ABSTRACT

Insurance is an important method of risk treatment and basis of a country's risk management system. It is an economic function in which certain risk of economic loss is transferred to the insurer which would otherwise be borne by the insured through the mechanism of paying the charges called premium. The role of insurance in protecting the economic interest of a family in the case of untimely death of the breadwinner is worth mentioning. Apart from this, insurance helps individuals in saving for their various future requirements especially for the old age. In the same way it also encourages entrepreneurs to assume risk of high investment and protects their business from different measurable uncertainties. Every economic loss to the business or to the property of individuals as well as groups have potential to disturb the process of economic activities at broader level at varying degree. Therefore for any economy, the insurance sector acts as shock absorber because it corrects most of the disturbances caused by different insured losses. Further, the insurance companies provide huge fund to the economy which helps immensely in their development process. In the global economy, insurance has occupied an important position because it plays a significant role in saving and capital formation and it protects individuals and businesses against the losses to which they are exposed. Insurance has, therefore, become one of the important segments of service sector and it occupies a predominant position in the developed economies but in the developing world it is yet to make as much of development.
In India, insurance business was started in the early 19th century. It was operating in the private hands until it was nationalized in post independence period as a result of the ongoing nationalization in the country. The Indian insurance sector, in post nationalization period under government control, did very well and India earned the distinction of being the country with the highest number of life insurance policies in force. Insurance companies also provided a large amount of fund which in turn helped the country in its economic development. Beyond its normal business, the Life Insurance Corporation (LIC) of India extended subsidized insurance cover to the vulnerable classes of the country.

Indian insurance sector, no doubt, made commendable progress in the nationalized era, but it was far behind that of the developed and even many developing economies. The scope of the growth and development of the sector was very high as the market was inefficiently tapped. Unavailability of suitable, attractive and tailor made plans, non-existence of unit linked plans, low percentage of insurable population covered, thin insurance density and low insurance penetration, under developed medical insurance and negligible pension plans made the arguments in favor of privatization of insurance sector more valid. Again when the other sectors of an economy are open because of wide-ranging inefficiencies, the insurance sector can not survive in isolation. The growth of the insurance sector in those countries which have liberalized their insurance sector is very motivating. These two factors viz. the scope of the growth of the insurance sector and the ongoing global trend of privatization resulted into the privatization of the Indian insurance sector. The process to initiate reform in the Indian insurance sector was started in 1993. After many ups and downs, the Insurance Regulatory
and Development Authority (IRDA) Act was legislated in 1999 to privatize the Indian insurance sector. The reform in the insurance sector allowed the private players of both domestic and foreign origin to enter into the market. The reform also opened the door for 26 per cent FDI in insurance sector.

Though the relationship between the change of ownership from public to private and efficiency is yet to be established undisputedly, the inefficiency of the PSEs always bring the form of ownership under scrutiny and as a consequence, privatization comes to be accepted as a key and popular means of economic reform. Now, the question arises as to whether the change in the ownership from public to private, helps in improving the efficiency of the enterprise. This particular important question does not arise in the case of Indian Insurance Sector as there is no change in the ownership of the existing Public Sector Insurance Companies. But the question arises that what are the important issues and challenges of the privatization of insurance sector and how the sector is performing in the post privatization period.

The entry of private enterprises in this sector has changed the macro economic environment of financial sector in general and the insurance sector in particular. This study helps us understand the concept of privatization, various methods of privatization and rationale of privatization. It also outlines the historical background of insurance, the position of Indian insurance sector at the time of privatization and makes an assessment of insurance regulation in India. More importantly, it identifies and analyzes major issues and challenges of the privatization of insurance sector. The study also makes an analysis of the impact of
the privatization of insurance sector on the growth of the insurance sector and impact of privatization of insurance sector on saving in insurance as percentage of total saving of household sector in financial assets.

The study assumes three obvious research questions; viz. (i) whether there is significant association between privatization of insurance sector and growth of life insurance sector or not, (ii) whether there is significant association between privatization of insurance sector and the growth of general insurance sector, and (iii) privatization of insurance sector may be a strong reason for increase in the proportion of the life insurance fund in the savings of the household sector in financial assets.

The study is primarily concerned with the changes manifest in the Indian insurance sector in post privatization period. In determining the various issues and challenges, the study as a whole, is an exploration and analysis of previous researches and writing on privatization of Indian insurance sector. Dealing with the privatization of insurance sector, the study, in order to bring clarity, divides all issues and challenges into three groups namely; financial issues and challenges, commercial issues and challenges and operational issues and challenges.

To check the association between privatization and the growth of insurance sector, the study makes efforts to measure the changes in post-(insurance) privatization period by carrying out a comparative study of pre- and post-privatization period. To measure the significant differences in pre-and post-privatization period, we deploy t-test to the mean of different selected variables. To analyse the growth of life insurance sector in post privatization period, the study selects four variables i.e., (i)
number of new policies, (ii) total premium collection, (iii) life insurance penetration, and (iv) life insurance density. In the same way to analyse the growth of general insurance sector in post privatization period, the study selects four variables, i.e., (i) gross direct premium collection, (ii) net premium collection, (iii) general insurance penetration, and (iv) general insurance density. Insurance penetration means insurance premium as percentage of GDP and Insurance density means insurance premium per capita (total premium/total population). In order to test the third hypothesis, the study compares the proportion of saving in life insurance fund in the household saving in financial assets in pre- and post privatization period. For all these analysis the study makes use of secondary data. For the comparative study of pre- and post privatization period, the study has covered a period of 10 years from 1995-96 to 2004-05. It takes first 5 years of pre-privatization period and second 5 years of post-privatization period.

