Chapter 1

Introduction

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Introduction

Risk as insurable uncertainty pervades the life of people all over the world. Insurance started and developed with the trade and industries in the West, from where the business of insurance was disseminated world over. Now the insurance business has grown to the extent that it has become one of the important segments of service sector. This socially responsible service sector occupies an important position particularly in the developed economies but in the less developed countries, its existence is still insufficient. Non-life insurance came into existence before the life insurance. Marine insurance was first to be started among all kinds of modern insurance that is existing today. Marine insurance was started in 14th century AD followed by life insurance in 16th century AD and fire insurance in the 17th century AD. However, in India the life insurance came into existence before the general insurance started its operation in the country. This happened primarily because of negligible industrialization and due to the lack of development of trade and commerce in the country.

The journey of Indian insurance began with the dawn of 19th century. After operating in the private hands for a long time and witnessing many cyclical and non-cyclical ups and downs insurance sector was nationalized in post independence period. In this era, the waves of nationalization got stronger worldwide and so in India, Indian insurance sector was not an exception and could not manage to save
itself from the ongoing blow of nationalization and finally it was nationalized. The life insurance sector was nationalized in 1956. Nationalization of life insurance sector was followed by the nationalization of general insurance business in 1973. During the period the philosophy of nationalization was well received in India, sector after sector were being nationalized. For nationalization, there were reasons beyond efficiency and performance of the sector and the process of nationalization did not take place because of the fact that the insurance sector was not working efficiently in the private hands.

The Indian insurance under public sector did a commendable job. Public Sector Insurance Companies (PSICs) performed to the extent that India became the country with the highest number of life insurance policies in force. Further, the insurance companies provided a large amount of fund to the economy. The total investable fund of the Life Insurance Corporation (LIC), a monolith, was almost 8 per cent of the Gross Domestic Product (GDP). These funds helped immensely in the development process of the country. The sector proved itself both socially and economically vital. However, in the mean time a large number of Public Sector Enterprises (PSEs) not only in India or only in developing countries but all over the world started showing themselves inefficient, economically unviable and unproductive asset, which in turn not only created heavy stress ultimately on public shoulder but also made negligible contribution in the process of economic development. The continuous loss making PSEs left the economies with no other option but to think about the change of the ownership of these enterprises. This phenomenon led the world to the economic reform in
1980s and 1990s. As the inefficiency of the PSEs brought the form of ownership under scrutiny and raised some serious question in this regard, privatization became the most important and popular means of economic reform. The United Kingdom (UK) became the first country to initiate the privatization and the major part of the world followed the suit. On the political front privatization got striking ideological support form UK and United States of America (USA). Later the collapse of the former Union of Soviet Socialist Republics (USSR) in early 1990s also became a major factor in this regard. These factors contributed in the way that some of the major questions in the change of ownership remained un-discussed and unexamined before the process of change started. In 1980s about 6800 PSEs were privatized all over the world. Since the process of privatization was started, it never stopped and the wave of privatization spread all over the world.

Most of the developing countries started privatization very late and so does India. Though, there is advancement in the privatization process of the country some irregularities at policy level still exists. Privatization as a process that aims at reducing the involvement of the state or the public sector in the nations’ economic activities by shifting the divide between public sector and private sector in favor of the latter has made considerable progress since the introduction of the New Economic Policy (NEP) in 1991.

The process to initiate reform in the Indian insurance sector was started in 1993 with the formation of the Committee on the Reform of Insurance Sector. The committee submitted its report to the Government of India in January 1994, but consequent Governments during this period took
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no decisive step for the implementation of the recommendations specified by the committee, until the Insurance Regulatory and Development Authority (IRDA) Act came in 1999. The reform in the insurance sector allowed the private players of both domestic and foreign origin to enter into the market. However, the foreign insurers are allowed only in the collaboration with the domestic firms. The reform also opened the door for 26 per cent Foreign Direct Investment (FDI) in the sector. Though the Indian insurance sector made commendable progress in the nationalized era the scope of the growth and development was very high and the market was inefficiently tapped. Unavailability of suitable, attractive and tailor made plans, non-existent 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 favour of privatization of insurance sector more valid. Beyond these factors, in the economic environment of a nation, system approach (of management) is as valid as in the life of an organization. The system approach of management says that the activity of any segment of an organization affects, in varying degrees, the activity of every other segment.\(^5\) The economic system of a country as a whole is interrelated and when all other sectors of an economy are opened insurance can not exist in isolation.

