Chapter II- Main Body of the Project Work

2.1 Review of Literature and analysis of previous research

This chapter reviews existing academic literature on the research topic. The purpose of the review is to provide a background to and justification for the research undertaken. An evaluation of contributions in theoretical literature and empirical studies provides a rich insight essential for understanding the work which is undertaken.

The concept of general insurance has been prevalent in India since ancient times. Overseas traders practiced a system of marine insurance. The joint family system, peculiar to India, was a method of social insurance of every member of the family on his life. The law relating to insurance has gradually developed, undergoing several phases from nationalization of the insurance industry to the recent reforms permitting entry of private players and foreign investment in the insurance industry.

The Constitution of India is federal in nature in as much there is division of powers between the Centre and the States. Insurance is included in the Union List, wherein the subjects included in this list are of the exclusive legislative competence of the Centre. The Central Legislature is empowered to regulate the insurance industry in India and hence the law in this regard is uniform throughout the territories of India.

General Insurance is the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance policy.

The general insurance rate is a factor that determines the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of the study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to
the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a large, possibly devastating loss.

The insured receives a contract called the general insurance policy which details the conditions and circumstances under which the insured will be compensated.

“In law and economics, general insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss”\(^9\).

Risk management is very important for general insurance industry. General Insurance means that general insurance companies take over risks from customers. Insurers consider every available quantifiable factor to develop profiles of high and low insurance risk. Level of risk determines insurance premiums.

Generally, general insurance policies involving factors with greater risk of claims are charged at a higher rate. With much information at hand, insurers can evaluate risk of insurance policies at much higher accuracy. To this end, insurers collect a vast amount of information about policy holders and insured objects. Statistical methods and tools based on data mining techniques can be used to analyse or to determine general insurance policy risk levels.

Although general insurance has existed for thousands of years, it is only over the last 100 or so years that the general insurance industry has really taken shape into the form that we recognize today.

**The development and growth of the general insurance industry in India has gone through three distinct stages:**

1) **Formation of the general Insurance Industry in India**

General insurance has its origins in the United Kingdom. The first general insurance company Triton Insurance Company Ltd. was promoted in 1850 by British nationals in Calcutta.

The first general insurance company established by an Indian was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. Eventually, with the growth of fire, accident and marine insurance, the need was felt to bring such
kinds of insurance within the purview of the Act of 1912. While there were a number of attempts to introduce such legislation over the years, general insurance was finally regulated in 1938 through the passing of the Insurance Act, 1938 (“Act of 1938”). The Act of 1938 along with various amendments over the years continues till date to be the definitive piece of legislation on insurance and controls both life insurance and general insurance.

General insurance, in turn, has been defined to include “fire insurance business”, “marine insurance business” and “miscellaneous insurance business”, whether singly or in combination with any of them.

2) Nationalization of the General Insurance Business in India

“The general insurance business was nationalized with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalization) Act, 1972 (“GIC Act”)”\(^\text{10}\). Under the provisions of the GIC Act, the shares of the existing Indian general insurance companies and undertakings of other existing insurers were transferred to the general Insurance Corporation (“GIC”) to secure the development of the general insurance business in India and for the regulation and control of such business.

The GIC was established by the Central Government in accordance with the provisions of the Companies Act, 1956 (“Companies Act”) in November 1972 and it commenced business on January 1, 1973. Prior to 1973, there were a hundred and seven companies, including foreign companies, offering general insurance in India.

These companies were amalgamated and grouped into four subsidiary companies of GIC viz. the National Insurance Company Ltd. (“National Co.”), the New India Assurance Company Ltd. (“New India Co.”), the Oriental Insurance Company Ltd. (“Oriental Co.”), and the United India Assurance Company Ltd. (“United Co.”).
The bulk of the general insurance business of fire, marine, motor and miscellaneous insurance business is undertaken by these four subsidiaries. The argument behind opening up of the sector was consumer-centric, which claimed that opening up insurance would give better products and service to consumers.

*Those, who were not in favour of opening up of the sector or the privatization of the sector argued that in a poor country like India insurance needs to have social objectives and newcomers, will not have that commitment.*

*The benefits of Nationalization can be summarized as follows:*

a) Distribution  
b) Variety of Product  
c) Trust and Faith  
d) Large Work force of Agent

*Despite all these achievements, coverage by general insurance is still lower in India as compared with other countries, may be due to:*

- The awareness level is low for general insurance products  
- The commission structure was not very attractive for good agents to survive on a full time basis  
- The distribution channels were not responsive to customer needs  
- Their knowledge was not adequate  
- Customer service needed improvement  
- In particular, personal lines of business did not get adequate attention

3. Entry of Private Players

GIC, with its four subsidiaries, enjoyed the monopoly for general insurance business. From 1991 onwards, the Indian Government introduced various reforms in the financial sector paving the way for the liberalization of the Indian economy. It was a matter of time before this liberalization affected the insurance sector. A huge gap in the funds required for infrastructure was felt particularly
since much of these funds could be filled by life insurance funds, being long tenure funds.

Consequently, in 1993, the Government of India set up an eight-member committee chaired by Mr. R. N. Malhotra, a former Governor of India's apex bank, the Reserve Bank of India to review the prevailing structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory system.

The Committee submitted its report to the Indian Government in January 1994. Two of the key recommendations of the Committee included the privatization of the insurance sector by permitting the entry of private players to enter the business of life and general insurance and the establishment of an Insurance Regulatory Authority.

It took a number of years for the Indian Government to implement the recommendations of the Malhotra Committee.

The Indian Parliament passed the Insurance Regulatory and Development Act, 1999 ("IRD Act") on December 2, 1999 with the aim “to provide for the establishment of an Authority, to protect the interests of the policy holders, to regulate, promote and ensure orderly growth of the insurance industry and to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972."\(^{11}\)

**Insurance Regulatory and Development Authority (IRDA)**

"The Insurance Regulatory and Development Authority (IRDA) is a national agency of the Government of India, based in Hyderabad. It was formed by an act of Indian Parliament known as IRDA Act 1999, which was amended in 2002 to incorporate some emerging requirements."\(^{12}\)

The mission of IRDA as stated in the act is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto." In 2010, the Government of India ruled that the Unit Linked Insurance Plans (ULIPs) will be
governed by IRDA, and not the market regulator Securities and Exchange Board of India.

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA

Protection of the interest of policy holders

IRDA has the responsibility of protecting the interest of insurance policyholders. Towards achieving this objective, the Authority has taken the following steps:

IRDA has notified Protection of Policyholders Interest Regulations 2001 to provide for: policy proposal documents in easily understandable language; claims procedure in both life and non-life; setting up of grievance redressal machinery; speedy settlement of claims; and policyholders’ servicing. The Regulation also provides for payment of interest by insurers for the delay in settlement of claim.

1. The insurers are required to maintain solvency margins so that they are in a position to meet their obligations towards policyholders with regard to payment of claims.

2. It is obligatory on the part of the insurance companies to disclose clearly the benefits, terms and conditions under the policy. The advertisements issued by the insurers should not mislead the insuring public.

3. All insurers are required to set up proper grievance redress machinery in their head office and at their other offices.

4. The Authority takes up with the insurers any complaint received from the policyholders in connection with services provided by them under the insurance contract.

The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at "creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms…"
“In 1994, the committee submitted the report and some of the key recommendations included”\(^3\):

1) Structure

a) Government stake in the insurance Companies to be brought down to 50%.
b) Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
c) All the insurance companies should be given greater freedom to operate.

2) Competition

a) Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the industry.
b) No Company should deal in both Life and General Insurance through a single entity.
c) Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
d) Postal Life Insurance should be allowed to operate in the rural market.
e) Only One State Level Life Insurance Company should be allowed to operate in each state.

3) Regulatory Body

a) The Insurance Act should be changed.
b) An Insurance Regulatory body should be set up.
c) Controller of Insurance (Currently a part from the Finance Ministry) should be made independent.

4) Investments

a) Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%.
b) GIC and its subsidiaries are not to hold more than 5% in any company (There current holdings to be brought down to this level over a period of time).
5) Customer Service

a) LIC should pay interest on delays in payments beyond 30 days.

b) Insurance companies must be encouraged to set up unit linked pension plans.

c) Computerization of operations and updating of technology to be carried out in the insurance industry. The committee emphasized that in order to improve the customer services and increase the coverage of the insurance industry should be opened up to competition.

But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crores. The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body.

Major Policy Changes

Insurance sector has been opened up for competition from Indian private insurance companies with the enactment of Insurance Regulatory and Development Authority Act, 1999 (IRDA Act). As per the provisions of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holder of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry. IRDA Act 1999 paved the way for the entry of private players into the insurance market which was hitherto the exclusive privilege of public sector insurance companies/corporations.
Under the new dispensation Indian insurance companies in private sector were permitted to operate in India with the following conditions:

a) Company is formed and registered under the Companies Act, 1956;

b) The aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed 26%, paid up equity capital of such Indian insurance company;

c) The company's sole purpose is to carry on life insurance business or general insurance business or reinsurance business.

d) The minimum paid up equity capital for life or general insurance business is Rs.100 crores.

e) The minimum paid up equity capital for carrying on reinsurance business has been prescribed as Rs.200 crores.

The Authority has notified 27 Regulations on various issues which include Registration of Insurers, Regulation on insurance agents, Solvency Margin, Reinsurance, Obligation of Insurers to Rural and Social sector, Investment and Accounting Procedure, Protection of policy holders' interest etc.

Applications were invited by the Authority with effect from 15th August, 2000 for issue of the Certificate of Registration to both life and non-life insurers. The Authority has its Head Quarter at Hyderabad.

Important Milestones

The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again.

Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost two centuries.

Some of the important milestones in the general insurance business in India are:

1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.

1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.
1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.


All the private insurers were amalgamated and grouped into four companies, viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

The National Association of Insurance Commissioners (NAIC)

a) “The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members”\(^\text{14}\):

b) Protect the public interest;

c) Promote competitive markets;

d) Facilitate the fair and equitable treatment of insurance consumers;

e) Promote the reliability, solvency and financial solidity of insurance institutions; and

f) Support and improve state regulation of insurance.

In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries.

