CHAPTER-2
REFORMS IN INSURANCE SECTOR

The process of Liberalization of Indian Economy was initiated on 24th July 1991. With this, flow of foreign capital, foreign technology, and foreign expertise started flowing in. Sectors, which were earlier, reserved for government and public sector enterprises, have now been opened for private investors too. Foreign Investors were allowed to invest their money in India, either in collaboration with Indian companies as joint ventures or as fully owned and managed by them. In financial sector after the Banking sector reforms in accordance with Narasimham committee report, Insurance sector was taken into consideration for opening it to private players, so as to generate considerable long-term funds.

In April 1993, Narasimha Rao government, appointed a committee, to suggest on reforms in the insurance sector including improving the functioning of the LIC, GIC and strengthening the regulatory system. Shri R.N. Malhotra, former insurance secretary and RBI Governor headed the committee. This committee better known as Malhotra committee met various cross sections of people, industry and others, made thorough study and submitted its report on 7th January 1994. Keeping in view the recommendations of Malhotra
committee report, Insurance Regulatory and Development Authority (IRDA) bill was drafted and presented in the parliament. It took almost six years to implement its recommendations. The report recommended opening of this sector to private players for the benefit of common man. It also found out the weaknesses of the insurance industry especially, the nature of products and lack of variety, their reach, insurance awareness and potential, the distribution channels, which needed to be re-engineered, the deployment of funds for investment and the management of insurers.

The Malhotra committee in its report pointed out that though the waves of competition were sweeping across the economy, insurance companies remained overstaffed. Hierarchical monolithic monopolies existed with little competition even between its subsidiaries. As a result, the consumers were deprived of benefits such as wider range of products and lower price of insurance covers. The report, however, acknowledged the achievements of the LIC and GIC in spreading the insurance net, mobilizing large savings for national development and financing core social sectors like housing, power, water supply and acquiring financial strength.
by gaining public confidence. In the report the committee made recommendations, which were mainly concerning the structure and regulation of the insurance industry under a newly liberalized environment. Its recommendations were as follow:

**MALHOTRA COMMITTEE REPORT (1994)**

The terms of reference in this committee included:

1. To examine the present structure of insurance industry and to assess its strengths and weaknesses.

2. To recommend changes in the structure of insurance industry as well as general framework of the policy.

3. To make specific suggestions regarding LIC and GIC.

4. To review the present structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory system.

5. To review and make recommendations on the role and functioning of surveyors, intermediaries and other ancillaries of insurance sector.
THE RECOMMENDATIONS OF THE MALHOTRA COMMITTEE

Some of the major recommendations relating to reforms in insurance sector were as under:

1. OPENING UP OF INSURANCE SECTOR

1. The private sector should be allowed to enter insurance business. No single company should be allowed to transact both life and general insurance businesses and the number of entrants should be controlled.

2. New entrants coming into the insurance business should be required to write a specified portion of their business in rural areas.

3. The minimum paid up capital for the new entrant should be $20 million (approx.).

4. The promoter’s holdings in private insurance company should not exceed 40% of the total. However, if the promoters wish to start with a higher holding, they should be permitted to do so, provided their holdings are brought down to 40% within a specified period of time through public offering. Further, no person other than promoters should be allowed to hold more than 1% equity, while promoters should at no time hold less than 26% of the equity.
5. If and when entry of foreign insurance companies is permitted, it should be done on selective basis. They should be required to float an Indian company for the purpose preferably in joint venture with an Indian partner.

6. Before the private sector is allowed to enter the insurance field the controller of Insurance should start functioning effectively.

7. Regulatory and prudential norms as well as conditions for ensuring level playing field among insurers should be finalized early so that intending entrants into the insurance business would be aware of the stipulations they would have to comply with.

8. An Insurance Regulatory Authority should be set up to regulate, promote and ensure the orderly growth of the insurance industry in India. It advocated a statutory status of such Authority.

2. INVESTMENT ISSUES OF INSURANCE SECTOR

The investments of general insurers should be kept as follows:

a. In Central Government Securities being not less than 20%.

b. In State Government Securities and Government guaranteed securities, inclusive of (a) above, being not less than 35%.
c. In approved investments inclusive of (b) above, being not less than 75%.