In the global economy, insurance has occupied an important position because of the significant role it plays in the saving and capital formation. Though it is yet to be established whether the change in ownership helps improve the efficiency of the enterprise or not but
there is no change in the ownership of the existing PSICs of India. But the entry of private enterprises in the sector has changed the macro economic environment of financial sector in general and the insurance sector in particular. The present study thus tries to point out and analyze in depth all the major issues and challenges which arises from the privatization of Indian 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 its impact on saving in insurance as percentage of total saving of household sector in financial assets.

1.1 Review of literature

In the following section, review of the available literature on different aspect of privatization in general and privatization of insurance in particular has been made. To bring clarity the whole review of literature has been divided into two parts; (i) Review of available literature on privatization, (ii) Review of literature on insurance and its privatization in India.

1.1.1 Review of Available Literature on privatization

Ghosh (1991) assumes a more active and effective role of the state in privatization process. He finds ambiguity in the basic aims and objectives and multiplicity of objective in PSEs more responsible for their performance than the ownership. The author highlighted the mixed evidences on the relationship between ownership and efficiency of the enterprises. He also pointed out that private companies perform better than PSEs only in competitive environment but not in un-
competitive environment. He has also summarized the differences that exist in the objectives of privatization of different countries.  

**Rudra (1991)** in his article basically put forward two hypothesis; that the performance of any industry depends on various factors and not only on private or public ownership of means of production and secondly that the abrupt removal of protection is likely to spell disaster for the economy. The author came up with some strong arguments in favor of certain degree of protection and regulation in the economy. The author identified some other factors beyond the ownership and make it evident that these factors are much responsible for the performance. Finally, he invites people to refute these two hypothesis.

**Geeta Gouri (1996)** points out that there exists a lack of comprehensive policy on privatization in India. In the paper, the author as selected three dimensions of privatization viz. fiscal, efficiency and intersectoral dimension. Fiscal dimension stems from the Government’s need to reduce the fiscal deficit, in the analysis of fiscal dimension the paper suggests for a all together shift in focus. Talking efficiency, the author suggests some aspects to take into consideration if privatization must have an impact on efficiency. The third dimension highlights a major intersectoral linkage with financial sector reform and public sector reforms. The paper concludes that the lack of policy might favour the consideration of political expediency in short run but at the cost of satisfying sound economic management in long run.

**Gupta (1996)** brought into light the dominance of public sector enterprises in the Indian economy. The author also discussed the operational efficiency of the PSEs and the effect of their existence and
operation on public sector deficit. He suggested privatization as means of development and blamed the policymakers and politicians for opting just for reform in the public sector itself instead of privatization policy. He also discussed in brief and criticized the privatization policy of the country, and highlighted incentives to the politicians and policymakers for such policy.9

Ram Mohan (2001) in his article 'Privatization Theory and Evidence' examined the authenticity of the dominant thinking that change in ownership will automatically lead to improvement in the performance of the enterprises. After in-depth analysis of theoretical and empirical evidences of privatization in general, the author gives an especial attention in examining the empirical evidences of privatization in less developed countries. He concluded that there is mixed empirical evidence of privatization which is a warning against sweeping generalization about the positive impact of privatization. He also raised some valid questions on the methodology adopted by the researchers of many of the studies which claimed that privatization have delivered improvement.10

Dholakia and Kapur (2001) in their study have made performance and trade behavior an issue of concern and have examined the same. They have taken balance sheet data of 557 private sector firms for appraisal. The authors have divided these companies into two categories of exporting and non-exporting companies. One of their findings is very interesting and against the popular belief that on the account of various tax incentive exporting companies payless tax than the non-exporting companies. They found that median value of tax provision as
percentage of net sales turn out to be considerably higher for exporting companies than that of the non-exporting companies. They found exporting companies performing well and non-exporting companies improving slowly.11

Baijal (2002) talked mainly about the implementation of the privatization policy. He has highlighted some major benefits of economic reform. He assumes globalization responsible for capital flow. The author also made an analysis of the impact of globalization on capital flow using the ratio of FDI to Gross Capital Formation (GCF). The author also tried to establish relationship between inflow of FDI in a country and its growth. He has also given a detailed account of disinvestment practice in India.12

