Chapter – 3
General Insurance As a Financial Service Sector
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Before discussing a Financial Service Sector let us justify why a General Insurance business can be small labelled as Financial service.

In any industry production is affected which might by caused by Fire, Flood, breakdown etc. All these perils cause the stoppage of work followed by loss of production and ultimately, the profit. How General Insurance come to help to overcome all these problems and extends the helping hand and saves the situation to a certain extent. If this help is faster the better will be the results and of course a better financial service.
General Insurance is regarded a highly respected service for, it provides financial support to export and import business, industries and housing projects which are the backbone of economy and society at large. It protects from many uncertainties caused by accidents. General Insurance provides protection and financial stability in all these unforeseen events. It is in this sense that General Insurance has become essential part of our financial system.

If we take a view from another angle that best services are given by the insurance company and its efficiency in managing the money received by it between the commencement of insurance and occurrence of loss. In all parts of the world the insurance companies are a major investment resource. From these investments obviously it will earn maximum yield. In doing this it will look to the growth of investment and security too. For this purpose it will go for a diversified investment such as:-

Housing
Mutual Funds
Stocks and Shares etc.

If General Insurance companies gets its funds invested in all these securities efficiently with maximum yields, naturally it will be reflected in low rates of premiums in its different products offered to public and of course in the best interest of policy holder.

Even in this sense, the General Insurance business can be regarded as a Financial service sector.
General Insurance donot work rigidly as it sometimes protects the loss due to aircrafts, business failure and even medical help either individually in national market or through a foreign joint venture. We can say it can work either on national front or on international front. Due to Globalisation this has become possible and it is in this sense also, that the General Insurance is regarded as an important financial service sector.

Financial Service Sector:

Financial service sector is an economic construct. It is a conceptualisation, by analyst to describe a variety of institutions, instruments, markets, their interactions, the legal boundaries and so on. Financial sector is also called Financial system since system concept more appropriately applies to the segments of the financial sector.

This is an ever evolving system. It is always influenced by historical status of the nation as well as its economy. Thus the financial sector which existed about 50 years ago has shed many of its characteristics of that time and has assumed new characteristics and thus has changed to the present status. In next 50 years it would be very much different from its present status.

A few episodic events have characterised the financial system from time to time. In between the consecutive episodic events the evolution of the system were generally slow and steady in nature.
About a decade ago – in 1990 the Indian financial system received a shock and that triggered an episodic event which is termed as financial sector reform.

We present below the financial system as we know of it in recent years and proceed to explain the trends and direction of its evolution.

Financial Service Sector Reforms:

A financial system has certain characteristics at a given point of observation and also has certain role at that point.

Nature and role of financial system:

A financial system is a name given to the collection of specialised and non-specialised financial institutions, financial markets which may be organised or needing proper organisational structure, instruments and services. There would be continuous transfer of funds from one sector to another within the financial system.

The role of financial system is varied and complex. Each component of the system would serve some specific function for the common benefit of all components of economy.

(1) Thus some institutions would be mobilising savings, some would be creating credit.

(2) Some would be providing long term funds, some would be promoting capital market instruments.

(3) Some would be entrusted with regulatory as well as promotional responsibilities.
Some would be focused on niche markets etc. Often the activities of the institution would overlap. In some respect they are competitors and to some extent they are strategic partners as well. Generally analysts would identify the institutions on the basis of keys such as ownership, predominant products, primary activities, degree of specialisation in relation to savers and borrowers, functional, geographic, sectoral scope of activities etc.

Present structure of financial system in India:

We can broadly classify the present financial system into four segments viz.

1. Financial Institutions
2. Financial Markets
3. Financial Instruments
4. Financial services

1. Financial Institutions:

The financial institutions operating in India are many. We can group them into different categories.

Classification according to Functions:

I. Regulatory institutions
II. Intermediary institutions
III. Non-intermediary institutions
IV. All other types of institutions
Again the intermediary institutions fall under tur sub-categories viz banking and (2) non–banking institution.

**Classification according to ownership:**

I. Government ownership – either major share or minor share in capital.

II. Old private sector institutions

III. New private sector institutions wholly owned by Indians or joint ventures with foreign partners.

IV. Foreign owned & controlled institutions operating in India.

Yet another method of classifying the institutions can be on the basis of their financial status.

**Classification on the basis of financial status:**

I. Giant sized institutions

II. Small and financially weak institutions.

We can add a sub–category into the weak area and this would be called sick and non–viable institution in existence & operation since long but not exit the industry due to certain exit barriers.

