguards and protection. The legal structure of this sector therefore underwent drastic change. The first step in this direction was the establishment of the Insurance Regulatory Development Authority (IRDA).

(i) Insurance Regulatory and Development Authority (IRDA):

Reforms in the insurance sector were initiated with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill in December 1999. Both houses of the Indian Parliament (Lok Sabha and Rajya Sabha) passed the Insurance Regulatory and Development Authority Bill. The Bill resulted in the establishment of the Insurance and Regulatory Development Authority by adopting the major recommendations of Malhotra Committee.24

It is important that the deregulated industry does not fall victim to the sort of practices that originally caused nationalization. It is, therefore,
essential that the public have confidence in the industry and its regulation, while simultaneously not burdening the industry with excessive red tape. With this in mind, the IRDA was established as an autonomous regulator of the insurance industry. The IRDA Bill prescribed powers and functions to allow the IRDA to promote, regulate and ensure the orderly growth of India’s insurance industry. The IRDA, since its incorporation as a statutory body in April 2000, has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies.

The other decision taken simultaneously to provide the supporting system to the insurance sector has been the launch of the IRDA’s online service for issue and renewal of license to agents. The approvals of institutions for imparting training to agents has also ensured that the insurance company would have a trained workforce of insurance agents in place to sell their products.52

Objectives of Insurance Regulatory & Development Authority:

Following are the main objectives of IRDA.25

- To protect the interest of and secure fair treatment to policyholder.
- To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefits
of the common man, and to provide long-term funds for accelerating growth of the economy.

- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competition of those it regulates.

- To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.

- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.

- To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system (MIS) to enforce high standards of financial soundness amongst market players.

- To take action where such standards are inadequate or ineffectively enforced.

- To bring about optimum amount of self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.
Functions of Insurance Regulatory & Development Authority:

The IRDA has been established to perform the following regulatory functions:

- Issue and withdraw licences.
- Specify qualification codes of conduct and training for intermediaries and agents.
- Specify the form manner in which books of accounts shall be maintained.
- Regulate investment of insurance funds.
- Specify the percentage of life insurance business to be undertaken by the insurer in both rural and social sectors.
- Approve the appointment of the managing directors.

The Bill introduced in the parliament was in favour of liberalisation of the insurance industry, but the bone of contention was essentially that how much stake the foreign entities were to be allowed in the Indian insurance company.

In November 1998, the central cabinet approved the Bill which envisaged a ceiling of 40 percent for non-residents Indian stake holder, 26 percent for foreign collaborators (presently 49 percent) and 14 percent for Non-Resident Indians (NRI’s), Overseas Corporate Bodies (OCB’s) and Foreign Institutional Investors (FII’s).
(ii) **Review of Insurance Act 1938:**

The comprehensive Insurance Act of 1938 fell short of provisions to cope with the openness of the insurance industry. This highlighted the need for comprehensive review of the Regulatory and Supervisory Environment under which private and public insurers shall conduct the business. The Law Commission, therefore, at the request of Insurance Regulatory and Development Authority (IRDA), initiated the exercise of review of insurance Act, 1938 and other related legislations to harmonise the insurance laws in tune with the liberalized economic environment prevailing in the economy in general and particularly in the context of the insurance industry. The process of review is on and soon the new Act is expected to take a correct shape.

(iii) **Appointed Actuary System:**

The IRDA introduced the system of Appointed Actuary (AA) both for life insurance business and general insurance business in India. No insurers can transact life insurance business in India without an appointed actuary, perceiving a crucial role for the appointment actuary, the Authority, while defining the privileges and the obligations of the AA, laid down eligibility criteria in the regulations. The regulations require that each life insurer shall have an AA as a full time employees. However, a relaxation has been made in case of Non-Life Insurance
Companies. Every life insurer is required to submit the statement of solvency, along with its actuary report and extract, as on 31\textsuperscript{st} March of each financial year, duly certified by the AA. In case of non-life insurer, the AA is required to certify the rates for in-house non-tariff products and IBNR (incurred but not reported) results.

(iv) **Consumer Grievances Redressal System:**

With the opening up of the insurance industry and the entry of new players, awareness about their rights has steadily been increasing amongst the public at large. Insurers are also required to set up grievance cells and their performance is monitored by them on a regular basis. Insurers have also opened “may I help you” and information facilitation counters. In addition, such counters as Rahat Yojana and Nidhi Melas are conducted to dispose of claims speedily. The public sector companies have also not remained far behind and are fast gearing up to these changes.\textsuperscript{28}

The fresh mechanism for redressal of the grievances of the policyholders provides for three different forums viz.

- The in-house grievances redressal cells of the insurers
- The consumer courts will provide for a three-tier approach in resolving consumer disputes
The District Forum, the State Forum and the National Forum, with different pecuniary jurisdictions; and the civil courts.

(v) **Introducing Ombudsman:**

A new administrative body has been appointed by the Insurance Regulatory and Development Authority in regard to the interest of the policyholders. The insurance Ombudsman is empowered to receive and consider complaints in respect of personal lines of insurance from any person who has any grievance against an insurer. The complaint has to be in writing, and addressed to the jurisdictional Ombudsman within whose territory a branch or office of the insurer complaint against, is located. The complaint may relate to any grievance against insurer, partial or total repudiation of claims by the insurer, dispute in regard to premium paid or payable in terms of policy, dispute on the legal construction of the policyholders in case such dispute relates to claims, delay in settlement of claims and non-issue of any insurance documents to customer after receive of payment. The limit of an Ombudsman's power is at present prescribed by IRDA at Rs. 20 lacs.

(vi) **Detariffing the Indian General Insurance Industry:** Insurance sector had been liberalized in the year 2000. Gradually the private sector players/MNCs are likely to mount pressure for detariffing making it an indispensable evil. Before liberalisation Indian General Insurance
Industry, the Tariff Advisory Committee (TAC), used to fix the tariffs regarding the General Insurance Products. A tariff is merely schedule of premium rates and policy terms and conditions applicable to risks in a class of business. But in common parlance only those schedule of rates and terms which are issued by a central authority and require compliance by all insurers, are called tariffs.\(^\text{29}\)

Detariffing is the way to initiate the process of liberalisation. It will help the insurers to develop range of products, as companies can have the independence to set rates. Products can be differentiated, need based products for customers can be walked out, insurers will offer products at competitive price, better customer service will be made available, as a result demand will increase and insurance culture will develop among the customers benefiting the masses. The common refrains both for and against detariffing as it is centered on the lack of sufficient information, because of absence of data, inadequately of data, absence of statistical information and absence of scientific practice. The inference is that the general insurance industry, with its current set of data, is not in a position to harness the full potential of the Indian market to its advantages.
have been created and business opportunities explored. All these are likely to lead to the establishment of a vibrant and customer friendly insurance business environment in the country. State owned Life Insurance Corporation of India (LIC) still write the bulk of insurance business, and they have the network required to underwrite large corporate risks without depending almost entirely on reinsurance support. However, their focus on restructuring is beginning to put them at a disadvantage against private life insurance companies.

