Chapter-5

Conclusion

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Conclusion

5.1. Findings

In the different chapters of our study, we introduce insurance, traces its origin and highlights its role in the economy. After giving a brief account of privatization in general and privatization of Indian insurance sector in particular, it enlists and discusses all major issues and challenges of insurance reform in India. We also try to know the impact of (insurance sector) privatization on the growth of the insurance sector and saving pattern of household sector. The major findings of the previous chapter may be summarized as under:

➢ Though, there are some evidences of the existence of something akin to insurance in ancient period in the books like *Manav Dharmashastra*, the modern insurance which exists today has its history of not more than 1000 years. In the ancient period, it was not practiced as business.

➢ Marine insurance was started in the 14th century which was followed by the life insurance in 16th century and fire insurance in 17th century.

➢ Establishment of the Chamber of Assurance and formation of Lloyd's Association are two most important events in the history of marine insurance. A marine insurer of London issued the first policy of life insurance. This policy became a disputed death
claim. The Fire Insurance is the outcome of the Great fire of London.

➢ In India, both life and non-life insurance was started in 19th century by the foreigners but life insurance was started before the non-life insurance. The first insurance company ‘Oriental Assurance Company’ was started in Calcutta followed by Bombay Life Insurance Company in 1823 and Madras Equitable in 1829. The Triton Insurance Company Ltd was the first general insurance company started in Calcutta in 1850.

➢ In early 19th century, all the insurance companies were registered in the UK and were regulated by the law prevailing in the UK. These were insuring only the lives of Europeans and their descendents. Later, these companies started writing policies against Indian lives but only for a higher premium.

➢ The lack of regulation of insurance business and development of trade and commerce in the country were the two main reasons of the high growth of number of companies in the late 19th century. In the absence of regulation, these companies were free to use insurance fund in their other businesses.

➢ Regulation of insurance business in India was started in 1912 with the Indian Insurance Act 1912, but it was concerned only with the life insurance. Insurance Act 1938, was the first comprehensive Act covering both life and non-life insurance.

➢ The life insurance sector of India was nationalized during 1956 followed by the nationalization of general insurance sector in
1973. The process of nationalization of life insurance resulted into the establishment of LIC and the process of nationalization of general insurance resulted into the formation of GIC.

➢ Among others, frauds in the insurance sector and misuse of insurance funds were the prime reasons of the nationalization of Indian insurance sector. Lack of development of the insurance sector was not a reason of nationalization.

➢ After the nationalization of the life insurance sector LIC performed very well in business expansion. The sum assured per annum of new business increased from Rs. 53833 lakh in 1975-76 to Rs. 7560626 lakh in 1998-1999. During the same period annuities (new business) increased from Rs. 176 lack to Rs. 24639 lakh, sum assured and bonus (total business enforced) increased from Rs. 1686911 lakh to Rs. 45920104 lakh and annuity per annum (total business enforced) from Rs. 915 lakh to Rs. 159104 lakh.

➢ In 1975, 5.72 lakh policies had been issued in rural sector which account for 31.85 per cent of the total policies issued by the LIC. Likewise, rural sum assured by the corporation was Rs. 464.27 crore which accounted for 26.37 per cent of the total sum assured. In 1999, total number of policies issued to rural sector was 81.23 lakh, which accounted for 55 per cent of the total policies issued. Sum assured in rural areas increased to Rs. 35372.94 crore, which accounted for 47 per cent of the total sum assured.
There were 12385 people employed in LIC and 83742 people in GIC in 1999. There were 683190 active agents working for LIC with average productivity of Rs. 13,28,292 in 2000.

At the time of insurance reform in India, insurance penetration (premium as percentage of GDP) was 2.32 (life 1.77 and general .55) where as life insurance density (premium per capita) was US $9.9 (life US $7.60 and general US $ 2.30). Expenditure on insurance in India was US $8.5 per capital. India's share of premium in world premium was only 0.36 per cent and only 22 per cent of the insurable population was insured.