Insurance News Updates for India

Almost two years after the UPA government referred the “Insurance Amendment Bill aimed at raising the foreign direct investment cap in the sector from 26% to 49%to a Group of Ministers (GOM), the panel finally paved the way for the Bill to be introduced in Parliament”\(^\text{15}\).
Besides increasing the foreign investment cap, other proposed amendments would allow Indian promoters to continue to hold a majority stake in insurance companies. They would also allow public sector non-life insurers to sell a minority stake to raise capital. The proposed revisions would enable foreign reinsurance companies to enter the Indian market as well.


*The terms viz. General Insurance and Risk Management have been defined by various authors, researchers, scholars but no any particular definition has been universally acceptable.* There are number of books, articles and journals on the subject and the efforts have been made to try to reach and refer maximum academic literature possible on the research topic. Below is the extract of the work done on literature review:


It states further that to study insurance properly, it is necessary to study exposures to loss and all the techniques that can be used to handle those exposures.

John Hanson & Christopher Henley in their book, “All Risks Property Insurance”, published in the year 1995, published by Lloyd’s of London Press Ltd., 1st edition has intended to focus attention on the all risks property insurance, which has developed very recently. The concept of taking general insurance covers for the property is relatively a new concept. But it is expected that more and more people will show their interest for this type of insurance

Inc., the concept of risk has been described uncertainty concerning the occurrence of a loss. They have also described the concept of objective risk as the relative variation of actual loss from expected loss. The book discusses various changes.

This edition provides complete and current coverage of the major areas in risk management and insurance. It also places primary emphasis on insurance consumers and blend basic risk management and insurance principles with consumer considerations. It addresses personal risk management and financial planning.

George L. Head and Stephen Horn II, in their book “Essentials & Risk Management,” II edition, published by Insurance Institute of America, in the year 1991, describes risk management as a managerial or administrative process that includes four functions of planning, organizing, leading and controlling activities of an organization in order to minimize the adverse effects of accidental losses on that organization at reasonable cost. It tries to explain as to how the basic principles of management will help in controlling the risk and try to avoid the same.

Dan Borge, in his book, titled “The Book of Risk Management,” published by John Wiley & Sons Inc., in the year 2001, states risk management is absolutely riveting for it is a way to gain more power over events that can change your life. Risk Management can help you to seize opportunities, not just to avoid danger. It tells how to gain power to have control over the events. Once you get this power, you can manage the things in a better way. In this process, one can come across various opportunities which one must utilize to manage the risks.

Peter Field, in his book, titled “Modern Risk Management – A History”, published by Risk Books, a division of Incisive RWG Ltd., in the year 2003, has highlighted the key elements in this amazing growth (of both risk management and the derivations products that largely underpin that business but it’s worth putting perspective at the outset how radically the world has changed since the early
days). It describes in detail development of the theories, methodologies and products used by institutions to manage risks.

In the book “Principles & Practices of Insurance & Survey & Loss Assessment,” first edition, published by Insurance Institute of India, in the year 2003, the risk has been described as the exposure to events which cannot be predicted with absolute certainty which is thought of as risk.


B.S. Bodla, M.C. Garg & K.P. Singh, in their book, “Insurance – Fundamentals, Environment & Processes,” published by Deep & Deep publications in the year 2003, have described insurance to be that in which a sum of money as a premium is paid by the insured in consideration of the insurer’s bearing the risk of paying a large sum upon a given contingency.

They have further defined the insurance more specifically as a contract wherein one party (the insurer) agrees to pay to the other party (the insured) or his beneficiary, a certain sum upon a given contingency (the risk) against which insurance is required.

Prof. G.C.A. Dickson, in his book, “Corporate Risk Management,” second edition, published by Witherby & Co. Ltd. and was specially published for The Institute of Risk Management, in the year 1995, has described the risk management as the identification, analysis & economic control of those risks which can threaten the assets or earning capacity of an enterprise.

Mark S. Dorfman, in his book, “Introduction to Insurance,” third edition, published by Prentice-Hall Inc., in the year 1987 has defined the insurance as it is the financial arrangement that redistributes the costs of the unexpected losses. The insurance arrangement involves transfer of money difference exposures to loss to one insurance pool, which combines the numerous exposures.
In the journal, “General Insurance Compendium-1999-2000,” volume I, published by The Insurance Times Journal on Insurance in India, Kolkata, first edition, the legal definition has been given as it is a contract between the insurer and insured whereby in consideration of payment of premium by the insured, the insurer agrees to make good any financial loss to the insured may suffer due to the operation of an insured peril.


“The General Insurance Publication of The ICFAI University, Hyderabad”, July 2004 edition tells about commercial General Insurance business, general insurance products available in the market with procedures and practices adopted. This edition also deals with managerial aspects related to these products.

Surender Manola, in his book, “Insurance Management,” first edition, published by Vishvabharti Publications, New Delhi in the year 2004 has mentioned that the role of insurance in society is to spread risk and if the risk materializes, to spread the loss. Thus, the few who need it can be compensated from the contributions paid by the many who do not need it but who, as people who are risk-averse, need the reassurance that; if they were the ones in need, they too would be compensated.

Dr. P. Periyasami, in his book, “Principles & Practice of Insurance,” first edition, published by Himalaya Publishing House, in the year 2003, has defined risk as that where there is a possibility of loss or damage. It may or may not happen. In business, the risk may be defined as the damage or loss from unforeseen circumstances in future. It implies a possibility of loss due to unpredictable or unfavourable happening in future. It provides a detailed coverage of General Insurance; Risk Management etc.
D.S. Hansell, in his book, “Elements of Insurance,” third edition, published by Macdonald & Evans, in the year 1997 has described insurance as a social device providing financial compensation for the effects of misfortune the payments being made from the accumulated contributions of all parties participating in the scheme.

Dr. P. K. Gupta, in his book, “Fundamentals of Insurance,” first edition, published by Himalaya Publishing House, in the year 2004 has quoted the definition of insurance given by Emmett J. Vaughan as given in the publication by Risk Management; John Wiley & Sons, Inc., 1997, Page 8, which is- “Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for”.

He has also quoted the definition by S.E. Harvington & G.R. Niehans, in the publication, Risk Management & Insurance, McGraw-Hill, 1999, Page 3 as “At its most general level, risk is used to describe any situation where there is uncertainty about what outcome will occur. Life is obviously risky.”

B. Karuna, in his article published in the journal, “Globe Insurance,” published by the ICFAI Books, by the ICFAI University Press in the year 2005 has commented about the insurance. The book seeks to provide, at one place, a retrospective as well prospective view of the contemporary developments in the environment, with emphasis on general and specialized branches of knowledge and applications.

Mark R. Greene & Paul Swadener, in their book, “Insurance Insights,” published by South-Western Publishing Company, in the year 1974 has described risk as the possibility that a sentient entity will incur loss.

Judy Feldman Anderson, FSA, and Robert L. Brown, FSA, in their article, “Risk and Insurance,” published for Education and Examination Committee of the Society of Actuaries have defined the concept of general insurance as under:

Insurance is an agreement where, for a stipulated payment called the premium, one party (the insurer) agrees to pay to the other (the policyholder or his designated beneficiary) a defined amount (the claim payment or benefit) upon
the occurrence of a specific loss. This defined claim payment amount can be a fixed amount or can reimburse all or a part of the loss that occurred.

The insurer considers the losses expected for the insurance pool and the potential for variation in order to charge premiums that, in total, will be sufficient to cover all of the projected claim payments for the insurance pool. The premium charged to each of the pool participants is that participant’s share of the total premium for the pool. Each premium may be adjusted to reflect any special characteristics of the particular policy.

“Risk Management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities”16.

In the article by Mr. S. K. Garg, Chairman & Managing Director, NHPC Ltd., “the risk has been defined as the events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization’s business objectives”17.

The exposure to the consequences of uncertainty constitutes a risk. Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation’s strategic and financial goals.

Gary Stoneburner, Alice Goguen, and Alexis Feringa, from National Institute of Standards & Technology, in their article on “Risk Management” have described Risk as “it is the net negative impact of the exercise of vulnerability, considering both the probability and the impact of occurrence. Risk management is the process of identifying risk, assessing risk, and taking steps to reduce risk to an acceptable level.”18
Mr. Malcolm Tatum Risk in his article “What is Risk Management” has described Risk Management as “it is a logical process or approach that seeks to eliminate or at least minimize the level of risk associated with a business operation”\textsuperscript{19}.

Essentially, the process identifies any type of situation that could result in damage to any resource within the possession of the company, including personnel, then take steps to correct factors that are highly likely to result in that damage.


It illustrates the way in which insurance can be used to deal with problems posed by such risk. It is a book on insurance theory as well as on explains as to how students can use insurance properly. The main emphasis of the book is on insurance products and the use of insurance within risk management framework.

In this book they have described the concept of risk as “a condition of the real world in which there is an exposure to adversity, more specifically, risk is a condition in which there is a possibility of an adverse derivation from a desired outcome that is expected or hoped for.”

In the book titled, “General Insurance-Personal Workbook,” published by The ICFAI University, in the month of June 2004, the concept of insurance has been defined as it is a mechanism to take care of the financial system against the losses arising out of several risks, which would, otherwise, put the whole system in absolute jeopardy. General Insurance provides support in several ways to persons and corporate bodies. Risks are of different types like, financial/non-financial, static and dynamic, fundamental and particular, pure and qualitative etc.
There is a book titled, “Insurance Law Manual.” It contents all the circulars and notifications issued by IRDA from time to time. This is an authorized publication of IRDA. In the eighth edition of this book published very recently, i.e. in the year 2010, the definition of general insurance business has been given as general insurance business means fire, marine or miscellaneous insurance, whether carried out singly or in combination with one or more of them, but does not include capital redemption business and annuity certain business.

This book has been published by Taxmann Publications Pvt. Ltd., New Delhi and has collection of circulars and notifications issued by IRDA during the period from 12.12.2001 to 16.11.2009.

Mr. Jayanth Rama Verma, from Indian Institute of Management, Ahmedabad, in his book, “Derivatives and Risk Management,” published by Tata McGraw-Hill Publishing Company Ltd., New Delhi in the year 2008, has discussed a holistic view of derivatives and risk management. It focuses on modern approach to the subject. It discusses the traditional as well as emerging models focusing on intuitive analysis, and gives a succinct appraisal of derivatives in India and the world. The book gives an overview of the different types of derivatives and explains how these are used by corporations, banks, investors and individuals to manage their risks. It explains the benefits of derivatives as well as the risks that they pose.

