Chapter 1
INTRODUCTION

1.1 Insurance

Human life is subject to various risks—bolts from the blue can happen any time. Humans are also subject to diseases, the treatment of which may very costly. On the other hand, property possessed by man is subject to various calamities, natural and man-made.

When human life is lost or a person becomes disabled permanently or temporarily, there is a loss of income to the household. The family has to face hand to mouth situations. Sometimes survival itself is at stake for the dependants. When it comes to loss, it results in either whole or partial loss in income to the person or entity.

Risk has the ambiguous aspect. Death/disability or loss/damage could occur at anytime. Losses can be mitigated through insurance. Insurance proves as an olive branch against various contingencies.

Insurance products are innumerable available for life and non-life are many. In non-life, apart from personal covers such as accident covers and health insurance, there are products covering liabilities under a particular situation. The various products are designed to according to needs such as fire insurance policy on multi-storeyed building, householder’s policy.

An insurance contract promises to make good to the insured a certain sum in consideration for a payment in the form of premium from the insured.

Human life is uncertain. Hence the sum assured (or the amount guaranteed to be paid in the event of a loss) is by way of a ‘benefit’ in the case of life insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings. An individual can be assured in his old age when he ceases to earn and has no other alteration of income by purchasing an annuity product.

A Personal Accident cover is also for protection. In the event of mishapenning, permanent or temporary, of the insured, it provides for compensation which is either the whole or a percentage of the Capital Sum Insured depending on the kind of loss.
In the case of Health Insurance, the policy seeks to cover or injury up to the fixed sum.

Insurance relating to property, there are many products to available. Property may be covered against fire and disaster of nature including flood, earthquake etc. Machinery may be insured for breakdown. Goods in transit can be insured under a marine cargo insurance cover. Insurance covers are also available for sea vessels. A motor insurance policy covers third party damage as well as damage to the vehicle.

Insurance of property is based on the principle of indemnity. The idea is to bring the insured to the same financial position as he /she was before the loss occurred. It protects the investment in the property. Where there is no insurance, losses can mar a project or an industry. General Insurance offers stability to the economy and to the society.

Insurance offers volatile and so peace of mind to the individual. The concept of insurance is that the losses of a few are made good by contribution from many. It is based on the law of large numbers. It rises from the need of man to find a solution for compensation of losses. It also makes a man to find a solution collectively.

It is important for all to understand the various products that life and general insurance companies offer before they make a choice as to the product they want to buy.

As per regulations, insurers have to provide the various features of the products at the point of sale. The insured should also go through the various terms and conditions of the products and understand what they have bought and met their insurance needs. They ought to familiar to the procedures so that they know what to do in the event of a loss.

1.2 Background of Insurance Industry

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

In 1914, the Government of India began publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business established in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 removed Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also charges of unfair trade practices. The Government of India, therefore, has taken the decision to nationalize insurance business.

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

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a heritage of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd was set up. This was the first company to transact all classes of general insurance business. 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair and healthy conducted business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.
In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it started business on January 1st 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up slowly. In 1993, the Government set up a committee under the chairmanship of R N Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The purpose was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it ensured that the private sector be permitted for the insurance industry. They stated that foreign companies are allowed to enter by improving Indian companies, preferably a joint venture with Indian partners.

1.3 History of Insurance

History of insurance relates to the development of current laws and market in insurance against uncertainty. In some sense we can say that insurance appears continuously with the reflection of human society.

Early methods of transforming risk were practiced by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively. Chinese merchants traveling dangerous river rapids would separate their wares across many utensils to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was ensured in the famous Code of Hammurabi, c. 1750 BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in lieu of the lender's guarantee to cancel the loan should the shipment be stolen.

Life insurance had its roots in ancient Rome, where citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors by making some payments.
As European civilization developed its social institutions and welfare practices also got more and more improved. With the discovery of new lands, sea routes and the consequent growth in trade, medieval guilds took it upon themselves to secure their member traders from loss on account of fire, shipwrecks and the like. Since most of the trade took place by sea, there was also the fear of robbers. So these guilds even offered money for members held captive by pirates. Burial expenses and support in times of sickness and poverty were other services offered. Essentially, all these revolved around the concept of insurance or risk coverage. That's how old these aspects are, really.

Insurance as we know from it today has its existence to 17th century England. In fact, it began taking shape in 1688 at a rather interesting place called Lloyd's Coffee House in London, where various professionals met to discuss and transact business. By the end of the 18th century, Lloyd's had developed enough business to become one of the first modern insurance companies. Back to the 17th century, in 1693, astronomer Edmond Halley constructed the first death rate table to provide a link between the life insurance premium and the average life period based on statistical laws of mortality and compound interest. In 1756, Joseph Dodson reworked the table, linking premium rate to age.

The first stock companies to get into the business of insurance were began in England in 1720. The year 1735 witnessed the dawn of the first insurance company in the American colonies in Charleston, SC.

In 1759, the Presbyterian Synod of Philadelphia sponsored the first life insurance corporation in America for the benefit of ministers and their dependents. However, it was after 1840 that life insurance really took off in a big way. The trigger: reducing opposition from religious groups. The 19th century saw huge developments in the field of insurance, with current products being provided to meet the growing needs of urbanization and industrialization.

1.4 Insurance in India

Insurance in India can be traced back to the Vedas. For instance, yogakshema, the name of Life Insurance Corporation of India's corporate headquarters, is taken from the Rig Veda. The term suggests that a form of "community insurance" was popular around 1000 BC and practised by the Aryans. Burial societies of the kind found in
ancient Rome were formed in the Buddhist period to help families build houses, secure widows and children.

