CHAPTER - 1

INTRODUCTION
INTRODUCTION

The financial sector constitutes one of the major components of the services sector, and within that sector, insurance services assume paramount importance. The urge to provide protection against the loss of life and property must have prompted people/groups to make some sort of scarifies willingly in order to achieve security through 'collective cooperation'. The instinct for security against such risks is one of the basic motivations determining human attitude. As a sequel to this quest for security, the concept of insurance must have been born. Insurance is the outcome of man's constant pursuit for security and finding out ways and means of ameliorating the hardships arising out of calamities. Insurance is essentially a social device to reduce or eliminate risk of loss to life and property. It may be defined as a contract between insurer and insured under which insurer indemnifies the loss of the insured against the identified perils for which mutually agreed upon premium has to be paid by the insured. The contract lays down the time framework within which the losses will be met by the insurer. Insurance is mainly of two types-life insurance and Non-life Insurance (General Insurance), which refers to insurance cover against fire damages, marine losses and other forms of insurance.

NEED AND IMPORTANCE OF THE INSURANCE

The role of insurance services in contributing to the process of economic development has not been properly appreciated and examined in economic literature. While a large number of studies and research material are available on the role played by other services such as banking, transport, communication, public administration, defense etc. in accelerating the national income of an economy, there is a dearth of material on inter linkages between economic developments on the one hand and insurance services on the other. Insurance industry assists the development process of an economy in several ways. Primarily, it acts as a mobiliser of savings, financial intermediary, promoter of investment activity, stabilizer of financial market, risk manager and an agent to allocate capital resources efficiently. Although the insurance industry has grown rapidly in the developed countries, its growth in developing countries has neither been satisfactory nor in tandem with the growth of other sectors of the economy.
NEXUS BETWEEN CAPITAL FORMATION AND INSURANCE

Capital performs the function of financing is increasing both the total output as well as the output per worker in the society. For sustained growth of the economy, what is required is that the capital stock should grow not only at the rate adequate to replace the depreciated stock but should also contribute to the net addition to the same.

The process of capital formation envisages three essential steps. These are:

1. Real savings
2. Mobilization and channelizing of savings through financial and non-financial intermediaries for being placed at the disposal of investors.
3. The act of investment.

The contribution of insurance in the process of capital formation is through all these stages. Insurance services act as a tool to mobilize savings, function as financial intermediary and at times, though rarely, indulge in direct investment.

Insurers as Financial Intermediaries

As mentioned earlier, in the process of capital formation, one of the important steps involved is the mobilization of savings and placing them at the disposal of investors. The above function is carried out by the financial intermediaries. In a market oriented economy, while the act of savings is performed by a large number of units scattered across the country, the investment functions are carried out by different entities which are also scattered widely. Financial intermediaries perform a very useful function of channelizing savings into domestic investment. These financial intermediaries with their specialized knowledge place the savings of these units into most productive investment channels. These intermediaries facilitate the efficiency in the allocation of capital resources which in turn improves productivity and economic efficiency of the economy. It largely contributes in reducing the capital-output ratio in the economy. Insurance companies, both life and non-life, in their role as financial intermediaries perform extremely useful functions in the economy. Insurance companies are financial intermediaries as they collect and invest large amounts of premiums. They offer protection to the investors, provide means for accumulating
savings, and channelize funds to the government and other sectors. They are contractual saving agencies which receive, mostly without fail, a steady inflow of funds in the form of premiums or regular contributions to pension plans. They are also in a position to predict, relatively accurately, when and what amounts of insurance or pension benefits have to be paid.

