CHAPTER V

Conclusion and Suggestions
The Indian insurance market has undergone significant changes in recent years. The process of opening up the insurance sector was initiated against the background of the economic reforms process which commenced in the year 1991. The reforms process was aimed at freeing the Indian manufacturing and service sectors from the shackles of controls that inhibited their growth and make them attain high standards to facilitate the process of integration with the world economy. It was perceived that with the markets world over becoming highly dynamic and integrated, the economic reforms process within the country was required to enable India to integrate with these markets. Steps were, therefore, initiated to elevate the Indian economic system to international standards in terms of its financial viability, competence, technology, prudential requirements, regulations and credibility.

The constitution of Malhotra Committee was another step in the area of financial reforms covering the banking sectors and the capital markets which aimed at creating a more efficient and competitive financial system suitable to the requirements of the economy. The need for addressing the issues concerning the insurance sector was felt in recognition of the fact that the sector is an important part of the overall financial system. Insurance, which was a state monopoly, was opened up to private players in 1999. The Insurance Regulatory and Development
Authority (IRDA), came into existence as an independent regulator to oversee and develop the insurance sector in India. Now the liberalized insurance sector has resulted in the entry of about twenty private sector companies into this field, making the sector a hotspot of competition.

The overwhelming wave of liberalisation has forced all players in the insurance sector, whether public or private, to involve themselves in the innovations of new insurance products and services as they have to cater to the corporate houses fighting for sustainable competitive advantages. They have to take care of the market share, customer satisfaction, professionalization of existing insurance intermediaries, introduction of new insurance intermediaries i.e. corporate agents, banacassurance, legal and regulatory aspects and cost competitiveness in the Indian insurance industry. The nascent entrants are adopting aggressive strategies to wean away a large slice of the market share.

The entire landscape of India is in the process of tremendous change since the onset of Economic Liberalisation in the country. The present study entitled ‘Economic Liberalisation and Its Impact on Insurance Sector in India since 1991, is an attempt to assess the impact of liberalisation on ‘Insurance Sector’ in particular.

The study makes a review of economic change and finds that economic liberalisation is the firm policy of the state to ameliorate
operational environment for foreign investors in the country. The New Economic Policy has removed unnecessary restrictions placed on operations of large business houses after independence and flow of foreign investments. As a result of procedural and structural reforms, the country is heading towards strong economy. The references include streamlining of procedures, raising of permissible equity limits, wider scope for investments in sectors of choice of the investors. Further, the currency has been devalued to current market level. In foreign trade, import licensing has been abolished and tariff rates reduced. Exports have been deregulated by dismantling regulatory framework for exports. Steps have been taken to liberalize domestic market. However, trade regulatory authority of India has been established to observe compliance of the existing rules and regulations.

The study reveals that the development of insurance industry in India has been made over last hundred years only to come into its modern form. Insurance other than life is taken as a supporting system to the ongoing business activities against mishappenings. It largely covers that part of the risk which occurs due to accidental mishappening and is based on the principle of pooling of resources of larger groups and spreading the loss of a few over the larger groups. Marine insurance is reported to be the oldest type of insurance with its records showing the start as early
as 1347. The concept of insurance travelled to various nations with the traders. Upto the 17th century insurance was a part time profession. It was only in the 18th century when corporate organizations were established to underwrite insurance business on a full time professional basis. The great fire of London in 1666, gave the concept of fire insurance to the man. However, the modern industrialized society has rendered man and his property most vulnerable to various kinds of risks. The concept of insurance protects against many of these uncertainties on the risk-sharing basis. In addition to being a protective shell against the uncertainties, insurance industry heavily contributes in the process of capital mobilization and industrial development world over. This chapter also considers the reforms that have led to opening up insurance sector, earlier reserved for the public players alone.