As a measure to guard against interlocking of insurance funds with the funds of their companies and overexposure to the latter by way of investment in their equity, debt instruments or term loans, it prescribes that no insurer:

a. Shall invest or keep invested in the equity shares, debentures or other debt instruments of any one company more than 10 percent of the subscribed share capital, debentures and other debt instruments of that company provided, however, that an insurer’s investment in equity shares shall not exceed at any time 5% of the subscribed equity share capital of the company.

b. Shall invest or keep invested any funds in any manner in its (insurer’s) affiliate whether incorporated or not.

3. RECOMMENDATIONS RELATING TO AGENTS

- The minimum level of business to be done by agents in a single year should be raised to sum assured of $10,000 (approx.) in urban areas and $8000 (approx.) in rural areas.
• Insurers should stop indiscriminate recruitment of agents and concentrate on identifying groomed and qualified persons as successful agents.

• Institutional channels such as cooperative societies and non-government organizations should, on a highly selective basis, be utilized as agents to cover specified market segments.

4. GENERAL RECOMMENDATIONS

• Postal life insurance should be permitted to transact life insurance business in the rural areas among the general public and should be suitably strengthened for this purpose.

• The office of Controller of Insurance should be restored its full functions under the Insurance Act and it should be setup as a separate office as a matter of high priority.

• Legislation and government notifications, through which insurance companies were exempted from several provisions of the Insurance Act in derogation of the functions of the Controller, should be withdrawn.

• There should be a provision for state level cooperatives to set up cooperative societies for transacting life insurance business in
the states. There should not be more than one such cooperative in each state and it should be subject to regulation by insurance regulatory authority. A lower than normal capital requirement should be laid down for them.

**INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY:**

Malhotra Committee submitted its report on the 7th January 1994. It recommended for the establishment of strong and effective Insurance Regulatory Authority in the form of statutory regulatory board on the lines of Securities and Exchange Board of India (SEBI). On 20th December 1996 the government introduced IRA Bill for the establishment of an authority to protect the interest of holders of insurance polices and to regulate, promote and ensure the orderly growth of insurance industry and for matters connected their with or incidental hitherto. But this Bill could not be passed and was withdrawn by the then government. The IRA Bill, 1998, was re-introduced in Lok Sabha on December 15, 1998, providing for setting a statutory Regulatory Authority and containing three Schedules incorporating amendments to the Insurance Act, 1938, the life Insurance Corporation Act, 1956, and the General
Insurance (Nationalisation) Act 1972, to permit the entry of private Indian companies into the insurance sector and to make certain consequential amendments to Insurance Act, 1938. The Bill could not be taken up for consideration consequent on the dissolution of Lok Sabha. The bill was re-introduced and passed on 2nd December 1999, with some amendments suggested by the standing committee on finance. The Bill was titled Insurance Regulatory and Development Authority Bill (IRDA). IRDA was established on 19th April 2000 under section 3 of the IRDA Act, 1999. It was established with the following persons as the first whole-time member of the Authority:

1. Shri N. Ranchary, Chairperson
2. Shri Haris Ansari, Member
3. Shri H.O. Sonig, Member

OBJECTIVES OF IRDA

Insurance Regulatory and Development Authority came into existence on 19th April 2000. It was established as per the recommendation of Malhotra Committee Report, the main objectives of IRDA are:
1. To protect the interest of and secure fair treatment to policyholders.

2. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy

3. To set, provide, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.

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

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

6. To promote fairness, transparency and orderly conduct in financial market dealing with insurance and built a reliable management information system to enforce high standards of financial soundness amongst market players.
7. To take action where such standards are inadequate and ineffectively enforced.