Tim Boyce, in his book, “Handbook of Risk Management,” published by Crest Publishing House, New Delhi, in the year 2004, in the first edition, has explained how to identify, mitigate and avoid the principal risks in any project or transaction. The book tries to answer the vital question of how all the dimensions of risk can be successfully managed through the contractual agreements covering the project. He has also tried to explore the principles of risk management in the area of insurance.

functions. It discusses the role of insurance and about pre risk management. There is a discussion about the emerging areas in insurance etc. and about the uses and misuses of derivatives market. He has described the concept as the minimizing the adverse effects which accidental losses and price/rate volatilities may have on the organization. The other definition given is the process of planning, organizing, directing and controlling the resources and activities of an organization in order to minimize the adverse effects of potential losses at the list possible cost.

Mr. Scott E. Harrington and Mr. Gregory R. Niehaus, in their book titled, “Risk Management & Insurance,” second edition, published by Tata McGraw Hill Publishing Company Ltd., published in the year 2004 has discussed a broad perspective of risk management and a conceptual framework for making risk management and insurance decisions to increase business value and individual welfare. This book makes us think critically and analytically to solve real business problems. The book also presents broadened coverage of personal risk management and corporate risk management issues. It describes risk as any situation where there is uncertainty about what outcome will occur.

Mr. M.N. Mishra & Mr. S.B. Mishra, in their book, “Insurance-Principles and Practice,” published by S. Chand & Company Ltd., fourteenth edition, published in the year 2007 has defined insurance as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. This book discusses prospects of insurance, privatization of insurance industry, insurance innovation, risk management, liability insurance, international insurance etc. It includes the latest developments of insurance in India and abroad.

James S. Trieschmann, Robert E. Hoyt and David W. Sommer, in their book, “Risk Management and Insurance,” published in the year 2005, twelfth edition, by Cengage Learning India Pvt. Ltd. explains how to identify and analyse all the types of risk and managing them through insurance and alternate tools. It tells that risks can be managed if they are identified prior to a loss, and insurance is
an important tool, but not the only one available for that purpose. The authors have put concepts of risk management in a framework that applies them to business and personal situations, as well as to international situations, making it easy to see their relevance.

The book “Risk & Insurance,” the publication of ICFAI University, November 2005 edition says there is no universally accepted definition of risk. This book has however, given the definition of risk in one sense as a variation in the possible outcome and in another sense as the degree of uncertainty associated with a possible loss.

The book states definition of insurance from three angles, viz. general definition, financial definition and legal definition.

General definition can be defined as an arrangement by which the losses of a few are shared by many. The members of the group who are exposed to similar kind of risk come together and contribute small amounts called premiums to a common fund.

The book, in financial terms, states that insurance basically involves two elements, viz. transfer of shifting of risk from one individual to a group and sharing of losses on an equitable basis by all members of the group.

In legal terms, insurance is a contractual agreement whereby one party agrees, for a consideration called premium, to compensate another party for losses.

Dr. P.K. Gupta, in his book, “Insurance and Risk Management,” published by Himalaya Publishing company House, first edition, reprinted in the year 2005, has described insurance in both financial and legal terms. The financial definition reads as “Insurance is a social device in which a group of individuals (insured’s) transfer risk to another party (insurer) in order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk.”

In legal terms, it describes insurance as a contract of insurance is a contract by which one party in consideration of the price paid to him proportionate to the risk
provides security to the other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events. This book is a major departure from the conventional literature which views insurance in a narrow, legal perspective.

“General Insurance-Commercial”, a book by The ICFAI University, July 2004 edition, tries to capture the reader’s attention regarding the commercial general insurance business. It describes the various commercial general insurance products available in the market along with the procedures and practices adopted. It also deals with the managerial aspects related to these products. This book is restricted to the developments and practices relevant to India. The book also deals with the Role of Information Technology in Insurance sector.

In the book, “General Insurance-Vol-I, by Seethapathi K, paperback edition, published by ICFAI, the introduction of general insurance has been given. The other topics such as Loss Prevention and Control and Risk Assessment, Underwriting and Rate Making and Legal Framework and Documentation have also been discussed.

In the book, “Fundamentals of Risk & Insurance,” by Emmett J. Vaughan, Therese M. Vaughan, publication of John Wiley & Sons, eighth edition, January 1999, theoretical concepts as well as consumer perspectives of risk and insurance has been described. It also analyses new developments in income risk, retirement plans, and annuities.

“Insurance: From Underwriting to Derivatives Asset Liability Management in Insurance Companies” "This is a book authored by Eric Briys, Francis de Varenne and is a publication of John Wiley & Sons, May 2001. In this book, the analysis of the convergence between the insurance industry and the capital markets, including the summary of trends and issues, and new opportunities and challenges of insurance becoming classified as an asset class has been discussed.
David F. Babbel, Frank J. Fabozzi, in their book “Investment Management for Insurers,” published by John Wiley & Sons, first edition, February 1999, the comprehensive reference regarding investment management for insurance companies, which covers risk management such as interest rate risk, credit risks, catastrophe risks, market risks, financial performance measurement, asset allocation and investment management has been discussed in depth.

“Insurance Regulation in the United States,” a book by Peter M. Lencsis, published by Quorum Books, May 1997. This book describes the insurance regulatory system, which covers the formation and licensing of insurance companies, the regulation of underwriting and investment, insolvency laws and guaranty funds, reinsurance, holding companies, agents and brokers, etc.


“Introduction to Risk Management & Insurance,” ninth edition, by Mark S. Dorfman, paperback edition, May 2007 is an extremely well written book which has quoted, many current examples and court cases, it raises important social aspects of the insurance transaction. It has also covered issues important to consumers’ especially frequently purchased insurance contracts and is a very user friendly book on the subject.

Research papers review

In the paper “Indian Journal of Industrial Relations, July 2008 v44 i1 p49 (13), titled “Service quality in general insurance sector: an empirical study” by B. Gopalkrishna, Lewlyn L.R. Rodrigues, K.V.M. Varambally, (Business and Company Resource Centre), it has been stated that The service quality research in the area of insurance is yet to gain full momentum despite the fact that it is one of the fastest growing service sectors. The Paper develops a metrics for service quality specifically for the insurance sector and applies the same to investigate
the perception of service quality. The study reveals the service quality gaps in the insurance industry. The weaker dimensions of service quality are identified and implications are drawn to improve the existing systems, processes and practices.

Article, “RAND Journal of Economics, Winter 2006 v37 i4 p783 (16), Asymmetric information in insurance: general testable implications, by Pierre-Andre Chiappori, Bruno Jullien, Bernard Salanie, Francois Salanie, Rand, Journal of Economics, it has been elaborated that several recent articles on empirical contract theory and insurance have tested for a positive correlation between coverage and ex post risk, as predicted by standard models of pure adverse selection or pure moral hazard. It is hoped that the positive correlation property can be extended to general setups: competitive insurance markets and cases where risk aversion is public. The results are tested on a French dataset. These tests confirm that the estimated correlation is positive; they also suggest the presence of market power.

Journal of Risk and Insurance, June 1999 v66 i2 p239 (1), “An empirical investigation of the Japanese corporate demand for insurance”. Nobuyoshi Yamori informs that empirical tests of the theories investigating factors affecting corporate demand for insurance are very limited. Using data on Japanese corporations, the study empirically investigated the demand for general insurance of non-financial corporations. The important factors in determining insurance purchases by large Japanese firms are size, leverage and regulation. Tax consideration and ownership structure do not play a role in purchases of insurance.

Journal of Property Management, May-June 1995, v 60n3, p 68(2) General liability insurance for commercial structures (Insurance Insights), Philip K. Glick tells that Property managers and building owners should always assign a general liability insurance for each of their buildings. This protects them from huge losses that are highly prevalent in real estate. The simplified form of the general liability insurance policy now features several coverage extensions which previously had to be bought separately. Now included in
the new form are premises or operations, products or completed operations, personal injuries, contractual liability and broad form property damage. Despite these extensions, several gaps and limitations in general liability insurance still exist. These include policy aggregate limits, absolute pollution liability exclusion and punitive damages exclusion. Managers and owners should make sure to fill these gaps and be aware of the limitations. They should also address coverage issues such as all-risk policies, valuation issues and boiler and machinery insurance.


In the journal, Business History, April 1994 v36 n2 p20(27) Marketing strategy and the competitive structure of British General Insurance, 1720-1980 by Oliver M. Westall, the marketing strategies about the general insurance have been described.

In the Journal of Property Management, May-June 1992 v57 n3 p68(2) Insurance coverage for environmental claims(Insurance Insights), by Janine M. Landow-Esser, Kathleen C. Spears, it has been stated that the Property managers and owners intent on seeking protection against potential damages arising from environmental causes should seek coverage for environmental claims. Safeguarding against the high costs that result from clean-ups and lawsuits would require property managers and owners to seek claims against various forms of property insurance. The three general forms of insurance coverage for environmental claims are the first-party property insurance, the environmental impairment liability insurance and the comprehensive general liability insurance or commercial general liability insurance. The determination of the range and form of coverage suitable to the property is best done with the help of an independent specialist to ascertain the accuracy, appropriateness and cost-effectiveness of the desired policies.

In the article “A Metric Approach to Risk Management” by Mr. Jeffrey Wallace, March 2004 issue of The IUP Journal of Financial Risk Management, the Metric Approach to Risk Management has been discussed. Financial risk is an integral part of overall firm risk, and must be managed if the firm is to remain competitive and healthy. Corporate risk management increases firm value because management is in the best position to measure financial risks and then appropriately hedge them in a timely and efficient manner. However, the value-added that risk management makes is often not recognized because that value is not explicitly measured. Without defining the metrics to measure that value, the default metric will be whether the hedging was profitable in an accounting sense, a loser's game for Treasury. A robust, metric-based financial risk management framework is introduced that is applicable to corporate commodity, foreign exchange, interest rate and investment risks.