Table 4.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative Gross Direct Premium (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>34893.00</td>
</tr>
<tr>
<td>2001-02</td>
<td>50094.45</td>
</tr>
<tr>
<td>2002-03</td>
<td>55738.11</td>
</tr>
<tr>
<td>2003-04</td>
<td>63130.66</td>
</tr>
</tbody>
</table>

Source: Various issues of IRDA Journal.

A cursory glance over the data set out in table 4.2 reveals that there has been continuous increase in Cumulative Gross Direct Premium i.e. it went up from Rs. 34893 crores in 2000-2001 to Rs. 63130.66 in 2003-2004 thereby registered a sharp rise of 44.72 per cent over 2000-2001 in
the total volume of business in life insurance segment. It clearly indicates that though private players have entered into the field of insurance yet, Life Insurance Corporation of India has its deep reach among masses.

Table 4.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative Gross Direct Premium (Rs. in crores)</th>
<th>Public Sector (Rs. in crores)</th>
<th>Private Sector (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>34893.00</td>
<td>34892.02</td>
<td>0.98</td>
</tr>
<tr>
<td>2001-02</td>
<td>50094.45</td>
<td>49821.91</td>
<td>272.54</td>
</tr>
<tr>
<td>2002-03</td>
<td>55738.11</td>
<td>53492.75</td>
<td>1109.62</td>
</tr>
<tr>
<td>2003-04</td>
<td>63130.66</td>
<td>60705.20</td>
<td>2425.46</td>
</tr>
</tbody>
</table>

Source: Various issues of IRDA Journal.

A review of above noted table 4.3 brought an important fact to notice that there is growth in all figures noted in the table i.e. total premium has gone up from Rs. 34873 crores in 2000-2001 to Rs. 63130.66 crores in 2003-2004, collection of public sector companies has increased for Rs. 34892.02 crores in 2000-2001 to Rs. 60705.20 crores in 2003-2004, similarly there is a rise in private sector companies premium earnings from 0.98 crores in 2000-2001 to Rs. 2425.46 crores in 2003-2004. It is pertinent to mention here that the premium has divested for
public to private sector. Had there private sector companies not been in picture all premium, would have been earned by public sector companies.

Table 4.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share of Public Sector (%)</th>
<th>Market Share of Private Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>99.98</td>
<td>0.02</td>
</tr>
<tr>
<td>2001-02</td>
<td>98.65</td>
<td>0.54</td>
</tr>
<tr>
<td>2002-03</td>
<td>94.34</td>
<td>5.66</td>
</tr>
<tr>
<td>2003-04</td>
<td>87.04</td>
<td>12.96</td>
</tr>
</tbody>
</table>

Source: Various issues of IRDA Journal.

Market share of public and private companies in the total volume of Life Insurance Business has been depicted in table 4.4 which shows that market share of public sector has shown a decreasing trend i.e. it decreased from 99.98 per cent in 2000-2001 to 87.04 per cent in 2003-2004 thereby a decline by 12.94 per cent over 2000-2001. On the contrary, the share of private sector companies has gone up from 0.02 per cent in 2000-2001 to 12.96 per cent in 2003-2004. Need less to say that the growth of private sector insurance business has been at the cost of public sector. The funds are getting divested from public to private sector mainly due to the fact that foreign/private sector has its an promotional measures which are for superior to than that of public sector. However,
now a deep, due to stiff competition, public sector insurance companies have launched massive promotional campaigns.

Table 4.5

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth in the Industry (%)</th>
<th>Growth in Public Sector (%)</th>
<th>Growth in Private Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>25.26</td>
<td>25.08</td>
<td>97.00</td>
</tr>
<tr>
<td>2001-02</td>
<td>43.54</td>
<td>42.79</td>
<td>269.50</td>
</tr>
<tr>
<td>2002-03</td>
<td>11.27</td>
<td>9.65</td>
<td>307.15</td>
</tr>
<tr>
<td>2003-04</td>
<td>10.48</td>
<td>13.48</td>
<td>118.58</td>
</tr>
</tbody>
</table>

Source: Various issues of IRDA Journal.

Data set out in table 4.5 reveals percentage share of volume of life insurance business of public & private sector companies. It reveals a declining trend in public sector and increasing trend in private sector companies. It is obvious as there has been decrease in absolute terms so is in case of relative terms. Remarkable to not is the tremendous growth of private sector companies who are emerging very powerfully in India’s insurance sector.

During the financial year 2001-2002 only four companies i.e. Birla Sun Life, ICICI Prudential, Max New York and HDFC Standard Life have underwritten business for a full twelve-month period. Some of the
private players entered the market during closing stages of the financial year 2001-2002. Private players see a tremendous potential for life insurance business in the country with the ever expanding middle class, growing monitoring affluence and the absence of a social security system. The insurers have come forward to offer packaged “life solutions” as against mere “products” to sell life policies, equipped as they are with the technological support of their foreign partners in terms of product knowledge, business process and proven sales models. The insurers are taking their obligations under the rural and social sectors seriously; a number of products are offered to underwrite business in these special sectors.

The financial year 2002-2003, was the second full year of operations for most of the new life insurance companies; by the end of the financial year, the number of private players increased to twelve and they were competing with the public sector Life Insurance Corporation of India (LIC). The year witnessed tremendous growth in terms of private insurers adding new business to their portfolios. However, the overall new business premium witnessed a decline vis-à-vis the financial year 2001-2002, as the impact of declining interest rates in the economy percolated down to the insurance sector. With the interest rates moving
southwards, the insurers slowly withdraw policies with guaranteed returns. Overall, the decline in new business was eighteen per cent.

The premium underwritten by the industry during 2002-2003 was Rs. 55738.11 crores, of which Rs. 54628.49 crores was underwritten by LIC and Rs. 1109.62 crores by the private players. As against this, during the previous year (2001-2002) it was Rs. 50094.45 crores (industry), Rs. 49821.91 crores (LIC) and Rs. 272.54 crores (Private Player), respectively. Overall, the industry witness a growth of 11.27 per cent in terms of gross premium underwritten as against 43.54 per cent growth recorded in the previous year. The decline in the growth rate in the year 2002-2003 has to be assessed in the context of the previous year being an observation. During the financial year 2001-2002, LIC had underwritten 99.46 per cent of the business in that year, had offered high yield guaranteed return plans like Jeevan Shree, Beema Nivesh, Single Premium and Individual Pension Plans. The decline in growth rate could be on account of the withdrawal of these schemes in the financial year 2002-2003. Growth in the business of LIC was recorded as 42.79 per cent during 2001-2002 declined to 9.65 per cent in the year 2002-2003. A review of the performance of LIC during the years 1998-1999 to 2000-2001 further reveals that it has recorded annual growth in the range of 18 and 25 per cent. The private insurers exhibited growth of 307.1 per cent
d lament the year. The sharp increase in growth for the new players can partly be attributed to the fact that their business during the financial year 2001-2002 was small.

