Chapter - I Introduction

1.1 The Background

The most important thing for people is the protection of their lives and their assets. Whenever one thinks about the security of his assets, the thought of general insurance comes to his mind. This is obvious because every asset is an economic resource and has economic value.

Therefore, the people think about general insurance because the business of general insurance is related to the protection of the economic values of their assets.

“Every asset is expected to perform for a certain period of time; however, in some cases it may get lost earlier, destroyed or made non-functional for various reasons such as accidents, thefts or other unfortunate events. In such cases, the general insurance helps to reduce the impact of such adverse situations. If the asset gets lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits there from, suffer. General Insurance is a mechanism that helps to reduce such adverse consequences”.

Insurance other than ‘Life Insurance’ falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary, other immovable property etc.

General Insurance companies have products that cover property against fire and allied perils, floods, storm and inundation, earthquake and so on. These companies also offer policies covering machinery against breakdown.

There are policies that cover the hull of ships and so on. A Marine Cargo policy covers goods in transit including by sea, air and road. Further, general insurance of motor vehicles against damages and theft forms a major chunk of General Insurance business.
“The concept of general insurance is intimately related to security. General Insurance acts as a protective shield against risk and future uncertainties”.\textsuperscript{2}

Health insurance covers offered by General Insurance companies are mainly hospitalization covers either on reimbursement or cashless basis.

The cashless service is offered through Third Party Administrators, who have arrangements with various service providers, i.e., hospitals.

The Third Party Administrators also provide service for reimbursement claims. Sometimes the insurers themselves process reimbursement claims.

Accident and health general insurance policies are available for individuals as well as for groups. A group could be a group of employees of an organization or holders of credit cards or deposit holders in a bank etc. Normally when a group is covered, insurers offer group discounts.

Liability general insurance covers such as Motor Third Party Liability Insurance, Workmen’s Compensation Policy etc. offer cover against legal liabilities that may arise under the respective statutes— Motor Vehicles Act, The Workmen’s Compensation Act etc. Some of the covers such as the foregoing (Motor Third Party and Workmen’s Compensation policy) are compulsory by statute.

Liability Insurance not compulsory by statute is also gaining popularity these days. Many industries insure against Public liability. There are liability covers available for Products as well.

“Liability general Insurance is one of the most popular because it costs much less than many other options. For example, in regard to auto general insurance policies, liability insurance costs far less than full coverage. The reason for this is because full coverage insurance must pay for both your vehicle and any other vehicle involved in a collision, as well as property damage and medical expenses due to injuries to you or another party”.\textsuperscript{3}

On the other hand, liability general insurance is only responsible for the other party’s losses. Your person and your property are unprotected, but liability
insurance protects you from being held responsible for the other party’s damages.

“Liability general Insurance does not protect against liability resulting from crimes or intentional torts committed by the insured. This is intended to prevent the criminals.”

There are general insurance products that are in the nature of package policies offering a combination of the covers mentioned above. For instance, there are package policies available for householders, shop keepers and also for professionals such as doctors, chartered accountants etc. Apart from offering standard covers, insurers also offer customized or tailor-made ones.

Suitable general Insurance covers are necessary for every family. It is important to protect one’s property, which one might have acquired from one’s hard earned income. A loss or damage to one’s property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc. have left many homeless and penniless. Such losses can be devastating but general insurance could help mitigate them. Property can be covered, so also the people against Personal Accident.

A Health general Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury.

Industries also need to protect themselves by obtaining general insurance covers to protect their building, machinery, stocks etc. They need to cover their liabilities as well. Financiers insist on general insurance. So, most industries or businesses that are financed by banks and other institutions do obtain covers.

Also organizations or industries that are self-financed should ensure that they are protected by general insurance.

“As per SHCIL, General Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party.
on happening of an uncertain event or to indemnify the other party on happening of an uncertain event in case of general insurance.

General Insurance is, therefore, a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium to pay the other party on happening of a certain event i.e., losses suffered by the insured as a result of the occurrence of unforeseen events.

With the help of General Insurance, large number of people exposed to a similar risk make contributions to a common fund out of which the losses suffered by the unfortunate few, due to perils/accidental events, are made good.

The main reason for assets to be insured is that they are likely to be destroyed or made non-functional mainly through accidents. Such possible accidental occurrences are called perils.

