CHAPTER - I

INSURANCE INDUSTRY IN INDIA
AN OVERVIEW
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INSURANCE INDUSTRY IN INDIA - AN OVERVIEW

This chapter provides Introduction, historical perspective, significance and emergence of LIC of India.

Introduction

Human have always sought security. Humans today quest to achieve security and reduce uncertainty and risk, being a social animal and risk averse, man always tries to reduce risk. An age-old method of sharing of risk through economic cooperation led to the development of the concept of 'insurance'. Insurance can be defined as a legal contract between two parties whereby one party called the insurer undertakes to pay a fixed amount of money on the happening of a particular event, which may be certain or uncertain. The other party called the insured pays in exchange a fixed sum known as premium. The insurer and the insured are also known as assurer, or underwriter, and assured, respectively. The document, which embodies the contract, is called the policy.

Meaning of Life Insurance

Insurance is one of the primary risk management devices available to the people. The term ‘insurance’ stands for a mechanism to protect against risks, hazards or dangers to life and property. Vaghan and Vaghan define insurance from two points of view. From an individual point of view, ‘insurance is an economic device whereby the individual substitutes a small certain cost for a large uncertain financial loss that
would exist if it were not for the insurance. Second, from the society point of view, 'insurance is an economic device for reducing and eliminating risk through the process of combining a sufficient number of homogeneous exposures into a group to make the losses predictable for the group as a whole'.

According to sec. (2) (11) of the Insurance Act, Life Insurance Business means “the business of effective contracts upon human life. It includes:

(a) Any contract whereby the payment of money is assured upon death or the happening of any contingency dependent on human Life.

(b) Any contract which is subject to the payment of premiums for a term dependent or human life.

(c) Any contract which include the granting of disability and double or triple indemnity, accidents benefits, the granting of annuities upon human life, and the granting of superannuation allowance.

History of Insurance of India

The insurance story is probably as old as the story of mankind. The same instinct that prompts modern business persons today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era, its beginnings date back almost 6000 years. The origin of Insurance is probably unknown in India, insurance has a deep-rooted history. Indirect references to insurance are found
in the Rig Veda. The Rig Veda mentions the term "Yoga-Kshema" - meaning 'the well being, prosperity and security of people'. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).

The earliest form of insurance known in the joint family system (an example is Hindu Undivided Family), wherein the financial loss caused by the death of one of the brothers was shared by the other members of the joint family. This idea was extended to the society and the village, gradually. The sharing of the loss was generally after the event had occurred. 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 precursor 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 especially from England.

Life Insurance depends on expectation of life (whether the insured person may be expected to live for the balance of life as per the census mortality table). John Graunt is credited with the first publication of life expectancy tables in the year 1661. In the year 1693, Edmond Halley's Degrees of Mortality of Mankind was published. However, Toronto Tonti of the 17th century is considered to be the father of modern life assurance. The year 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. The year, 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.

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 protect the interests 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.

An Aggregate View of Indian Insurance

The institutions providing insurance services have been an important part of the Indian financial system. One can divide the history of the existence and working of insurance organizations in India into the following three phrases.
Table No. 1.1: An aggregative view of Indian Insurance

<table>
<thead>
<tr>
<th>Phase</th>
<th>a. Life Insurance</th>
<th>b. General Insurance</th>
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<tbody>
<tr>
<td>I</td>
<td>1818 to 1956</td>
<td>Many (245) private sector companies only, competitive market.</td>
</tr>
<tr>
<td></td>
<td>(About 138 Yrs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1850 to 1972</td>
<td>Many (107) private sector companies only, competitive market.</td>
</tr>
<tr>
<td></td>
<td>(About 122 Yrs.)</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>1956 to 2000</td>
<td>Nationalization, public sector or State monopoly, only one company.</td>
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<tr>
<td></td>
<td>(About 44 Yrs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1972 to 2000</td>
<td>Nationalization, public sector or State monopoly, one company with its 4 Subsidiaries.</td>
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<tr>
<td></td>
<td>(About 28 Yrs.)</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>After 2000</td>
<td>Opened to the entry of private domestic and foreign companies mixed, sector of public and private sector units, oligopoly of public sector companies (12 life insurance and 12 general insurance companies)</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report, 2010