8. To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulations.

The insurance Regulatory and Development Authority has been entrusted with the duty to protect the interest of holders of insurance polices and to regulate, promote and ensure orderly growth of the insurance industry. The authority envisions better insurance coverage to the Indian citizens besides augmenting the flow of long-term financial resources to finance the growth of infrastructure. Simultaneously, efforts are also on for the spread of insurance in social and rural sectors. Efforts are on to bring the Indian insurance Market to international standards in areas of financial viability, competence, technology and prudential regulations. The IRDA feels that this approach will adequately address the requirements in regard to the twin objectives of policyholder’s protection and market development. As a statutory body in its short period of existence so far, it has sought to pursue these objective by constantly reviewing and assessing its policies
and programmes, initiating new effort and introducing new regulations in areas hitherto unattended. All these to ensure growth and integration that will lead to a sustained development of the Indian Insurance Market. Such a development will aid and reinforce the process of capital formation and accelerate the economic progress of the country.

FUNCTIONS OF IRDA

Following are the main functions of IRDA

1. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration.

2. Protection of the interest of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, and settlement of insurance claim, surrender value of policy and terms and conditions of contracts of insurance.

3. Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents.
4. Specifying the code of conduct for surveyor and loss assessors.

5. Promoting efficiency in the conduct of insurance business.

6. Promoting and regulating professional organizations connected with the insurance and re-insurance business.

7. Levying fees and other charges for carrying out the purpose of this act.

8. Calling for information from, undertaking, inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business.

9. Control and regulation of the rates, advantages, terms and conditions that may be offered by the insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under the section 64U of the Insurance Act, 1983 (4 of 1938).

10. Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries.
11. Regulating investment of funds by insurance companies.

12. Regulating and maintenance of margin of solvency.

13. Adjudication of disputes between insurers and intermediaries or insurance intermediaries.

14. Supervising the functions of the Tariff Advisory Committee.

15. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (6).

16. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.

17. Exercising such other powers as may be prescribed.

**REASONS FOR LIBERALISATION OF INSURANCE SECTOR**

The reasons that promoted the government to liberalize the insurance sector were primarily low level of insurance penetration and density, poor quality of insurance services, lack of quality and quantitative insurance products, low productivity, inadequate application of information technology and inadequate generation of funds for financing long term development projects.
Despite its more than teeming one billion population, India still has a low insurance penetration of 1.95 percent, 51st in the world. Although India boasts a saving rate of around 25 percent, less than 5 percent is spend on insurance. The insurance penetration for non-life side was as low as 0.56 percent while for the life insurance it is 1.40 percent. The insurance density for non-life side was about US $ 2.2 and for life side about US $ 5.4. As compared to the Indian economy, insurance penetration was as high as 4.64 percent in non-life side in USA and 4.53 percent in New Zealand. The insurance density was as high as US $ 1404 in USA and US $ 1297 in Switzerland1. Even among the developing economies and other East Asian countries, the Indian insurance industry lagged far behind in this area. The share of Indian Industry in the total world insurance premium was merely 0.42 percent.

Moreover, in the absence of competition the public sector organizations were comparatively reluctant in pursuing market penetration. The government control has also blunted the organizational efficiency in terms of trying out newer marketing strategies and making judicious business decisions.

1 IRDA Annual Report 2000-01, Ministry of Finance Govt. of India pg. 29
This was the scenario of insurance sector, which prompted the government to delve into the matter for opening the insurance sector to the private players. The role of the insurance industry in a developing economy cannot be underestimated. The growth of the Indian economy is resulting in increasing asset accumulation by individuals and establishments and expansion of various industrial activities, which give rise to new risks. The increasing savings of Indians have to find a channel for safe and effective investment for their savings. The insurance industry provides an avenue for risk management by industrial enterprises and a mechanism for individuals to potentially invest their savings providing long-term security and a commensurate growth in the value of their investments.

It was high time for India to open up its insurance sector. UK almost saturated, China still cautious in many respects about opening up, Thailand and Vietnam have liberalized but with restrictions and Japan, the most mature of the Asian markets, is reeling under the combined effect of falling income, low investment returns and an economic shakeout. The only other countries keeping India company in this respect are North Korea, Rwanda,
Burundi, Cuba and Myanmar. There were sufficient reasons for India to open up. With most of mature insurance markets having reached saturation point, India, with its low levels of insurance penetration, low premium as a percentage of domestic savings and low GDP per capita premium showed great potentials in insurance sector.