Initially insurance sector was not liberalized. The sectors that were liberalized experienced flow of foreign capital, latest technology and expertise that rejuvenated the market. As a second generation reforms it was felt that insurance sector can also not work in isolation. Malhotra Committee appointed in 1993 by the then Narasimha Rao Government and the process of liberalisation of insurance sector became a hot bed for the concerned policymakers. Despite strong recommendations, it took six years for its acceptance. Insurance Regulatory and Development
Authority (IRDA) was established in 1999. Under the Insurance Regulatory and Development Authority Bill for liberalisation, insurance sector has been opened for the private players in both life as well as general insurance sector with minimum paid up capital of Rs. 100 crores. The promoters may hold upto 40 per cent of capital. While formulating the norms IRDA has particularly provided for the expansion of insurance business in the rural area and has laid down specific investment norms for these players. The role of IRDA as a facilitator and protector the policyholders, controller of the insurance organizations preventer of frauds and trend settler in general has been conceptualized.

The study has traced the causes of low penetration of insurance business in India. Apathy of the state, poor customer services, lack of customer friendly products, poor marketing, ignorance of rural market and inadequate training to agents have been highlighted as some of the basic reasons for low penetration or generation of insurance business in India. In fact the Indian insurance business is passing through the traditional phase. The sector that was closed earlier has been opened up and is being restructured so as to facilitate faster growth and development in the sector. The market shifting from the state monopoly to the competitive market now has brought a large number of players with even larger number of products. The public organizations of the sector riding
on the widely spread network are giving run for many a private organizations. The new entrants are trying to penetrate through new products, variety, prompt claim settlement and high quality speedy service.

The study has analysed the Impact of Economic Liberalisation on Insurance Sector in India in particular. It is found that liberalisation and reforms have the potential to change the complexion of the industry. The Indian insurance is no exception to this phenomenon.

Under the impact of economic liberalisation on insurance sector the study has been focused on the (1) impact of economic liberalisation on the organization and structure of insurance sector, (2) impact of economic liberalization 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.

The study found that 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) along with 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.

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 when both government undertakings and private entities are conducting insurance business. In the government segment of insurance sector the existing corporations LIC and GIC with four subsidiaries continue to operate.

In the private segment of Indian insurance industry there are about twenty private insurance companies. They are world renowned players in insurance business. 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 study has also found that the multinational insurers are indeed keenly interested in emerging insurance business in India because their home markets are saturated. 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 marked by new players only over a period of time.

The openings up of insurance sector 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 completely post sales customer service. The private insurers, taken together, have created a pool of over 1 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 sale any policy. They have transformed into “advisors.”

Infact, 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 far increased product innovation, a complete modern distribution network i.e. Banacassurance, Internet Marketing, Call Centres, Corporate Agency etc. 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 determined its success or failure in the market because the reach of the service is dependent.

This change is being largely driven by carriers/distributors who want to maximize the earnings tapping insurance potential of their client contact base, capitalized on communication technologies, changing lifestyles and increasing growing segment of younger age buyers, who are comfortable with technology. However, it is very clear that insurance companies where the cost of acquisition is very high through traditional channels as high as 45 per cent using alternative distribution channels is good value proposition to invest in and explore as it can clearly bring about cost reduction.

The study has further assessed the impact on the legal framework of insurance business. Economic liberalisation policy necessitated changes to be brought about in the legislation 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 demand safeguards and protection. The legal structure of this sector therefore, underwent drastic change. The comprehensive Insurance Act 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 first steps in that direction was the establishment of the Insurance Regulatory and Development Authority (IRDA). 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. In that directions the IRDA introduced the system of Appointment Actuary System (AA) both for life insurance business and general insurance business in India. No insurers can transact life insurance business in India without an appointment actuary. The regulations require that each life insurer shall have an AA as full time employees. However, a relaxation has been made in case of non-life insurance company.

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. In that changed situation insurers has also opened ‘May I help you’ and information and facilitation counters. The public
sector companies have also not remained far behind and are fast gearing up to these changes.

Another major development of IRDA is that in exercise of its legislative powers, the Authority appointed a new administrative body namely Ombudsman to safeguard the interest of the policyholders. The insurance ombudsman is empowered to receive and consider complaints in respect 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 limit of an ombudsman’s power is at present prescribed by IRDA at Rs. 20 lacs.