The British rule brought the insurance companies of the UK to India. Those companies charged heavy extra premium (up to 10 percent) on the Indian lives. Raja Ram Mohan Roy, the leader of the masses, gave a call, in the year 1822, for an Indian Company to be formed. But the first Indian insurance company was formed only in 1870, by G.A. Summers of Bombay High Court and six others, and was named "Bombay Mutual Life Assurance Society".
This was followed by the formation of "Hindu Family Annuity Fund" in 1872 by Pandit Iswarchandra Vidya Sagar, and the Oriental Government Security Life Assurance Company in 1874 by D.M. Slater and Sir Pheroze Shah Mehta. Shri Lala Hari Kishan Lal of Lahore started the Bharat Insurance Company in 1896. The formation of these and other companies like Bombay Life, Lakshmi Indian Mutual, etc, necessitated the streamlining of their activities. The year 1912 saw the passing of Indian Life Insurance Companies Act (to regulate life insurance business), and Provident Insurance Societies Act. These legislations were inadequate to cover the fast changing situations. The general insurance functions were not covered. The Indian Insurance Companies Act passed in 1928 covered the general Insurance and provided for the Government to collect statistical data of both life and non-life insurance business, but was not comprehensive. Hence, the Insurance Act, 1938 was passed by the Parliament, to consolidate the good aspects of the previous two Acts and to protect the interest of the insuring public.

The picture changed after the Independence. In 1956, 245 Indian and foreign life insurers and provident societies were nationalized, and a new single entity namely, Life Insurance Corporation (LIC) was established by passing the LIC Act. Similarly, in 1972, 107 general insurers were nationalized through the passing of General Insurance Business (Nationalization) Act, 1972. The then existing 107 insurers were amalgamated and grouped into five companies, viz., National Insurance Company (NIC), New India Assurance Company (NIAC), Oriental Insurance Company (OIC), and United India Insurance Company (UIIC), and General Insurance Corporation (GIC). Thus, in 1956 and in 1972, the competitive, private insurance industry was transformed into monopolistic and oligopolistic state or public sector insurance industry in India.'
Role of Insurance in Economic Growth

With the growth of a country's economy, there is an increase in the facilitating role played by the financial services sector. Financial services play a supportive role in the basic activity of production. Insurance frees industries from the worries of unforeseen losses and uncertainties. Insurance helps the country's growth in various ways.

• Insurance covers many economic risks. It protects entrepreneurs against the risk of damage or loss of the goods and other assets.

• With the cover of insurance on assets, businessmen and industrialists are able to take financial risks, which they cannot otherwise take.

• Life insurance offers economic safety at reasonable cost to millions of families in the country. In a way, this helps the government also as it lightens the government's burden of providing social welfare to affected families.

• Insurance companies collect premium from policyholders and invest this money in government bonds, corporate securities and other approved channels of investment. In this way, insurance companies are helpful in providing capital for new ventures or expansion of old units.

Thus insurance aids in the growth of modern economy. By promoting safety against personal losses, it not only improves the individual's quality of life but also provides smoothness in the working of the affairs of business and industry.
Benefits of Life Insurance

Risk cover: Life insurance gives full protection against the risk of death of policyholder. In the event of death of the policyholder, the insurance money along with bonuses accrued is paid to the family.

Saving habit: Life insurance encourages the habit of savings or thrift among the public. Premiums can be paid in installments. For instance, the monthly deduction from salary because of premium under the salary savings scheme is a convenient means of savings for the individuals.

Liquidity: Life insurance policy can serve as a security to avail the loans. Even for other commercial loans, the insurance policy is a security. The main benefit is that it results in immediate liquidity to the holder.

Tax benefits: Insurance is one of the common methods adapted to savings in income tax. The premiums paid on life insurance policies are allowed as a deduction in computing the taxable income of the individuals. Because of the tax relief available, the effective cost of the premiums paid by the holder of the policy will be less.

Protection Against Creditors: Proceeds of a policy can be protected against the claim of creditors of the life assured through a valid assignment or by taking out a policy under the Married Women's Property Act.

Cast Estate: Life insurance is the most practicable way to ensure definite payment on one's death without having to resort to conversion of other assets at a loss. Life insurance, therefore is one of the most satisfactory means of making provision for payment of Estate Duty.
Earmarking: Life insurance policies are sometimes taken with a specific goal in mind such as children’s education, marriage and retirement. These policies are useful to the policyholders concerned

Life Insurance - Types of Policies

The basic customer needs met by life insurance policies are protection and savings. Policies that provide protection benefits are designed to protect the policyholder (or his dependents) from the financial consequence of unwelcome events such as death or long term sickness/disability. Policies that are designed as savings contracts allow the policyholder to build up fund to meet specific investment objectives such as income in retirement or repayment of a loan. In practice, many policies provide a mixture of savings and protection benefits.