Article titled, “The Changing Concept of Financial Risk”, by Mr. Cornelis A Los, in The IUP Journal of Financial Risk Management, March 2005 issue, the concept of Financial Risk has been described. The recent rapid accumulation of anomalous empirical research results has made clear that the classical definition of financial risk based on asset classes only is ready for an epistemological change. Currently, the definition of financial risk suffers from three major deficiencies: (1) financial risk is insufficiently measured by the conventional second-order moments; (2) financial risk is assumed to be stable and all distribution moments are assumed to be time-invariant; and (3) pricing observations are assumed to exhibit only serial dependencies, which can be
removed by simple inverse transformations, like the geometric Brownian motion, Markov, ARIMA, or (G) ARCH models. But (1) higher-order moments are acknowledged by experienced traders to be influential in asset and derivative valuations; (2) distributions of returns are observed to be nonstationary; and (3) difficult to observe long-term dependencies have surprised many risk managers. Based on accumulated empirical evidence, a new functional definition of financial risk that takes account of asset classes, time dependence and time horizons is required to fully capture the concept as required in the empirical financial markets.

The article “Dynamic Inefficiencies in Insurance Markets: Evidence from Long-term Care Insurance”, by Mr. Kathleen McGarry, Amir Sufi and Amy Finkelstein, in The IUP Journal of Financial Risk Management, January 2006 issue examines whether unregulated, private insurance markets efficiently provide insurance against reclassification risk (the risk of becoming a bad risk and facing higher premiums). To do so, the authors examine the ex-post risk type of individuals who drop their long-term care insurance contracts relative to those who are continually insured. Consistent with dynamic inefficiencies, the study finds that individuals who drop coverage are of lower risk ex-post than individuals who were otherwise-equivalent at the time of purchase but who do not drop out of their contracts. These findings suggest that dynamic market failures in private insurance markets can preclude the efficient provision of insurance against reclassification risk.

Mr. Ram Pratap Sinha, in his article “Productivity and Efficiency of Indian General Insurance Industry”, in the April 2007 issue of, The IUP Journal of Risk and Insurance has described about the Indian General Insurance Industries and their Productivity & Efficiency. It says, the deregulation of general insurance industry in India is having far-reaching consequences in terms of market size, structure and operational practices. The penetration level of general insurance in India is quite low compared to the international standards and, therefore, has tremendous potential for growth. The present paper compares the performance of 12 general insurance companies in respect of technical and scale efficiency and total factor
productivity in a three-output three-input framework, for the years 2003-04 and 2004-05, by using Data Envelopment Analysis and Malmquist Total Factor Productivity Index. The public sector insurers dominate the private sector insurers in terms of mean technical efficiency in constant returns to scale, while the private sector insurers have a slightly higher mean technical efficiency than the public sector insurers in variable returns to scale. A further comparison of total factor productivity and gross income is also made in respect of both public and private sector insurance companies.

“A Study on Customers’ Preference towards Insurance Services and Bancassurance”, an article by Rajkumari M in the October 2007 issue, of The IUP Journal of Risk and Insurance states that Bancassurance is a channel of distribution of insurance products through banks. A number of insurers have already tied up with banks and some banks have already flagged off bancassurance through soft launches of select risk products. Bancassurance has been gaining momentum in the Indian market. This study is carried out to understand the position of private players when compared to public, and also to find the most preferred policies with these leading companies. It also aims to analyse the segment wise preference among different age groups. The study has been undertaken in order to identify the customers’ attitude towards purchase of insurance products and also their knowledge on the Bancassurance formats available through banks. The study concludes that there is a low level of awareness about Bancassurance among bank customers and thereby gives suggestions to improve insurance penetration levels.

“Efficiency of General Insurance Industry in India in the Post-Liberalization Era: A Data Envelopment Approach” an article by Mahesh Chand Garg and Deepti, in The IUP Journal of Risk and Insurance, January 2008 issue, it has been stated that the Liberalization of the insurance sector in India has contributed favourably to insurance growth. The general insurance business in India has grown in spread and volume after the liberalization of the insurance sector. Although public insurers continue to lead the Indian general insurance market; private insurers are making their presence felt in the sector, covering over one quarter of
the market share for the fiscal year 2005-2006. The present paper compares the technical and scale efficiency of 12 general insurance companies in India from the financial year 2002-03 to 2005-06 using Data Envelopment Analysis (DEA). Among the public insurers, New India is the only company which turned out to be technically efficient on both Constant Returns to Scale (CRS) and Variable Returns to Scale (VRS) for all the years under reference. HDFC Chubb managed to retain 100% efficiency for the last three financial years included in the study on both VRS and CRS. The average efficiency results indicate that though private insurers lag behind public insurers, they are fast catching up and the efficiency scores of public and private insurers seem to converge.

“The Relationship Between Insurance and Economic Growth: Review and Agenda”, an article by Kjell Suemegi and Peter Haiss, April 2008 issue, in The IUP Journal of Risk and Insurance has informed that while there is a plethora of research on the causal relationship between bank lending and economic growth and capital markets and economic growth, the insurance sector has not received ample attention in this respect. The role of insurance companies, though growing in importance in financial intermediation, has hardly been investigated with regard to the direction and causality vis-à-vis GDP growth. The paper tries to fill this gap by providing a literature review on the insurance-growth-nexus in order to identify respective channels of influence. The authors argue that the neglect of the insurance sector may be among the causes why the finance-growth-nexus seems to have become less robust on more recent data.

“Financial Adaptation Challenges for the Insurance Industry Due to Climate Change” and article by T Sri Jyothi, Research Associate, in the April 2008 issue, in The IUP Journal of Risk and Insurance focuses on the devastation caused by extreme climatic changes, with particular reference to those experienced in the USA and Australia, and the role of insurance industry and government in the occurrence of such events. The concepts like adaptation, mitigation are also explained. Further, it also deals with the recent tools available for the insurers to mitigate the loss and new policies developed by government to provide financial stability to these companies. It concludes with the new disaster and catastrophic
risk insurance policies started by insurance companies in the US and Australia. It mainly focuses on the devastation caused by Hurricane-Katrina in 2005 and its aftermath.

“Technical Efficiency of Indian General Insurance Companies: A Non-Radial Approach”, an article by Mr. Ram Pratap Sinha, in the January 2009 issue, in The IUP Journal of Risk and Insurance compares 10 private sector general insurance companies in terms of technical efficiency for the years 2003-2004, 2004-2005 and 2005-2006, using the slacks based super efficiency model advanced by Tone (2002). The slacks based super efficiency model, apart from being unit and translation invariant, possesses quite a number of advantages over the radial super efficiency models. The results suggest a decline in mean technical efficiency in 2004-2005 relative to 2003-2004, but an upsurge again in 2005-2006. Among the observed general insurers, Reliance and New India Assurance consistently occupied the top two slots for all the years under observation.

“Emerging Trends in Indian Insurance Market”, by Mr. T N Murty, Riswana Ansari and P Raja Babu, in the July-October 2009 issue, in The IUP Journal of Risk and Insurance says that the insurance business is one of the fast emerging financial services, predominantly in the developing countries like India, in terms of the population it serves. The insurance industry is going through radical changes in its products as well as in its competitive service strategies towards the customers. During the long monopoly regime, the public sector attempted many changes in the character and basic policies of the industry. The Indian insurance market has undergone significant changes during the recent years. The paper presents the emerging trends in the Indian insurance market.

2.2 Introduction to General Insurance

The business of general insurance is truly international. General Insurance is closely linked to trade and industry. It provides infrastructure for trade and industry to perform.
The general insurance business is one of the most rapidly growing areas in the financial sector. As an economy grows over the years, general insurance sector intensifies and broadens its reach. Every practical and futuristic individual would want himself, his family and his assets to be insured. India has a large insurance market.

“The IRDA Act 1999 (Insurance Regulatory and Development Authority of India Act) has given new opportunities to private players to enter into the market on the fulfilment of certain prerequisites”\(^{20}\).

The IRDA is the licensing authority in the sector; the current FDI cap/Equity in the sector stands at 26 per cent.

The general insurance sector is also facing challenges and these challenges will become tougher in the coming years. This is primarily because not only more and more number of companies are competing in general Insurance business but also because more and more number of companies are entering into this sector.

New players have contributed to the launch of innovative products, services and value-added benefits.

Major foreign players have entered the Indian market and announced joint ventures in general insurance business.

The general insurance industry not only plays a leading role within the financial system in a country but also has an important socio-economic function. General Insurance companies have corporate social responsibility towards improving the environment but at the same time the company has to garner good premium as ultimately the insurer has to earn profits for its shareholders and stakeholders.

“The other significance of Social Responsibility for the insurance industry, which is perhaps far more visible, is the increasing uncertainty around the environmental impacts of climate change.”\(^{21}\)

“General Insurance facilitates economic development and it is our overall objective to build an efficient, effective and a stable general insurance industry in India that will support both the needs of the real economy and the socio-
economic objectives of the country\textsuperscript{22}. The General Insurance and reinsurance firms are the main providers of risk financing for man-made disasters and natural catastrophes.

The Indian general insurance industry is able to mobilize long-term savings to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprises throughout India.

This can be achieved when we have strong insurers who are able to provide consumers with a wide range of world-class products and services at competitive price; adopt international best practices; operate through various distribution channels for the convenience of consumers; maintain high professional standards; are productive; cost-efficient and financially resilient to both market volatility and competitive pressures.

The Indian general insurance industry in post liberalization period has witnessed a number of significant changes. We have now increased players in the market, increased competition, wider innovation and choice of products to consumers, additional channels of distribution and an increase in consumer awareness about the benefits and importance of insurance.

Both the public sector companies and the private companies are all very strong players. We have both the established public sector companies with a long track record and new private players.

The foreign partners of these companies have wide experience in both developed and emerging markets.

The general insurance market has been expanding rapidly and the growth rate of general insurance companies is 23%. Although impressive, the general insurance industry is relatively small by international standards.

“The penetration rates of general insurances in India is also well below the international level. These facts indicate the of immense growth potential of the insurance sector”\textsuperscript{23}. The government also wants an orderly development and
growth of the general insurance industry. A sizable number of the population; business activities and enterprises must have adequate general insurance cover against the various risk exposures.

“Oriental Insurance Company, a leading insurance providing company in India, revealed that the Indian general insurance industry is expected to reach Rs 50,000 Crores (US$ 11.75 Billion) during 2009-2013, compared to Rs 28,130 Crores (US$ 6.52 Billion) in 2007-08, as reported by India Times. The collective aim should be to build a vibrant industry that will benefit all the stakeholders”24.

The Indian general insurance industry is set to grow in future on the back of improving education level, tax exemptions and high growth in economy.