The study has assessed the impact on the volume of business, and overall performance of insurance companies in pre- and post-liberalised era. It has found that there has been a tremendous effect on the business of insurance sector due to opening up of this sector to private and foreign players. With the entry of private/foreign players the new avenues 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) and General Insurance Corporation of India (GIC) 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.

The performance of private as well as public sector insurance companies during the last four years has reflected their ability to create and nurture new market. Overall, the industry witnessed a growth of 43.03 per cent in terms of gross premium underwritten in 2001-02 as against 25.26 per cent growth recorded in the 2000-01. The private players accounted for less than 1 per cent of the total business in the sector and the remaining business is in the hands of public sector insurance companies. The private players accounted for about 2 per cent of the total premium underwritten in this sector during the year 2002-03. Significantly, the total business underwritten grew by 11.27 per cent. In terms of market share, LIC held 98 per cent of the life market with the twelve new players capturing just 2 per cent. This is because the private players have not been much successful in gaining confidence of insurance buyers as deep as the state owned LIC & GIC still enjoys. There is need that private insurers have to adopt measures that beget public confidence in them.

The indicator of performance in income and investment denote that though some market share of insurance sector has been captured by private players yet it does not have any significant impact on the business
of LIC and GIC. There is further possibility that never ever LIC and GIC will be out of minds of people of India who believe on the philosophy of “A bird in hand is better than two in nest.” Intensive competition is likely to strengthen LIC as well as GIC of India.

The study also has been examining the impact of economic liberalisation on investment pattern. It focused that the insurance is a business that deals with a large number of people and generate huge amount of funds overtime, making its financial muscle very strong. The insurance companies have an obligation to invest them prudently with the combined objectives of the liquidity, maximization of yield and safety.

Initially, the Government of India had not laid down any specific investment policy but there are 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.

The study comes to the finding that the pattern of investment was in accordance with prescribed areas as laid down in great detail by the Government of India under the insurance Act 1938. 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 follow 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 somewhat greater freedom and higher flexibility to make their investments.

To conclude the impact of economic liberalisation on investment pattern of insurance sector, it may be safely deduced that though reforms in insurance sector have been of recent origin, the period of four 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 insurance companies.

**SUGGESTIONS**

After an indepth study of economic liberalisation and its impact on insurance sector in India and analyzing all the facts vis-à-vis opening up of insurance sector in India, the following suggestions are offered they would strengthen the operations of the sector, contribute to healthy competition amongst private and public insurance units, improve the
quality and quantum of products instill deep confidence in buyers and ultimately enhance the volume of insurance business.

- Life insurance is encouraged only as a tax saving instrument. The Indian customers do not really understand and appreciate the importance of insurance culture, for instance, health care insurance, enables an individual to get best of treatment possible / available in the country. In fact quality of medical care is a matter of life and death for a patient. In the first instance it is recommended that the customers should be educated on the above said lines by the IRDA. It is also suggested that insurance organization may decide to create a fund with IRDA that should be used for creating the required insurance culture in the country.

- The pricing of insurance products is done on a cost plus basis (total of claim costs and management expenses). Presently the Insurance Act prescribes a limit on management expenses other than commission. To prevent unhealthy competition, it is essential to control management expenses sooner than later. LIC and GIC are widely believed to be overstuffed. Thus, their salary and other expenses are higher compared to those of the new players, who start with a clean slate.
The investment strategy should be in the hands of world-class experts in portfolio management, so that better returns are assured with the help of a more careful study and analysis of the securities considering both macro as well as microenvironment with adequate diversification. A continuous follow-up is the key to a better risk-return trade off. Investment income forms a major portion of revenues for insurance companies. It is common knowledge that some insurers, with a view to increase their income make speculative investments – thus jeopardizing policyholders’ funds. In a country like India, where the stock market fluctuates widely and real estate prices have not stabilized, it is essential that the investment norms are stringent. This is also desirable so that the government can direct resources to the priority sectors. Therefore, it is suggested that the present system of direct investment be continued and portfolio management must be in the hands of the leading experts.