The common types of life insurance policies are:

- Endowment Assurance
- Money Back Plan
- Whole Life Assurance
- Unit Linked Plan
- Term Assurance
- Immediate Annuity
- Deferred Annuity
- Group Life Insurance
- Riders
Endowment Assurance

There are two variants of this policy: (a) Non Participating (Without Profit) Endowment Assurance. (b) Participating (With Profit) Endowment Assurance

Non-Participating Endowment Assurance:

This policy offers a guaranteed amount of money (the sum assured) at the maturity date of the policy in exchange for a single premium at the start of the policy or a series of regular premiums throughout the term of the policy. If the policyholder dies before the maturity date then usually the same sum assured is paid on death. Of course, the policy could be structured with a sum assured paid on death, which is different from that paid at maturity.

The policyholder may be allowed to surrender the policy before maturity and receive a lump sum (surrender value or cash value) at the time, on guaranteed or non-guaranteed terms. If the policyholder wishes to keep the policy in force but without paying further premiums, a reduced sum assured (paid up value or paid up sum assured) may be granted. There is usually a provision to take a loan up to 90% of the surrender value.

Participating Endowment Assurance

The structure of this policy is similar to that of the non-participating policy except that the initial sum assured under the policy is expected to be enhanced by payment of bonuses (distribution of the profits made by the insurance company) to the policyholder. In the Indian context, bonuses usually take the form of additions to the initial sum assured and become payable in the event of the occurrence of the
insured event, i.e. survival up to the bonuses (dividends) as regular cash payments. In this case, the policyholder may have the option of using the cash bonus to offset the future premiums payable.

**Money Back Plan**

This is a popular savings cum protection policy because it provides lump sum at periodic intervals. For example, given an initial sum assured of Rs. 1000 and a term of 20 years, the policy may provide for part payment of the sum assured as follows:

- 20% at the end of 5 years
- 20% at the end of 10 years
- 20% at the end of 15 years
- 40% at the end of 20 years

This is usually sweetened by providing a guaranteed addition to the initial sum assured every year. Continuing with the above example, if the guaranteed annual addition is say Rs 100 per 1000 sum assured, then the policyholder gets 400 of the initial sum assured plus guaranteed addition of Rs 2000 [=100X20] at the end of the 20 year term. In the event of death of the policyholder within the specified term, the entire (initial) sum assured plus the accrued guaranteed additions (accrued up to that point of time) become payable.

The money back policy illustrated above is a non-participating policy. The policy can also be offered in the ‘participating’ format in which case the guaranteed additions will be replaced by ‘bonuses’.
As with endowment assurance, a surrender value on guaranteed or non-guaranteed terms may be paid if the policyholder chooses to withdraw from policy. Alternatively, the policyholder may have the option of converting the policy into a paid-up policy. Usually there is no loan facility attached to this policy.

**Whole Life Assurance**

This policy provides a benefit on the death of the policyholder whenever that might occur. It provides long-term financial protection to the dependents. It is particularly useful as a means of protecting some of the expected wealth transfer that a parent would be aiming to make to his her children when he or she died. Without the policy, the wealth transfer is likely to be very small if the parent died young. Such policies can also be a tax efficient way of transferring wealth at any age depending on legislation (often reducing the liability to inheritance tax).

There are both non-participating and participating versions of this policy. Non-participating policies offer a guaranteed sum assured on death. Under participating polices, initial guaranteed sum assured on death. Under participating policies, the initial guaranteed sum assured may be increased by bonuses or cash refunds may be given. Where the initial guaranteed sum assured is increased by bonuses, the sum assured together with the accrued bonuses becomes payable on the death of the policyholder.

As with endowment assurance, a benefit may be paid if the policyholder chooses to withdraw from the policy. Similarly, there may be a 'paid up' policy option. The policyholder may also have the option of taking a loan up to say 90% of the surrender value.
Unit Linked Plan

A unit-linked plan is also an investment-oriented product. As compared to other investment plans, the investment portion of the unit linked plan functions like a mutual fund. It is invested in a portfolio of debt and equity instruments, in conformity with the announced investment policy. Hence, it grows or erodes in line with the performance of that portfolio. Of course, throughout the period of investment, the policyholder enjoys an insurance cover as stipulated.

Term Assurance

This is a pure protection policy, which provides a benefit on the death of an individual within a specified term for example, one, ten or twenty-five-years. Premiums may be paid regularly over the term of the policy [or some shorter period] or as a single premium at outset. Generally, there is no payment if the policyholder survives to the end of the policy. However there is term assurance policies, which offer some proportion of premiums paid on survival to the maturity date of the policy.