The general insurance industry is also focusing on generating insurance development skills and is providing liberalized standards for the creation of intermediaries to enhance the general insurance services that would help in achieving high growth in years to come.

Moreover, the detariffing will initiate the launch of latest and innovative general insurance products and exploitation of vast untapped general insurance market would boost the revenue growth because the number of general insurance companies is growing in India.

The growth in the Indian general insurance industry is also anticipated because the general insurance sector is expected to pay an additional focus on micro and retail insurance in villages, which offers an extensive growth opportunity to players. Also, the rising education level accompanied by the booming economy ensures that the general insurance market attracts an increasing number of customers.

The growing population with improving purchasing power, encouraging to purchasing homes and automobiles, is offering great scope for growth in Indian general insurance market.
“A Senior Research Analyst at RNCOS, a marketing research and consultancy firm, said, “The general insurance industry in India is expected to grow at a rapid pace in future due to favourable business conditions in the country.

The vast growth opportunities would help in attracting more foreign investors in the insurance sector. This would further help in the improvement of quality of the insurance products and schemes in the country.”

Nature of General Insurance

“The general insurance has the following characteristics which are, generally, observed in case of life, marine, fire and general insurances.”

Sharing of Risk

General Insurance is a device which shares the financial losses which might befall on an individual or his family on the happening of a specific event.

The event may be marine perils in case of marine insurance, fire in case of fire insurance and other certain events in general insurance, e.g., theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events, if insured, are shared by all the insured in the form of premium.

It is a Cooperative Device

The most important feature of every general insurance plan is the cooperation of large number of persons who, in effect, agree to share the financial loss arising due to a particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitations of the agents. An insurer would be unable to compensate all the losses from his own capital. So, by insuring or underwriting a large number of persons, he is able to pay the amount of loss. Like all cooperative devices, there is no compulsion here on anybody to purchase the insurance policy.

The Value of Risk

The risk is evaluated before insuring. A certain amount is charged for issuing the general insurance cover. This is called as the premium. There are several
methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of taking the general insurance cover.

**Payment at Contingency**

The payment is made at a certain contingency insured. If the contingency occurs, payment is made. In general insurance contracts, the contingency is the fire or marine perils etc., may or may not occur. So, if the contingency occurs, payment is made, otherwise no amount is given to the policy holder.

**Amount of Payment**

The amount of payment depends upon the value of loss occurred due to the particular insured risk. The general insurance cover has to be available for that amount. The insurer promises to pay a fixed sum on the happening of an event. If the event or the contingency takes place, the payment does fall due if the policy is valid and in force at the time of the event, like property insurance. In the property and general insurances, the amount of loss, as well as the happening of loss, is required to be proved.

**Large Number of Insured Persons**

A large number of persons should be insured to spread the loss immediately, smoothly and cheaply. The cooperation of small number of persons will be limited to smaller area. The cost of general insurance premium to each member may be higher. So, it may be unmarketable. Therefore, to make the general insurance cheaper, it is essential to insure large number of persons or property because the lesser would be the cost of insurance and so, the lower would be premium. In order to function successfully, the general insurance would be joined by a large number of persons.

**General Insurance is not gambling**

The general insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative. The uncertainty is changed into certainty by insuring property because the insurer promises to pay
a definite sum at damage. All assets possess an economic value and it is essential to ensure against the loss of the value. In the absence of general insurance cover, they may not get absolute certainty. Thus, the owner is protected against losses and damage with the help of general insurance. From the insured point of view, too, insurance is also the antithesis of gambling.

Failure of general insurance cover amounts gambling because the uncertainty of loss is always looming. In fact, the general insurance is just the opposite of gambling. In gambling, by bidding the person exposes himself to the risk of losing, in the general insurance; the insured is always opposed to risk, and will suffer loss if he is not insured. By getting insured his property, he protects himself against the risk of loss.

In fact, if he does not get his property or life insured, he is gambling with his life and property.

**General Insurance is not Charity**

“A charity is an organization that exists to enable one group to help another group, whether that be people, animals or nature”\(^{27}\).

Charity is given without consideration but the general insurance is not possible without premium. It provides security and safety to an individual and to the society although it is a kind of business because in consideration of premium it guarantees the payment of loss.

It is a profession because it provides adequate sources at the time of disasters only by charging a nominal premium for the service.

“Mr. M. N. Malhotra, in his book, “Insurance-Principles and Practice” has, elaborated the functions of Insurance, which are discussed below”\(^{28}\).
**Functions of General Insurance**

The functions of General Insurance can be bifurcated into following parts:

1. **Primary Functions**
2. **Secondary Functions**
3. **Other Functions**

**Primary Functions**

**Provide Protection**

The primary function of general insurance is to provide protection against future risk, accidents and uncertainty. General Insurance cannot check the happening of the risk, but it can certainly provide for the losses of risk. General Insurance is actually a protection against economic loss, by sharing the risk with others.

The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The general insurance guarantees the payment of loss and thus protects the assured from sufferings. The general insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

**Collective bearing of risk**

General Insurance is a device to share the financial loss of few among many others. It is a mean by which few losses are shared among larger number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid.

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When the risk takes place, the loss is shared by all the persons who are exposed to the risk.

On the basis of probability of risk, the share is obtained from each and every insured in the shape of premium without which the protection is not guaranteed by the insurer.
Evaluating risk

“Insurance fixes the likely volume of risk by assessing diverse factors that give rise to risk. Risk is the basis for ascertaining the premium rate as well”\textsuperscript{29}.

General Insurance provides certainty

General Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But, the general insurance relieves the person from such difficult task. Moreover, if the subject matters are not adequate, the self provision may prove costlier. There are different types of uncertainty in a risk. The risk will occur or not, when will occur, how much loss will be there?

In other words, there are uncertainty of happening of time and amount of loss. General Insurance removes all these uncertainty and the assured is given certainty of payment of loss. The insurer charges premium for providing the said certainty.

General Insurance is a device, which helps to change from uncertainty to certainty, whereby the uncertain risks may be made more certain.

Secondary Functions

Prevention of loss

The general insurance joins hands with those institutions which are engaged in preventing losses of the society because the reduction in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium.

Lesser premium invites more business and more business causes lesser share to be assured. So again premium is reduced to, which will stimulate more business and more protection to the masses.
Therefore, the insurance assists financially to the health organization, fire brigade, educational institutions and other organizations which are engaged in preventing losses of the masses from damage.

General Insurance cautions individuals and businessmen to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc. Prevention of losses causes lesser payment to the assured by the insurer and this will encourage for more savings by way of premium. Reduced rate of premiums stimulate more business and better protection to the insured.

**To Provide Capital**

The general insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimized to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.

General Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty.

**It contributes towards the development of larger industries**

General Insurance provides development opportunity to those larger industries having more risks in their setting up. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

**Helps Economic Progress**

The general insurance protects the society from huge losses of damage, destruction and provides an initiative to work hard for betterment of the masses.

The next factor of economic progress, the capital is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.
Improves Efficiency

The insurance eliminates worries and miseries of losses at the destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not only his efficiency, but the efficiency of the masses is also advanced.

Other Functions

Means of savings and investment

General Insurance serves as savings and investment, Insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured’s. For the purpose of availing income-tax exemptions also, people invest in insurance.

Source of earning foreign exchange

General Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways.

Risk Free trade

Insurance boosts exports insurance, making foreign trade risk free with the help of different types of policies under marine insurance cover.

Kinds of General Insurance

“The general insurance can be divided from two angles: first, from the business point of view and the second from the risk point of view”\(^{30}\).

Business Point of View

The insurance can be classified into three categories from business point of view:

1. Life Insurance
2. General Insurance
3. Social Insurance
Life Insurance

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period.

At present, life insurance enjoys maximum scope because the life is the most important property of the society or an individual. Each and every person requires the insurance.

This insurance provides protection to the family at the premature death of or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident.

The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period.

General Insurance

The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurances are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent. The strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

Social Insurance

The social insurance is to provide protection to the weaker sections of the society who are unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurances and industrial insurance are the various forms of social insurance. With the increase of the socialistic ideas, the social insurance is an obligatory duty of the nation. The government of the country must provide social insurance to its masses.
“Social insurance has also been defined as a program where risks are transferred to and pooled by an organization, often governmental, that is legally required to provide certain benefits”31.

Risk Point of View

General Insurance is divided into property liability and other form from high point of view.

Property Insurance

Under this type, the property of the person/persons is insured against a specified risk. The risk may be fire or marine perils, theft of property or goods, damage to property at accident.

Marine Insurance

The marine insurance is the oldest form of general insurance. In earlier days, if the ship was lost, the loan and interest were forfeited. The contract of general insurance was made a part of the contract of carriage. Freight was fixed according to the season and was expected to be reasonable in the case of marine transport which was then very much at the mercy of winds and elements.

“Marine Insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination32”.

Travellers by sea and land were very much exposed to the risk of losing their vessels and merchandise because the piracy on the open seas and highway robbery of caravans were very common. Besides, there were several risks. Many times, it might have been captured by the king’s enemies or robbed by the pirates or got sunk in the deep waters.

The risk to owners of such ships were enormous and, therefore, to safeguard them the marine traders devised a method of spreading over them the financial loss which could not be conveniently borne by the unfortunate individual victims.

Marine general insurance provides protection against loss of marine perils.
The marine perils are collision with rock, or ship attacks by enemies, fire, and capture by pirates. Etc. These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. So, marine general insurance insures ship, cargo and freight.

Nowadays, the scope of this type of insurance has also increased and the same can be divided into two parts, viz. Ocean Marine insurance and Inland marine insurance.

**Fire Insurance**

After marine insurance, fire insurance developed in present form. It has been originated in Germany in the beginning of sixteenth century. The fire insurance got momentum in England after the great fire in 1666 when the fire losses were tremendous. About 85 per cent of the houses were burnt to ashes and property worth of sterling ten crores were completely burnt off.

Fire insurance office was established in 1681 in England. With colonial development of England, the fire insurance spread all over the world in present form. This general insurance covers risks of fire. With the help of this general insurance, the losses arising due to fire are compensated and the society is not losing much. The business or industry will remain approximately in the same position in which it was before the loss.

“A fire insurance policy involves an insurance company agreeing to pay a certain amount equivalent to the estimated loss caused by fire to the insured, within the time specified in the contract.”