An even more important need being voiced excessively was huge gap in the funds required for infrastructure. Life insurance funds, by dint of being long tenure funds are a particularly ideal fit. The Rakesh Mohan committee estimated the total need for infrastructure investments at around Rs 400,000cr to Rs. 450,000cr (US$ 115-130bn.) between 1996-2001, and Rs. 750,000cr (US$ 215bn.) between 2001-2006. With FDI being less than moderate in this sector, it is difficult to meet even a fraction of this sum.

Although it is difficult to gauge the exact potential of insurance markets that are dependent on selling techniques, social norm and many other extraneous factors, economic indicators, point a huge untapped potential. The stymied growth of the market has largely been on account of non-customized products, poor selling practices and inadequate customer service. This is the most pressing reason
for competition to come in.

In most countries, it is the insurance industry through which household savings have been channelised into infrastructure. The Indian scenario, where the domestic savings rate is 25 percent there is a high degree of investment concentration in non-productive assets like gold and silver.

The pension sector, which meets a large portion of the infrastructure funds the world over is almost dormant here. In Brazil pension funds running into billion dollars have been channelised into insurance sector. Pensions, in contrast, are a virgin sector in India, accounting for only 20-25 percent even in the corporate sector and barely 2 percent of individual policies. That’s the gap that needs to be filled. Insurance potential is gauged in terms of certain differences. Consider life insurance premium, as a percentage of gross domestic savings is 6% in India as against 24% in US, 41% in UK, 32% in South Korea and 31% in Japan. Other statistical pointers too reveal the potential of the market. Growth rates are good indicators, the growth in GIC’s gross written premiums has been 15% at an average over the past four years, and it is envisaged that compounded average growth rate (CAGR) will
be 20%-25% even in a closed market.

The ordinary consumer’s choice for insurance products is very limited restricted to the public sector monoliths and the four subsidiaries of the GIC all clones of each other with little to choose between them for non-life insurance and to the LIC for life cover. Premium rates were set unscientifically with very little attempt to fine-tune the risk attached to different categories of business. The result was that more often than not, they penalize the low risk majority. There is a great deal of cross-subsidization. Low premium rates in motor insurance, for instance, necessitate higher premium elsewhere. Mortality tables were not revised for years. The list of woes just goes on and on. The ultimate loser was the consumer.

On the other hand what has happened in sectors like automobiles and consumer durables that have been opened up to foreign equity. Instead of having to choose between just the Ambassador, the Premier Padmini and the Maruti, the consumer now has a whole range of models to choose from. The same is the case with consumer durables. In the case of TV for instance, the price has fallen in real terms. Insurance affects a much larger section of the population. The fear that foreign insurance companies may prove to
be predators, wanting to fleece both the public and the country, may swamp the market and threaten the existence of Indian companies, make employees lose their jobs and repatriate their profits are xenophobic fear that have been proved false in sectors that have been opened up to foreign participation. A better way, however, would be to take a dispassionate look at the experience of other countries that have opened up their insurance sector to foreign participation.

Cross-country experience shows that nowhere in the world, has the entry of foreign firms threatened the position of domestic companies. Whether it is Malaysia, where the insurance sector has been open for more than 50 years and foreign companies account for about 10.5 percent of market or it is Indonesia, Thailand, China or the Philippines, where the market has been opened more recently. In these countries total market share of foreign companies is less than 10 percent leaving in Indonesia where it is about 20 percent. Closer home we have the experience of the banking sector where despite the presence of 42 foreign banks, their share in total banking assets is less than 10 percent. Today less than 20 percent of the insurable population in India is insured and insurance premium
(life as well as non-life) accounts for just 2 percent of GDP as against the G-7 average of 9.2 percent. The fear that new companies will displace public companies is misplaced. There is room and more for not only the existing companies but also for any number of competitors. Six years ago, insurance premium accounted just over 1 percent of China’s GDP. But since the market has been liberalized (albeit partially) spending on insurance has grown at a compound annual rate of 33 percent. It is not just foreign companies alone that have grown but also the national PICC as well has grown. In South Korea, the opening of the sector saw the Big Six domestic players, who initially controlled the entire market, increased their business from 7 to 37 trillion Won by 1997. Meanwhile foreign companies were not able to capture more than (a miniscule) 0.7 percent of the market.