The performance of the private players during the last four years and particularly for the current year has reflected their ability to create and nurture new markets. The private players accounted for about 2 per cent of the total premium underwritten in this sector for the year 2002-2003. Significantly, the total business underwritten grew by 11.27 per cent. In comparison, the private players had accounted for less than 1 per cent of the total business underwritten in the previous year. In terms of market share, LIC held 98 per cent of the life market, with the twelve new players capturing just 2 per cent. During the financial year 2001-2002, LIC held 99.46 per cent of the total market. A comparison of the business underwritten by the private players further reveals that at least three of them have succeeded in establishing themselves in the market while others have still to make a mark.

During the financial year 2002-2003, ICICI Prudential captured merely 3 per cent of the new business underwritten, followed by Birla SunLife and HDFC Standard at 1.21 per cent and 1.08 per cent of the premium underwritten. In terms of number of policies, while ICICI Prudential had issued 2.45 lac policies, HDFC Standard Life and Allianz
Bajaj followed with 1.25 lac and 1.16 lac policies respectively. In terms of premium underwritten in rural sector, SBI Life led with premium underwritten at Rs. 504.21 lacs followed by Met Life at Rs. 215 lacs. In terms of number of policies underwritten in rural sector, ICICI Prudential led with 29376 policies. In the social sectors, SBI life led with a premium of Rs. 39.45 lacs and lives covered at 37478 lives.\(^{31}\)

During the financial year 2003-2004 the insurance industry underwrote first year premium of Rs. 18710.15 crores recording a growth of 10.48 per cent over the previous year. In terms of policies, the insurers exhibited a growth of 12.83 per cent with 286.27 lac policies. The share of premium of private insurers increased to 12.96 per cent as against 5.66 per cent during 2002-2003. Individually, all the private insurers increased their market share over the previous year. The private insurers recorded a growth of 153 per cent in terms of first year (including single) premium underwritten by them. LIC underwrote premium of Rs. 16284.68 crores during the year. LIC’s market share for 2003-2004 was 87.04 per cent. LIC, in terms of number of policies, contributed 94.21 per cent.

The premium underwritten by the private players for 1657636 individual policies stood at Rs. 2048.06 crores. In case of the LIC the premium under 26951919 individual policies amounted to Rs. 12636.86 crores. A comparison of the individual single premium underwritten by
the private players and the LIC reveals a decline of 3.42 per cent and 61.29 per cent at Rs. 287.97 crores and Rs. 1164.71 crores respectively. The decline was on account of the impact the changes made in section 10(10D) of the Indian Income Tax Act, 1961. Cumulatively, the twelve private players underwrote a premium of Rs. 2425.46 crores. Amongst the private players, ICICI Prudential led with a market share of 4.01 per cent followed by Birla SunLife at 2.40 per cent. The following table reveals that the LIC’s business is day-by-day dwindling after the liberalisation in this sector. The table also exhibits the new business premium of life insurance companies during the years 2002-2003 and 2003-2004.
Table 4.6
Business of Private Sector Life Insurance Companies in India

<table>
<thead>
<tr>
<th>Name of the Insurance Company</th>
<th>No. of Policies 2002-03</th>
<th>No. of Policies 2003-04</th>
<th>Premium Amount (Rs. in lacs) 2002-03</th>
<th>Premium Amount (Rs. in lacs) 2003-04</th>
<th>Market share (%) 2002-03</th>
<th>Market share (%) 2003-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata AIG</td>
<td>91,487</td>
<td>1,61,967</td>
<td>5,220.84</td>
<td>18,015.47</td>
<td>0.31</td>
<td>0.96</td>
</tr>
<tr>
<td>Allianz Bajaj</td>
<td>1,15,964</td>
<td>1,85,350</td>
<td>6,388.89</td>
<td>17,970.51</td>
<td>0.37</td>
<td>0.96</td>
</tr>
<tr>
<td>ING Vysya</td>
<td>10,976</td>
<td>90,976</td>
<td>1,765.92</td>
<td>7,260.66</td>
<td>0.10</td>
<td>0.39</td>
</tr>
<tr>
<td>AMP Sanmar</td>
<td>16,344</td>
<td>46,282</td>
<td>631.52</td>
<td>2,788.16</td>
<td>0.40</td>
<td>0.15</td>
</tr>
<tr>
<td>SBI Life</td>
<td>17,746</td>
<td>86,495</td>
<td>7,188.08</td>
<td>19,590.08</td>
<td>0.42</td>
<td>1.05</td>
</tr>
<tr>
<td>HDFC Standard</td>
<td>1,24,837</td>
<td>2,03,205</td>
<td>12,931.38</td>
<td>20,933.26</td>
<td>0.76</td>
<td>1.12</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>2,44,434</td>
<td>4,36,196</td>
<td>36,410.67</td>
<td>75,091.03</td>
<td>2.15</td>
<td>4.01</td>
</tr>
<tr>
<td>Birla SunLife</td>
<td>64,758</td>
<td>1,55,598</td>
<td>12,956.79</td>
<td>44,986.19</td>
<td>0.77</td>
<td>2.40</td>
</tr>
<tr>
<td>Aviva Life</td>
<td>17,023</td>
<td>71,001</td>
<td>1,346.63</td>
<td>7,713.84</td>
<td>0.08</td>
<td>0.41</td>
</tr>
<tr>
<td>Om Kotak Mahindra</td>
<td>32,767</td>
<td>51,071</td>
<td>3,520.96</td>
<td>12,710.19</td>
<td>0.21</td>
<td>0.68</td>
</tr>
<tr>
<td>Max New York</td>
<td>77,531</td>
<td>1,45,581</td>
<td>6,731.37</td>
<td>13,148.80</td>
<td>0.40</td>
<td>0.70</td>
</tr>
<tr>
<td>Met Life</td>
<td>11,277</td>
<td>25,124</td>
<td>769.88</td>
<td>2,338.16</td>
<td>0.05</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: Annual Reports of respective companies.

A cursory glance over the data set out in table 4.6 clearly indicates the profiles of policy premia and market share of private sector life insurance companies during the years 2002-2003 and 2003-2004. There has been remarkable increase in the number of policies resulting in increased amount of premium also. The number of policies of Tata AIG went up from 91487 in 2002-2003 to 161967 in 2003-2004 – recording a rise of 43.5 per cent. Similarly, the amount of premia collected also increased over three and a half times that is, it went up from Rs. 5220.84
lacs in 2002-2003 to Rs.18015.47 lacs in 2003-2004. Other companies have also had a bumper business during the period under review. ICICI Prudential which has highest number of policies, as compared to other players, had to its credit 244434 policies during 2002-2003. The same jumped to 436196 policies during 2003-2004. The premium collected also reached Rs. 75091.03 lacs during 2003-2004 as compared to Rs. 36410.67 lac during 2002-2003. The market share captured by ICICI also increased from 2.15 per cent in 2002-2003 to 4.01 per cent in 2003-2004. The other private companies which have good business in insurance sector are HDFC and Allianz Bajaj. The number of policies of these two companies during 2002-2003 was 124837 and 115964 respectively. The figures rose to 203205 and 185350 during 2003-2004. Similarly, there is a sharp rise in the amount of premium collected by these companies. So far as the market share is concerned, ICICI Prudential captured the highest share of 2.15 per cent in 2002-2003 followed by Birla SunLife 0.77 per cent, HDFC 0.76 per cent, SBI Life 0.42 per cent. MetLife had the smallest share, that is, 0.05 per cent during 2002-2003 which remained low during the year 2003-2004, also that is, 0.12 per cent. A review of the market share of these companies during 2003-2004 further indicates that ICICI ranks first with 4.01 per cent followed by Birla SunLife at 2.40 per cent, HDFC 1.12 per cent. All this clearly indicates
that though all the private sector companies are capturing the market by way of promotional strategies thereby reducing the business of the LIC. Out of the private sector life insurance companies ICICI Prudential, HDFC Standard, Allianz Bajaj, Tata AIG and Max New York are the top ranking players in globed Indian economy.