**Miscellaneous Insurance**

“The typical coverage includes, but not limited to Ocean Marine / Hull & Cargo, Boiler & Machinery / Equipment Breakdown, Crime, Credit, Libel & Slander, Special Event”.

The miscellaneous insurance took the present shape at the later part of nineteenth century with the industrial revolution in England. Accident insurance,
fidelity insurance, liability insurance and theft insurance were the important form of insurance at that time.

Lloyd’s Association was the main functioning institution. Now, insurances such as cattle insurance, crop insurance, profit insurance, etc., and are taking place. The scope of general insurance is increasing with the advancement of the society.

The fire insurance does not protect only losses but it provides certain consequential losses also. War risk, turmoil, riots etc., can be insured under this general insurance too.

The property, goods, machine, furniture, automobile, valuable articles, etc., can be insured against the damage or destruction due to accident or disappearance due to theft.

**Liability Insurance**

The general insurance also includes liability insurance whereby the insured is liable to pay the damage of property. This general insurance is seen in the form of fidelity insurance, automobile insurance and machine insurance etc.

**Other Forms**

Besides the property and liability insurances, there are certain other insurances which are included under general insurance. The examples of such insurances are export-credit insurances, State employees insurance, etc., whereby the insurer guarantees to pay certain amount at the certain events. This insurance is extending rapidly these days.

**Personal Insurance**

The personal insurance includes insurance of human life, which may suffer loss due to death, accident and decease. The personal insurance is further sub-classified into life insurance, personal accident insurance and health insurance.

**Guarantee Insurance**

The Financial Guarantee Insurance is defined as “a surety bond, insurance policy or, when issued by an insurer, an indemnity contract and any guaranty similar to
the foregoing types, under which loss is payable upon proof of occurrence of financial loss to an insured claimant, obligee, or indemnitee.\textsuperscript{35}

The guarantee insurance covers the loss arising due to dishonesty, disappearance and disloyalty of the employees or second party. The party must be a party of the contract. His failure causes loss to the first party. For example, in export insurance, the insurer will compensate the loss at the failure of the importers to pay the amount of debt.

“The policy covers the employer in respect of any direct financial loss which he may suffer as a result of employees’ dishonesty.”\textsuperscript{36}

\section*{2.3 Historical Context}

With the de-regulation in Indian Insurance industry, the monopoly of public sector companies in general insurance business came to an end. This has helped in bringing out and increasing the innovative practices initiated by the private players. There is a growth in the interactive technology such as internet, which has further created a wave of excitement in the insurance business. The Indian economy and Indian Insurance sector can hope to have a growth because of this. The following discussion summarizes the Insurance Industry since its historical times.

\textbf{Background}

Insurance is a Rs. 450 billion industry in India. The value of the market is determined by gross premium incomes. The life insurance segment writes about 80\% of the overall market value. Indian Insurance market was at its all-time high in 2003 with a growth of about 17.4\% over the previous year. Since 2001 Insurance is growing at the rate of 15-20 \% annually. The growth in the insurance industry is affected by volatility in real estate rates, GDP rates and long term interest rates. Fluctuations in exchange rates also affect the growth in this sector. The gross premium as a percentage of the GDP has gone up from 2.3 in the year
2000 to 4.8 in 2006. Together with banking services, it adds about 7% to the country’s GDP.

2.4 History of Indian Insurance

A] Ancient Historical Times

Mr. Niraj Jain, in his article, dated March 21, 2008, titled, “Insurance Trends in India”\(^3^7\), on the site Insurance/ Opener India, has summarized the history of Insurance in India in the ancient times, which has been discussed below:

The general Insurance is as old as human society itself. The ancient origin of insurance is Emerigon, whose brilliant and learned Traite des Assurances, first published in 1783, is still read with respect and admiration. The result shows that insurances were known to the ancients such as Romans, Phoenicians Rhodians, although the business of underwriting commercial risks was probably not highly developed. The histories of Livy and Suetonius shows that the contractors who undertook to transport provisions and military stores to the troops in Spain stipulated that the government should assume all risk of loss by reason of perils of the sea or capture and this was probably the first time when insurance process was known. There were friendly societies organized, for the purpose of extending aid to their unfortunate members from a fund made up of contributions from all. These societies undoubtedly existed in China and India in the earliest times. The earliest traces of Insurance in the ancient Indian history was in the form of marine trade loans or carrier’s contracts, which can be found in Kautilya’s Arthashastra, Yajnyavalkya’s Dharmashastra and Manu’s Smriti. These works show that the system of credit and the law of interest were well developed in India. They were based on clear appreciation of hazard involved and the means of safeguarding against it.

B] British-India Period

Insurance in India without any regulations started in the nineteenth century. It was a typical story of a colonial era where a few British insurance companies
dominated the market serving mostly large urban centres. Company started by Europeans in Calcutta was the first life insurance company on Indian Soil.

Bombay Mutual Life Assurance Society indicated the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. 1930s was the last of the old-style crises in the Indian economy because it marked the beginning of the end of the colonial state and an acceleration of the pace of industrialization as entrepreneurs moved their capital out of the countryside. Independent India reduced its vulnerability to external economic shocks by close control of foreign exchange and by promoting a massive change in the export schedule. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

C] Post Independence era of Indian Insurance

The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon. During Mrs. Gandhi’s tenure (from 1966-1968), there was a split within the business community of protectionists and those who wanted more open trade. But what maintained the momentum was the commitment of Two Ministers, Ashok Mehta and Subramaniam towards liberalization of the economy. This was seconded with high hope of getting increased foreign aid. Deregulation actually helped the poorest in India as it would eventually create more employment and faster growth. Yet the intense fears of liberalization in the lower middle class and among working class employees of the state sector, pose serious risks in freeing the economy. It might be preferable to introduce liberalization during an economic upswing when the risk of switching jobs is less traumatic. The three liberalization episodes in Indian economic policy have followed clear cyclical patterns. Economic policy has swung broadly between controls and greater openness, with a tendency toward decontrolling larger and more important segments of the economy.
2.5 History of General Insurance

“The history of General Insurance has been discussed in an article, Insurance from Wikipedia, dated March 2008” and it states as under. In one sense, we can say that insurance appeared simultaneously with the appearance of human society.

We know of two types of economies in human societies: money economies (with markets, money, financial instruments and so on) and non-money or natural economies (without money, markets, financial instruments and so on).

The second type is a more ancient form than the first. In such an economy and community, we can see insurance in the form of people helping each other. For example, if a house burns down, the members of the community help build a new one. If the same thing happens to one’s neighbour, the other neighbours must help. Otherwise, neighbours will not receive help in the future. This type of insurance has survived to the present day in some countries.

In case of insurance in the modern sense, (i.e., insurance in a modern money economy, in which insurance is part of the financial sphere), early methods of transferring or distributing risk were practiced by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively.

Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Achaemenian monarchs of Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was performed each year in Norouz (beginning of the Iranian New Year); the heads of different ethnic groups as well as others
willing to take part, presented gifts to the monarch. The most important gift was presented during a special ceremony. When a gift was worth more than 10,000 Derrik (Achaemenian gold coin) the issue was registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidants of the court. Then the assessment was registered in special offices.

The purpose of registering was that whenever the person who presented the gift registered by the court was in trouble, the monarch and the court would help him. Jahez, a historian and writer, writes in one of his books on ancient Iran: "Whenever the owner of the present is in trouble or wants to construct a building, set up a feast, have his children married, etc. the one in charge of this in the court would check the registration. If the registered amount exceeded 10,000 Derrik, he or she would receive an amount of twice as much."

A thousand years later, the inhabitants of Rhodes invented the concept of the 'general average'. Merchants whose goods were being shipped together would pay a proportionally divided premium which would be used to reimburse any merchant whose goods were deliberately jettisoned in order to lighten the ship and save it from total loss.

The Greeks and Romans introduced the origins of health and life insurance c. 600 AD when they organized guilds called "benevolent societies" which cared for the families and paid funeral expenses of members upon death. Guilds in the ‘Middle Ages’ served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed insurance to be separated from investment, a separation of
roles that first proved useful in marine insurance. Insurance became far more sophisticated in post-Renaissance Europe, and specialized varieties developed.

Some forms of insurance had developed in London by the early decades of the seventeenth century. For example, the will of the English colonist Robert Hayman mentions two "policies of insurance" taken out with the diocesan Chancellor of London, Arthur Duck. Of the value of £100 each, one relates to the safe arrival of Hayman's ship in Guyana and the other is in regard to "one hundred pounds assured by the said Doctor Arthur Ducke on my life". Hayman's will was signed and sealed on 17 November 1628 but not proved until 1633. Toward the end of the seventeenth century, London's growing importance as a centre for trade increased demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house that became a popular haunt of ship owners, merchants, and ships' captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyd's of London remains the leading market (note that it is not an insurance company) for marine and other specialist types of insurance, but it works rather differently than the more familiar kinds of insurance.

Insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667." A number of attempted fire insurance schemes came to nothing, but in 1681 Nicholas Barbon, and eleven associates, established England's first fire insurance company, the 'Insurance Office for Houses', at the back of the Royal Exchange. Initially, 5,000 homes were insured by Barbon's Insurance Office.

The first insurance company in the United States underwrote fire insurance and was formed in Charles Town (modern-day Charleston), South Carolina, in 1732. Benjamin Franklin helped to popularize and make standard the practice of
insurance, particularly against fire in the form of perpetual insurance. In 1752, he founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin’s company was the first to make contributions toward fire prevention. Not only did his company warn against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as all wooden houses. In the United States, regulation of the insurance industry is highly Balkanized, with primary responsibility assumed by individual state insurance departments. Whereas insurance markets have become centralized nationally and internationally, state insurance commissioners operate individually, though at times in concert through a national insurance commissioners’ organization. In recent years, some have called for a dual state and federal regulatory system (commonly referred to as the Optional federal charter (OFC)) for insurance similar to that which oversees state banks and national banks.

**History of India’s Insurance Business**

The history of Insurance in India has been discussed in the “article IRDA/GEN/06/2007 dated 12.07.2007 of IRDA, titled “History of Insurance in India” and it has been discussed below:

We find the term ‘Yogakshemam Bahamayam’ in our ancient texts. This suggests that a form of "community insurance" was prevalent around 1000 BC and practiced by the Aryans. In modern times, Triton Insurance Co. Ltd. was the first general insurance company to be established in India in 1850. The Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. Thereafter, many players emerged. By 1956, there were around 240 private life insurers and more than 100 general insurers. The Government of India, concerned by the unethical standards adopted by some players against the consumers, nationalised the industry in two phases in 1956 (life) and in 1972 (non-life). The government brought together life insurers under one nationalised monopoly corporation
and LIC was born. The general insurance business remained in the private sector till 1972.