In 2000, LIC was facing 126876 maturity claims amounting to Rs. 15210.41 crore and 33494 death claims amounting to Rs. 23771.29 crore. Out of these 6041 maturity claims amounting Rs. 780.29 crore and 2314 death claims amounting 2166.41 crore were outstanding for more than two yeas. In the same year, number of unsettled claims of the four subsidiaries of GIC was 1009542 and the average rate of claim settlement (Claims Settlement Rate =(%)[No. of Claims Settled x 100/(No. of Claims Outstanding + No. of Claims Intimated)]) was 69.8 per cent.

In 2000-01, the total loans advanced by the LIC to various development activities were Rs. 3488.47 crore. These loans were given to electricity, water supply, sewerage, and transportation.

Net profit to earned premium of LIC increased from 4.76 per cent to 12.67 per cent between 1974-75 and 1996-97. Net profit to total assets of LIC increased from Rs. 8.33 crore to Rs. 39.67 crore during the same period. Profit before tax of GIC increased from
Rs. 29 crore to Rs. 1467 crore between 1975 and 1999. During the period the profit after tax of GIC increased from Rs. 29 crore to Rs. 1077 crore.

- Privatization of insurance in India has been a part of ongoing financial sector reform. With the privatization, Indian insurance sector has completed a full circle from an open sector to a nationalized sector and again from a nationalized sector to a privatized sector.

- Peter Ducker, the father of modern management used the term privatization in his book 'The Age of Discontinuity in 1967". Generally, the term is used in the context of enterprise and change in ownership but for the policy makers this is a process of rebalancing the relative role of the state and the market.

- Privatization may take the form of relaxation in the reservation of a particular sector for state or sale of assets or denationalization or management employee buyout or use of equal access voucher or leasing or transfer of management or franchising or liquidation.

- Efficiency, non-political and speedy decision making, wide distribution of ownership, private investment in the economy, reduction of the financial and governance burden of the state has been some of the important objectives of the privatization.

- Privatization may be justified because profit orientation, proper division of work, flat organizational structure, market orientation of the private enterprises results into greater efficiency. Further, it
encourages entrepreneurship, accelerates the pace of economy, attracts more funds and eliminates monopolies. Privatization of loss making PSEs reduces fiscal burden and provides funds to the Government.

- Privatization may be opposed on the ground that it may result into cutting of some essential services, concentration of wealth and downsizing. It may harm social objectives. Profit making PSEs generate revenue for the state. Most importantly the belief that privatization will result into greater efficiency is not established undisputedly. Sometime sale of PSE to a private company may result into substitution of government monopoly by private monopoly.

- India started the programme of privatization in July 1991. Initially only 10-40 per cent of the shares of some PSEs were sold and that only to Public Sector Financial Institutions (PSFI). Allowing private firms in the sectors, which were earlier reserved for the PSEs, has been the most frequent form of privatization in India. Definition of strategic enterprises has been revised and decision to bring down the share of government in the PSEs except strategic enterprises below 26% has been made.

- The process to initiate insurance sector reform was started in 1993 with the formation of the Malhotra Committee. The Committee submitted its report to the Government of India in January 1994.

- Indian insurance sector was privatized with the passage of IRDA Act 1999. The insurance sector was opened for registration in August 2000 for the private players.
> Privatization of Indian insurance sector resulted into the participation of private firms, permission of 26 per cent of FDI, establishment of IRDA and changes in the functioning of TAC. However, there was no any policy decision to disinvest the existing public sector insurance companies.

> Major changes in other financial segment, lack of insurance awareness, lack of development of the insurance sector, inefficiencies in the sector, international pressure, limited use of information technology and positive international experiences of insurance reform were some of the important reasons which promoted privatization of the insurance sector.