Ghosh (2002) while dealing with privatization came forward with the rationale of privatization. However, the author also highlighted some of the major problems in privatization and recent developments in this regard. In addition to all these and most importantly she highlighted some major issues of privatization in Indian context.13

Batra (2004) bring to light the major development in the Indian financial market. Further, the author also came across the emergence of new intermediaries and discussed the role and response of these intermediaries. Among other, the author draws attention to the emerging issues in the globalization of financial markets. Besides, the book also examines the functioning and performance of financial markets, regulation and role of foreign investment in the development of a country.14
Ram Mohan (2005) in his path breaking work on privatization made a comparison of performance of industry and banking sector using financial measures and input and output quantities before and after privatization. He found private sector doing better when long period is being considered, but in most recent period the performance gap of private and public sector is becoming narrow. Using financial ratios the author found that disinvestment does not work and that a transfer of control to private owners alone can deliver improvement is not well established. In banking sector, his result shows that it could not be concluded that the private sector banks are superior to the public sector banks.\textsuperscript{15}

Nagraj (2006) examined in detail the India's economic reform and the growth of Indian economy. After a general assessment of industrial development, he focused public sector and find a distinctly higher trend growth rate since 1980-81. The study also found a sharp fall in the tax burden in later half of 1980s. In addition, he also found rapid growth in the capital market since 1980. The author also observed that India has to face tough competition in attracting FDI with other Asian countries and pointed out that the realized amount of FDI in India is just one third of the approved amount and instead of recording a substantial increase in the growth of inflow it is comparatively modest.\textsuperscript{16}

1.1.2 Review of available Literature on Insurance and Insurance reform in India

Jack (1912) in order to outline the history of life assurance the author has provided interesting account beginning of gild in England, different
intstitutions and their relationship. The author also drew attention to all other important factors, which were, remained responsible for the origin of the life assurance. Starting from the gambling insurance, the author pointed out all important facts in this regard including the journey of friendly societies and starting up of the major companies.

Rande and Ahuja (1999) in their paper ‘Life Insurance in India: Emerging Issues” look at the role of insurance in saving and further its role in the economy. The authors provide some vital facts about the Indian life insurance industry in both pre-and post-nationalization period. They also studied the growth of LIC of India. Dealing with the emerging issues, the authors find changing demographic trend of the country, demand of pension plans, pricing of products, safety and return on the investment of these companies noteworthy. They are of the opinion that the privatization is good and necessary for the development of the insurance sector.

Pant (1999) makes an appraisal of IRDA Bill. The author has provided a detailed commentary on the structure of the IRDA and discussed its various powers and duties. Then the author has indicated that the regulatory authority should hereby discharge its functions to ensure orderly growth of the sector. He raised finger towards the mix of powers and functions in the same clause of the bill. More importantly, the author pointed out that the provisions of IRDA about the service of rural and social segment is not clearly defined. In this regard, he has made a special mention of rural unserved population.

Pant (2000) opines that a sound insurance market is an essential characteristic of a growing economy. The author further tells us that
insurance sector of a country is closely related to the economic growth of the country and the growth and development of the former depends upon the growth and development of the later. Using insurance penetration and insurance density the author shows that there is development in this sector. He says that insurance regulation has its own history in the developed world and the developing world should not hesitate in regulating the industry closely.\textsuperscript{20}

\textbf{Rao (2000)} in his article 'Privatization and Foreign Participation in (Life) Insurance Sector' refer to the countries which have liberalized their insurance sector and say that the reform in the sector is aimed at bringing about greater efficiency in the sector. The author hopes that reform in the sector will lead to better use of information technology, cost reduction and reach into the untapped area but at the same time, he feels concerned about capital required in the business. Further, he finds internalities more responsible then the externalities for success or failure of a firm. The author is also skeptic about the sustainability of the growth of the sector and sees some serious reasons of slow down after initial burst. He also expresses his concern about the survival of the weak companies in long term and the after effect of their failure.\textsuperscript{21}

\textbf{Mishra and Mishra (2000)} in their article 'Global Insurance Market Structure' opine that gross insurance premium is a globally accepted measure of market size of insurance. Making gross premium collection and rate as growth of the same basis of their assessment, the authors gave an idea about the level of development of insurance sector in the developed countries. While discussing the role of insurance in the development of an economy they mention that it helps to bring about
stability in the economy and besides (life) insurance have an effect on saving and capital formation.\textsuperscript{22}