As for the fear of loss of jobs, one simple statistic will suffice to show how unfounded such fears are. The number of people working in the insurance sector in India is roughly the same as in the UK, which has a population 1/4 the size of India has. In South Korea, the number of full-time employees were more than doubled over a ten-year period. Thailand added 50 percent more jobs in four years.
The argument that there could be a huge outflow of funds from the country seems equally unfounded. On the contrary, given the industry's huge requirement of start-up capital, the initial years after opening up are bound to see a strong inflow rather than outflow of foreign capital. Given the fact that the break-even, comes much later in insurance sector than in case of other sectors, odds are that the first remittance of dividend will not happen before 10-15 years. Consequently, there is little to fear, as far as the ordinary insurance employee or the country at large is concerned. Who needed to be concerned were the union leaders in the insurance industry, who were bound to see their clout decline as more and more companies are opened. But that was no reason why the public should fight their battle for them and at such a heavy price.

A minimum 26% stake will at least enable the foreign partner to block undesired resolutions at board-meetings. That minimum stake will rise as the business expands. Since break-even period can stretch up to 10 years, bridging the solvency gap will require large and frequent equity—infusions. It will take some time before start-up operations begin to generate profits, which, in turn, will
be needed to fund further growth. Therefore, the notion that foreign firms will come in, and Indian savings will flow out is a myth. Cross-country experience - as well as India’s own experience with banking reforms indicates that foreign firms usually end up as players and domestic companies remain firmly entrenched as market-leaders.

The insurance sector is the one sector that can provide long—term capital and thus, mobilize savings within the country. Opening up of the sector to competition will also benefit consumers. The Indian consumer is hungry for choice.

The entry of competition into the sector will allow the consumer to access new and innovative products, which are available, worldwide. For example, in the Asian markets of the Philippines and Indonesia, the government controlled companies have retained as much as 80% of the market, yet the market itself has expanded with the advent of competition and the new and innovative products it offers. Foreign insurers will only expand the existing pie and this will benefit the country at large because it will increase savings which will actually go into productive assets such as roads, airports, telecom, etc. It would be naive for any insurer to even
think about taking capital out of an insurance company during the first seven-eight years because it will have to bring in more capital to strengthen the company, develop and expand the business in India.

Insurance companies may target urban areas more than rural areas initially, but, eventually, they will cater to both. Only 26% of the Indian population is urban, so it will become necessary for a company to target the rural sector. It will be important for private insurance 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. Repatriation is an undecided point, but 'Forex' rules do exist. Currently, companies can't repatriate without RBI's permission.

In fact, employment opportunities will increase substantially because there will be more companies endeavouring to do insurance business. The new companies will have an immediate need for qualified people.

GIC has done a reasonably good job of introducing some new products in the recent years, but there has been very little innovation in the sector in general. With the advent of competition,
many new products will be introduced in the market and customers will benefit from more value and options as a result. Insurance companies have started moving towards providing better services and more choices to customers, but that was also from the fear of private competition that has prompted them to do so. Efficiency and transparency will be the name of the game when the industry opens up to private competition.

Foreign insurers have a reputation and credibility, which, in some cases such as the Principal Financial Group, goes back to over 120 years. Most of the foreign insurers who are coming to India have spent many years in establishing businesses in many countries around the world. Millions of customers around the world trust them with their money. With an able regulator such as the IRDA, in place in India, no one should doubt the trust and credibility that has taken centuries to establish in many countries around the world.

The entry of private players will allow the government to access more capital for its needs of developing infrastructure and also develop the debt market further. Currently, there are only four or five institutional debt market players in the country. This does not allow the debt market to be liquid and provide for more productive
resources. The entry of private players will broaden this market and allow the government to source and mobilize capital more widely.

The pension industry in the US is growing at an average rate of 18 percent per annum. There is enormous growth in the pension area in Chile, Argentina, Mexico, Spain, Hong Kong and China, but growth in the pension area in India is too low.

Taking these facts into account, it could be said without doubt that it was high time for India to liberalize its insurance sector.