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.
The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd. was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st January, 1973. Then the private companies and nationalized. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. 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. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders’ interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the
country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

2.6 The General Insurance Sector in India

The history of general insurance business in India can be traced back to Triton Insurance Company Ltd. (the first general insurance company) which was formed in the year 1850 in Kolkata by the British.

Important milestones in the Indian general insurance business:

- **1907**: The Indian Mercantile Insurance Ltd. was set up which was the first company of its type to transact all general insurance business.

- **1957**: General Insurance Council, an arm of the Insurance Association of India, framed a code of conduct for guaranteeing fair conduct and sound business patterns.

- **1968**: The Insurance Act improved for regulating investments and set minimal solvency levels and the Tariff Advisory Committee was set up.


Private companies were amalgamated and grouped into four companies, viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC was incorporated as a company.

The India general insurance sector has witnessed robust growth in the recent past due to a booming economy and a rise in people’s standard of living. The General Insurance Corporation of India is loaded with the responsibility to supervise and manage the general insurance business in India.
“IRDA on in their article “Insurance History” has summarized the history of Indian General Insurance and which has been produced below⁴⁰:

It states that the Indian General Insurance Industry has grown as under:

**Insurers**

Insurance industry, as on 1.4.2000, comprised mainly two players: the state insurers:

**Life Insurers:**
- Life Insurance Corporation of India (LIC)

**General Insurers:**
- General Insurance Corporation of India (GIC) (with effect from Dec'2000, a National Reinsurer)

GIC had four subsidiary companies, namely (with effect from Dec'2000, these subsidiaries have been de-linked from the parent company and made as independent insurance companies.

1. The Oriental Insurance Company Limited
2. The New India Assurance Company Limited
3. National Insurance Company Limited
4. United India Insurance Company Limited.

**General Insurance Corporation of India: History in Brief**

The entire general insurance business in India was nationalized by General Insurance Business (Nationalization) Act, 1972 (GIBNA). The Government of India (GOI), through Nationalization took over the shares of 55 Indian insurance companies and the undertakings of 52 insurers carrying on general insurance business.

General Insurance Corporation of India (GIC) was formed in pursuance of Section 9(1) of GIBNA. It was incorporated on 22 November 1972 under the
Companies Act, 1956 as a private company limited by shares. GIC was formed for the purpose of superintending, controlling and carrying on the business of general insurance.

As soon as GIC was formed, GOI transferred all the shares it held of the general insurance companies to GIC. Simultaneously, the nationalized undertakings were transferred to Indian insurance companies. After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC (1) National Insurance Company Limited, (2) The New India Assurance Company Limited, (3) The Oriental Insurance Company Limited, and (4) United India Insurance Company Limited

The next landmark happened on 19th April 2000, when the Insurance Regulatory and Development Authority Act, 1999 (IRDAA) came into force. This act also introduced amendment to GIBNA and the Insurance Act, 1938. An amendment to GIBNA removed the exclusive privilege of GIC and its subsidiaries carrying on general insurance in India.

In November 2000, GIC is renotified as the Indian Reinsurer and through administrative instruction, its supervisory role over subsidiaries was ended.

With the General Insurance Business (Nationalization) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003 GIC ceased to be a holding company of its subsidiaries. Their ownership was vested with Government of India.

GIC has its registered and head office at following address:

"Suraksha",170, Jamshedji Tata Road, Churchgate, Mumbai - 400 020 India
Tel. (Board): +91 22 2286 7000
Fax No: +91 22 2289 9600, Email : info@gicofindia.com
Regulatory Framework

The functioning of GIC has to be within the regulations of the following major Acts:

- The Companies Act, 1956
- Insurance Act, 1938
- General Insurance Business (Nationalization) Act, 1972
- Insurance Regulatory and Development Authority Act, 1999
- Certificate of Registration with IRDA
- Certificate of Renewal of Registration from IRDA for 2010-11

Domestic Reinsurance Business

As a sole reinsurer in the domestic reinsurance market, GIC provides reinsurance to the direct general insurance companies in the Indian market. GIC receives statutory cession of 10% on each and every policy subject to certain limits. It leads many of domestic companies’ treaty programmes and facultative placements. GIC’s capacity for each class of business on Treaty and Facultative basis for domestic business is given in the following table.

International Reinsurance Business

A GIC is spreading its wings to emerge as an effective reinsurance solutions partner for the Afro-Asian region and has started leading the reinsurance programmes of several insurance companies in SAARC countries, South East Asia, Middle East and Africa. To offer its international clientele an easy accessibility, efficient service and tailor made reinsurance solutions; GIC has opened liaison/representative/branch offices in London and Moscow. GIC provides following capacities for Treaty and Facultative business on risk emanating from the international market based on merits of the business.
Vision

The vision of GIC is “To be a leading global reinsurance and risk solution provider”

Mission

To achieve our vision by:

- Building long-term mutually beneficial relationship with business partners.
- Practicing fair business ethics and values.
- Applying “state-of-art” technology, processes including enterprise risk management and innovative solutions.
- Developing and retaining highly motivated professional team of employees.
- Enhancing profitability and financial strength befitting the global position.

Core values

- Trust and mutual respect.
- Professional excellence.
- Integrity and transparency.
- Commitment.
- Responsive Service.

2.7 Profile of Public Sector General Insurance Companies in Pune City

There are four public sector general insurance companies and all these companies have their offices in the city of Pune. The profiles of these companies have been summarized below:

The Oriental Insurance Company Limited

The Oriental Insurance Company Ltd was incorporated at Bombay on 12th September 1947. The Company was a wholly owned subsidiary of the Oriental Government Security Life Assurance Company Ltd and was formed to carry out General Insurance business. The Company was a subsidiary of Life Insurance Corporation of India from 1956 to 1973 (when the General Insurance Business
Oriental Insurance was nationalized in the country. In 2003 all shares of the company held by the General Insurance Corporation of India were transferred to Central Government.

The Company is a pioneer in laying down systems for smooth and orderly conduct of the business. The strength of the company lies in its highly trained and motivated workforce that covers various disciplines and has vast expertise. Oriental specializes in devising special covers for large projects like power plants, petrochemical, steel and chemical plants. The company has developed various types of insurance covers to cater to the needs of both the urban and rural population of India. The Company has a highly technically qualified and competent team of professionals to render the best customer service.

Oriental Insurance made a modest beginning with a first year premium of Rs.99,946 in 1950. The goal of the Company was “Service to clients” and achievement thereof was helped by the strong traditions built up overtime.

Oriental with its head Office at New Delhi has 26 Regional Offices and 900+ operating Offices in various cities of the country. The Company has overseas operations in Nepal, Kuwait and Dubai. The Company has a total strength of 15,000+ employees. From less than a lakh at inception, the Gross Premium went up to Rs.58 crores in 1973 and during 2008-09 the figure stood at a mammoth Rs. 4077.90 crores.

**National Insurance Company Ltd.**

National Insurance Company Ltd. India is one of the leading public sector insurance companies dealing with general insurance business. Their new and customized policies ensure the catering of even specialized insurance requirements of almost every sector or industry in the Indian Economy.

National Insurance Company Limited India, with its headquarters in Kolkata, was incorporated in 1906. After the passing of the General Insurance Business Nationalization Act in 1972, over 30 companies, both Indian and foreign were included with it. National Insurance Company India became a subsidiary of General Insurance Corporation of India (GIC) and after the General Insurance
Business (Nationalization) Amendment Act, 7th August 2002, it was delinked from GIC and henceforth it is operating as a Government of India undertaking.

**Today (2011):**

National Insurance Company India with its nearly 1000 offices offers easy insurance services to every part of the country from remote rural areas to townships and metropolitan cities. The company's foreign operational bases are in Nepal and Hong Kong. Presently, National Insurance Company India with its more than 180 policies caters the diverse insurance requirements of their customers. The gross direct premium income of the company had grown to 3523.67 crores rupees in the financial year 2005-2006.

National Insurance Company India has ties with commercial banks, Non-Banking Financial Institutions, Automobile Manufacturers, NGOs and State Governments for marketing of its Insurance services.

**United India Insurance Company**

United India Insurance Company Limited was incorporated as a Company on 18th February 1938. General Insurance Business in India was nationalized in 1972. 12 Indian Insurance Companies, 4 Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, besides General Insurance operations of southern region of Life Insurance Corporation of India were merged with United India Insurance Company Limited. After Nationalization United India has grown by leaps and bounds and has 18300 workforce spread across 1340 offices providing insurance cover to more than 1 Crore policy holders. The Company has variety of insurance products to provide insurance cover from bullock carts to satellites.

United India has been in the forefront of designing and implementing complex covers to large customers, as in cases of ONGC Ltd, GMR- Hyderabad International Airport Ltd, Mumbai International Airport Ltd, Tirumala-Tirupati Devasthanam etc. It has been also the pioneer in taking Insurance to rural masses with large level implementation of Universal Health Insurance.
Programme of Government of India & Vijaya Raji Janani Kalyan Yojana (covering 45 lakhs women in the state of Madhya Pradesh), Tsunami Jan Bima Yojana (in 4 states covering 4.59 lakhs of families), National Livestock Insurance and many such schemes. It has also made its presence in more than 200 tier II & III towns and villages through its innovative Micro Offices.

The New India Assurance Company Ltd.\textsuperscript{44}

The New India Assurance Co. Ltd was established in 1919 by Sir Dorab Tata in Bombay (now Mumbai, India). It initially started its operation as a life and general business. Then in 1956 New India became an exclusive General Insurance Company. Nationalized in 1973 with merger of Indian companies.


Overseas operations commenced in 1920. Operations in 24 countries in the year 2004-05. Network of 19 Branches, 12 Agencies, 2 Associate companies and 2 Subsidiary companies in the year 2004-05. Overseas Premium of Rs. 892.35 crores in the year 2004-05, which accounts for more than 80% of total overseas premium in India.