EMERGENCE OF GENERAL INSURANCE CORPORATION (GIC) OF INDIA

After independence, under the planned development of the company, the government came to the conclusion that a strong public sector under its direct control will be able to meet national objectives of growth, equity, resource mobilization, employment generation etc. the financial sector was construed as one of the strategic sector capable of mobilizing resources and placing it at the disposal of the government for being invested as per the planned priorities. In pursuance to the above objective, life insurance was nationalized in 1956, and banking sector in 1969. The General Insurance business was nationalized with effect from January 1, 1973, through the general Insurance business (Nationalization) Act 1972. However, as a prelude to the above act, the government took over the management of all the operating companies in 1971, through general Insurance (Emergency provision) Act 1971. The emergency act provided for the appointment of custodians who were empowered to exercise controls over these companies subject to the directions of the Central government. At the time of nationalization of these companies, there were a total of 107 companies underwriting general insurance business in India. All these companies were amalgamated and grouped into companies namely the National Insurance Company Limited, the New India Assurance Company Limited, the Oriental Fire and General Insurance Company Limited, and the United India Insurance Company Limited with head offices at Kolkata, Mumbai, Delhi and Chennai respectively.

The main objectives of nationalization were to ensure the development of the general insurance business in correspondence with the best of interest and advantage to the country. Further, these companies were required to promote healthy competition in the economy and to prevent the concentration of wealth and growth of monopoly. They were supposed to widely spread their activities over the geographical
area, innovate new products as per the requirements of different segments of
dominance and also meet social objectives through formulating polices for weaker
sections of society. The functions of GIC as laid down in the act were:

1. Carrying on any part of general insurance business, if it thinks desirable to do
   so;
2. Aiding, assisting and advising the acquiring companies in the matter of setting
   up of standards of conduct and of rendering efficient service to holders of
   policies of general insurance;
3. Advising the general insurance companies in the matters of controlling their
   expenses including the payment of commission and other expenses;
4. Advising the acquiring companies in the matter of investment of their funds;
5. Issuing direction to acquiring companies in relation to the conduct of the
   general insurance business.

Unique Features of the general insurance

The general insurance is characterized by certain unique features, which

distinguishes it from other forms of financial services.

Firstly, the general insurance is a contingency oriented activity and unlike
other financial services, there is no guaranteed return from the general insurance
operation. The insured is paid only when the insured peril has occurred during the
period of insurance policy.

Secondly, there are limits to insurability meaning thereby that the capacity of
insurer is positively correlated to the units of insured exposed to similar
contingency/peril. The larger, the number, the spread of risk is wider with favorable
impact on a premium rates.

Thirdly, the price of the product i.e. premium cannot be determined before the
sale of the insurance product. Since the claims arise only after the sale of the product,
the optimum price of insurance products can only be determined after a time lag based
upon the past experience.
Fourthly, since the actual claim cost is uncertain and cannot be pre-conceived, there is always the possibility that the amount to be paid as claim may exceed the provisions made for the same. It may cause financial strain on these companies. It, therefore, necessitates sound financial position and solvency of insurance companies on a sustained basis.

**Preconditions for healthy and sound growth of the general insurance business**

These preconditions include:

1. Insurance interest
2. Indemnity
3. Utmost good faith
4. Proximate cause
5. Customer satisfaction

**Insurance Interest**

For conduct of general insurance, the insured should have insurable interest in the property that he proposes to insure. It would basically mean that first, there has to be property capable of being insured. Second the proposed property should be subject matter of insurance, and third the insured should have legal relation with the property to be insured, which may be through different ways such as ownership, mortgage, trustee, lessee etc.

**Indemnity**

The indemnity objective is basically based upon the principle that the insured does not make any profit originating from insurance operations. He is supposed to be placed in the identical financial position as he was before the occurrence of insurance peril. However, in case of marine insurance the indemnity is determined by the mutual agreement between insurers and insured as provided in the Marine Insurance Act, 1963. Further, in case of personal accidents, it is not possible to place a value on life. The indemnification is normally facilitated through following four methods. These are:

1. Cash payment
2. Repair
3. Replacement
4. Reinstatement.
It may also be mentioned that all contracts of indemnity are based upon the principle of subrogation and contribution. The principle of subrogation entitles the insurer to all the powers to recover the loss from the third party after the loss has been paid for. The principle of contribution implies that the payment to the insured by the insurer is limited to the extent it was insured with a particular insurer. It prevent emergence of profit by insured in insurance operations.