The opening of the sector will have manifold advantages. It will enable the country to save more and invest more for development of infrastructure. The new insurance intermediaries and distribution channels will develop the insurance market by leaps and bounds. In the next few years it is expected that the Indian insurance sector will develop better understanding of consumer requirements leading to more satisfaction of the customer. The world-class technology will be available in the market, bringing about tremendous improvement in servicing. Choices of prices will be available to the customers. It will also lead to an increase in employment. Social and rural obligation will also be served as IRDA has come out with clear regulations in this regard, which make the development in this
area mandatory. Global competitors will help in building expertise with their best global practices. New entrants with a professional approach and state of art technology will revolutionize the market. Insurance broking has not been in vogue but this new brand of intermediaries will be introduced in the new environment.

The insurance sector has a long history in India. It began in the early years of the 19th century. The first legal enactment was made in 1870. The first Indian Insurance Act was passed in 1938 and amended in 1950, when it was nationalized. However the sector was once again open to the private sector in December 1999, followed by the establishment of the Insurance Regulatory and Development Authority (IRDA) in April 2000. In the process of reforms India was quiet reluctant about opening insurance sector. As mentioned earlier the Malhotra committee under the supervision of R N Malhotra submitted it’s report on 7th January 1994, it was only in the year 2000 that the Indian government allowed private participation in this sector. Foreign companies were allowed to invest in India in collaboration with Indian partners, having their investment-limited upto 26 percent.
The Indian Insurance market registered the highest growth in the Asian region even though India’s share of global insurance premium is less than 0.5 percent (1998) compared with the US 24.4 percent and Japan 21 percent. Studies have revealed that in emerging markets, as disposable income rise, insurance premium as a ratio of gross domestic product shoots up. The confederation of Indian Industry has projected growth of life insurance from Rs. 350 billion to Rs. 1400 billion by 2009 and pension funds from Rs. 10 billion to Rs. 140 billion. The growth in non-life premiums is expected to increase from Rs.75 billion to Rs 375 billion. Out of this 10 percent has been tapped by the existing insurers.

Industry experts agreed with the Malhotra committee report that while the coverage of insurables doubled from 10 percent in 1971 to 20 percent in 1992, there was still vast untapped potential. They argue that despite the good record of both LIC and GIC, their premium was still 2 percent of GDP, which is among the lowest in the world. Per capita insurance premium in India is less than US $ 5 (about Rs. 218). According to former president of Federation of Indian chambers of commerce and industry (FICCI), Sudhir Jalan, about 300 million people can be brought under insurance cover
which would constitute only 30-40 percent of the population and US $ 8-10 billion can be collected as premium in the next 10 years.

India’s growing economy has burgeoning middle class population, yet its’ contribution in the economic growth is low as compared to developed nations. The insurance sector is regarded as the engine of growth as it is the source for long-term funds vital for the development of the infrastructure. But this has not happened in India as it should have happened.

The health insurance market alone has a potential to grow upto Rs.120 billion which covers 2.5 million lives, admits Mr. B.D.Banerjee managing director, General Insurance Corporation. Health security is basic aspiration of the masses. And more so in a country like India where disease and death strike with an alarming regularity. Only 10 percent of the health insurance market has been tapped, while the total expenditure on health is close to 6 percent of India’s GDP. There exists a vast insurable population, with currently, only 2 million people - which is 0.2 percent of the total population - covered under Mediclaim. It is estimated that there are 315 million potentially insurable lives in the country and with
health insurance developing 6 percent of the household income will be spent on the healthcare, up from current 2 percent.

New schemes for better penetration and credible institutions are required. Dr. Naresh Trehan, executive director Escorts Heart Institute and Research centre, says, “health insurance should be a mandatory part of any job. Employees should be encouraged to go in for Health schemes as well as policies provided by the insurance companies. Opportunities in health insurance for the insurance companies lie in group insurance schemes. Emergence of intermediaries will assist in increasing the coverage and improving the quality of overall medical service providers. The potential is immense, but the absence of infrastructural facilities has forced the health insurance in India to remain in its infancy.