PERFORMANCE OF NON-LIFE INSURANCE COMPANIES:

As is the case with the life insurance business, new non-life insurers also got registered towards the end of 2000 but were unable to commence full-scale business before the end of March 2001. The four public sector companies, therefore, for the period under review have dominated the business. There has been a qualitative change in the approach of the management of these companies. The government at the suggestions of the Insurance Regulatory and Development Authority (IRDA) has notified the General Insurance Corporation of India as a re-insurer. The administrative links that had existed between the four nationalized companies and GIC has come to end in November 2000. The general insurance industry in this country, which has not fully reached its potential in regard to coverage as well as development of policies in areas which the customers would like to, has shown a tendency to improve in these areas. The new companies as well as the existence ones have brought into the market some new products which are being marketed
Impact of Economic Liberalisation on Insurance Sector in India

with a professional approach. One area of significant improvement is the industry’s preparedness to look at the credit risk insurance which has the potential of developing into a very significant portfolio, if developed on proper lines. The industry is also showing its preparedness to take steps to control its costs. The performances of the general insurance companies in India pertain mostly to the four nationalized companies namely, New India Assurance, National Insurance, Oriental Insurance and United India Insurance. Some of the companies in the private sector like Royal Sundram, Tata AIG, IFFCO-TOKIO, Cholamandalam, ICICI Lombard, Reliance General Insurance, Allianz Bajaj and HDFC Chubb General Insurance Company have already commenced their business. Results that are depicted in the accompanying statements indicate that these companies have not made adequate technical reserves in terms of the regulations and have, therefore, shown losses. During the financial year 2001-2002 the number of non-life insurers in the private sector who have been granted registrations to underwrite business within the country was six at the close of the year. Of these, while five insurers have been formed as joint venture with foreign equity participation, in case of Reliance General Insurance Companies Ltd., the company has been promoted as a subsidiary of the Reliance Group. The gross premium underwritten by the non-life private sector insurers was Rs. 465.27 crores in 2002-2003 as
against Rs. 7.14 crores in the previous year. The gross premium underwritten by these insurers was 3.74 per cent of the total market in 2002-2003 as against a meager 0.07 per cent in the previous year. An analysis of the class-wise business figures of the private insurers reveals that these insurers have booked underwriting losses in all segments of business (other than fire insurance in case of two companies and marine insurance in case of one company). Two companies have recorded a net profit during the financial year 2000-2002. A major contributor to the overall underwriting losses has been motor claims insurance. Motor insurance business continues to be the fastest growing portfolio in the general insurance business in the country. Though it appears to be the simplest, the experience of the Indian market on this portfolio during the last 15 years; has been anything but satisfactory. It controls were than 38 per cent of the total general insurance business in the country. Apart from being the fastest growing portfolio, motor insurance also account for the maximum number of documents. Nearly 60 per cent of all documents issued and 60 per cent claims reported emanate from this portfolio. One of the primary reasons for the continued underwriting losses of public sector non-life companies in India has been the higher outgo – both for Own Damage (OD) and Third Party (TP) liability claims under this portfolio. Added to the claims cost is the business acquisition cost and
high management expenses which make this portfolio highly loss prone. With a road network of over 8.7 million kilometers, and a vehicle population of around 50 million in the country, Indian roads take a toll of more than 85,000 victims every year with over 3.5 lacs accidents reported annually. The accident per thousand vehicles in India is the highest in the world, that is, 31.80 per cent and is more than twice that of the UK and 5 times that of the US. In India Motor crash accident ratio works out to around 0.17 per cent per year. The general insurance industry players garnered a total premium of Rs. 12,000 crores during the financial year 2002-2003 up from 11,000 crores in 2001-2002. The private players, however, stole the show and pulled up the industry’s overall growth rate higher to 20 per cent by their sectoral performance. Private players garnered in 9.5 per cent share of the market in 2002-2003 up from 3.5 per cent in 2001-2002. They have captured 14 per cent in the industry fire portfolio, 7 per cent in marine and 8 per cent of miscellaneous portfolio.
Table 4.7

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Company</th>
<th>Fire</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Marine</th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Sundaram</td>
<td>0.0006</td>
<td>17.9</td>
<td>39.16</td>
<td>0.235</td>
<td>50.44</td>
<td>132.26</td>
<td>-</td>
<td>2.78</td>
<td>13.02</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance</td>
<td>0.9356</td>
<td>45.84</td>
<td>55.42</td>
<td>0.1317</td>
<td>29.87</td>
<td>121.34</td>
<td>-</td>
<td>1.74</td>
<td>8.91</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFFCO-TOKIO</td>
<td>3.7013</td>
<td>36.15</td>
<td>103.52</td>
<td>2.086</td>
<td>31.02</td>
<td>91.39</td>
<td>0.451</td>
<td>3.34</td>
<td>18.41</td>
</tr>
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<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tata AIG</td>
<td>-</td>
<td>19.36</td>
<td>49.91</td>
<td>-</td>
<td>49.91</td>
<td>156.69</td>
<td>-</td>
<td>9.18</td>
<td>27.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Lombard</td>
<td>-</td>
<td>10.98</td>
<td>123.75</td>
<td>-</td>
<td>16.12</td>
<td>70.82</td>
<td>-</td>
<td>-</td>
<td>8.91</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allianz Bajaj</td>
<td>-</td>
<td>27.88</td>
<td>60.64</td>
<td>-</td>
<td>112.71</td>
<td>228.45</td>
<td>-</td>
<td>1.35</td>
<td>7.41</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cholamandalam</td>
<td>-</td>
<td>-</td>
<td>5.32</td>
<td>-</td>
<td>-</td>
<td>9.31</td>
<td>-</td>
<td>-</td>
<td>0.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDFC Chubb</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9.49</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Data set out in Table 4.7 the gross direct premium income of general insurance sector in India from 2000-2001 to 2002-2003. In the fire insurance segment also ICICI Lombard topped the list by earning Rs. 123.75 crores as premium followed by IFFCO-Tokio at Rs. 103.52 crores during 2002-2003. Marine insurance has been all through captured by TATA-AIG followed by IFFCO-Tokio and Royal Sundaram. In miscellaneous segment, Allianz Bajaj has earned Rs. 228.45 crores as premium followed by TATA-AIG at Rs. 156.69 crores and Royal Sundram at Rs. 132.26 crores during 2002-2003. A comprehensive review of general insurance sector of private sector reveals that it is Allianz Bajaj which has topped the list during the period under study. Premium income of Allianz Bajaj was noted at Rs. 296.48 crores during 2002-2003 followed by TATA-AIG Rs. 233.32 crores and IFFCO-Tokio at Rs. 213.32 crores. In general segment, the lowest premium has been earned by HDFC-Chubb at Rs. 9.49 crores. It is simply because of the small size and business of the company. The foregoing description of the performance of the private non-life insurers brings us to the conclusion that in the years to come these companies will further capture the market share in general insurance segment.