> After privatization, both life and non-life insurers have to cover a certain per cent of their total business in rural and social sector separately but the objective of rural and social coverage is not very clear. Further, the social sector has been defined very broadly. The insurance companies have to invest a certain percentage of their fund in government securities, other approve securities etc. Investment of pension and general annuity fund is also regulated and concept of priority sector has been introduced.

> The share of private companies is increasing. The aggregate market share of private life insurance companies was 22 per cent (policy wise) and aggregate market share of private general insurance companies was 20 per cent on 31 March 2005 but there is no reduction in the business of public sector insurance companies. The policy wise market share of private life insurers was only 8.5 per cent in this regard, therefore, it also may be
concluded that private companies are writing big policies but covering fewer people.

- Both life and general insurance companies are doing well concerning the rural and social sector coverage. In 2004-05, all the life and non-life insurance companies achieved their given target of rural coverage.

- A large number of people are treating insurance as a saving instrument, therefore, life insurance has to face completion from other instruments of saving in terms of liquidity, profitability and safety.

- Insurance companies have to cut their cost to claim an appropriate market share as cost may be an useful tool of differentiation in the privatized market. Therefore, these companies have to implement some cost control measures successfully for which they should go for automation, staff reduction and minimization of frauds.

- The capital requirement of the insurance sector is very huge and that too for a long period of time. Life Insurance companies attain their break even only after seven or eight years. The non-life companies too does not attain break even before three four years, therefore, these is provision of minimum capital of Rs. 100 crore.

- Regulation of investment of the insurance companies affect, the efficiency of these companies.
> With reform Indian insurance sector has integrated with the world insurance sector. Therefore the cause of success or failure of the insurance sector may originates from outside.

> In India, insurance awareness among the policyholders in general and among the population at large in particular is very low. People are unaware about new products like ULIP, single premium plans, pension plan and health insurance.

> Turn over of the agents has been high in life insurance business. This is mainly because of the low status of the agents in the society and difficult selling process of insurance. There is a need of competent sales people in insurance. Further, they must be trained properly to take the challenge.

> Confidence of insuring people in the insurance companies is very necessary because insurance in nothing but promise to pay. An insurance company can not operate unless people have deep faith in it. Further, at any point of time lack of confidence even in a single company can destabilize the insurance sector.

> Insurance sector is facing shortage of qualified and experienced human resource.

> Insurance sector is using new channels of distribution like post office, NGOs, travel agencies, sugar cooperatives, trade unions to sell more and more policies at lower distribution cost.

> Expectations of the consumer have been increased after the insurance sector reform. They now expect price cuts, greater
value and tailor-made products. It is very difficult for the insurance companies to match their expectation.

➢ Foreign companies manage their investment portfolio more efficiently and provide better return to their policyholders and shareholders than the Indian companies.

➢ After privatization, number of new products in insurance market has been increasing. 295 new product in life insurance market and 595 in non-life insurance market have been introduced between 2000-01 and 2004-05.

➢ De-tariffing was started in 1994. At present, some sort of tariff drives 70 per cent of the general insurance business in India. De-tariffing in India will change the whole insurance landscape.

➢ Regulatory authority in India may face some problem in regulation due to the lack of experience in regulating insurance business.

➢ For the financial sector environment in general and economic environment in particular is changing continuously. Insurance companies, therefore, has to monitor these changes regularly and tune their business objectives and re-design their strategies.

➢ With the introduction of bancassurance banking and insurance services to some extent are integrating but these two organizations are different in many respect including work culture which is the most potential hindrance in the growth of bancassurance.
Insurance reform has resulted into cutthroat competition, which may be harmful in long term. Cutthroat may results into high equity exposure, writing policies at unaffordable prices, bankruptcy and finally into instability in the insurance sector.

Potential of growth of insurance sector seems exaggerated and over estimated. As the development of the insurance sector largely depends upon the development of the economy, growth target of insurance can not be achieved unless the economy is placed on the high growth trajectory.