Pension as social security scheme is ageing. Reforms and a wider net are needed for informal sector workers. According to a study done by FICCI, the lack of comprehensive social security system coupled with a willingness to save means that Indian demand for pension products will be large. Pension benefits are available to employees in organized sectors like the government and private. At present there is no pension benefit for self-employed and
agricultural workers in the unorganized sector. Current penetration level is poor. By March 1998, the life insurance corporation of India’s (LIC) pension premium was only Rs.100 crore. Making pension products into attractive saving instruments would require only simple innovations already common in foreign markets.

Currently personal insurance including health, householder, and accident constitutes 12 percent of Indian general insurance premium. This poor figure is largely due to the lack of adequate distribution channel rather than lack of products. By tapping such under-served niches new entrants can expand the market substantially. Since service and speed will be valued, a price premium is also possible.

The second prong of a new insurers strategy could be to stimulate demand in areas that are currently not served at all. For example, Indian general insurance focuses on the manufacturing segment. However, the services sector is taking a large and growing share of India’s GDP. This offers expansion opportunities.

The financial sector is aggressively targeting retail investors. Housing finances, auto finance, and credit cards all offers an opportunity for insurance companies to introduce new products.
Organized sector sale of TVs, Refrigerator etc., are rarely insured. Potential buyers for most of this lie in the middle class. New insurers must segment the market carefully to arrive at appropriate products and pricing. Existing players can also profitably exploit these areas.

Most of the opportunities that have been discussed above apply equally to the existing and new players. All insurers will have to leverage information technology to their best advantage to help reduce distribution costs and serve their customers efficiently. Technology will play a strategic role in providing a competitive edge – be it in aiding design and administering of products and building life long customer relationships. Technology will help enhance services, ensure effective and efficient service delivery and lead to greater customization of products and greater transparency. Most insurance firms today have set up national level call centers, interactive voice response systems and the websites which provide interactive tools to help customers in their planning needs. Technology will facilitate and help create brand positioning. It will bring millions of dollars worth business and savings. It would be a great enabler and it has to be used to provide link between a
customer and an agent through portals. Technology has helped to create myriad value added services like e-mail, calculators and a virtual office for the users and it seeks to be a great facilitator for the agents and customers in far flung areas. Besides, it also helps to conduct the Insurance Regulatory and Development Authority (IRDA)- approved training programme online and offline – more systematically and efficiently.

The latent demand foreseen in the Indian Market and the success of liberalized markets in other emerging economies makes this a great opportunity not to be missed.

**CAUSES OF LOW PENETRATION**

Insurance penetration measured as the ratio of insurance premium to GDP in India is estimated to be well below 3 percent whereas the world average is around 8 percent. Therefore there is a lot of scope for the new entrants to grow in terms of size and volume. Low penetration of insurance in India can be attributed to the following factors;

1. **The apathy of the state run system.**

   State owned insurance companies were to be blamed for their ownership. Lack of goodwill and low after sales services being
the common feature of any public sector insurance organizations was no exception. No proper attention was given even to very genuine problems. One has to have connectivity with the higher ups of the organization to get a claim settled to satisfaction. To get a claim settled one has not only to be aware of all the processes but will also have to oblige the employees concerned. For organizational employees, collection of premium was supposed to be the only motto, ignoring the customer services.

2. **Poor Customer Services.**

Insurance agents and development officers were mainly interested in procuring new business. Incentives were generally based on new business, which induced agents and officers to get new business. Servicing existing customers satisfactorily was ignored. This resulted in dissatisfied customers blocking further business expansion. Very often prospective customers were lured by false explanation of the policy or hiding the facts of the policy.
3. **High Insurance Premium.**

Premium charged by the Public Sector companies of India was largely high enough when compared with the standard premiums in international market. The fixation of premium in India is not very scientific and largely based on the obsolete data available with the organization. This necessitates adhocism in premium fixation. This ultimately leads to fixation of premium at a much higher rate.

4. **Complex nature of insurance products.**

The nature of insurance products is too complex to be understood by a layman. To understand its technicalities one needs help of agents and other insurance officials. Many times it happens that a potential customer gives up in mere frustration saying why shall I buy, when I don’t know what exactly the product is.