The short period of nationalization has been marked by the orderly development of regulatory framework. The significance of the process of
regulatory evaluation in the insurance industry can be fully appreciated only in the context of the turmoil created by regulatory issues in other recently liberalized sectors. The IRDA is fully conscious of the fact that the growth of insurance coverage in the country, both for life and non-life risks, is possible only when there is a growth in public knowledge and insurance education. Competitive forces have brought to the customers best in product development and features, as they are offered an unbundled product with variety of riders to choose from. This, unlike in the past, when the customer was offered a bundled product with features he may not really willing to buy, but still had to pay for. The identification of the central role of the customer in insurance is desired to reach him when/where he wants, has led to the development of alternate channels of distribution, including bancassurance, brokers, the internet and direct marketing.

The Indian insurance industry has been witnessing a relatively better growth rate when compared with many other countries of the world. During 2000 the Indian insurance industry, as a whole, witnessed a growth of 16.6 per cent as against 6.6 per cent of the global growth rate. Contribution of insurance premium as a percentage of GDP increased from around 1.5 to 1.7 per cent in 1998-99 to 2.5 to 2.57 per cent during the year 2001-2002. It confirms the growth trajectory of this sector. It is
not just the growth in percentage that is looking better post liberalisation but the entire approach to both buying and selling insurance has been changed positively. From a completely seller dominated market, the business in now very much driven by what the consumers want, what products he is looking for and how he wants to buy them, to the sheer range of options he can chose from. In short, insurance market is now a buyer market. Private players and state players have gone for aggressive publicity increasing the awareness level regarding the insurance products. Awareness level has increased to such an extent that customers are actually looking at the product for the purpose for which it was originally created.

Historically, insurance companies did not sell insurance in India but consumers brought it as tax saving investment. Consequently, more often than not, the insured ended up buying a policy that did not meet his specific needs. After sale service was not a very high priority and consumer was invariably left running in circles for issues like premium payments, claim dispute and final settlement.

The following table highlights the performance of general insurance companies after liberalisation from 2000-2001 to 2003-2004.
Table 4.8
Total volume of business in Non-life insurance segment
(2000-01 – 2003-04)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative Gross Direct Premium (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>9810.82</td>
</tr>
<tr>
<td>2001-02</td>
<td>11354.64</td>
</tr>
<tr>
<td>2002-03</td>
<td>14279.32</td>
</tr>
<tr>
<td>2003-04</td>
<td>16118.39</td>
</tr>
</tbody>
</table>

Source: Various issues Journal of IRDA

Analyzing the data in table 4.8, it is observed that Cumulative Gross Direct Premium in non-life segment has increased from Rs. 9810.82 crores in 2000-2001 to Rs. 16118.39 crores in 2003-2004 i.e. a rise of 39.13 per cent over 2000-2001. It clearly indicates the changing behaviour of society towards non-life segment also.

Table 4.9

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative Gross Direct Premium (Rs. in crores)</th>
<th>Public Sector (Rs. in crores)</th>
<th>Private Sector (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>9810.82</td>
<td>9803.68</td>
<td>7.14</td>
</tr>
<tr>
<td>2001-02</td>
<td>11354.64</td>
<td>10888.85</td>
<td>465.79</td>
</tr>
<tr>
<td>2002-03</td>
<td>14279.32</td>
<td>12947.82</td>
<td>1331.50</td>
</tr>
<tr>
<td>2003-04</td>
<td>16118.39</td>
<td>13827.69</td>
<td>2290.70</td>
</tr>
</tbody>
</table>

Source: Various issues Journal of IRDA
Another break up of the data relating to non-life insurance segment on the sectoral basis has been done in above noted table 4.9. It exhibits alike life insurance sector, same trend i.e. increase in all figures. The Cumulative Direct Premium went up from Rs. 9810.82 crores in 2000-2001 to Rs. 16118.39 crores in 2003-2004 share of public sector went up for Rs. 9803.68 crores in 2003-2004 to Rs.13827.69 crores in 2003-2004 an increase of around 50 per cent over 2000-2001 and share of private sector rose from Rs. 7.14 crores in 2000-2001 to Rs. 2290.70 crores in 2003-2004. This increasing trend indicates the awareness of society towards non-life segment also.

Table 4.10


<table>
<thead>
<tr>
<th>Year</th>
<th>Market share of public sector (in %)</th>
<th>Market share of Pvt. Sector (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>99.03</td>
<td>0.07</td>
</tr>
<tr>
<td>2001-02</td>
<td>96.24</td>
<td>3.76</td>
</tr>
<tr>
<td>2002-03</td>
<td>90.68</td>
<td>9.32</td>
</tr>
<tr>
<td>2003-04</td>
<td>85.00</td>
<td>15.00</td>
</tr>
</tbody>
</table>

Source: Various issues Journal of IRDA

Market share of public sector and private sector depicted in table 4.10 reviewed during 2000-2001 to 2003-2004 showed a declining trend
for public sector and an upward movement in private sector. The public sector loss its share by 14.03 per cent in 2003-2004 over 2000-2001. The private sector gained by 14.93 per cent during the same period. It means that the trend is uniform in life as well as non-life segment.

Table 4.11

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth in the industry (in %)</th>
<th>Growth in public sector (in %)</th>
<th>Growth in private sector (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>6.25</td>
<td>65.00</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>15.73</td>
<td>21.61</td>
<td>6424</td>
</tr>
<tr>
<td>2002-03</td>
<td>21.5</td>
<td>15.45</td>
<td>186</td>
</tr>
<tr>
<td>2003-04</td>
<td>13.00</td>
<td>7.00</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Various issues Journal of IRDA

Growth in volume of non-life insurance business of public sector and private sector depicted in table 4.11 has revealed the same trend as it was in case of life insurance segment. Through there has been a significant growth in the business of industry i.e. it went up from 6.25 per cent in 2000-2001 to 13 per cent in 2003-2004 a rise of over 100 per cent.
There has been an impressive growth in the volumes of premium income of the insurance market in 2002-2003 (post liberalisation period). The premium income has grown by 21.5 per cent to record a level of Rs. 14,000 crores as compared to Rs. 12600 crores by the public sector players.