Till date people at large have limited knowledge about the life as well as general insurance business and various policy products offered. Even the most educated persons express ignorance when talked about various general insurance products unless it is mandatory. The new products are being introduced by the existing
as well as new entrants but unless a customer knows about these products, the market will remain dormant and potential unexploited. Therefore, it is suggested that insurance organizations should be more aggressive on advertisement and promotional fronts. They will have to make the customers understand the basic features of their respective products and also understand the policy advantages when compared to products of similar line being offered by other organizations.

- There should be a fully developed and active derivative market in India. It is in a very primitive stage resulting in outflow of money because the insurance industry is expanding by writing more risky policies. The reinsurers of the LIC are foreign companies. The outgo of premium money by way of reinsurance should therefore be stopped. However, there can be a re-flow of this money in the form of FII investments in India, as it becomes, attractive due to better infrastructure. Moreover, the opening up of this sector will increase the retention of premia in India and thus reduce the outgo of valuable foreign exchange. Further, there has been a strong inflow of foreign capital during the last five years for introducing new products and maintaining the requisite capital adequacy ratio. The product lines should be further segmented.
• The Indian masses live in villages and if the insurance culture is to be evolved, the masses cannot be ignored. There is ample scope and potential to penetrate deeper into rural market. The government must chalk out the relief and development schemes in the rural sector, with the commercial content of insurance and work with both the insurance industry and its regulator to find ways to do it. Government must take an initiative to find a judicious mix of private and public insurance efforts in agriculture, as a part of an integrated risk management package, to be administered by the ministry of agriculture (rather than finance). It must set out clear definitions and mandate for public and private insurance, after due consultations with the state governments, representative bodies of the agriculturists and of course the insurance industry. More steps need to be taken for addressing availability and affordability of appropriate agricultural and rural insurance products.

• Rural India should not be lumped under a single canvas as consumers are heterogeneous. It needs to be further segmented into three groups. Those that are contiguous to urban areas and rapidly getting engulfed in the process of sub-urbanization with sizeable proportion of working force engaged in non-agricultural industrial employment adjoining major towns and cities. Such population is
generally having a fairly good knowledge of financial investment and insurance opportunities. Their average income level is high, ranging from Rs. 20,000 to Rs. 200,000 p.a. Second, there are several villages that have seen rising rural prosperity and have the local infrastructure in terms of banking and credit institutions, healthcare etc. A number of villages have benefited from the implementation of District Level Credit Plans. Such villagers have shown high-income levels in the range of Rs. 30,000 to Rs. 500,000 and they stand on the threshold of a major breakthrough in consumer spending. Third, there are villages that have not joined the mainstream growth due to reasons such as inaccessibility, extreme levels of poverty and other socio-economic reasons. Most such villages are thinly inhabited and undeveloped.

- An awareness drive is a must today in rural India which should divide it into three target groups; aware but less aware, very less aware and not aware. The former needs to be educated just by continuous refreshment so that the groups further convince others in the form of community participation. The second group should be provided with different policy options. Those not aware need to be first told of what is insurance, about its unlimited significance and its availability.
• Distribution channel is also a crucial factor in the process of penetration and growth of insurance business. The role of agents should not be underestimated but the newer channels could be of great use for the insurers. For instance, bank routes could be a dependable and cost effective source for reaching the remotest of the areas of the country. Agents, primary cooperative societies, regional rural bank, post offices, and non-governmental or voluntary organizations should be more actively used as distribution channels. Full, fair and prompt facility of collection of premium and payment of claims at the doorstep is necessary to widen the insurance coverage. Another area of challenge in rural marketing and dealing with distribution channels is the need to provide sales literature, publicity materials and even proposal forms in local language.

• For public mammoths of insurance sector, despite enough control there is overstaffing. This distorts the work culture in the organization and also makes it difficult to fix the responsibility and accountability of the employees. It is suggested that the excessive staff may be aggressively utilized for more aggressive promotional efforts as well as extensive field interaction with grass root workers and the customers. The people so deputed may be used as an
effective tool for greater control and confidence building in the field on the one hand while they may also appraise the organizational policymakers about the practical realities of the field, thus forging an alliance from top to bottom.