**Classification according to special category:**

I. Banking institutions.

II. Insurance institutions.

III. Capital market institutions.

IV. Non–banking financial institutions.

**Other category of Financial Institutions:**

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I. Those which are in corporate sector.

II. Those which are in co-operative sector.

III. Those which are in self help group sector.

Different classification would serve different objectives. The analyst would have to choose which classification is appropriate for his research work.

Financial markets can be classified capital and money markets in general. However this is not the only classification. Rather the above classification is based on type of transaction in the market.

They are classified into organised markets and unorganised markets. This is on the basis of structural features of the market.

The markets can also be classified into primary and secondary markets. However this is more often considered in relation to capital markets.

Financial markets can also be viewed from the angle of degree of development. Thus we can have narrow and shallow markets or broad and deep markets. We can also have classification with reference to the geographical coverage of the market. There are areas and customers who are not yet brought under the purview of the markets.

In financial markets the unorganised ones pose considerable threats to regulators as well as players. Players face unacceptable levels of risks while regulators often face the defeat of their policies.
in these markets. For instance the black money in circulation poses considerable threat to the monetary policy, by making these measures less than fully effective. Like were the curb trading in securities, insider trading in securities and dangerous speculative trading in securities have often undermined the regulator's dictacts and even caused the investors to shy away from organised markets.

Financial instruments are of many varieties. In terms of maturity pattern they can be grouped into short term, medium term, long term instruments. In terms of timing of their issue, they can be grouped into primary or secondary instruments.

There are other characteristics also on the basis or which the instruments can be classified. The instruments can be (1) equity instruments, (2) debt instruments, (3) hybrid instruments which carry characteristics of both equity & debt instruments.

The instruments can be fashioned to suit the preferences of investors. Thus we have categories such as (1) Main instruments and (2) derivatives.

**Types of Financial Services:**

Financial service are of many kinds. Some of the services are identified with the institutions offering the services. For example we can say financial services are (1) Banking services, (2) Insurance services, (3) Capital markets related service. However if we split up the services in
some other form we can have categories such as (1) consultancy services, (2) Record maintenance & servicing (eg. Registsars), (3) merchant banking services, (4) services such as deposit mobilisation and advances for short duration (5) Services such as funding capital investments etc. So many are the number of services that it would be difficult to enlist them by name.

**Recent developments in financial sector:**

Financial sector in India, from the point of view of recent developments, is to be viewed as made up of three broad groups. Each group consists of institutions, markets, financial instruments and financial services. Each group is distinct but all of them complement each other. Each group makes use of the savings of the society and channelises them in different ways. The groups are as under:

(1) Banking
(2) Capital market
(3) Insurance.

About 10 years ago all the three groups were under social control and they were all forced to follow government stipulated policies and their ownership was also vested in the state to a large extent. The government was concerned about upliftment of those masses of population who were not getting the benefits of economic development. Left to themselves, the captains of institutions in all 3 groups pursued profit goals and even had strong preference towards certain customers or certain kinds of products.
or certain markets. Thus the benefits would not flow to preferred sectors despite government directives. This led to nationalisation, change in the management at corporate HQ lend, replacement of entrepreneur-founders by beauronatic-managers drawn from IAS cadre, issue of directives to the beauroanatic managers form the new owners ie. Government's ministries, direct intervention in the sphere of organisational policy formation with a new to set such policies in tune with government's socialism philosophy etc.

The concept of profit was either given very low priority or ignored altogether. The concept of competition was not considered as appropriate as the institution as well as its principal officers were under total control of ministries and ministers. Politicians had a say in the routine activities of the institutional work. Staff posting, staff transfers, recruitment of staff, etc were all greatly influenced by the personal wishes of the ministers in the concerned ministries. It was not uncommon, at one point of time, for ministers like Janardhan Pujari a one time deputy finance minister in union cabinet, to hold 'loan melas' in banking group. In such events loans were disbursed on the spot to the villagers and in the presence of minister, to enhance Government's popularity and the ministerial speeches were not friendly in tone vis-à-vis the commercial considerations and prudential policies of the bank managers.