The reasons for the impressive growth could be traced to increased premium levels of mega sized risks increase in the motor tariff premium rates and increased auto sales and a customer led demand for medical insurance schemes. The buoyant economy has also assisted in the growth of business.

The public sector players posted an excellent growth rate of 14.4 per cent in their gross premiums and recorded Rs. 12,700 crores as income. The market share of the public players dropped to 90 per cent from the previous 96 per cent. They have missed out on the growing size of the fire premium and should be a matter of utmost concern to them. The earned premiums, a true measure of growth rate was 9 per cent, the same as the year before. Their retention level of business earned premiums has fallen to 73 per cent from the 77 per cent in the previous year, showing a heavier dependence on reinsurance support. Another feature noted was that though the Marine premium grew by Rs. 130 crores at gross level at the earned premium levels it showed a fall of Rs.
seven crores. Evidently a good portion of the marine business increase has come from risks that were reinsured very heavily.

4. IMPACT ON INVESTMENT PATTERN

Insurance is a business that deals with a large number of people and generates huge amounts of funds over time, making its financial muscle very strong. The capital formation arise out of policyholders funds in the case of life insurance, technical and free reserves in the non-life segment. The time lag between the procurement of premium and the payment of claim provides an interval during which the funds can be deployed to generate income. The power of the sector is evident from the fact that insurance companies are among the largest institutional investors in the world.\textsuperscript{34}

The insurance companies have an obligation to invest them prudently with the combined objectives of the liquidity, maximization of yield and safety. The investment decisions in the insurance sector are not entirely a matter of choice only of the investor. Therefore, the governments insist on a clear and transparent policy for investment. Since insurers deal with large public funds primarily in the nature of premium of the policyholders, entrusted to them in good faith, the safety of the same assumes greater importance. The money is collected on a long-term contractual basis with the trust that they will be secure with the insurer. In
fact, returns on investment influence the premium rates and bonuses and investment income will continue to be an important component of insurance company profit. In the life sector, benefits of investment profit accrue directly to policyholders when it is passed on to him in the form of bonus. In case of the non-life sector, the benefits are indirect, mostly by the creation of an investment portfolio.

Initially, the Government of India had not laid down any specific investment policy. Steps in that direction were considered necessary when, with the ready availability of substantial funds from the market, some of the insurance were tempted to divert a portion of the same either towards speculative activities. Thus, in the forties, many life insurance companies were controlled by large financiers who used company funds to serve their own purposes. There were also some cases of interlocking of funds between banks and insurance companies. This harmed the interests of the policyholders and there was a strident demand that these malpractices be curbed.

The Sir Cowasjee Jahangir Committee went into the question of funds management, and in the light of its recommendations, the Insurance Act was amended in 1950, introducing an element of regulation. As a result, the life insurers were required to have 25 per cent of their assets in...
Government Securities, 25 per cent in Government or other approved securities and 35 per cent in approved investment.

The LIC was formed in 1956, but it was only after the Mundhra Scandal that a detailed investment policy was adopted in 1958. No specific guidelines along the above lines were issued by the Government of India in respect of the GIC and its four subsidiaries namely, National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited. However, one of the important functions of the GIC as per the nationalization Act, 1972, was effective deployment of investable funds, so as to improve the yield and profitability. Subsequently, specific directions about the manner of investment in different channels were issued from time to time.

The pattern of investment was, accordingly, prescribed in great detail by the Government of India, this was not in the form of guidelines but as a legal obligation under the Insurance Act 1938. It was stipulated that the LIC should invest its funds in Government Securities 25 per cent. Government and other approved securities inclusive of Government securities not less than 30 per cent. Approved investment i.e. infrastructure and social sector not less than 15 per cent, others governed by exposure/prudential norms not exceeding 20 per cent. Other than
approved investments governed by exposures norms not exceeding 15 per cent.

In the case of General Insurance similar restrictions applied. The investment pattern of GIC was as follows: Central and State Government Securities not less than 12.5 per cent special deposits in Central Government Securities not less than 12.5 per cent. State Government and other approved securities, debenture, bonds of public sector units, not less than 10 per cent. Loans to housing and urban development corporation (HUDCO)/Delhi Development Authority DDA/ GIC Grihavitta Ltd., and State Government for housing and fire fighting equipment not less than 35 per cent. Market investment not less than 30 per cent.

The Malhotra Committee had recommended that the mandated investment of funds of the LIC and GIC should be reduced and the composition of portfolios should be flexible, so that portfolio diversification will bring about improvements in returns. On the basis of this report, some changes in the policy have recently been introduced. The IRDA Regulations also followed more or less the earlier pattern, except that the quantum of investment in Government securities etc., has been reduced significantly, the Life Insurance Companies and the General Insurance Companies have now some what greater freedom and higher flexibility to make their investments. As per the regulations of IRDA,
every insurer carrying on the business of Life Insurance shall invest, and at all time keep invested, of his controlled fund (other than funds relating to pension and general annuity and unit linked life insurance business) 25 per cent in Central Government Securities, not less than 50 per cent in Government Securities or other approved securities inclusive of Central Government Securities. Approved investment in infrastructure and social sectors, not less than 15 per cent and other approved investment, not exceeding 35 per cent, while investment other than approved investment 15 per cent.

A review of pattern of investment specified by the IRDA in connection with the General Insurance and Reinsurance indicates some remarkable fact i.e. investment in Central Government Securities was not less than 20 per cent. State Government Securities and other Guaranteed Securities inclusive of Central Government Securities not less than 30 per cent, Housing and Loans to State Government 5 per cent. Remaining was invested in approved investment to be governed by exposure/prudential norms.

The following tables reveal sector-wise investment of Life Insurance Companies in Pre-liberalised & Post-liberalised Indian Economy during the years 1998-2003.
## Table 4.12

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Govt. Securities</th>
<th>State Govt. &amp; Other Guaranteed Securities</th>
<th>Housing</th>
<th>Infrastructure</th>
<th>Approved Investment</th>
<th>Other than Approved Investment</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>45876.26 (40.78)</td>
<td>10471.18 (9.30)</td>
<td>12242.00 (10.88)</td>
<td>12270.39 (10.90)</td>
<td>19222.93 (17.09)</td>
<td>12396.67 (11.02)</td>
<td>112479.43 (100)</td>
</tr>
<tr>
<td>1999</td>
<td>56185.25 (39.55)</td>
<td>12928.35 (9.10)</td>
<td>14207.43 (10.00)</td>
<td>14597.85 (10.28)</td>
<td>29649.38 (20.87)</td>
<td>14459.47 (10.18)</td>
<td>142027.73 (100)</td>
</tr>
<tr>
<td>2000</td>
<td>70533.26 (40.44)</td>
<td>14156.29 (8.17)</td>
<td>15885.75 (9.10)</td>
<td>17228.16 (9.88)</td>
<td>40075.83 (22.98)</td>
<td>16521.65 (9.47)</td>
<td>174400.94 (100)</td>
</tr>
</tbody>
</table>