The different types of perils are Fire, floods, breakdowns, lightening, earthquakes etc. There always exist the risks to these assets, which can cause damages. These damages happen due to these various perils.

The damages that these perils may cause to the assets, is the risk that the asset is exposed to. The concept has been extended to cover possible losses other than through accident, like the deliberate behaviours of employees committing fraud, robbery, burglary etc., which are also risks. These risks are not within the control of the owner of the lost asset. "The risk only means that there is a possibility of loss or damage. There is always uncertainty about the risk. It may or may not happen."

Taking into account that a particular damage may happen, the general insurance becomes a necessity or protection factor. General Insurance is relevant only if there are uncertainties. If there is no uncertainty about the occurrence of an event, it cannot be insured against. General Insurance does not protect the asset. At the same time, the general insurance cannot prevent the loss to the assets that has caused due to the perils.
Also the perils cannot be avoided through the general insurance. The people depend on the assets and the general insurance only tries to reduce the impact of the risk on the owner of the asset and those who depend on that asset. *It compensates the losses to the assets, which, may not be fully.*

The general insurance can compensate only the economic or financial losses. Therefore, the general insurance covers the losses to the people who take general insurance covers for them and their property. They can avail this protection by paying premium to the general insurance company of their choice.

A pool is created through contributions made by persons seeking to protect themselves from common risk. Premium is collected by the general insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool.

*General Insurance works on the basic principle of risk sharing. A great advantage of general insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.*

Insurance business is broadly classified into two groups. Life insurance deals with all insurances covering human lives. *Non-life or general insurance* deals with insurance covering non-life objects like animals, agricultural crops, goods, factories, cars etc. Non-life insurance also covers losses through individual behaviours like fraud, burglary, non-fulfilment of promises (in case of repayment of mortgage loans), professional negligence by doctors etc.

“One important note when it comes to general insurance and property protection, only the real value of the property can be purchased in the form of an insurance policy. If someone were to take out a policy of greater value, risk of being charged with a hefty fine is likely. By law, general insurance coverage cannot be more than actual value so in this case, there could be some legal consequences.”

General Insurance policies are mostly short periods of one year. The claim has to arise in that one year. However, there are some policies where the liability of
the insurer may be known long after the policy term is over. For example, illness contracted at work may become manifest a few years later, creating a claim. *In case of general insurance the rebate in income tax is available only in case of Mediclaim policies and not on any other general insurance product.*

Every asset has a value. This value may be the price at which it is purchased, which can be called as cost value or the price at which it is likely to be sold, which can be called as the market value.

The general insurance cover can be taken which is limited only to this value. It cannot be higher. This is because of the principle that *the business of general insurance is designed to make good losses and not to provide benefits or profits.* In other words, general insurance indemnifies a person against loss. It does not prevent the loss. It only compensates.

The entire world has understood the importance of general insurance and the general insurance business has become an important part of the country's economy. The reason for this is that the general insurance companies are controlling a large amount of funds. They are having large amount of funds. Being so, they are always looking for opportunities for investing these huge amounts somewhere. As a reason of this, the government is also looking at them for financial support.

### 1.2 The Purpose of the Study

The General Insurance Corporation of India was incorporated as a company in 1971 and it commenced business on January 1st 1973. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially.

“The Government accepted the recommendations of RN Malhotra committee”⁸ and opened up the sector for private sector. With the entry of private insurance companies and liberalization of Indian economy the competition has become fierce.
The competition is not only between public sector and private sector companies but even public sector and public sector also. Companies in both these sectors are using latest technology for providing best service to customers.

Also companies in both the sectors have huge financial resources to manure themselves with the changed situation.

All the four public sector general insurance companies have their offices in Pune city and a number of private sector general insurance companies also have their offices in this city.

All these public sector general insurance companies had monopoly in this field before the entry of private general insurance companies. But now, it has become buyers’ market instead of sellers’ market.

Though there is a change in the situation, problems of public sector general insurance companies have still remained, but the nature of the problems has been changed significantly.

It is also essential to understand the situation after the entry of private sector into this field. By carrying out the study work, the different ways could be found out and seen whether the style of managing needs to be changed or it is the old philosophy or the professional approach that requires to be changed.