Due to lack of availability of data pertaining to the degree of insurance awareness among the masses and unavailability of data on aggregate rural and social coverage in the country to analyse that whether the rural and social sector is doing well in the post-privatization period or not, have been two major weaknesses of the study.

Keeping in view the hypothesis and the objectives of the present study this study has been divided into five chapters. The first chapter covers the review of literature on privatization in general and privatization of insurance sector in India, identifies the research gap and highlights the needs and objective of the study. The chapter also incorporates the research hypothesis and methodology. The Second chapter attempts to
trace the origin of insurance and the major form of insurance. Then it
discusses insurance in India including origin of insurance business,
nationalization of the industry and formation of the giant corporations of
insurance sector like LIC and GIC. It also outlines the state of the Indian
insurance industry at the time of privatization of the sector. The third
chapter deals broadly with the concept of privatization in general,
privatization in India and privatization of insurance sector in India. The
chapter also focuses the reform process of Indian insurance sector. This
chapter also highlights the regulatory framework of insurance in India
including enactment of IRDA, objectives of IRDA, its major regulations
and the private players in the Indian insurance market and their
respective market share. The fourth chapter dilates upon the major issues
and challenges of the privatization of Indian insurance sector. The
chapter divides all the issues and challenges in three broad categories,
viz., financial issues and challenges, commercial issues and challenges
and operational issues and challenges. The chapter also analyzes the
impact of privatization of insurance sector on the performance of the
insurance industry. In this regard, the study reveals the impact of
insurance reform on the growth of insurance sector and growth of the
share of saving in insurance in total saving of household in financial
assets. The fifth and final chapter of the study is basically the summary of
the findings and suggestions. These finding have been concluded in the
light of the objectives of the study and have been presented in brief.
Some tentative suggestions have also been made in the light of the
findings, which may prove helpful for the policymakers. The chapter also
identifies some areas for further investigations i.e., analysis of the
operational efficiency of public sector insurance companies in post
liberalization, analysis of the causes of under performance of general insurance sector as compared to that of life insurance sector, scrutiny of the success of IRDA in regulating and promoting the sector and the relationship between GDP, per-capita income and the development of insurance sector.

The study comes across ten major financial issues and challenges of privatization. They are: (i) growth of insurance sector, (ii) share of life insurance in financial saving of household sector, (iii) low insurance penetration and low insurance density, (iv) insurance as saving asset and other financial instruments, (v) cost minimization, (vi) capital adequacy, (vii) low level of FDI, (viii) pricing of insurance products, (ix) channelization of fund for infrastructure development and (x) integration and externalities.

The study recognized twelve major commercial issues and challenges. They are: (i) insurance awareness, (ii) people confidence, (iii) availability of capable human resource, (iv) attracting and retaining agents, (v) training of the sales force, (vi) marketing of risk-cover products, (vii) distribution cost, (viii) alternative distribution channels, (ix) consumer expectation, (x) portfolio management of the insurance companies, (xi) product differentiation and (xii) de-tariffing.

In the same way the study finds sixteen important operational issues and challenges of privatization of insurance sector. They are: (i) consumer protection, (ii) rural coverage, (iii) social coverage, (iv) regulatory experience, (v) changing environment, (vi) integration with other financial services, (vii) cut throat competition, (viii) overestimation and excess capital, (ix) employment and insurance sector, (x) guaranteed
return in falling interest rate, (xi) size of public sector insurance companies (xii) use of technology, (xiii) health insurance, (xiv) challenges of bancassurance, (xv) strict investment regulation, and (xvi) pension plan.

It has already been mentioned that for the test of hypothesis we deploy t-test to the mean of selected variables at 95 per cent confidence level. The testing of first hypothesis reveals that there is significant association between privatization of insurance sector and the growth of life insurance sector. The result of the test shows that there is significant increase in all the four selected variables, i.e. 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 the privatization has unfolded positive impact on the India’s life insurance sector.

The verification of the second hypothesis finds that there is significant association between privatization of insurance sector and the growth of general insurance sector. The result obtained from the test indicates that there is significant growth in three out of four selected variables, i.e. Gross Direct Premium Collection \((t= 8.158, \text{df}= 4, p=.001)\), Net Premium Collection \((t= 27.570, \text{df}= 4, p=.000)\) and General Insurance Density \((t=5.561, \text{df}= 4, p=.005)\) in the post-privatization period. Therefore, it may be inferred that there is significant growth in the India’s general insurance sector in post privatization period.

The examination of the third hypothesis shows that privatization of insurance sector may be a strong reason for increase in the proportion of
saving in life insurance in the total savings of the household sector in financial assets. 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 are the major factors responsible for the growth of the selected variables taken in the present study.

The study suggest, about proper market segmentation, capable human resource development and competitive pricing. It also suggests that the IRDA must distinguish its promotional and regulatory functions and establish an independent research and development division. There is a need of more liberal investment regulation, increased level of FDI and focus on claim settlement but there is no need of disinvesting public sector insurance companies. The IRDA must check insurance frauds, if any, and work for the overall insurance awareness. It calls for the merger of four subsidiaries of GIC and suggest for the reconsideration of the definition of social sector.