**Note:** Figure within brackets indicates percentage to total.

**Source:** IRDA Annual Report various Issue.

## Table 4.13

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Govt. Securities</th>
<th>State Govt. &amp; Other Guaranteed Securities</th>
<th>Infrastructure</th>
<th>Approved Investment</th>
<th>Other than Approved Investment</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>47512.08 (24.49)</td>
<td>52523.95 (27.07)</td>
<td>24886.86 (12.82)</td>
<td>50502.28 (26.03)</td>
<td>18583.83 (9.58)</td>
<td>194009.00 (100)</td>
</tr>
<tr>
<td>2002</td>
<td>128813.10 (55.9)</td>
<td>3364.38 (1.46)</td>
<td>20740.87 (9.00)</td>
<td>60928.73 (26.44)</td>
<td>16521.65 (7.17)</td>
<td>230368.73 (100)</td>
</tr>
<tr>
<td>2003</td>
<td>139965.81 (53.61)</td>
<td>28837.86 (11.04)</td>
<td>31335.89 (12.00)</td>
<td>59715.38 (22.87)</td>
<td>1229.12 (0.47)</td>
<td>261084.06 (100)</td>
</tr>
</tbody>
</table>

**Note:** Figure within brackets indicates percentage to total.

**Source:** IRDA Annual Report various Issue.
A cursory glance over data set out in Table 4.12 & 4.13 reveals the impact of economic liberalization on investment pattern of insurance sector. To make the study more meaningful, sectorwise investment of Life Insurance Companies as well as non-Life Insurance Companies has been analysed over a period three years prior to liberalisation and three years after liberalisation. This comparative analysis has led to this conclusion that total investment in central government securities in life insurance sector prior to liberalized went up from Rs. 45876.26 crores in 1998 to 70533.26 crores in 2000 – an increase of 53.74 per cent over 1998. The same increased tremendously by 194.58 per cent in the post liberalized phase i.e. it went up from Rs. 47512.08 crores in 2001 to Rs. 139965.81 crores in 2003. Investment in state government and other guaranteed securities in the pre-liberalised phase jumped by 35.19 per cent in 2000 over the year 1998. The same showed a declining trend in the post liberalized phase. There was a sharp decrease of 45.09 per cent in the year 2003 as compared to 2001.

The investment in housing increased from Rs. 12242.00 crores in 1998 to Rs. 15885.75 crores in 2000 – a rise of 29.76 per cent over 1998. Separate data of investment in housing sector in post-liberalised era is not available hence it is difficult to predict the effect. The life insurance companies have changed their policy of investment in infrastructure. The
investment in this sector increased in the three year of pre-liberalised era by 40.40 per cent. However, the growth of investment in three years of post-liberalised phase has been just 25.91 per cent which leads to this conclusion that life insurance companies are diverting funds to other segments. A review of approved investment of life insurance companies shows that between 1998 and 2000, there has been a rise by 108.48 per cent. The same has risen just by 18.24 per cent in 2003 over 2001 that is in the post-liberalised phase. The trend of investment of life insurance companies in other than approved investment has not been appreciating in the three years of post-liberalised era. However, the same increased by 33.27 per cent in the year 2000 over 1998. In the post-liberalised Indian economy, the amount of investment in other than approved investment decreased from Rs. 18583.83 crores in 2001 to Rs. 1229.12 crores – thereby registered a decline of 93.38 per cent.

Another assessment of investment of life insurance companies in the pre- and post-liberalised Indian economy has been made by calculating the percentage of all investment in each year to total investment of that year e.g. In all the years under review i.e. pre- post-liberalised, major investment has been made in central government securities, the only impact of liberalisation has been that now the quantum of investment has increased sharply. Moreover, today more than
Impact of Economic Liberalisation on Insurance Sector in India

50 per cent of total investment of life insurance companies is in central government securities. The other sector in which the percentage of investment to total investment has increased in the post-liberalised phase has been the state government and other guaranteed securities (as evident from data noted in Table 4.12 and 4.13. In case of investment in infrastructure also, it has been observed that in the three years of study before liberalisation the percentage of investment to total investment ranged between 9 to around 11 per cent i.e. 10.90 per cent in 1998, 10.28 per cent in 1999 and 9.8 per cent. The same investment showed an upward movement in the three year of post-liberalisation era, i.e. it was 12.82 per cent, 9.00 per cent and 12.00 per cent of total investment in the years 2001, 2002 and 2003 respectively. There has not been any problem to life insurance companies to invest in approved investments. The proportion of approved investment in the three years of post-liberalization phase has improved as compared to three years of pre-liberalised phase. The segment since has been absolutely neglected by the life insurance companies in other than approved investment where life insurance sector invested 11.02 per cent in 1998, 10.18 per cent in 1999 and 9.47 per cent in 2000. The review of post-liberalised phase shows that from 9.58 per cent in total in 2001, it has reduced to 0.47 per cent indicating that new life insurance companies have been more cautious. They prefer to invest
in safe areas. Moreover, they are also trying to follow Malhotra Committee Recommendation.

To conclude the impact of economic liberalisation on investment pattern of life insurance sector, it may be safely deduced that though reforms in insurance sector have been of recent origin, the period of three years may not be treated as too lengthy period to jump to any significant conclusion. But the indicators have suggested a change in the strategy of life insurance companies. It has been observed that Life insurance companies prefer to invest in those ventures which are safe, and ensure returns to them to meet their obligations. As it is evident that now their major thrust is on the central government securities followed by approved investment, infrastructure, state government etc. However, in the past they have not hesitated to invest in other than approved investment. The impact on investment pattern of life insurance companies reveals a cautious approach and a systematic investment in the post liberalized Indian economy.

The following tables depict the sector-wise investment of non-life insurance companies in pre-liberalised & post-liberalised Indian economy during the years 1998-2000.
Table 4.14

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Govt. Securities</th>
<th>State Govt. &amp; Other Guaranteed Securities</th>
<th>Housing</th>
<th>Infrastructure</th>
<th>Approved Investment</th>
<th>Other than Approved Investment</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>3562.39 (16.36)</td>
<td>1560.62 (7.16)</td>
<td>9236.18 (42.42)</td>
<td>601.30 (2.76)</td>
<td>6295.69 (28.91)</td>
<td>475.29 (2.18)</td>
<td>21731.47 (100)</td>
</tr>
<tr>
<td>1999</td>
<td>4139.21 (24.60)</td>
<td>1670.85 (9.93)</td>
<td>1039.16 (6.17)</td>
<td>650.26 (3.86)</td>
<td>8659.20 (51.45)</td>
<td>668.89 (3.98)</td>
<td>16827.57 (100)</td>
</tr>
<tr>
<td>2000</td>
<td>5018.62 (26.29)</td>
<td>1829.36 (9.58)</td>
<td>1239.75 (6.49)</td>
<td>750.69 (3.99)</td>
<td>9545.26 (50.00)</td>
<td>706.63 (3.70)</td>
<td>19090.31 (100)</td>
</tr>
</tbody>
</table>

Note: Figure within brackets indicates percentage to total.
Source: IRDA Annual Report various Issue.