In future, it is expected that more and more private general insurance companies will enter the Indian market. The entry of the private sector companies is inevitable.

Public sector general insurance companies in India are facing several problems, such as ever increasing cut-throat competition, poor response and awareness from the customers, rigid management approach and policies towards customers, staff, surveyors, integrity and loyalty of the surveyors is often at stake, problems regarding over-staffing and procedural delays etc.

The present research work is undertaken to study the problems and prospects of the public sector general insurance companies and suggest remedial measures. It is expected that the Indian economy will continue to grow at the rate of at least
7 to 7.5% in future. This gives us the idea of the scope of the general insurance network and how fast it will continue to grow. This also shows that in India the prospects of the general insurance industry are very good. Looking at the new entries in this sector, it is very clear that yet a large number of companies will enter the Indian market and the scope will keep on increasing. The income levels of the people are rising and also the availability of finance is also there. Moreover, the lifestyle and aspirations of the people is also changing. This is certainly going to increase the demand for general insurance by people in future. It will thus, be interesting to study the problems as well as prospects of the public sector general insurance industry.

1.3 Objectives of the Study

The research has progressed with the following objectives and therefore these are the main objectives of the study:

1. To find out the customer awareness about the public sector general insurance companies
2. To know the impact of the public sector general insurance companies on the policy holders in financial terms
3. To study the marketing strategies of the public sector general insurance companies
4. To study the policy holders’ opinion about the public sector general insurance companies
5. To study the effects of Government policies on the business of the public sector General insurance companies
6. To study the future prospects of the public sector general insurance companies
7. To suggest the remedial measures for solving the problems of the public sector General insurance companies
1.4 Hypothesis

1. There is significant relationship between qualification of policy holders and awareness of the terms and conditions of the policy that they have taken

2. The public sector general insurance companies in India have good prospects

3. The response and awareness of the customers towards the insurance business are poor

4. Because of globalization there is ever increasing competition between all the insurance companies for business

5. There is significant relationship between level of management and awareness of the terms and conditions of the policy that they have taken

6. The public sector general insurance companies have been facing various problems in their day to day business

7. There is more awareness in the urban area about the general insurance business

8. Liberalization has affected the business of public sector general insurance companies

9. The public sector general insurance companies need to improve the quality of service

10. Proper training to the management personnel and the staff will attract more business

11. Rotation/Transfer policies of the companies are complicated and not acceptable by majority of employees
1.5 Reasons for choice of the topic

The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. Till then, there existed only public sector general insurance companies, who enjoyed the monopoly status and operated in the so called sellers’ market.

The situation has changed because of liberalization and it has now become buyers’ market. It is very interesting to note that a large number of companies have entered the Indian market since then. It is like these companies were in queue and just waiting for the market to be opened up by the Indian government. It is interesting to study as to why these companies are so interested in Indian market? What is that which is attracting them?

General Insurance is such a thing that not only the companies are attracted towards it but the people are also very much curious about the same, since almost everyone has come across this concept as everyone has to take the general insurance cover at some stage in his life. So why it is at all required and why some policies have been made compulsory by the government etc. are some of the points which make it interesting to study. There always exists a curiosity in the minds of everyone about the whole concept, but at the same time, only a few are interested in studying the subject in depth.

The government is interested in the quality of life of people and also about the safety of the people. Hence it has introduced the vehicle insurance as compulsory for safety and Mediclaim policy (not mandatory) for health of the people. It is really interesting to study as to how these policies work. How in a small premium the economic safety and health facility is taken care of by the government?

In general, the subject of general insurance and to be precisely the topic chosen has been found very interesting by the researcher.
1.6 The Public Sector General Insurance Business in Pune City

The general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations and their operations were restricted to organized trade and industry in large cities. The General Insurance Business (Nationalization) Act, 1972 nationalised the general insurance business in India with effect from January 1, 1973. These companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC).

In 1993, the first step towards the general insurance sector reforms was initiated with the formation of Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra. The committee was formed to evaluate the Indian insurance industry and recommend its future direction with the objective of complementing the reforms initiated in the financial sector.

Today, all the public sector general insurance companies have their offices in the city of Pune. These companies are as under:

1. Oriental Insurance Company Ltd.
2. United India Insurance Company Ltd.
3. New India Assurance Company Ltd.