Similarly government forced the banking, insurance & stock market institutions to adopt very restrictive policies. For instance capital issues
control was a statutory system. No new issue of capital instrument was allowed without the prior approval of controller of capital issues. And interest rates on the advances of banks were strictly regulated in relation to the type of borrowers, quantum of advances, purpose of advances etc. Likewise insurance companies were required to invest their funds in Government securities which yielded high rates of returns. The control over financial markets, instruments and institutions were exercised with the intention of directing their efforts in certain areas to provide services to certain people regardless of costs or profits. For instance, SSI sector, small farmers and marginal farmers, artisan etc were the preferred target group. Available credit is to be channeled to them at confessional rates. Institutions were required to expand their net work hitherto unsaved or inaccessible areas regardless of market potential or profitability considerations. As a result of these activities on the part of Government certain structural weaknesses developed in banking, insurance and capital market groups. Nevertheless many people did have an opportunity to avail of the services of these groups and that too at such low rates that it was tempting for them to seek such services. Due to these policies the N.P.A. in the banking sector reached to 15000 crores.

During this period, the Govt. had closed the economy and no entry was permitted to either Indian or foreign entities in any of the 3 groups. This resulted into losses and disinvestment of P.S.U.'s.
Weaknesses in the financial sector:

Despite impressive growth in terms of quantity and achievements, the financial health suffered a great blow. The capital base of many institutions were steadily eroded by losses suffered over a number of years. Integrity of the institutions became a suspect in the eyes of the customers. The customer service was very poor. Hence customer grievances were ever on the rise. Insurance companies were reluctant to settle claims and often contested the customers claim in courts of Law. This led to low level of confidence in insurance firms. Banks caused lots of delays in dealing customer's queries to their accounts. This caused lack of faith in bank's services. Capital markets were organised for the benefit of brokers and not investors. The poor service given to investors and scandals in stock markets were not the signs that encouraged fresh investments. The trading in previously issued securities were subject to misuse in the hands of brokers & market men who indulged in large scale speculation & practiced even unethical practices of syphoning off investors money.

Autonomy of the institutions have vanished due to posting of sub-servent bureaucrats at the helm of the institution and also packing the Boards with people who had political affinity with the ministries. Talented people, no doubt, were on the Boards but they voluntarily towed the Government Policies-express or implied and refrained from making decisions not in line with the wishes of Government. They reasoned that since Government.
Owned the institution, funded its capital, financed its losses, did not desire to follow commercial considerations in decision making, they as directors must not do anything which was not in tune policies & preferences of Govt. & ministries.

Flexibility in any administrative or policy related decision making had vanished. Decisions were made not by different levels of heirarchy. Even when they had powers to decide, upward deligation was the rule rather than exception. Thus almost all actions were as per the orders of the chief executive officer who in turn took orders from beaurocrats at the ministries. Decision making was reduced to an excuse in seeking quidance from top and implementing the same. As result some public enterprises have become burden rather than an asset to the Government.

Vibrancy in financial sector was not present in view of the various rigidities in altitudes. Officers did not want to take initiative or accept responsibilities. They were afraid of being questioned and punished for taking initiative & making decisions by such extra – regulatory authorities such as Joint Parliamentary Committee, controller & Auditor General of India and so on.

Generally the reforms in the banking sector is better known than the reforms in the other two sectors. The committee which made separate recommendations on financial sector reforms and later made separate recommendations on banking sector reforms, was headed by Dr.

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Narasimham. His committee is the first time and hence received much publicity initially.

Insurance Sector Reforms Committee was headed by R. N. Malhotra, former Governor of RBI.

The most important features of reforms in respect of banks is the introduction of Capital to Risk weighted Assets Ratio as a measure of capital adequacy of banks. Besides the introduction of concept of Income Recognition, Assets Classification and Positioning had brought back project to the centre stage in banking industry. The banks are required to implement Assets Liability Management Practices. This would ensure their continued sound financial position. Beside interest rates are deregulated; SLR and CRR are scaled down so that banks would have enough liquidity; Government securities are to be rated on market rate basis for purposes of investments etc. Other areas in the focus of reforms are freeing the Board of Directors from beaurouatic hold; privatisation of nationalised banks; permitting competition even from foreign banks and permitting entry of new private sector banks promoted by Indian entrepreneurs. Liberty for banks to engage services of internationally reputed management consultauts and restructuring of banks as per the consultant's recommendations. Focus own cost reduction, customer service, upgradation of work technology etc are major strengthening features of the reformist movement in banking area.
Banks are now aided by statutory amendments also. Debt Recovery Tribunals are being set up to aid banks to recover their dues through some basic measures. A Board of Financial Supervision is now set up to exercise supervision over banks, financial institutions & in due course non-banking financial organisations as well.

Work technology remained outdated due to persistent resistance from organised unfans.

Transaction costs were very high due to policies that ignored costing but favoured only socialism.