Mishra and Mishra (2000) in their article ‘Making of the IRDA’ present briefly the reform story. In this process, starting from the Malhotra Committee the authors outline some important recommendation of the Committee on Reforms in the Insurance Sector. They mentioned some important facts about the structure of authority and also outline various responsibilities which the authority has to shoulder in liberalized insurance market.\textsuperscript{23}

Banarjee (2000) highlights the achievement of the Indian economy at all fronts including agricultural development, industrial development and Human Resource Development (HRD). The author also advocates the financial liberalization including insurance liberalization and expects that net FDI inflow to the country and employment opportunity will increase because of the financial liberalization.\textsuperscript{24}

According to Shrivastava & Shrivastava (2001) the growth of insurance sector depends on the growth of the economy. The authors also appreciate the role of insurance as intermediary in saving and investment beyond the basic task of risk coverage. They appreciate the growth of insurance in industrialized world and expect the same in the Emerging Economies (EEs) as well. They find Indian insurance industry even far behind the insurance sector of many developing countries and they visualize insurance liberalization as a means of development.\textsuperscript{25}

Portfolio of an insurance company should take care of the safety and liquidity more than the return therefore the investment must be
diversified says Champala and Rao (2002). The authors provide details of the investment of the funds of LIC including annual growth of the investment, sector wise investment, overseas investment, state wise investment and industry wise investment. The authors found that major investment of LIC has been in the Government security, which at one hand yields low return and at the other leaves the investment less diversified. They call for an altogether change in portfolio management philosophy of the insurance companies.

Gupta (2003) tells us what insurance exactly is. He outlines different role of insurance in sustaining the financial condition of an individual or a business caused by unfortunate incident. The author has a different opinion, he assumed insurance as a means of economic development of a country. The author visualize that the insurance sector reform will result into the growth and development of the insurance sector.

Kapoor (2003) states that liberalization of insurance sector will result into the growth of the service sector of the economy, which in turn will affect the infrastructure of the economy positively. According to the author marketing, product innovation, development of alternative distribution channel and availability of quality human resource are the biggest challenge before the industry in the post-privatized period.

Palande, Shah and Lunawat (2003) in their book ‘Insurance in India; Changing Policies and Emerging Opportunities’ explain that there was considerable growth of Indian insurance industry but it has yet to travel long distance. The authors conclude the debate of opening-up of the insurance sector in favor of privatization of the sector. They discussed in detail the strategies for the coming days. Then the authors examined
regulatory framework of the industry, the impact of the reform in the sector and define the role of regulator in this context. In addition, they have outlined some issues and opportunities arising out of insurance reform. They also pointed out that India is the only country where the regulator itself has assumed the role of facilitator, therefore, the authors emphasized a balance role of the regulatory and development authority.29

Sengupta (2003) shows the relationship between reform and progress of the insurance sector. The author presents the profile of LIC and General Insurance Corporation (GIC). He then makes an assessment of the IRDA Act 1999. Talking about the provisions regarding transfer of fund the author says that there are sufficient provisions against the flight of capital out side the country.30

Jani (2003) gives strong reasons for insurance reform and appreciates the Governments' decision of privatizing insurance sector. In addition to this the author shares international experiences of insurance reform and highlights some positive outcomes like cost cutting, product innovation and aggressive sales drive. The author gives an interesting fact that International Financial Corporation (IFC) was also interested in Indian insurance market for business and yet the possibilities are not ruled out.31

Abichandani (2004) says that the increasing importance of the marketing of insurance products is giving way for the development of alternative distribution channels. She strongly put forward the issue of privacy of an individual and raise moral question over the sale or share of customer database.32
According to Sigma (2005) the insurers have new challenges in the changing world. New risk in the society arises continuously and the insurers have to make these new risks insurable. In addition to making these new risks insurable they also have to understand that how changing environment affects these risk. Further, the insurability of risk keeps changing. Innovations by the insurers also change the insurability but the study concludes that all the risks are not insurable.

Banal (2005) is not different from others in discussing the process of insurance sector reform and Insurance Regulatory and development Authority. In his effort to examine the privatization of insurance sector, the author takes up market share of each private sector firms individually and the aggregate market share of all private sector firms collectively in life and non-life segment and their marketing efforts. The author finds the Indian insurance sector as a whole much growing in post-liberalization especially the health segment is very promising. In his opinion return on investment is one of the most important issues in the privatized insurance market.