**Utmost Good Faith**

The general insurance is based upon the fact that the insured discloses all the relevant facts about the property/object to be insured in good faith without any concealment. Based upon the above information the insurer decides as to whether it is worth ensuring as well as the premium rates, terms and conditions of the policy.

**Proximate Cause**

The contact between insurer and insured is in respect of covering specific perils which are laid down in the policy documents. The insurer is liable to pay only against such specified perils and not against, those not covered in policy documents.

**Customer satisfaction and insurance business**

Customer is the back bone of organization upon which they stand tall. They are the ones who solely possess in them the power to make or break any organization irrespective of its nature and service. So it is necessary to take adequate care of them, nourish them and at the same time increase the number. Customer service is not at all a new world or concept in the business world. It is more about the way customers are now treated by organization. Gone are the days when there use to be four subsidiaries and large number of buyers. Now the scenario has reversed. Today, there are large number of insurer/intermediaries and large number of buyers. So the importance of serving your customer is utmost important in this ever increasing ever changing and highly competitive business scenarios.

It's well known fact that the needs and wants of customers do also change with tides of the time. Therefore organization too should be updated of the latest likes and dislikes and changing needs of their own ones so that they can match with them. A complacent nature can be lethal for future of the organization. Things that looked
ok yesterday unfortunately would not do the business for today. Customers are changing and they are changing very fast due to their unique needs and wants.

Statement of the research problem

Indian insurance sector is full of challenges and opportunities. Though insurance industry is matured enough in India, it is still looking to the vast population and scope of insurance coverage for the uncovered the population as well as properties. It is really a challenge for the insurance industry to cover the untapped market for which they have the moral responsibility as well as business requirement. It is pertinent to understand that large part of the Indian population is either illiterate or below poverty line. The basic principles of insurance are to serve the public for their security without being detrimental to them. It not only should aim at spreading of insurance all over the country but also promote social security keeping in view the principles of equity and natural justice in the interest of all the insuring public. Since liberalization, the shape of the financial services industry is gradually changing due to changing customer needs, innovative financial products, deregulation, information technology upgradation, mergers and acquisitions and a variety of delivery channels. In the competitive and liberalized environment, everyone is trying to perform better than others for it survival and growth. On the one hand this process of change and innovation is going on while on the other hand new private sector companies and new offices of foreign institutions have started their insurance business with public sector companies in India. In this situation a question arises regarding the companies capability of increasing profitability, satisfying the customers and also their survival within financial industries and their own industry. Amongst many of the challenges faced by the GIC of India, policy lapses are the toughest challenge. Policy is a means of earning for the Insurance companies for the coverage offered. Renewal of the policies by the customers ensures regular flow of incomes which in turn ensures regular flow of and undisturbed pattern of investments to the corporate sector. A lapse in the policy by the policy holder can cause an adverse impact to the insurance company in particular and economy in the general.

The adverse implications include;

- Disturbance in the income flows to the Insurance Company.
- Reduction in profits
- Decline in net asset values
• Inability to invest more in the corporate sector
• Cannot compete with other players in the market
• Low volume of business

The reasons for policy lapses can be many which may include

• High premium rate
• Absence of flexibility in payments
• Inadequate network of insurance companies
• Indifferent approach of the staff
• Improper communication
• Core customer relationship management practices
• Stringent conditions in case of failure to pay on time
• Cut throat competition
• Bank assurance
• Ineffective functioning
• Poor public image
• Absence of segmentation based services

In addition to the problem of shifting loyalty of the customers from one insurance company to the other, it is also a worthy effort to identify the determinants of the choice between public and private sector general insurance companies. This way of identification of the determinants of the choice between public and private sector may facilitate general insurance companies to devise policies and programs to muster customer loyalty and longstanding relationships with the customers.