Table 4.15

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Govt. Securities</th>
<th>State Govt. &amp; Other Guaranteed Securities</th>
<th>Housing</th>
<th>Infrastructure</th>
<th>Approved Investment</th>
<th>Other than Approved Investment</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5448.96 (22.27)</td>
<td>2154.29 (18.81)</td>
<td>1641.38 (6.71)</td>
<td>870.58 (3.56)</td>
<td>10485.57 (42.86)</td>
<td>3761.24 (15.37)</td>
<td>24462.02 (100)</td>
</tr>
<tr>
<td>2002</td>
<td>6907.92 (29.52)</td>
<td>2094.64 (8.95)</td>
<td>1892.97 (8.09)</td>
<td>5145.93 (21.99)</td>
<td>4386.87 (18.74)</td>
<td>2972.10 (12.70)</td>
<td>23400.43 (100)</td>
</tr>
<tr>
<td>2003</td>
<td>8592.49 (28.32)</td>
<td>2457.09 (8.10)</td>
<td>2087.20 (6.88)</td>
<td>2739.21 (9.03)</td>
<td>10734.50 (35.38)</td>
<td>3723.30 (12.27)</td>
<td>30333.79 (100)</td>
</tr>
</tbody>
</table>

Note: Figure within brackets indicates percentage to total.
Source: IRDA Annual Report various Issue.
The study of impact of economic liberalisation on investment pattern will remain incomplete unless, a review of sector-wise investment of non-life insurance companies is made.

A similar review (alike life insurance companies) of non-life insurance companies has been made in table 4.14 and 4.15 showing its investment in different segment in three years of pre-liberalised Indian economy and three years of the liberalisation phase. As noted in case of life insurance companies, the reforms in insurance sector are of recent origin. A detailed comparison to assess the possible impact is not possible. Yet an attempt has been made to compare the changes in the investment pattern of non-life insurance companies in the three years prior to liberalisation and three years post-liberalisation.

It is observed that investment of non-life insurance companies in central government securities in three years of pre-liberalised phase has grown from Rs. 3562.39 crores in 1988 to Rs. 5018.62 crores in 2000 – a rise of 40.88 per cent over 1998. The same has risen by 57.69 per cent in three years after liberalisation. The growth of investment in state government and other guaranteed securities has risen by 17.22 per cent in 2000 over the year 1998. However, the post-liberalisation phase did not show a remarkable increase, rather there is decrease of around 3 per cent over pre-liberalised period.
The other area where non-life insurance companies have invested is housing in the pre-liberalised era, there has been noted a decline from 1998 to 2000 by 86.57 per cent when investment decreased from Rs. 9236.18 crores in 1998 to Rs. 1239.75 crores in 2000. However, it has improved substantially in three years of post-liberalised era. The growth of investment in housing has been 27.16 per cent in 2003 over 2001. Another segment of investment of non-life insurance companies has been the infrastructure. They have invested much in infrastructure after liberalisation than prior to liberalisation. The rise was from Rs. 870.58 crores in 2001 to Rs. 2739.21 crores in 2003 i.e. a sharp increase of 214.64 per cent over a short span of three years. There has not been any remarkable improvement in approved investment by non-life insurance companies in the post-liberalised era i.e. a minor rise of 2.37 per cent in 2003 over the year 2001. However, the same registering a growth of 51.61 per cent in 2000 over the year 1998, rose from Rs. 6295.69 crores to Rs. 9545.26 crores. Similarly, the investment of non-life insurance companies in post-liberalisation has rather decreased by 1 per cent during the same period. Though in the three years prior to liberalisation, it rose from Rs. 475.29 crores in 1998 to Rs. 706.63 crores thereby, registered a rise of 48.67 per cent in the year 2000 over the year 1998.
Share of each sector in total investment was also studied for the purpose of comparison of three years of pre- and post-liberalized regimes. It was observed that non-life insurance companies' investment in Central Government Securities during 1998-2000 ranged between 16.36 per cent to 26.29 per cent. The same ranged between 22.27 per cent to 29.52 per cent in the three years of post-liberalisation which indicates an upward movement meaning thereby more tilt of Non-Life Insurance Companies towards government sector after liberalisation. The investment in three years prior to liberalisation in State Government and other guaranteed securities ranged between 7.16 per cent to 9.93 per cent. The same ranged in the three years after liberalisation ranged between 8.10 per cent to 8.95 per cent – no specific change rather decrease in the post-liberalised era. In the housing sector, there has been although stagnation i.e. in all three years prior to and post-liberalisation. Similarly, no remarkable change was noted relating to investment in infrastructure in both the phases under review.

The investment of Non-Life Insurance Companies in approved investment ranged between 28.91 per cent to 51.61 per cent of total during 1998-2000. the same ranged between 18.74 per cent to 42.86 per cent during 2001-2003. It reveals that in the post-liberalised era, Non-Life Insurance Companies have shifted their concentration from infrastructure
to other segment. The share of Non-Life Insurance Companies has
decreased in case of approved investment also in the post liberalized
phase. However, the share of investment in other than approved
investment has been on rise in the post liberalized era i.e. it was 2.18 per
cent, 3.98 per cent and 3.70 per cent during 1998, 1999 and 2000 which
rose to 15.37 per cent in 2001, 12.70 per cent in 2002 and 12.27 per cent
in 2003 in total investment of Non-Life Insurance Companies.

To summarise, it may be said that the liberalisation has made an
impact on the pattern of investment of Non-Life Insurance Companies.
Non-Life Insurance Companies have been paying importance to these
sectors to which they did not consider important in the pre-reforms
period. Finally, it is observed that an account of economic liberalisation,
the insurance companies whether life or non-life have been trying to
implement the recommendations of Malhotra Committee.

From the above analysis and discussion, it may be concluded that
the Indian insurance sector has come a full circle from privatization to
nationalization and back to privatization. Nationalization has lent the
industry solidarity, growth and most desired reach. However, alongwith
these achievements there also grew a feeling of insensitivity to the needs
of the market, tardiness in adoption of modern practices to upgrade
technical skills coupled with a sense of lethargy which probably led to a
feeling amongst the public that the insurance was not fully responsive to customer needs. India has moved from a monopolist environment to a liberalized, dynamic insurance atmosphere with relative loss. The opening of the gates, four years ago, also gave the insurance sectors the economy, a positive push towards growth. The ripples of competition are being felt across the sector and challenges, before almost all players, be it the state owned companies or the private players, are evident. On their part, almost every other company has gone in for increased product innovation, a complete distribution network, a prudent investment management, customer service and education. The perception about the customer seems to have undergone a sea change in the last few years. The customers have the right to make the right choice today.
REFERENCES


3. Ibid., p. 176.


19. Ibid. p. 32.


27. Ibid., p. 189.


35. Ibid., p. 320.