A popular variant of the term assurance policy is the decreasing term assurance policy under which the sum assured decreases over the term of the policy. This type of policy can be used to meet two such specific needs. First, it can be used to repay the balance outstanding under a loan [e.g. credit life insurance] in the event of the death of the policyholder. Secondly, it can be used to provide an income for the family of the deceased policyholder from the time of death up to the end of the policy term.

Term assurance policies are typically offered in the non-participating format.
These policies are usually structured with no ‘surrender value’ and ‘paid up’ policy options. The main attraction of a term assurance policy is that it provides a death benefit at a lower cost than under an endowment or whole life policy for the same level of benefit.

Immediate Annuity

This type of policy meets the policyholder’s need for a regular income, for example, after his or her retirement. The policy can also be structured to provide an income for a limited period, for example to pay the school fees of the policyholder’s children. The regular income is purchased by paying a single premium at the inception of the policy. Strictly speaking the regular income ceases on the death of the policyholder. There are however variants of this policy under which a (reduced) income may be paid to the spouse (of the policyholder) over his or her lifetime; or the single premium may be returned to the dependents of the deceased policyholder.

Immediate annuities can be offered either in the non – participating format or in the participating format. In the case of a participating annuity, the income paid to the policyholder is a guaranteed amount plus a bonus added by the insurance company. Usually no payment is made to the annuitant on withdrawal. Put differently, there is no surrender value option associated with this type of policy.

Deferred Annuity

The usual structure of this policy is that the policyholder pays regular premiums for a period up to the specified ‘vesting date’. These premiums buy amounts of regular income, payable to the policyholder from the vesting date. A single premium at the start of the policy is a possible alternative to regular premiums.
A deferred annuity enables the policyholder to build up a pension that becomes payable on his or her retirement from gainful employment. At the vesting date of the annuity, the alternative of a lump sum may be offered in lieu of part or all of the pension, thereby meeting any need for a cash sum at that point, for example to pay off a housing loan.

**Group Life Insurance**

The group insurance is a plan of insurance, which covers similar / homogeneous groups of individuals under a single policy (i.e. master policy). In contrast to individual insurance, the insurance company enters into group insurance contracts with an employer, a labour union or a voluntary association. The individuals covered in the group insurance scheme are not parties to the contract. The group policyholders negotiate the amount as well as terms of the insurance only. For the groups of reasonable size and a uniform risk, the insurance is concerned not with assessing the risks of the individuals in the group but with assessing the broad risk characteristics of the group as a whole. This translates in to reduced insurance/under-writing and lower administration cost to the insurer. Hence, the premium rate is lower on group policies as compared to similar individual policies. The employer/trustee/group pays it/association on behalf of the individuals they represent, the amount of insurance cover is decided upon for the group as a whole. This may be either uniform for all members or a graded amount for different categories' based on salaries and so on.

Some of the group insurance scheme available in India now is: i. Employees Deposit Linked Insurance Scheme (EDLI) under the Employees Provident Fund
Chart 1.1: Classification of Life Insurance Policies

- On the Basics of Duration of Policy
  - Single Premium Policy
  - Level Premium Policy
- On the Basics of Methods of Premium Payments
  - With Profit Policy
  - Without Profit Policy
- On the Basics of Participation in Profits
  - Single Life Policy
  - Multiple Instalments or Annuity Policies
- On the Basics of Number of Lives Covered
  - Joint Life Policies
  - Last Survivorship Policies
- On the Basics of Sum Assured
  - Lumpsum Policies

Methods of Duration
- Whole Life Policy
- Limited Payment Whole Life Policy
- Convertible Whole Life Policy

Methods of Term Insurance
- Temporary Assurance Policies
- Renewable Term Policies
- Convertible Term Policies

Methods of Endowment
- Pure Endowment Policy
- Ordinary Endowment Policy
- Joint Endowment Policy
- Double Endowment Policy
- Fixed Term Endowment Policy
- Education Annuity Policy
- Tripple Benefit Policy
- Anticipated Endowment Policy
- Multipurpose Policy
- Children's Differed Endowment Policy
Impact of Financial Crisis on LIC

LIC is a public sector insurer and a domestic investor. As such, LIC are not directly affected by the global financial crisis. However, the volatility in Indian financial market due to the uncertainty in global markets may affect returns get on their investments. But LIC has an indisputable record of prudently planning its investments and getting the maximum returns on the policyholders’ money. Total premium growth of LIC has always been quite stable, even when there are periodical ups and downs in the new premium income. LIC ended the year 2007 with around 10% growth in First Premium income despite several odds. However, the growth in total premium income was quite healthy, indicating better conservation ratio.