Krishnamurty (2005) sheds light on the increasing market share and growth rate of the private players in the Indian insurance sector with a narrow base but he found the average premium of the policy issued by these companies much higher than that of the LIC. The author finds Unit Linked Insurance Policy (ULIP), an important factor in the growth of the insurance sector. The author assumes that there will be high growth of bancassurance but at the same time, he perceives that the differences in work culture of bank and insurance is a bigger challenge. Among other, he finds distribution, technological advancement, quality
of manpower and fund management some of the important challenges.\textsuperscript{35}

\textbf{Mony (2005)} feels concern about the under development of the health insurance and non-participation of cooperatives in the liberalized insurance market. The author says that new private sector have done remarkably excellent job in a short period. For the assessment of the growth of market he says that there is a need to establish some benchmarks and parameters. The author appreciates the role of IRDA in addition to all insurance companies for increasing insurance awareness. Mony highlights the issues like motor tariff, customer service intermediaries and self-regulation. He finds legal arrangement for regulation and control sufficient and says that the sector will grow steadily rather than rapidly in the coming years.\textsuperscript{36}

\textbf{Jhaveri (2005)} states that insurance as a means to minimize the risk is more important than insurance as a means of saving. The author highlights the relatively low share of pure risk cover product. The authors says that insurance agents income maximization objective keep them away from understanding the need of the insured. He appreciates the role of IRDA in regulating the compulsory training and licensing of agents. However, the author suggests for adjusting the incremental cost of distribution to less populated area in the price of the cover. At last he appreciates the contribution of global partners in the growth and development of Indian insurance sector.\textsuperscript{37}

\textbf{Rao (2005)} observe the response of market leaders to the given challenges of reform. The author compares the position of State bank of India (SBI) in banking sector with the position of LIC in the life
insurance sector. For a better comparison, he used market share of LIC and State Bank of India, their assets, products, etc. The author says that economy should be build-up on the local strengths.38

Shah (2005) furnishes a detailed account of Indian Insurance including organizational structure of insurance in the country, major form of insurance and its role in the national financial system. He says that mutual insurance is truly a public utility and real social service in the absence of Public Sector Insurance Companies.39

Chatterjee (2005) says that the objective of any reform is development. He further emphasized that reform is a continuous process and it should be ongoing in the response to the changing need of the time. The author also examines the growth of Indian insurance sector and he found that there is a need of some vital changes in the sector.40

Skipper (2005) talks mainly about role and importance of the Government policy of the insurance sector. Dealing with the issues, he expresses his apprehension about the possibilities of private monopoly replacing public monopoly and other market imperfections. The author also expressed his fear about dominance of foreign players.41

Dubey (2005) in his paper “Indian Insurance Market: Issues, Challenges, Opportunities and Strategies” study the saving and capital formation and the role of insurance in the same. The author finds rural coverage, development of alternative distribution channel, neglected health insurance among some of the biggest challenges and insurance potential and growth as biggest opportunities in the post-privatized insurance sector.42
Rao (2006) gives a brief account of insurance reform in India. Talking post-liberalization period, he sheds light on the substantial growth in number of policy and total premium collection in life insurance sector. The author has also pointed out a major achievement of the sector that is widening insurance density and deepening insurance penetration in the country in post liberalization era. He also did not let the major issues of privatization of insurance sector go unnoticed. Among others, the author raised the issue of the development of health insurance, demographic changes and cost reduction.

Joshi (2006) discussed about the rural market of the country. Though, the author make rural population as a basis of his argument, he also pointed out the increasing rural income and changing life style in rural areas in the country and its effect on insurance. He tells us about the various innovative distribution channels used by new players and other effective measures taken by numerous private companies to tap the under tapped rural market.