Largest number of Offices - In India and Abroad Trained and technically qualified staff 1068 fully computerised offices across India. "A-" (Excellent) rating by A. M. Best & Co (Europe) First domestic company to be rated by an International Rating Agency. Rating based upon following factors: Superior capital position Strong operating performance Strong market position Only Company to develop significant International operations, long record of successful trading outside India.
2.8 The Role & Importance of General Insurance

General insurance offers protection from financial loss due to fire, various types of natural or man-made damage, theft, vandalism and a variety of other causes as defined on the individual's policy. Automobile insurance, homeowner and renter insurance, liability, and business insurance are all different types of general, or property, insurance. The important goal of property insurance is to cover your financial losses so that recovery and/or rebuilding is possible.

Automobile insurance can protect the insurer from vehicle damage loss or injury expenses if another driver hits you, especially if that driver is uninsured. It also should protect other drivers if the insurer is at fault in an accident. Renter and mortgage insurance protects your belongings and property up to the replacement value of the same but also provides liability insurance if there is a fire or an accident that damages the property of or injures others.

There are a wide variety of general, or property, insurance policies available to cover just about any contingency. People who have loans on their cars or homes are required by lenders to have protection coverage. People near the coast may need hurricane insurance and homeowners in flood-prone areas need flood insurance. There is a policy for just about every need.

The importance of insurance in protecting the policy holder's financial well-being can never be overemphasized. Everyone is encouraged to learn about all available insurance options and then choose policies that will offer the best protection for all needs.

As stated earlier, there was a monopolistic situation in India before the entry of the private sector companies in the general insurance field. There were only public sector companies. With the entry of the private general insurance companies in this field, competition amongst these companies started to get more and more business. This calls for different strategies, approaches, policies and planning on the part of the management of these companies. The present research work is significant from the point of view of studying the different
problems of general insurance companies as well as to know the future prospects of these companies.

This study will reveal the clearer picture about the present scenario of the general insurance business, Indian as well as global.

The study will also help the managements of these companies to know the positive and negative aspects regarding their management styles and they will be able to manage the business in a better way. They will also be able to take remedial actions wherever required.

The quality of services will improve and it will be possible to shape up the strategies accordingly. They will also be able to concentrate on the scope of the most profitable business.

The study will boost consumer awareness and their response towards the importance of general insurance business. Due to this study, the transaction of the policies will be easier than the earlier. The consumers will get relief from uncertain risks. Being consumers’ market, nowadays, consumers will understand their own importance and can obtain cover as per their own needs.

The government will come to know the scope for general insurance business, what has been achieved so far, and what remains to be achieved. The pros and cons of liberalisation will be understood as this is a profit making business and private companies are sharing the profits.

The government will also realize whether any further reforms are required, which they can implement through IRDA, which will definitely help in enhancing the efficiency of general insurance companies. Thus, the concerned parties will get a clearer picture about the whole general insurance business at a glance.

When one hears the word insurance, the words boring and mundane probably enter the mind. It is realized that insurance is not a fun topic to discuss or think about, yet it is important and serves to protect your financial future. It is comforting to think that nothing untoward will ever happen and that one is invincible. But odds are that one is likely to get into a car accident or have some
type of health problem at some point in life, and when that happens, one will wish one had insurance. So when one questions whether one needs insurance, the answer is a resounding yes, one definitely needs insurance.

It may seem like getting insurance cover is a waste of resources- spending money on something that may or may not happen. Since one cannot predict the future, it is important to protect yourself and your possessions against damage and harm. General Insurance is all about protection- it protects against unfortunate incidents. The moment an unexpected ill-fated event happens, you will be so glad you have general insurance. General Insurance is not a rip off, but rather an essential financial service.

“General Insurance can be tedious, stressful, and mind boggling-- trying to figure out what you need, what you don't need, and how much you need. Basically, there are four areas that most people are concerned about insuring: their life, their health, their possessions, and their finances”\(^\text{45}\).

Mediclaim insurance is something you simply must have. Most employers offer Mediclaim insurance to employees at reasonable rates, so definitely choose a health insurance plan that your employer offers.

The process of general insurance has been evolved to safeguard the interests of the people from uncertainty by providing certainty of payment at a given contingency.

The general insurance principle comes to be more and more used and useful in modern affairs.

Not only does it serve the ends of individuals, or of special groups of individuals, it tends to pervade and to transform our modern social order, too.

The role and importance of general insurance, here, has been discussed in three phases: (i) uses to individuals, (ii) uses to a special group of individuals, viz., to business or industry, and (iii) uses to the society in the book “Insurance – Principles and Practice”, by M. N. Mishra, Professor of Corporate Studies,


Faculty of Commerce, Banaras Hindu University-S. Chand & Company Ltd., Ram Nagar, New Delhi-110055 (Page-12) as under:

**Uses to an individual**

**Provides Security and Safety**

The property is insured against contingencies. In other words, the security is provided to the property against the loss at a given contingency. The general insurance provides safety and security against the loss at fire, damage, destruction or disappearance of property, goods, furniture and machines etc.

The security wish is the prime motivating factor. This is the wish which tends to stimulate to more work, if this wish is unsatisfied, it will create a tension which manifests itself to the individual in the form of an unpleasant reaction causing reduction in work.

The security banishes fear and uncertainty, fire, windstorm, automobile accident, damage and death are almost beyond the control of human agency and in occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centres about the wish for security and its attainment may be eliminated.

**Eliminates dependency**

At destruction of property and goods, the family would suffer a lot. The economic independence of the family is reduced or, sometimes, lost totally. The insurance is here to assist them and provides adequate amount at the time of sufferings.

**Uses to Business**

The insurance has been useful to the business society also. Some of the uses are discussed below:

**Uncertainty of business losses is reduced:**

In world of business, commerce and industry a huge number properties are employed. With a slight sickness or negligence, the property may be turned into ashes. New construction and new establishment are possible only with the help
of insurance. In absence of it, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. A person may not be sure of his life and health and cannot continue the business up to longer period to support his dependents. By purchasing policy, he can be sure of his earning because the insurer will pay a fixed amount at the time of death. Again, the owner of the business might foresee contingencies that would bring great loss. To meet such situations they might decide to set aside annually a reserve, but it could not be accumulated due to death. However, by making an annual payment, to secure immediately, insure policy can be taken.

**Business-efficiency is increased with insurance:**

When the owner of a business is free from botheration of losses, he will certainly devote much time to the business. The care free owner can work better for the maximization of the profit. The uncertainty of loss may affect the mind of the businessman adversely. The insurance, removing the uncertainty, stimulate the businessmen to work hard.

**Key Man Indemnification:**

Key man is that particular man whose capital, expertise, experience, energy, ability to control, goodwill and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer tremendously and up to that time when such employee is not substituted. The death or disability of such valuable lives will, in many instances, prove a more serious loss than that by fire or any hazard. The potential loss to be suffered and the compensation to the dependents of such employee require an adequate provision which is met by purchasing an adequate life policy. The amount of loss may be up to the amount of reduced profit, expenses involved in appointing and training, of such persons and payment to the dependents of the key man. The Term Insurance Policy or Convertible Term Insurance Policy is more suitable in this case.
Enhancement of Credit:

The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty of payment at their deaths. The amount of loan that can be obtained with such pledging of policy, with interest thereon will not exceed the cash value of the policy. In case of death, this cash value can be utilized for setting of the loan along with the interest. If the borrower is unwilling to repay the loan and interest, the lender can surrender the policy and get the amount of loan and interest thereon repaid. The redeemable debentures can be issued on the collateral of capital redemption policies. The insurance properties are the best collateral and adequate loans are granted by the lenders.

Business Continuation:

In any business particularly partnership business may discontinue at the death of any partner although the surviving partners can restart business, but in both the cases the business and the partners will suffer economically. The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner. With the help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business due to the tremendous waste or loss.

Welfare of Employees:

The welfare of the employees is the responsibility of the employer. The former are working for the later. Therefore, the later has to look after the welfare of the former which can be provision for early death, provision for disability and provision for old age. The requirements are easily met by the life insurance, accident and sickness benefit, and pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employers to fulfil their responsibilities. The employees will devote their maximum capacities to complete their jobs when they are assured of their above benefits. The struggle and strife
between employees and employer can be minimized easily with the help of such schemes.

**Some of the uses of insurance to the society are discussed below:**

**Wealth of the society is protected:**

The loss of a particular wealth can be protected with the insurance. The loss or damage of property at fire, accident etc., can be well indemnified by the property insurance; cattle, crop, profit and machines are also protected against their accidental and economic losses. With the advancement of the society, the wealth or the property of the society attracts more hazardous and, so new types of insurance are also invented to protect them against the possible losses. Through prevention of economic losses, insurance protects the society against degradation. Through stabilization and expansion of business and industry, the economic security is maximized. The present, future and potential human and property resources are well protected. The children are getting expertise education, working classes are free from botheration and older people are guiding at ease. The happiness and prosperity are observed everywhere with the help of insurance.

**Economic Growth of the Country**

For the economic growth of the country, insurance provides strong hand and mind, protection against loss of property and adequate capital to produce more wealth. The agriculture will experience protection against losses of cattle, machines, tools and crop. This sort of protection stimulates more production in agriculture, in industry, the factory premises, machines, boilers and profit insurances provide more confidence to start and operate the industry. Welfare of employees creates a conducive atmosphere to work. Adequate capital from insurers’ accelerates the production cycle. Similarly, in business, too, the property and human materials are protected against certain losses; capital and credit are expanded with the help of insurance. Thus, the insurance meets all the requirements of the economic growth of a country.
Reduction in Inflation

The insurance reduces the inflationary pressure in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for production arrow down the inflationary gap.

2.9 General Insurance and Economic Growth

The insurance industries are developing financial institutions in the market. Insurance sector play a vital role in the social and economic development. It will be reducing the uncertainties and improving the financial resources.

There are two important channels which are helping the insurance sector for the economic and social development. Those channels are reducing uncertainties and pooling the long term financial resources.

Reducing Uncertainties:

Insurance sector is provides the financial support in unexpected and sudden situations (Such as floods, fire accidents, and earthquakes.) in businesses and human life.

Generating long term financial resources:

Generating financial long term resources play an important role in economic role. In insurance industry, funds are generated by premiums. These funds are invested in financial instruments (government securities and stock). And the financial instruments generate the long term financial resources.

Insurance industries affect economic growth by the channels of marginal productivity of capital, technological innovations and saving rate.