LIC overall expense ratio is the last in the industry. In the year 2008, was only 11.94% and it was just 5.56%, excluding the commission. The surplus generated was a record high of Rs. 16,598.65 crore, which enabled to give higher terminal bonus to the government. Having said that, LIC agree that there has been a decline in the new premium in the current financial year. One of the reasons was that after with drawl of their successful old plans, they did not immediately introduce any ULIP. Since then, they have launched new products and the response has been very positive and encouraging. Also, LIC has some issues with the union of development officers, which have been more or less sorted out through series of consultations and discussions. In September, the figures have started picking up.

It is not accurate to say that LIC has reached its saturation point in terms of distribution, as they are expanding their reach and network. Other insurers
are perhaps expanding very fast and the effect is reflected in their balance sheets. LIC do have constraints of capital and any growth has to be supported by internal accruals only. Hence, LIC follow the policy of steady and profitable growth and distribute 95% of surplus to their “with profit” policyholders. Such a practice makes our products better. And sure, this will, in the long run, determine winner in the life insurance market in India.

Fist of all IRDA’s regulations are not only about equity exposure, but encompass several other aspects too. Second, these norms are not just LIC-centric, but applicable to the whole industry. LIC total assets of more than Rs. 8 lakh crore are their legacy built of earlier regulations and norms under the Insurance Act. LIC have always followed applicable norms in their operations and they have an impeccable track record of being a prudent investor, keeping in view the best interests of their policyholders. New investments norms have several changes from the earlier one and LIC are working on them and are in touch with IRDA.

**Competitive Advantage**

Competition will surely cause the market to grow beyond current rates, create a bigger “pie” and offer additional consumer choices through the introduction of new products, services, and price options. Yet, at the same time, public and private sector companies will be working together to ensure health growth and development of sector. Challenges such as developing a common industry code a conduct, contributing to a common catastrophe reserve fund, and chalking out agreements between insurers to settle claims to the benefits of the consumer will require concerted effort from both sectors.
The market is now in an evolving phase where one can expect a lot of actions in coming days. The current impediments for foreign participation - like 26% equity capital on foreign partner, in pension business etc. - are expected to be removed in near future. The early-adopters like LIC will then have a clear advantage compared to laggards in gaining the market share and market leadership. The will need to make sure right now that all their infrastructure in the place so that they LIC can reap the benefit of an “unlimited potential”.

Need for Reforms in the Insurance Sector

The LIC and the GIC have grown steadily over a period of time. But, they have not achieved the objectives as contemplated by the policymakers. For instance, the performance of LIC and GIC in investor services has been deteriorating. Despite their operations with huge funds, the margin of profits and profitability is poor. High premiums and poor after sales service and inefficient marketing have been the major weaknesses of the insurance sector. The LIC being in the public sector, accountability is poor, and management efficiency is low due to lack of initiative and bureaucratic and political interference into its working. Hence, it has not grown to the desired level. Further, the monopoly of LIC in the life insurance business led to

- The monolithic structures, with centralization of decision and bureaucratization of the administration.

- Inefficiency of manpower and low productivity due rising costs and wage bills, absence of competition and poor management.

- Interference of political and bureaucratic forces on the working of these companies.
The use of the public funds was found to be uneconomical and wasteful and the purpose of nationalization of insurance was defeated while the objective of directing these funds for socially useful projects, national welfare measures and infrastructure projects was only partially achieved.

Reforms in the Insurance Sector

Following the reforms in the capital market and in the financial sector, reforms in the insurance sector were also contemplated. As a part of reforms, the process of opening up of the sector had begun in the early 1990's and in 1993, the Government set up a committee under the chair of R N Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The reforms were aimed at “creating a more efficient and competitive financial system suitable for the requirement 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”. The Malhotra committee made the following recommendations.

Structure

- LIC should be registered as a company under the companies Act and its paid up capital raised from Rs. 5 crores to Rs. 200 crores with Government holding only 50% and the rest by the Public at large. Government stake in the insurance companies to be brought down to 50%.

- Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as Independent corporations.
• All the insurance companies should be given greater freedom to operate.

**Competition**

• Private companies with a minimum paid up capital of Rs,1 billion should be allowed to enter the industry.

• No company should deal in both Life insurance and General insurance through a single entity.

• Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.

• Postal Life insurance should be allowed to operate in the rural market.

• Only one State level Life Insurance Company should be allowed to operate each state.

• The Insurance Act should be changed.