Chennapa (2006) draws our attention towards the fact that the insurance industry has become the fastest growing industry in the Indian economy. The author points out the decreasing concentration of public sector insurance companies and the growing share of private players in the insurance industry. The author further states that the goal of privatization has been realized and all positive changes in the industry are the effect of the privatization. Declining return on investments is in his opinion is one of the biggest challenge. Further, he established that there is no relationship between capital and market.
share but for a considerable market share, huge capital is required. He suggests that LIC should be allowed to go public.\textsuperscript{45}

\textbf{Kumar (2006)} says that selling insurance policy in India a difficult task. The author says that there is resistance in our society for life insurance policies. The sales force of the insurance company has to go beyond presenting the features and benefits of products. The author also pointed out that the contribution of brokers in life insurance sector is insignificant.\textsuperscript{46}

\textbf{Pai (2006)} assessed the role of technology in insurance. The author focuses the importance of technology in B2B automation, Management Information System (MIS), corporate reporting, marketing, finance and Human Resource Management (HRM) and says that the use of technology will increase the efficiency of the insurance sector.\textsuperscript{47}

\textbf{Rao (2006)} opines that reform in the sector has been satisfactory. However, at the same time he says that looking forward is more important for further improvement. The author discussed some new issues like tariff, increase in the level of FDI from 26 per cent, affordability of health insurance and corporate governance.\textsuperscript{48}

\section*{1.2 Need and objectives of the Study}

Insurance reform in India is a part of the ongoing economic reform in the country. As reform is an ongoing process, economic reform is rolling on for more than two decades in the country but there are contradictory evidences in the fulfillment of the objectives of the reform. In India, insurance sector was the only major sector that was fully nationalized and more interestingly, both life insurance and general
insurance has been under the monopoly of public sector insurance companies. Now when the insurance sector has been privatized this study became important beyond doubts to find out the after effects of the privatization on the sector and on the other contemporary objectives of the Indian economy. It is also important to examine that whether the problems for which the insurance sector was nationalized in the past still exist, if yes, then what happened to the various objectives of nationalization of the sector. The process of privatization of the insurance sector did not witnessed much heated ideological debate as it was expected and the programme got implemented easily. Trade unions did not resist much because of the fact that the Government decided not to opt for the disinvestment of the public sector insurance companies. Though, lack of development in the sector was the most motivating factor for reforms but it was had to happen because of the fact that India being a founding member of World Trade Organization (WTO) was left with no option but to open its service sector. Owing to these realities, India privatized its insurance sector. Therefore, this sector has become an interesting subject matter of study. Privatization and foreign participation in the sector have changed the national insurance landscape altogether. From changes in legal framework and establishment of IRDA as a watchdog to the detariffication, all the components of the reform process have far-reaching implications, which have to be examined. The whole process of reform left many issues that have to be identified and analyzed. Further, the reform process gave birth to the various new challenges. The findings of the study will help IRDA and the Government to fine-tune the policies in future. The study will also help the PSIC and private insurers in their
strategic decisions. The study is concerned with the entire insurance sector therefore it take-up mostly those issues and challenges which will affect the sector and has left those issues and challenges which are concern only with a particular entity.

The objective of the current study is to assess the privatization programme and its implication to identify the broader issues affecting the sector and major challenges before the insurance industry. The objectives of the study can be specified as follows.

- To understand the concept of privatization
- To discuss various methods of privatization
- To outline various rationale of privatization
- To present a brief historical background of insurance
- To give details of Indian insurance sector at the time of opening-up
- To examine the privatization policy of the Indian Insurance Sector
- To highlight the various objectives of introducing privatization programme in insurance sector
- To study the regulatory framework of insurance in India
- To identify and analyze major issue arising from the privatization of the insurance sector
- To focus major challenges raised by the privatization of insurance sector
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➢ To study the impact of insurance reform on insurance sector
➢ To draw conclusions based on the findings of the study and make suggestions for a better tomorrow

1.3 Hypothesis

1. There is a significant association between Privatization of Insurance Sector and growth of Life Insurance Sector.

2. There is a significant association between Privatization of Insurance Sector and growth of General Insurance Sector.

3. Privatization of insurance sector is a strong reason for increase in the proportion of saving in Life Insurance in the total Savings of the Household Sector in Financial Assets.

1.4 Research Gap

Reform in the insurance sector has changed the landscape of Indian financial sector. Number of studies have been conducted which corroborate that the effect of the reform is far reaching, apart from changes in the insurance sector, the reform will help in the development of trade and commerce. The survey of literature conducted in the previous section of the study shows the various aspect of the privatization of insurance sector in India. Various studies came-up with quiet relevant issues. Most of the studies conducted before insurance reform and in early period of the reforms express their hope that the insurance industry would witness rapid development and growth in the sector. Other studies conducted in recent past have made an effort to analyze the changes in the industry after privatization and pin points
the growth of life and general insurance. Most of the studies discussing post-privatization observed that there is an increase in number of new policies and premium collection have gone up in the post (insurance) privatization period but no study tells us whether this growth is cyclical and normal or it has been caused mainly by the privatization of the sector. Again these studies does not analyze whether there is any significant change in the growth of the insurance sector in post privatization period. The current study will try to fill this gap.