Alarming industrial sickness existed and financial sector was required to bear the burden of these sick industries by repeatedly financing their operations. None of the sick units were allowed to be closed for fear of creating unemployment and consequent social unrest.

Over a period of time an edifice was developing in which indiscipline, high costs, total lack of customer consciousness, disregard for profit, deliberate shutting out of competition, total submission to one person at the top, politicisation of services, policy induced rigidities lack of empathy, vested interest groups etc., had a flourishing role.

What the Government Desired and hoped was very much different from what resulted from the policies which were framed by the Government and implemented at its behest by Government Servants.

Once a realisation had dawned that there is need for reforms, the Government acted with vigour and effectiveness. The Government
Appointed committees to suggest reform and began the implementation of the suggested reforms. Thus the reformist movement – an episodic event – took shape in 1990 and continues to this day.

**Financial Sector Reforms:**

The reforms cover all the three groups viz. (1) Banking Sector (2) Insurance Sector (3) Capital Market Sector.

(1) **Reforms in Banking Sector:**

Generally the reforms in the banking sector is better known than the reforms in the other two sectors. The committee which made recommendations supervision over banks, financial institutions and in due course non-banking financial organizations as well.

Government had recapitalised many banks previously owned by it. Later on the Government's holding is sought to be reduced to a level below 50% so that there banks do not become “state” within the definition of the term in the governing statues. Thus public participation in their capital has in arared.

Transparency in reporting, corporate governance practices, quality of assets improvement earnings per share improvements, liquidity status improvements are all back in the business as far as banks are concerned.

(2) **Reforms in Insurance sector:**
In the field of insurance so far reforms, the changes are similar to the changes made in the banking sector area. The insurance sector is a monopoly of Government GIC in general insurance is the only player. LIC in life insurance is also the only player. Govt. has decided to break up the GIC and its subsidiaries. GIC will be in reinsurance business. It's subsidiaries will be new separate entities. The statutory changes were made and the independent insurance companies are already acted.

Further insurance sector is being opened to foreign players. An Insurance Regulatory Authority of India I.R.A.I. is setup. This body combines powers of controller of insurance and IRAI powers within one person viz Chief of IRAI.

New product development, new market penetration, manpower structuring and development are features of the Insurance Sector Reformation movement.

Adequacy of capital base, risk management, tariff fixation etc also have received attention in the hands of the committee's recommendation.

Government is, however, slowly and steadily de-regulating the insurance sector. Technology upgradation is now seen as inevitable in insurance sector by the various unions. They realise that their interest alone cannot take a status higher than that of national interest.
Reforms in Capital Market:

In the capital market sector Govt. has taken rigorous steps to reform it. It had abolished the office of controller of capital issues. The Capital Issues Control Act was repealed. The Securities and Exchange Board of India (SEBI) was established. It was given powers of regulator. It exercises the reformist agenda through many techniques such as persuasion, directives, coercive action, inspection & investigation and so on. SEBI has brought about quite a lot of improvement in the trading practices. Screen based trading is the most significant reformist movement. The cry system is abolished in leading stock exchanges like Bombay.

There are control mechanisms like mouquis, circuit breakers, vigilance and monitoring of trade, classifying traded securities for different treatments, abolition carry forward system and replacing it by rolling settlement, compulsory credit to the investors accounts in case of sale, as soon as SE settlements are over, capital adequacy norm for brokers, licencing of merchant bankers, security research expansion, information dissemination, transparency practices in reporting by listed companies etc are some of the measures of reforms in capital market area.

Further the reforms permit Indian companies to raise capital in foreign markets through Global or American Deposit Receipts or other instruments. Foreign investors are allowed to play in the
Indian stock exchanges. It is worth noting that the paper based securities are now being replaced gradually but systematically by dematerialised trading where securities are held as "accounts" and computer based trading is facilitated in such dematerialised securities.

Some more reforms are expected to take place in this area as it is still evolving.

Objectives of reforms in all 3 groups:

The 3 groups are banking, insurance and capital market related service areas. The main objectives or the reforms are as under:

(1) To make the financial sector totally re-oriented from the inside look to outside look. In other words the financial sector was introduced to make it vibrant and assume characteristics of the world wide financial sector.

(2) To make the financial sector competitive rather than operate in a monopolistic as well as sheltered environment.

(3) To introduce product, market, functional diversification in the financial sector.

(4) To free the financial sector from dependence on govt. and also to make Govt. free from its dependence on the sector.