After understanding the need and importance of the general insurance for an efficient economy, it is felt that a study on the general insurance business in India assumes considerable amount of significance and relevance. Hence, the present research effort is initiated. In order to avoid duplication in the research efforts and identify the gaps if any in the existing literature, an attempt is made to review the earlier studies in this arena of insurance.

REVIEW OF THE EARLIER STUDIES

K. Chidambaram and T. Margare have found that rural insurance schemes are at present adequately covering risks in respect of assets financed by banks or
Government agencies. Insurance consciousness amongst the rural masses is yet to take the root. The vast majority of policies under rural insurance are a result of compulsion from the financiers. Hence there is a tendency to allow policies to lapse with the repayment of the loan. Nationalization of the insurance industry is to provide cheap risk coverage to the means of livelihood of the rural poor. Outside the orbit of loan beneficiaries, total insurance has made little or no impact. Consequently this has limited the business turn-over of the company as a huge segment of the insurable interest in the countryside still lies untouched and on the other hand the uninsured farmer continues to be plagued by the uncertainties of his living. The objectives of nationalization must be achieved to the fullest and this could be fulfilled only through a more aggressive approach by the company to spread widely the message of insurance and by the use of a larger network of well-paid agents to bring the company closer to the people.

Biswajit Chatterjee and Amit Kundu have discussed the effects of medical insurance on rural employment. They have observed that with financial assistance from the government, the co-operative health centre can play a significant role to improve the welfare of the rural poor by providing sophisticated medical facilities at the time of their need after charging a sustainance premium through a health insurance contract. They have shown that if the labourers are insured for their illness employment in the agricultural labour market improves. Besides this, the co-operative health centre recruits local educated unemployed youth as health workers who can monitor his client property so that he becomes more conscious about health and pay the premium installments within the specified time period. Hence, the co-operative health (CHC) managed by the local panchayat and partially dependent on the government grant can generate employment in the rural areas in both agricultural as well as non-agricultural sectors. This means that a policy of minimizing the risk in the lives of the rural poor would become effective in employment generation and poverty alleviation. And medical insurance is one such productive service sector activity which can break the interlinkage in the rural credit market and usher in the expansion of on-farm as well as off-farm employment in the rural areas. Decentralized management, with participatory involvement as suggested in the case of CHC can ensure the effectiveness of health insurance programmes in removing the uncertainty associated with morbidity of poor agricultural labourers and enhance
employment generation in the rural areas, which is the most effective way of lifting the poor above the poverty line. They provided a case where the service sector activity, rather than being a byproduct of the growth process in the other two sectors, can itself become a catalyst as a catalyst for such growth process in a poor country like India.

Sujatha Rao has observed that notwithstanding the urgency to reform and restructure the health system, cost of care can be contained if referral systems could be enforced and the unfinished agenda of the huge burden of infection diseases through aggressive health promotion and education undertaken. The existing financing and payment systems are not suitable for countering market failures typical of insurance. Nor can health insurance be implemented like yet another vertical programme like control of TB or Malaria.

Jyothi Mudgal Tridib Sharma and Subrata Sarkar have examined to see whether villagers in India are able to insure their cattle against ailment shocks. They found that with the exception of a few regions, and certain sections of scheduled tribe households, villagers in India are perhaps able to insure their cattle against ailment shocks. However, villagers are not able to perfectly share the risk of all stocks.

Om Prakash Tripathy has observed that the success of the Indian Self Help Group (SHG) movement has not only helped in realizing the fact that the rural poor are able to save and are capable enough to repay, but also open up potential markets for formal financial institutions. It is in this context that, the emerging needs of the rural people towards new innovative products of Micro Finance (MF) should be dealt with serious attention. The winds of change should and must reach the remotest part of the country, where lies the potential client of micro-finance and Micro Insurance follows.