• Insurance Regulatory body should be set up.

• Controller of Insurance (currently apart from the Finance Ministry) should be made independent

**Investments**

• Mandatory Investment of LIC Life Fund in government securities to be reduced from 75% to 50%.

**Customer Service**

• LIC should pay interest on delays in payments beyond 30 days.
• Insurance companies must be encouraged to set up Unit Linked Pension Plans.

• Computerization of operation and updating of technology to be carried out in the insurance industry.

• The institution of ombudsman should be set up to settle disputes on personal claims up to Rs. 5 lakhs more quickly and reduce litigations.

Overall the committee strongly felt 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. Further, the committee also felt the need for establishing a separate authority for controlling the insurance business in India.

**Insurance Regulatory and Development Authority Act, 1999**

The Government established the IRDA to protect the interests of policyholders, to regulate, promote and ensure orderly growth of the industry and also to amend the insurance Act, 1938, the LIC Act, 1956, and the General Insurance Business (Nationalization) Act, 1972. The regulatory framework of IRDA has been presented in figure 1.1.
Mission of IRDA

The mission statement of the IRDA contains the objectives with which it has been setup. IRDA was established.

1. To protect the interest of and secure fair treatment to policyholders.

2. To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long-term funds for accelerating growth of the economy.
3. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.

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

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

6. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness among market players.

7. To take action where such standards are inadequate or ineffective enforced.

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

Figure brings out the regulatory domain of IRDA. It provides the necessary regulations for the functioning of the various stakeholders in the insurance industry. IRDA is the regulator, supervisor and monitor of the insurance industry.

Amendment of LIC Act, 1956

According to this amendment, the exclusive privilege (monopoly) of the LIC ceases so as to enable other Indian insurance companies to do life insurance business subject to the condition that the aggregate equity holdings of a foreign country or its subsidiaries/nominees does not exceed 26 per cent of the paid-up capital, and whose sole purpose is to carry on general/life business.
Protection of Policy Holders Interest Regulations

These regulations are in addition to any other regulations made by the IRDA, which may, inter alia, provide for protection of the interest of the policy holders. They apply to all insurers, insurance agents, insurance intermediaries and policyholders. Their main elements are 1) Point of sale, (2) Proposal for insurance, (3) grievance redressal procedure; (4) matters to be stated in life insurance policy; (5) matters to be stated in general insurance policy; (6) claims procedures in respect of life insurance policy; (7) claims procedures in respect of general insurance policy, (8) policy holders' servicing and (6) general. In this regard, a few important aspects have been discussed hereunder.

Policy Holder Servicing

An insurer carrying on life or general business, should at all times, respond within 10 days of the receipt of any communication from its policyholders in all matters, such as:

a) Recording change of address

b) Noting of new nomination or change of nomination under a policy

c) Noting an assignment on the policy

d) Providing information on the current status of a policy indicating matters, such as, accrued bonus, surrender value and entitlement to a loan

e) Processing papers and disbursal of a loan on security of policy.

f) Issuance of duplicate policy
Issuance of an endorsement under the policy noting a charge of interest or sum assured or perils insured, financial interest of a bank and other interests; and Guidance on the procedure for registering a claim and early settlement.

**Major Principles Guiding LIC's Investment Policy**

The major principle underlying LIC investment policy appears to be security of funds and maximization of the rate of return on investment is of secondary importance. Therefore, the investment for speculative purposes or in assets which promise high capital gains have to be strictly avoided by insurance companies. The basis of investment policy in India is broadly similar to the one followed by insurance companies in other countries. The high prescribed ratio of investment in government securities was partly to ensure the provision of funds to the public sector. Table 1.2 presents the portfolio restrictions on life insurance.

**Table No 1.2: Portfolio Restrictions on Life Insurance and General Insurance in Force in 2001-02.**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Government Securities</td>
<td>25%</td>
</tr>
<tr>
<td>II.</td>
<td>Government Securities or other approved securities (including (i) above) Approved Investments as specified in Schedule)-I Infrastructure and Social Sector</td>
<td>Not less than 50%</td>
</tr>
<tr>
<td>III.</td>
<td>Other to be governed by Exposure norms (Investments) in ‘Other than in Approved Investments’ in no case exceed 15% of the fund)</td>
<td>Not less than 15% Not exceeding 35%</td>
</tr>
</tbody>
</table>