1.5 Research Methodology

The study is concerned mainly with the changes manifested in insurance sector in post privatization period. In determining the various issues and challenges the study overall is an exploration and analysis of previous researches and writing on privatization of Indian insurance sector. Dealing with the issues and challenges the study in order to bring clarity divides all the issues and challenges into three groups namely; financial issues and challenges, commercial issues and challenges and operational issues and challenges. Apart from discussing the major issues and challenges the study analyzes some of the issues. While analyzing data the study is based mainly on secondary data. Here, it makes efforts to measure the changes in post-privatization (insurance) period for which the study carries 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 variables. The t-test has been applied with the help of Statistical Package for Social Sciences (SPSS) and the outputs produced by the software have been provided in appendix. Here again, to make
the things more clear we will divide the entire insurance sector into two segments and selects different variables for these two segments. Variables for life insurance are viz. number of new policy, total premium collection, life insurance penetration and life insurance density. For general insurance, gross direct premium collection, net premium collection, general insurance penetration (general insurance premium as percent of GDP) and general insurance density (per capita general insurance premium) have been selected for study. Insurance penetration means insurance premium as percentage of GDP. Insurance density means insurance premium per capita (total premium/ total population). The study will also compare the proportion of saving in life insurance fund in the household saving in financial assets. The study has left an important variable that is Sum Assured because of the incoherency in the data published. This is a study of complete Indian insurance sector and thus it is macro in nature. Among others lack of measurement of insurance awareness and unavailability of data on aggregate rural and social coverage has been major handicaps of the study. While analyzing the impact of privatization on the insurance sector the study covers a period of 10 years from 1995-96 to 2004-05. The first, 5 years being pre-privatization period and second 5 year being post-privatization period. Various statistical techniques of presentations and analysis of data have been used. For the presentation of data, mainly tables showing the figures and percentage change, line diagrams and bar diagrams have been used. For comparison of pre- and post-privatization, t-test has been used with the help of SPSS (output in appendix). In this study, the words general insurance and non-life have
been interchangeably used. This study is concerned with the privatization of Indian Insurance Sector.

**t-test (matched paired observations) for test of significant difference**

\[ t = \frac{\bar{d} - 0}{S} \times \sqrt{n} \quad \text{or} \quad t = \frac{\bar{d} \sqrt{n}}{S} \]

\( \bar{d} \) = the mean of the difference

\( S \) = the standard deviation of the difference.

Value of \( S \) is calculated as follows:

\[ S = \sqrt{\frac{\sum (d - \bar{d})^2}{n-1}} \quad \text{or} \quad \sqrt{\frac{\sum d^2 - n(\bar{d})^2}{n-1}} \]

Note: It is based on \( n-1 \) degree of freedom

The study is mainly based on published secondary data collected from the following sources.

- Annual Report of LIC
- Annual Report of GIC
- Annual Report of IRDA
- IRDA Journal
- The Journal of Insurance Institute of India
- Report of the Committee on Reform in the Insurance Sector.
- Various publication of Ministry of Statistics and Programme implementation
1.6 Plan of the study

Keeping in view the objectives of the present study the work has been divided into five chapters.

Chapter One - 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 the methodology of research.

Chapter Two - The Second chapter of the study attempts to trace the origin of insurance, the major form of insurance. Then it discusses insurance in India including start of insurance business, nationalization of the industry and formation of LIC and GIC. It also outlines the state of Indian insurance industry at the time of privatization of the sector.

Chapter Three - 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 in insurance sector. Then the chapter highlights the regulatory framework including enactment of IRDA, objectives of IRDA, major regulations and the private players in the Indian insurance market and their respective market share.

Chapter Four - The fourth chapter enlists all 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 the sector and growth of the share of saving in insurance in total saving of household in financial assets.

Chapter Five - The fifth and last 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. Appropriate suggestions have been made in the light of the finding, which would be proved helpful for policymakers. The chapter also proposes some area for further investigation.
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