Traditionally, it has been observed that privatization is followed by retrenchment but it has not been witnessed in the Indian public sector insurance companies even after five years of privatization. In coming years, these companies may decide to downsize themselves but new companies will create more employment opportunities and there may not be reduction in the number of people employed in the insurance sector.

Insurance companies will face difficulty in providing guaranteed return on the policies when the interest rate and return on other investment is falling.

Existing public sector insurance companies are organizationally very strong, LIC had 7 zonal offices and 100 divisional offices, 2048 branch offices, on the other hand GIC had 91 regional offices, 1364 divisional offices and 2499 branch offices on 31st March 1999. In this situation other companies will find it difficult to compete with.
> India’s expenditure on health is very high. It was 6 per cent of the GDP in 1990. Health insurance is in its infancy and yet no specialized company is operating in the market. Health care services in India are very insignificant and lacking infrastructural support.

> The testing of first hypothesis that there is significant association between privatization of insurance sector and growth of life insurance sector shows that there is significant association between two. For the testing of hypothesis, the study subject the mean of four selected variables to t-test (at 95 per cent confidence level). The result of the test shows that there is significant increase in all the four selected variables, that is, Number of Policies (new) \( (t= 12.049, \text{df}= 4, \ p=.000) \), Total Premium Collection \( (t= 6.602, \text{df}= 4, \ p=.003) \), Life Insurance Penetration \( (t=5.869, \text{df}=4, \ p=.004) \) and Life Insurance Density \( (t=7.791, \text{df}= 4, \ p=.001) \) in post-privatization period. The increase in these four variables proves that there is significant association between privatization of insurance sector and the growth of life insurance sector and privatization has unfolded positive impact on the India’s life insurance sector.

> The test of second hypothesis that there is significant association between privatization of insurance sector and growth of general insurance sector shows that there is significant association between two. For the testing of hypothesis, the study subject the mean of four selected variables to t-test (at 95 per cent confidence level). The result obtained indicates that there is significant
growth in three out of four selected variables that is, Gross Direct Premium Collection (t= 8.158, df= 4, p= .001), Net Premium Collection (t= 27.570, df= 4, p=.000) and General Insurance Density (t=5.561, df= 4, p=.005) in the post-privatization period. Therefore, it may be inferred that there is significant association between privatization and the growth of general insurance sector.

➢ The examination of third hypothesis that privatization of insurance sector will increase the proportion of saving in life insurance in the total savings of the household sector in financial assets confirms that there is significant increase in the same. For the testing of hypothesis, the study subject the mean of life insurance fund as percentage of total household saving in financial saving to t-test (at 95 per cent confidence level). The study finds that there is significant increase in post privatization period (t=4.480, df=4, p= .011,).

➢ Therefore, it may be concluded that the privatization of insurance sector has played instrumental role in the growth of India’s insurance sector. Inter alia, establishment of IRDA as watchdog, the elimination of monopoly, entry of foreign players, allowing 26 per cent FDI in insurance sector, increased awareness, aggressive marketing along with the availability of tailor made products are some of the major off shoot of privatization which in turn is responsible for the growth of the selected variables taken in the present study.
5.2. Suggestions

1. Market segmentation and positioning

For effective product development and devising correct marketing strategies, segmentation of insurance market is quite essential. Clear segmentation will help proper positioning with suitable marketing mix. In this way, the industry can deliver more value and can win more and more market.

2. Human Resource Development

Dependence of service sector on human resource makes the need of training and development more pressing. However, the IRDA has started compulsory training of 90 hours but that is basically for sales people. There are very few educational institutes in the country, which are offering insurance management courses. Existing management institutes must start offering courses for insurance management.

3. New Product Development

The insurers must follow the proper and defined path of product development. They must take a rigorous marketing research for a new product development. Every product innovation can get some potential buyer, if an aggressive sales is undertaken but to get a large share in the market, new product development must be followed by a rigorous marketing research.
4. Pricing

LIC has not revised the prices of its product using latest morality tables. Prices are to some extent high in the Indian market and market expects revision of price, therefore, the insurers must revise the prices.