Insurance Penetration

In life insurance business, India ranked 9th among the 156 countries for which data are published by Swiss Re. During 2009, the life insurance premium in India grew by 10.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2 per cent. The share of Indian life insurance sector in global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008. Insurance penetration (insurance premium as percent of GDP) measures the level of insurance activity relative to the size of the economy. Insurance penetration is measured on the percentage insurance premium to GDP. It is to be noted that since the opening up of the insurance sector for private participation, India has reported increase in insurance penetration. The latest Swiss Re report reveals that the insurance penetration in India was 4.6 per cent in 2009 consisting of 4.0 per cent in life business and 0.6 percent from non-life business, unchanged from 2008. India's position vis-à-vis other Asian countries in respect of insurance penetration is depicted in table-1.3.
### Table No: 1.3 Insurance Penetration - 2009 (In percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Business</th>
<th>Life Insurance</th>
<th>Non-life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>9.8</td>
<td>7.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.8</td>
<td>6.3</td>
<td>1.6</td>
</tr>
<tr>
<td>India</td>
<td>4.6</td>
<td>4.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.3</td>
<td>2.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.3</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>PR China</td>
<td>3.3</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.4</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.4</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.3</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.8</td>
<td>0.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Swiss Re Sigma No.3/20

### Table No: 1.4 Insurance Density - 2009 (US Dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Business</th>
<th>Life Insurance</th>
<th>Non-life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>3698.6</td>
<td>2869.5</td>
<td>829.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>3179.0</td>
<td>2549.0</td>
<td>630.0</td>
</tr>
<tr>
<td>India</td>
<td>47.4</td>
<td>41.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>345.4</td>
<td>225.9</td>
<td>119.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>142.1</td>
<td>77.2</td>
<td>64.9</td>
</tr>
<tr>
<td>PR China</td>
<td>105.4</td>
<td>71.7</td>
<td>33.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>32.1</td>
<td>12.8</td>
<td>19.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>25.6</td>
<td>16.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>29.5</td>
<td>20.1</td>
<td>9.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>6.8</td>
<td>2.8</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Swiss Re Sigma No.3/2009

- 29 -
Insurance Penetration & Density In India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. However, the increase has been almost entirely contributed by the life insurance sector.

Table No: 1.5 Insurance penetration & density in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Life Insurance</th>
<th>Non-Life Insurance</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density (USD)</td>
<td>Penetration (% age)</td>
<td>Density (USD)</td>
</tr>
<tr>
<td>2001</td>
<td>9.1</td>
<td>2.15</td>
<td>2.4</td>
</tr>
<tr>
<td>2002</td>
<td>11.7</td>
<td>2.59</td>
<td>3.0</td>
</tr>
<tr>
<td>2003</td>
<td>12.9</td>
<td>2.26</td>
<td>3.5</td>
</tr>
<tr>
<td>2004</td>
<td>15.7</td>
<td>2.53</td>
<td>4.0</td>
</tr>
<tr>
<td>2005</td>
<td>18.3</td>
<td>2.53</td>
<td>4.4</td>
</tr>
<tr>
<td>2006</td>
<td>33.2</td>
<td>4.10</td>
<td>5.2</td>
</tr>
<tr>
<td>2007</td>
<td>40.4</td>
<td>4.0</td>
<td>6.2</td>
</tr>
<tr>
<td>2008</td>
<td>41.2</td>
<td>4.0</td>
<td>6.2</td>
</tr>
<tr>
<td>2009</td>
<td>47.7</td>
<td>4.6</td>
<td>6.7</td>
</tr>
</tbody>
</table>

- Insurance density is measured as ratio of premium (in US Dollar) to total population.
• Insurance penetration is measured as ratio of premium (in US Dollars) to GDP (in US Dollars).

• Source: Swiss Re Sigma No.3/2009

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 47.7 in 2009. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.60 percent in 2009. The penetration of non-life insurance sector in the country remains near constant for the last 9 years at around 0.60 per cent. However, there is a marginal increase in density, which has increased from USD 2.4 in 2001 to USD 6.7 in 2009.

Figure 1.2 Insurance Density in India
HRM in Life Insurance Sector

Insurance sector in India is the oldest, and fastest growing financial intermediary. Insurance in India is a unique system. It works under the constraints that go with social, cultural and public ownership. Indian Insurance system has undergone changes from time to time. In 1912 the Indian Life Assurance companies act enacted as the first statue to regulate the life insurance business. In 1928 the Indian Insurance Companies act enacted to enable the Government to collect statistical information about both life and non life insurance business. In 1938 earlier legislation consolidated and ammended by the insurance act with the objective of protecting the interests of the insuring public. In 1956, 245 Indian and foriegn insurers and provident societies were taken over by the central government and nationalised. LIC formed by an act of parliament, viz., LIC act, 1956, with a capital contribution of Rs. 5 crores from the Government of India on the basis of recommendations of Malhotra Committee, the insurance industry has entered into a very exiting and challenging phase. This
committee has placed greater emphasis on the steps needed to improve the financial help of the insurance sector in order to make them efficient, market-oriented, vibrant, dynamic and globally competitive.