Paul Mosley has argued that micro-insurance is a fundamentally good idea, but one which is dependent on agents external to the typical market process is questioned. As a consequence there is a case for regulation. Since, the protective motive of insurance appeals particularly strongly to the poorest people the customers of micro-insurance schemes are at risk of exploitation within an unregulated market. Therefore creativity and flexibility are required by regulators to protect vulnerable
customers while at the same time enabling innovators to offer them an insurance product on a small and experimental scale. It is materializing; in particular there is little evidence in Uganda that advent of micro-insurance has enabled a downward extension of the market for financial services. However, even though much of the available evidence is still inconclusive there is little doubt that the micro-insurance schemes examined have contributed enormously to the peace of mind of low-income clients who are now able to afford such necessities as their children's healthcare without worrying about their debts?

Mosleh Ahmed and Gabriele Ramm have opined that while several practical needs can be taken up through improved product design at the micro level and improved operations at the macro level other strategic interests require long-term changes in labour policy and the status of women in society. It is sometimes assumed that grassroots organizations working towards the empowerment of women will automatically consider the gender perspective in their micro insurance operations but this is not always the case. Greater attention to gender specific needs and risk management instruments is required. Additionally community based risk pooling mechanisms are particularly vulnerable because of their limited financial resources. Catastrophic losses, repeated idiosyncratic risks and poor controls may deplete women are likely to suffer more than men because of their lower earning capacity and limited assets. It is further felt that however successful micro insurance might be; it will never be in a position to provide full protection. Private mechanisms have a supplementary role – comprehensive social protection is the responsibility of the State. Recognizing this responsibility, the state –run micro insurance schemes in Peru, Bolivia and Paraguay all started by focusing on the most important epidemiological needs of maternity – risks that private insurers are less likely to address.

B. Vijaya lakshmi and Mosusu Siva Sankar have opined that the production and supervision of financial institution are based on a reliance approach that emphasizes the role of the board of directors, management and independent advisers such as Auditors and Actuaries. The potential ability of the regulatory authority or insurer too depends on independent advisers and the reliability of the information they provide and is a key to the approach of the regulation in maintaining the safety and
soundness of the financing system. Appropriate to the level of financial sector development and proposes better regulation focused on unleashing a healthy and innovative spirit while minimizing the regulation burden on the insurance industry. Development of norms and guidelines is an important first step in a serious effort to improve corporate governance. In most jurisdictions corporate governance rules exist for general purpose corporations; these likely also apply to insurers. Deceptive packaging of policies or misleading advertisements should attract stern penalties. This is one area of focus for corporate governance and insurers must self-regulate this activity by evolving code of ethics in marketing.

P. Brintha ⁹ has noted that Indian government spends less than one per cent of GDP on health care which is one of the lowest in world. Governments of free market capitalist economics as well as many poor third world countries are spending more than this on public care. As a result of this, most of the health care expenditure in India is out of pocket cost and comes from household budgets. The so called “free” public hospitals are not really free looking to the fact that the poor have to depend on “market” for many medicines and laboratory tests as they are often not available in public hospitals. There are still plenty of things that can be done by Government, the Insurers, and Trade bodies. NGOs, healthcare service providers and the potential customers. The success of any special insurance schemes would depend on its design, the implementation and monitoring. Mechanisms which would be set in place and it would also call for restructuring and reforming the health system, and developing the necessary prerequisites to ensure its success.

Meenakshi Datta Ghosh ¹⁰ has observed that health insurance has emerged as the natural and most cost effective vehicle for delivery of health services across the world. She has suggested for inclusion of (i) health conditions/diseases and (ii) population segments not included so far in non-group mediclaim health insurance. Given the huge numbers of uninsured, one route to expediting appropriate outcomes is to persuade government to set up a common reinsurance pool.

Marion Danis and others ¹¹ have observed that the experiment with the CHAT tool reveals the important influence of group dynamics on resource allocation decisions of clients in selecting a health insurance benefit package. Challenges such
as limited literacy or numeracy of group members or back of prior experience with health insurance were not detrimental to a successful deliberation. The cultural setting brought to light prior experience of the groups in negotiating consensus. This skill was instrumental in simplifying the group's ability to deal with a new topic health insurance while retaining a balance between individual priorities and collective responsibility.