5. Merger

Public sector in general insurance will lose its market more quickly as expected. All four subsidiaries of GIC are competing not only with the new private companies but also competing interwoven. In long run, it must be assures that public sector companies are not competing with each other. Therefore, the Government must merge these companies together. Merger will also increase the strength of GIC.

6. Research Division

IRDA must establish a division for research of insurance related matters in the country. Only with proper data analysis, the industry can know what is going in the sector and what is happening to objectives of the privatization of the insurance sector and what action should be taken to cope with new development if any. What corrective measure should be taken if anything going wrong?

7. Promotional Division

India is the only country where single institution performs both the duty of regulation and development. As the IRDA has been established as watchdog it basically considers the regulation of insurance industry as its primary duty therefore a separate division under IRDA must be established for developmental activities.
8. **Claim Settlement**

Claim settlement mechanism should be speed up to ensure that number of claim settled during the year is more than the number of claim intimated during the year. This will reduce the number of pending claims. Insurance companies specially LIC and GIC may opt for fast track settlement of those claims which are pending for more than a year.

9. **Disinvestments of Public Sector Insurance Companies**

There is policy no decision to disinvest LIC and GIC (public sector Insurance companies) so far and these companies are also performing very well. Though other corrective measures to enhance their efficiency can be taken, there is no specific need to disinvest these public sector companies.

10. **Investment Regulation**

Taking into consideration the competition of life insurance with other financial assets, investment of life insurance must be liberalized to some extent. The Government may allow life insurance companies to invest up to 20 per cent of their fund in equity market and other financial assets yielding high rate of return.

11. **Cost Control**

Various cost control measures to bring down the cost must be taken. Some important measures includes automation of manual work, use of information technology, downsizing of the public sector undertaking and minimization of frauds like exaggeration of loss, taking policy after loss and presentation of false documents.
12. **Level of FDI**

The level of FDI in Insurance Sector must be increased from 26 per cent to 49 per cent. Though, the minimum capital requirement for insurance companies is only Rs. 100 crore the optimum capital required is 700-900 crore and that too for a long period of time. The increased level of FDI will ease the burden of Indian partner. However, there should be provision to bring down the proportion of share capital invested by the foreign partner to 26 per cent in phase manner but only after 10-12 years when they have earned justified return on their investment during the gestation period. This is necessary to facilitate public holding.

13. **Fund for Infrastructure Development**

The Government must allow insurance to invest in high yielding securities to give high rate of return to the policyholders and shareholder of the companies and look for alternative sources of fund for infrastructure development.

14. **Insurance Awareness**

To create insurance awareness among the masses there is a need to launch special derives. Highlighting the social role of insurance, the IRDA may involve some important personalities as the UNICEF is doing for its fight against polio. Insurance as a means of socio-economic development can be introduced in the school curriculum. To create specific awareness among the policyholder the education and knowledge of agent is most important factor. The aware agents can explain about the different type of policies and their suitability. They can also tell how insurance is better than other saving instruments.
Further, the IRDA can organize some programmes at different places with local authorities to make people aware about all these.

15. Retaining Agents

The insurers must take some steps to bring down the high turnover of agent because losing an experienced agent affects the business adversely. To reduce the turnover the insurers may try a remuneration package of fix payment plus commission instead of only commission. This area require further research to device some methods to manage and retain the experienced agents.

16. Insurance Frauds

To combat insurance frauds first of all a detailed list of the frauds and their nature has to be prepared. An arrangement for proper investigation and punishment for fraud has to be made. There is a need for sharing information so that the person involved in frauds can be identified. The insurers should keep secret the name of whistle blower and give some reward to these people.