(5) To introduce transparency in the working of financial system.

(6) To improve the efficiency of the financial sector in its role as allocator of community's savings.
To promote speedier growth of markets, institutions & systems in the financial system.

To improve the accountability within the financial system. In particular to make the organised unions realise that their vested interest is subservient to the interest of nation.

To improve profitability of the financial system players. To impress upon them that profit is a business goal and has a respectable status vis-à-vis the goal of social responsibility.

To check non-viable institutions and ensure that either they cross the break even barrier or exit from industry.

To promote growth on a balanced scale within the financial system. Its structure is marked by very uneven growth of its various segments.

To induct operational economy and flexibility in the system.

To neutralise the politicisation that had taken roots in the system.

To induct the culture of professionalism in all hierarchical steps within the system.

To increase the rate of return on real investment.

To expose the system to competitive environment where exit and entry are feasible, when rivalry among the existing players is an accepted tact where stock holders exercise their pull or push on the players.
(17) To dismantle the administered interest rate structure of banking industry in particular.

(18) To rectify the policy of resource pre-emption formerly put into practice by Govt. to finance its activities.

(19) To create the infrastructure necessary for level playing by all participants in the financial system. The infrastructure for umpiring the activities of the players are supervision and audit.

(20) To modernise the work technology.

(21) To remove legal hurdles in the form of provisions of various acts which were inconsistent with the reformist movement.

(22) To totally eliminate the concept of directed credit.

(23) To modernise the monetary policy instruments. In other words to replace the direct intervention and physical instruments of monetary control by a set of indirect instruments based on market forces which may act as incentives or detergents.

One can summarise the objectives of the reformist movement as deregulation, marketisation, privatisation, globalization and liberalisation of a financial system which was a closed door monopolistic and inward looking, unprofessionalised and poorly managed system in terms of soft aspects such as culture, systematic methodology, customer orientation and other issue. Also the system was unbusiness like in neglect of profit objective and cost objective. The financial system lacked consciousness
about financial management itself. The reforms were in the direction of reversing these trends.

**General Insurance As A Financial Services:**

An economy is usually segmented into three major sectors. There are Agricultural sector, (2) Industrial sector and (3) Service sector. Studies by economists have revealed that in early stages of economic development agriculture becomes a dominant force having large share in output & employment. As industrialisation progresses, the share of manufacturing sector increases in output as well as employment. Agriculture tends to lose its share more pronouncedly in employment. When industrialisation also has reached advanced stage of development, service sector tends to take a large share in output & employment. A large number of world economies - whether developed or developing - are in fact dominated by service sector.

Share of agriculture, industry & services in Gross Domestic Product & India from the years 1950-51 to 1989-90 is given below:

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<table>
<thead>
<tr>
<th>Years</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>55.8</td>
<td>15.2</td>
<td>29.0</td>
</tr>
<tr>
<td>1960-61</td>
<td>45.8</td>
<td>20.7</td>
<td>33.5</td>
</tr>
<tr>
<td>1970-71</td>
<td>45.2</td>
<td>21.9</td>
<td>32.9</td>
</tr>
<tr>
<td>1980-81</td>
<td>38.0</td>
<td>25.9</td>
<td>36.1</td>
</tr>
<tr>
<td>1989-90</td>
<td>32.4</td>
<td>28.1</td>
<td>38.5</td>
</tr>
</tbody>
</table>


Services sector provide basic necessities such as education, housing, health care. In these areas it is employment oriented sector. It produces output in agriculture & industry, creates infrastructure necessary for national development and market developments.

Service sector contributes to resources mobilisation through financial services such as banking & insurance.

Service sector also results in resources utilisation through infrastructural services such as transportation, telecommunication, information technology application etc.

Service sector creates resources through technology oriented services and market development related services.
Services sector in India has been growing and contributing to GDP. In the seventies Indian economy made a transition from agriculture to industry. Side by side service sector's contribution to GDP also was using. The importance of trade in the services sector in India's balance of payments is significant. India's trade in services constitute about 40% of the total export of merchandise as well as invisible together. Growth in employment in service sector is higher than in the case of agriculture & industry. Further this sector provides complementary services to both agriculture & industry. For instance both would require financial services, infrastructure services, Technical services etc. About two fifth of GDP emerges from service sector in India.