K. Vijaya Rani and K. Muthalagu\(^\text{12}\) have listed the issues emerging from insurance companies are

1. Low Volume, small transactions and vast area in operation etc.
2. In case of Crop insurance, very high probability of claims to insurance unlike death / accident / theft claims and in case of drought / flood, all the insured in the area prefer claim.
3. Crop insurance claims far exceed the total premium collected and in case of livestock insurance also claim rate is high for livestock’s.
4. Insurance Companies are unable to increase the premium rate as it is governed by the regulations of the government.
5. The entire policy structure vis-à-vis rural insurance facility appears to have been evolved not in a commercially sustainable method.

W.J Wounter Botzen and Jereon C.J.M. van den Bergh\(^\text{13}\) have examined the demand side of flood insurance arrangements by estimating willingness to pay and risk premiums, using alternative theories of individual decision making under risk. The analyze delivers two main insights. First, estimation results suggest that a profitable flood insurance market could be feasible. Second, climate change has the potential to increase profitability of offering flood insurance. With respect to the first finding. The alternative theories of individual decision making under risk indicate that the welfare improving function of insurance schemes against flood damage can be significant. Although all risks premiums are positive, variation in the estimated risk premiums exists depending on the estimated risk premiums parameterization of the weighting function chosen. In order to assess which range of risk premium is most applicable we estimate the risk aversion that is implicit in the different parameterizations of the weighting function used.
Javier Suarez has observed that the process of reform of the regulation and supervision of the global financial system motivated by the current crisis has many important and challenging dimensions. The author has first provided an overview of its origins and scope and devoted most of its length to describing the liquidity insurance arrangement for systematic crises proposed in Perotti and Suarez (2009). Such an arrangement addresses a number of key challenges related to the treatment of systematic liquidity risk in a global economy. The changes associated with the proposed liquidity insurance arrangements would be primarily aimed at making banks internalize the external costs of their funding strategies, discouraging the forms of short-term funding or extreme maturity mismatch that create and amplify systematic risk. The arrangement would also provide some prepayment of intervention costs (making early intervention politically more acceptable). In its international implementation, it would constitute a starting step to ensure public assistance to international mega-banks with cost-sharing based on exante rules rather than negotiations or politically debatable country quotas.

D.C. Srinivas and Shashank Srinivastava have observed that the nature of insurance industry is different compared to other manufacturing and service industries. The stages in operations of insurance services involve conceiving and designing a product, publishing it amongst consumers, launching it in the market through network of intermediaries collecting the premium and building up reserve of funds, creating liabilities to meet the losses of consumers and investing the funds in the market. The fundamental differences between insurance products and other products is that while in the sale of the products since their liabilities have to be met by the insurer; no such consumer’s interests are involved in other products. The activities carried out by insurance companies even after sale of products are of crucial importance from consumer’s point of view as these companies are contractually bound to compensate for the potential losses to the consumers that may arise in future. The funds of the disposal of insurers are essentially policyholders (consumers) funds. The misuse and mismanagement of these funds may result into failure on the part of insurers to fulfill their liabilities and consequent loss to the consumers. In other products, once the products have been sold the only commitment on the part of the seller may be to insurance efficient and expeditious after-sales services. From the angle, the insurance products are placed
on a different platform. It warrants some control in one or other from on the activities of the insurers so that consumers' interests are properly protected and are not sacrificed.