17. Fund Management

Except LIC, GIC, Reliance, Sahara, and SBI life all the Indian Insurers are operating in colobation with foreign partners. Out of these Indian companies Reliance group and SBI group have all ready working with foreign fund management firms. Therefore, to compete with other companies LIC and GIC (Public Sector Insurance Companies) must also consider such arrangement.
18. Health Insurance

Public spending should focus only on primary health care and treatment of those with very limited ability to pay. Many public and private enterprises, which maintain their own health care facilities for their employees, should opt for insurance structure so that specialized and quality treatment can be provided. Both Employees state Insurance Scheme (ESIS) and Central Government Health Scheme (CGHS) should be reformed to improve the quality of service they provide. GIC should take care of its growing claim, make provisions to cover outpatient expenses as well and minimize the uncertainties about the amount and time required claim settlement. Health insurance arrangement should be extended to unorganized sector. Some incentives must be introduce to insure health cover especially to the vulnerable section like elderly, unemployed, permanently disabled etc.

19. Bancassurance

For the development of bancassurance the organization must focus equally the insurance business with the banking business. All the banks carrying insurance business must appoint an independent officer in every district to monitor the insurance business. These officers should have specific knowledge of insurance field and they must also be trained in this field. The organization must introduce some incentive system to boost the insurance business. The top management should always remember that they are not only in banking business but in insurance business as well.
20. **Over Capitalization**

Over capitalization in an insurance company is a sign of sickness and not of good health therefore the insurance company must take precautions in the estimation of the size of market they can capture and introduce the capital in that proportion and must avoid any over capitalization.

21. **Changing Environment**

Every organization monitors its environment. The Insurance companies also have to monitor its environment. In addition to this, the IRDA must monitor the environment of insurance business with the help of SWOT analysis and other methods and make the insurance companies aware about.

22. **Social Sector**

There is a need to define social sector more narrowly for life insurance. The Insurance Regulatory and Development Authority (Obligation of Insurers to Rural or Social Sectors). Regulations, 2002 defines social sector as ‘social sector includes unorganized sector, informal sector, economically vulnerable and backward classes and other categories of persons, both in rural and urban areas’ The IRDA may consider to exclude ‘informal sector’ from the inclusive definition of social sector because the informal sector includes relatively prosperous segment of the society. Further, in India very few people are employed in formal sector therefore the insurers will come forward to cover the people employed in informal sector for their own good. As long as informal sector is under the definition of social sector optimum benefit will not
go to unorganized sector, economically vulnerable or backward classes (persons living below the poverty line) etc. In 1999-2000, 61.1 per cent people were employed in farmers, fishermen and related activities (NSSO Report No. 458) which falls under unorganized sector.

23. Travelers Insurance

Indian railway, ITDC and road transport departments/corporations of various states together with the insurance companies must come forward to provide insurance cover to the travelers in general and tourist in particular. This will lead to the expansion of market at one hand and reduce the burden of compensation in the case of any causality on the other.

5.3 Direction for Future Research

This work is related to the insurance sector reform in India. The study basically outlines the issues and challenges of the insurance reform in India and analyze the impact of privatization on the growth of insurance sector and growth of saving. This single study could not manage to undertake all the relevant issues of the subject matter. During the present study, we feel the need of further research in this area and therefore, propose some directions for future research.

Following directions are suggested

1. A study to analyze the financial and operational efficiency of LIC & GIC in post reform period can be undertaken to know the impact of privatization on the operational efficiency of the public sector insurance companies.
2. One more study to know the changes in marketing strategy vis-à-vis changes in consumer behavior can be considered.

3. General insurance in India is much underdeveloped as compared to the life insurance sector of India and general insurance sector of other developing countries. Therefore there is an urgent need to identify the causes which keeps people especially small businessmen away from the general insurance. The study must also come up with some measures for the development of the general insurance.

4. A study to review the various aspects of the working of IRDA is also necessary to known whether the IRDA is successful in achieving its objectives or not.

5. At last, one study to know the relationship between GDP, per capita income and growth of insurance is also unavoidable.