<table>
<thead>
<tr>
<th>Years</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
<th>Total G.D.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51 to 1960-61</td>
<td>3.0</td>
<td>6.2</td>
<td>4.1</td>
<td>3.9</td>
</tr>
<tr>
<td>1960-61 to 1970-71</td>
<td>2.3</td>
<td>5.4</td>
<td>4.6</td>
<td>3.7</td>
</tr>
<tr>
<td>1970-71 to 1980-81</td>
<td>1.5</td>
<td>4.0</td>
<td>4.3</td>
<td>3.1</td>
</tr>
<tr>
<td>1980-81 to 1989-90</td>
<td>3.5</td>
<td>6.7</td>
<td>6.4</td>
<td>5.5</td>
</tr>
<tr>
<td>1950-51 to 1975-76</td>
<td>2.2</td>
<td>5.3</td>
<td>4.2</td>
<td>3.4</td>
</tr>
<tr>
<td>1974-75 to 1989-90</td>
<td>3.2</td>
<td>6.0</td>
<td>5.8</td>
<td>4.9</td>
</tr>
<tr>
<td>1950-51 to 1989-90</td>
<td>2.5</td>
<td>5.6</td>
<td>4.8</td>
<td>4.0</td>
</tr>
</tbody>
</table>


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Thus we find that service sector is a very significant segment of Indian economy.

Let us now focus our attention to that part of service sector which is termed Financial services. Banks, Factoring Institutions, Insurance firms etc constitute the financial services.

General Insurance is an important financial service. Production cycle would be breached by events like fire, flood, breakdown etc. These will also result in loss of profit. General Insurance provides necessary finance to enable the industry to get back to its production level and thus seal the breach caused by accidents.

Financing of imports and exports, projects, industries housing etc require that assets and factors of production are given protective cover from uncertainties caused by accidents. General Insurance provides such cover. Thus it is an essential part of financial services.

Insurance companies are a major investment resource. General Insurance companies support and participate in activities such as housing, mutual funds, stock markets etc.

Insurance companies play their role in national & international financial services markets. In international arena, their role is in the form of re-insurance which plays vital role in development of world trade in goods & services. Further international transport insurance is a significant business for General Insurance Companies. Joint insurance of very large risks is another role for General Insurance Companies.
As with banking and security services, insurance also comes under Government's stringent regulations. The reasons are as under:

1. The need to protect the consumers
2. The need to ensure the wider role of insurance as a source of investible funds

In most countries companies are investors which handle large volumes of assets, holding equity in other companies, operating in stock markets and also acting as major property owners. Insurance companies grant support to other sectoral activities. For instance, agricultural insurance can have significant indirect effects of the development of new farming techniques, diversification of crops and financing of rural activities.

The objectives of regulations are as under:

1. To ensure financial soundness and solvency
2. To enforce fair trade practices & consumer protection
3. To Maintain probity, honesty & transparency.
4. To strengthen domestic markets
5. To create an information base.

Another dimension of General Insurance as a financial service relates to insurance markets and its position in the economy of nations.

Markets are heterogeneous in terms of structure & competition. Markets of most industrial countries are made up of a considerable number of domestic and foreign enterprises. The main business
segments are dominated by a relatively small number of domestic companies which compete with each other fiercely.

In a number of developing countries insurance business is in public sector and they also tend to be state owned monopolies. In some countries either foreign owned insurance companies are not allowed entry or if allowed, they are to be locally incorporated subsidiaries with large local share holdings.

The largest international insurance companies are concentrated in six countries viz U.S.A., Japan, Germany, U.K., France & Russia. Larger the insurance markets greater is the share of the five leading insurers in that market. 16 re-insurance companies from six countries share more than 50% of world re-insurance premium. Of these 4 from 3 countries had more than 50% of world premium in re-insurance.

A common measure of insurance development is the ratio of premium expenditure to GDP. This ratio varies from less than 1% in many developing countries to over 8% in some large industrial economies. In 1987 USA alone accounted for 46% of total world no-life premiums and 30% of life insurance premiums. At the same time the share of all developing countries together was around 5% each in non-life and life insurance premiums.

To conclude we observe that service sector is a vital and also growing of economy. Within this sector financial sector is an important component. General Insurance is a significant part of financial sector.
The general insurance sector provides very large resources base for capital investment. It also aids in development of world trade, balance of payments objectives, productivity improvements in agriculture as well as industry etc. Government's regulate the General Insurance with very desirable goals in new. The world insurance market is skewed in structure. So also many countries have either state owned monopolies or oligopolistic structure in terms of operational features of market. Ratio of premium expenditure to GDP is the measure of development of insurance market. We find that the market leader is USA. The share of developing countries is very low in the insurance market.

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