*H. Ansari* 16 has opined that new production design and development must identify the similarities and differences of various cultures. This corresponding shall allow companies to capitalize on commonalities or respond to differences approximately. A well–designated product would answer most consumer needs. The needs of different cultures, populations, and regions may not be able to be homogenized into one product. The question insurers need to ask themselves is – if it is better to discover the need for country–specific variations before the design phase or after the prototypes have been created. The more thoroughly a product is researched in the early stages, the fewer mistakes occur in the more expensive development phase or after the prototype have been created. The more thoroughly a product is researched in the early stages, the fewer mistakes occur in the more expensive development phase. The user-centric approach of cross-cultural research eliminates ill-fated proposals early in the game. The streamlined development process ensures that better products get to market faster and more economically. The 'new' order changeth yielding place to new. With the opening up of the insurance market in India, there shall be a continuous scramble for business. Insurance companies shall be increasingly crafting global and local tides simultaneously. They shall bring their vast experience of best practices to the table. As more and more people buy insurance, the demand for products and services is likely to expand. Customers shall become more discerning, and demand higher levels of service and value for money. The insurers and the regulator shall be responsible in the transformation of the insurance industry in the coming years. Adapting to change, responding to customers, and constantly looking for ways to innovate can ensure its accomplishment. At the same time, it enhances public confidence in the insurance system.

*Dileep Mavalankar and Ramesh Bhat* 17 have observed that India has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower costs without the negative aspects of cost increase and over use of
procedures and technology in provision of health care. The experience from other places suggest that if health insurance is left to the private market it will only cover those which have substantial ability to pay leaving out the poor and making them more vulnerable. Hence, India should proactively make efforts to develop social health Insurance patterned after the German model where there is universal coverage, equal access to all and cost controlling measures such as prospective per capita payment to providers. Given that India does not have large organized sector employment the only option for such social health insurance is to existing health insurance programme such as ESIs and mediclaim socially useful. Government should analyze and guide development of such social health insurance in India. Researchers and donors should support such development.

ASPECT COVERED IN THE EARLIER STUDIES

- Inadequacies of rural insurance.
- Impact of medical insurance on rural employment
- Control of cost of care.
- Poor insurance access to villages.
- Micro insurance and self – Help Groups.
- Micro insurance to the poor.
- Women empowerment and Micro insurance operations.
- The role of independent advisers in insurance.
- Health care expenditure and reliance on markets.
- Positive implications of health insurance.
- Group dynamics on resource allocations in health insurance.
- Crop insurance problems confronting insurance companies.
- Alternative theories of individual insurance decision making under risk conditions.
- Treatment of systematic liquidity risk.
- The distinction between consumer and insurance products.
- Correlation between insurance product development and different cultural settings.
- Problems and Prospects of Health insurance.
GAPS IN THE EARLIER STUDIES

- No attempt is made to evaluate the performance of GIC in India in the recent times.
- No study made an attempt to account the performance of GIC at a district level.
- Risk management by GIC is not addressed adequately.
- Factors affecting the choice of insurance company are uncovered.
- No attempt was made to identify the determinants of shifting loyalties of consumers from one insurance company to other.

In order to fill the said gaps in the research field of an important component of financial sector namely general insurance of India, the present study entitled "RISK MANAGEMENT AND THE ROLE OF GENERAL INSURANCE: A CASE STUDY OF KURNOOL DISTRICT" is initiated with the following objectives and hypotheses.

OBJECTIVES OF THE STUDY
1. To assess the performance of GIC of India during 2001-02 to 2009-10.
2. To analyze the market of general insurance in Kurnool district.
3. To identify the factors affecting the choice of insurance companies at gross root levels.
4. To examine the determinants of shifting loyalty of the consumers from one general insurance company to the other.
5. To explain the problems encountered by the general insurance companies in Kurnool district.
6. To suggest appropriate measures to strengthen the general insurance business in India.

Hypotheses
1. The investments made by GIC in India are safe and secured.
2. The relationship between category of the business and the choice of insurance company is assumed to be statistically independent.
3. The relationship between location of the respondents and the determinants of shifting loyalty is assumed to be statistically independent.
To study the objectives and to test the hypotheses, the following methodology is adopted.