At present Indian insurance industry consists of public sector insurance (LIC), private sector insurance, foreign insurance. Thus the insurance sector in India is at present passing through a period of structural changes initiated with the passing of IRDA bill in parliament in December 1999. Under the impact of financial sector reforms opening of insurance sector 1999 and is facing internal competition, challenges of new technology and global competition. The LIC have now increasingly realized that aspects of efficiency, productivity and profitability are the areas which required primary attention. In this context it is worthwhile to review HRM policies and practices in LIC of India in the past and at present.

In the earlier years, HRM policies were chiefly confined to industrial relations. Industrial relations (IR) practices in Indian Insurance sector evolved over the years have been essentially a reactive process. From a stage of extreme exploitation of employees prior to the 1940s, the IR process unfolded itself into labour militancy and crisis in the 60s and 70s. Most of the human resource management practices in the industry, such as salary structure, promotion, transfer, placement, etc., are by products of this reactive process. During this period, trade unions in the industry multiplied and this phenomenon further added difficulties to managing IR in LIC. This undesirable state of IR did adversely affect the performance of LIC and customer satisfaction. Through out the 70s and 80s the unions waged relentless battles against the introduction of information technology. Even on this issue the unions have come around to a substantial agreement.
The uncomfortable IR Process continued throughout the early 80s although militancy had come down substantially. Since the mid 80s IR took a different turn and it apparently became “conducive” as LIC unions became less militant. By the year 2000 with the introduction of liberalization in the insurance sector, which included restructuring of the industry, trade unions in LIC of India, like most other industries in India, started focusing their attention more on issues relating to the effects of reforms such as liberalization, privatization and entry of private and foreign insurance companies in India.

It is also observed that presently, personnel department in LIC is reduced to monitoring settlements, awards, Government directives and labour laws, leaving no scope for HRD. In the shielded environment, professionalisation need was never felt by LIC of India. Limited carrier opportunities, meager monetary benefits and lack of autonomy at the top management level in regard to reward system restricted attracting and retaining good talent.

In order to cope with such problem, the bureaucratic nature of business will have to undergo change and LIC should strive to achieve significant increase in their productive efficiency and profitability. Towards meeting the specific needs of the year 2010 and beyond, the LIC may have to develop specialised man power on a large scale and this would require suitable HRD system.

It is recognised fact that the rate of technological advancement in the insurance sector has accelerated. Information technology is paying its role in the insurance industry. But it is only an addition to human effort, not a substitution there of what customers want from a insurance organisation is good service - service with smile,
service with efficiency, service with speed, service with value addition. Equipping the LIC with man power both in terms of quality and quantity, shall necessitate LIC to have unions of good HRM policy.

In the wake of deregulation, liberalization and globalization of the Indian economy, the insurance system is also getting gradually internationalised. The Indian Insurance strategic response to the challenge has to be wide ranging. Since in a service industry like insurance the raw material is man, Human resource management emerges as a single most important element of the LIC strategic response to the challenge of change. In insurance sector human resource is the most strategic and critical determinant of growth and development. Therefore human resource management plays a pivotal role in the development of profitability of insurance sector.

Hence it is summed up that insurance is one of the primary risk management devices available to the people. LIC is a financial intermediatively which pools resources for sharing of risk and allocate to various sectors and activities. Life Insurance Corporation of India been playing an important role in the socio - economic development of country. Since 2000 with the implementation of IRDA bill based on reforms and recommendations of RN Malhotra Committee, major changes have been introduced in working of LIC in India and the insurance industry has entered into a very exiting and challenging phase. In the wake of the reforms, greater emphasis has been place on improving financial health of the LIC to make it efficient, market oriented, vibrant and globally competitive.
Information technology is playing a prominent role in the Insurance industry. But what matters is the man across the counter, who is ultimately responsible to extend better services to the customers. Thus technology is only an addition to human efforts and not a substitution thereof. What customers want from an insurance organization is good service - service with smile, service with efficiency, service with speed, service with value addition. As a result, equipping the LIC organization with man power both in terms of quality and quantity necessitates adoption of good HRM policies. Thus, HRM is the most critical and vital aspect in the development and profitability of the LIC.
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