5. **Lack of customer friendly products.**

Insurance companies in pre-liberalized scenario, created products, which mostly suited them irrespective of finding out the needs of the customers. There was a dearth of innovative and buyer friendly products. State owned insurance companies
were ignorant of the customers needs since they had a monopoly in this sector and had no fear of loosing the market to competitors. It won’t be wrong to say that an insurance product was a forced choice and in some cases (motor-insurance), it is mandatory.

6. Poor Marketing.

The notion of marketing insurance products in India has never gone beyond the perfunctory ad release in newspapers or some sales person landing on the targeted doorsteps. In non-life sector, it is only the mandatory staff, which existed, hardly ever taking up the marketing functions. Due to the lack of competition, the monolith with it’s four subsidiaries showed no interest in educating the consumers about the insurance products, increasing the consumer awareness, introducing new products and taking other marketing functions. It was only after the liberalization that consumer awareness programs were undertaken. Electronic and print media is being used to propagate the insurance. Messages are being conveyed even in regional languages. IRDA shall also be allocating lots of funds every year for the above said purpose so as to make insurance a matter of habit.
7. **Ignoring Rural Market.**

Approximately 72 percent of the India's populations live in rural India. Insurance companies are reluctant in investing money in rural areas for fear of loss. But research conducted by FORTE (Foundation of Research, Training and Education in Insurance) reveals other way showing great opportunity for the private players in the rural market. While competition in urban areas is often cut-throat and unhealthy, rural markets are characterized by milder competition. It is obvious that the policies in rural markets will be of relatively smaller amounts but this will be compensated by a larger number than in the urban areas. It is imperative to identify the right agents to harness the full potential of the vibrant and dynamic rural markets.

The rural insurance should be looked upon as an opportunity and not as an obligation. It is important to take advantage of the immense potential that resides in the rural sector. Marketing to the poor is all about the understanding the requirements of the customers and satisfying them profitably. A bundle of innovative products and an efficient delivery
system are two aspects that have developed in order to penetrate the rural markets. It is essential to address the issues of social security policies and risk management both in the urban and rural sector of India. Although the rural sector presents a number of challenges, it will also provide great opportunities. It is also imperative to tap into the immense knowledge base that exists with public banks and insurance players that have been operating in the rural areas.

8. **Inadequate training of the agents.**

In the pre-liberalized period, there was hardly any training program for the agents. The development officers acted in myopic way and merely interested in incentives than in training the agents, which could yield tangible results in the long run. High turnover of agents was common phenomena. It is only after liberalization that Insurance regulatory and Development authority (IRDA) has laid norms for an insurance agents. It has stipulated that all insurance sales agents have to go through 100 hours of training and clear an examination conducted by Insurance Institute of India. While the IRDA-specified syllabus will obviously look to deliver an edge over others, many
companies are also offering customized training for specific clients and upgrading their courses beyond the mandatory 100 hours. RNIS College of insurance took an early plunge into insurance training and launched the offline version of the IRDA-approved training program in December 2000. Till now the institute has trained over 3500 agents through it’s centers in Chennai, Bangalore, Mumbai, Delhi and Chandigarh.

9. **Low disposable income.**

India being a developing country has low per capita income. The families are generally large with low income hardly enough to meet the basic needs, leaving them with either low or no extra disposable income. Indeed voluntary protection coverage seeking behaviour is rare even in the middle class.

10. **Joint family system.**

Joint family system in India has since long acted as an informal insurance mechanism, with family members coming to the rescue of the members of the family suffering with specific loss. This system is still prevalent in semi-urban and rural India.
11. Low rate of Literacy.

Low rate of literacy has been also responsible for the low level of penetration. India’s literacy rate is just half of its total population which is around 52 percent. It makes tuff job for the agents and officers of insurance to convince these illiterate heads.

The above said reforms have paved way for private sector players in general insurance business. Comparative open and competitive environment has generated enough heat and have encouraged various players to flux their organizational muscles so as to penetrate deeper in the market and skim the cream parallelly. Thus the next chapter makes a performance assessment of various public and private organizations in the restructured and competitive environment for the general insurance business.