**Methodology**

**Sample Design**

For the purpose of the present study, 220 respondents are selected from Kurnool district on the basis of stratified random sampling methods. Out of 220, 200 are the consumers of the general insurance sector and 20 are the providers of the general insurance in Kurnool district. 200 consumers are selected mostly by adhering to the principles of stratified random sampling methods. The principles of stratification includes:

1. Location
2. Category of the business
3. Size of the concern

A) Location wise sample design of the respondents is given below

<table>
<thead>
<tr>
<th>Location</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>39</td>
<td>19.5</td>
</tr>
<tr>
<td>Semi-urban</td>
<td>90</td>
<td>45.0</td>
</tr>
<tr>
<td>Urban</td>
<td>71</td>
<td>35.5</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100.0</td>
</tr>
</tbody>
</table>
B) The sample composition as per the category of the business is as followed:

Category of the business

<table>
<thead>
<tr>
<th>Category of the business</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>39</td>
</tr>
<tr>
<td>Marine Cargo</td>
<td>20</td>
</tr>
<tr>
<td>Motor</td>
<td>77</td>
</tr>
<tr>
<td>Engineering</td>
<td>37</td>
</tr>
<tr>
<td>Health</td>
<td>20</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
</tr>
</tbody>
</table>

C) The sample composition as per the size of the concern is as followed:

<table>
<thead>
<tr>
<th>Size of the concern</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>86</td>
<td>43.0</td>
</tr>
<tr>
<td>Medium</td>
<td>99</td>
<td>49.5</td>
</tr>
<tr>
<td>Big</td>
<td>15</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100.0</td>
</tr>
</tbody>
</table>

D) The composition of 20 providers of the general insurance in Kurnool district is given below:

<table>
<thead>
<tr>
<th>Insurance company</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public players</td>
<td>14</td>
<td>70.0</td>
</tr>
<tr>
<td>Private players</td>
<td>6</td>
<td>30.0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Data Requirements

The present study needed the data on variables including premium income, claims, investments, income generation out of the investments made by the GIC, portfolio management of the GIC, and performance Ratios etc. It was further required to know the profile of the Kurnool district, factors affecting the choice of insurance company and the determinants of shifting loyalties of the consumers from one general insurance company to the other. The said data requirements are met by making use of the following sources of data.

Source of data

In order to meet the data requirements, the present study made use of both primary and secondary sources of data.

The secondary sources of data included the reports published by the GIC of India and its various subsidiaries, followed by IRDA, and the organized private general insurance providers.

The primary sources of the data are collected by making use of questionnaire/schedules. The questionnaire/schedule is administered among the respondents and collected the necessary data directly.

Period of study

For the purpose of the present study, 10 years period (2001 to 2010) is considered. With regard to primary data, the necessary data were collected by administering a pre designed questionnaire.

Scope of the study

The present study has confined its scope to the role of GIC in Kurnool district only. It covers the premiums, Claims, investment and incomes of the GIC, determinants of shifting loyalties of the consumers, choice of an insurance company etc. It does not cover the organizational and administrative aspects of GIC.

TECHNIQUES OF ANALYSIS

The present study employed various tools of statistics including simple percentages, frequency distribution coefficient of correlation, chi-square statistic,
trend equation to estimate and test the significance of the relationships among variables specified in the study.

\[ Y = ab^t \]

Where \( Y \) = Variable under consideration

\( X \) = Time

\( a \) and \( b \) = trend line Coefficients

\[ r = 1 - \frac{\sum d^2}{n(n^2 - 1)} \]

Where \( r \) = Spearman's rank correlation coefficient

\( d \) = deviations

\( n \) = number of items

\[ \chi^2 = \frac{\sum (O_i - E_i)^2}{E_i} \]

Where \( \chi^2 \) = chi-square statistic

\( O_i \) = observed frequencies of the ith class

\( E_i \) = expected frequencies of the ith class
REFERENCES

13. W.j wounter Botzen and Jeroen c.j.m. van den Bergh “bounded rationality, Climate risks, and insurance: Is there a market for natural disasters” land economics may 2009,pp.264-278.