- Corruption is another major problem ailing the insurance sector. The honest and genuine customers are neither genuinely paid nor paid in time, while many corrupt customers and employees cheat the insurance companies by ensuring disproportionate compensation. Thus, the genuine buyers get frustrated while dishonest people get rewarded. It is suggested that the process of computation of compensation be made more transparent. The insurance organization should go a step further and counter check/cross check at least some of the compensation awarded depending upon the employees and policyholders track record.

- The product design in rural markets needs to provide flexibility to rural policyholders in the matter of periodicity and quantum of premium payment. Premium payment dates should generally be linked to the period when the farm produce is sold and the cash flow is generated. SBI Life has taken the initiative in this direction.

In saving schemes designed for rural households, there is need to build flexibility for premium interruptions to take place due to
difficulties faced by the policyholders to pay the premium amount on account of irregularity of income due to crop failures or other genuine reasons. In such situations, the benefit of insurance cover should remain unaffected, by triggering a mechanism to automatically adjust the premium dues from out of the accumulated surplus available in the policyholder’s account. Or, a policy package that is of five years, with gaps given for paying premium within this period is suggested.

- The problem of detariffing gets compounded given the fact that the required data and information is not available with the insurers. The expertise and skill of actuaries is also missing in most of insurance organizations. In the absence of these factors tariff fixation could be a difficult task. It is recommended that the insurers may again pool out their resources under the leadership of IRDA for the collection and compilation of data.

- Adoption of the latest technology available in the insurance sector in the developed world is also required for the faster development of insurance business in India. Atleast computerized networking between various branches should be done on priority basis so as to facilitate smooth transactions for the customers from anywhere in
the country. Networking with the brokers and agents etc. could be an added advantage to the industry.

Other areas that need particular attention and focus are:

- A more vigorous awareness campaign is a must to make India an insurance conscious society. Private insurers need to highlight the Indian brand name in the rural areas, e.g., Tata and not AIG, while keeping in mind the mindset of the urban educated class, AIG needs to be focused upon.

- Professionalism is necessary to improve the financial position of a concern. This is one of the major aspects where the nationalized sector has been lacking since decades.

- Increasing of the insurance base ideally to its entire population even with the explosive population growth and dynamics of change of risk and risk patterns, influenced by local and global change.

- Creation of newer and need based products with local ethos and realism.

- Marketing of insurance products, which are essentially intangible in nature to the prospective buyer, while stressing the imperative of loss cutting and risk coverage.
Creating sales and distributing channels without undermining the sanctity and confidence of the prospective buyer associations with the insurance products or the delivery and service interface is going to be an important factor. In life insurance it is necessary to provide the service at the doorstep.

Servicing of the products with emphasis on addressing the customer relationship and his loyalty is an important step in the right direction.

Servicing claims promptly and strictly as per indemnity or agreed contract, fairness of settlement, both more or less, promptly, will be the determining factor for success. The world is moving towards seamless transparency and earlier practices and business models would find it hard to hold customers loyalty unless policies, practices and standards have in-built resilience, scalability and short response time.

There has to be a continual quest to evolve strategies and adopt technological advancement to serve, enhance and exceed customer expectations.

It is suggested that all the players who sell pension products be brought under one regulator to avoid confusion, and not by two different bodies as proposed recently. Specify the proposals.
• It is important for private companies to develop products that cater to all sections – the rich, the middle-class and the poor – if coverage is to be broadened in the country.

• New types of group cover, imaginatively devised and futuristic in outlook, need to be introduced to enable consumers to opt for 'low-premium-high-cover' policies to start with and graduate to 'higher cover, better savings' products at a later stage.

• While formulating a marketing strategy, environmental factors such as macro economic parameters, regulatory norms and themes, technology, infrastructure, legal setup, competitions by new entrants and degree of globalization need to be considered. All the major elements of the organization – structure, systems, processes, staff, skills, managerial styles and shared value – should be appropriately integrated into the implementation of the strategy.

The implementation of the above suggestions can really help the Insurance Sector in improving its working and operations so as to enhance the penetration levels and profitability of the industry on the one hand and availability of good product of low cost as well as satisfactory after sale services to the buyers are the other hand.