Bombay Mutual Assurance Society, the first Indian life assurance society, was formed in 1870. Other companies like Oriental, Bharat and Empire of India were also set up in the 1870-90s.

Burial societies of the kind found in ancient Rome were formed in the Buddhist period to help families build houses, protect widows and children. Bombay Mutual Assurance Society, the first Indian life assurance society, was formed in 1870. Other companies like Oriental, Bharat and Empire of India were also set up in the 1870-90s.

It was during the swadeshi movement in the early 20th century that insurance witnessed a big boom in India with several more companies being set up.

As these companies grew, the government began to exercise control on them. The Insurance Act was passed in 1912, followed by a detailed and amended Insurance Act of 1938 that looked into investments, expenditure and management of these companies' funds.

By the mid-1950s, there were around 170 insurance companies and 80 provident fund societies in the country's life insurance scene. However, in the absence of regulatory systems, scams and irregularities were almost a way of life at most of these companies. As a result, the government decided nationalise the life assurance business in India. The Life Insurance Corporation of India was set up in 1956 to take over around 250 life companies.

For years thereafter, insurance remained a monopoly of the public sector. It was only after seven years of deliberation and debate - after the RN Malhotra Committee report of 1994 became the first serious document calling for the re-opening up of the insurance sector to private players -- that the sector was finally opened up to private players in 2001.

The Insurance Regulatory & Development Authority, an autonomous insurance regulator set up in 2000, has extensive powers to oversee the insurance business and regulate in a manner that will safeguard the interests of the insured.

Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20 per cent annum. Together with banking services, it contributes to
about 7 per cent to the country's GDP. Insurance is a federal subject in India and Insurance industry in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalisation) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts.

The origin of life insurance in India can be observed back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was regarded as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered unsafe for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act.

By 1938, there were 176 insurance companies in India. But a number of pirated during 1920s and 1930s blotted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business.

Insurance sector in India grew very fastly after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalised monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 crore.

The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies occupied the business of general operations and their operations were limited to organised trade and industry in large cities.

The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from January 1, 1973. The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC).
In 1993, the first step towards insurance sector reforms was started with the establishment of Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra. The committee was formed to judge the Indian insurance industry and recommend its future direction with the objective of complementing the reforms initiated in the financial sector.

Industry Structure

Insurance Policy India provides the clients with the details essential for the coverage in the policy, date of beginning of the policy and their adopting organizations. It plays a vital role in the Indian insurance sector.

The Insurance Policy India is regulated by certain acts like the Insurance Act (1938), the Life Insurance Corporation Act (1956), General Insurance Business Nationalization) Act (1972), Insurance Regulatory and Development Authority (IRDA) Act (1999). The insurance policy emphasis the covers against risks, sometime opens investment options with insurance companies setting high returns and also informs about the tax benefits like the LIC in India. There are two types of insurance covers:

1. Life insurance
2. General insurance

Life insurance – this sector deals with the risks and the accidents affecting the life of the customer. Alongside, this insurance policy also offers tax planning and investment returns. There are various types of life Insurance Policy India:

   a. Endowment Policy
   b. Whole Life Policy
   c. Term Life Policy
   d. Money-back Policy
   e. Joint Life Policy
   f. Group Insurance Policy

General Insurance – this sector covers almost everything related to property, vehicle, cash, household goods, health and also one's liability towards others. The major segments covered under general Insurance Policy India are:
a. Home Insurance
b. Health Insurance
c. Motor Insurance
d. Travel Insurance

Table 1.1 Year wise increase in life and general insurers

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(Source: IRDA Annual Report 2009-2010)

1.5 A Brief History of the Indian Life Insurance Sector

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta.

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

- 1912: The Indian Life Assurance Companies Act enacted as the first statute to improve the life insurance business.
- 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.
- 1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.
- 1956: 245 Indian and foreign insurers and provident societies 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 crore from the Government of India.
The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

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

- 1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.
- 1957: General Insurance Council, a wing of the Insurance Association of India, shaped a code of conduct for ensuring fair conduct and sound business practices.
- 1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.
- 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

1.6 Functions of Insurance

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

The primary functions of insurance include the following:

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

*Collective bearing of risk* - Insurance is a way to share the financial loss of few among many others. Insurance is a mean by which few losses are shared among larger number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid.
Assessment of risk - Insurance determines the probable volume of risk by evaluating various factors that give rise to risk. Risk is the basis for determining the premium rate also.

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

The secondary functions of insurance include the following:

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

Small capital to cover larger risks - Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty.

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

The other functions of insurance include the following:

Means of savings and investment - Insurance serves as savings and investment, insurance is a mandatory way of savings and it limits the unnecessary expenses by the insured's For the purpose of benefiting income-tax exemptions also, people invest in insurance.

Source of earning foreign exchange - Insurance is a worldwide business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways.

Risk Free trade - Insurance enlarges exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.
1.7 Present Scenario of Indian Life Insurance Industry

India with about 200 million middle class household shows a huge unused potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.

Consumers remain the most important centre of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerisation of operations and amendment of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest devices.

The insurance agents still remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are listed below.

- Direct selling
- Corporate agents
- Group selling
- Brokers and cooperative societies
- Bancassurance

Customers have extreme choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Customers are presented the unbundled products with a variation of benefits as riders from which they can opt. More customers are purchasing products and services based on their original needs and not just traditional money back policies, which is not regarded very appropriate for ethical protection and savings. There is various saving and investment plans in the market. However, there are still some key new products yet to be existed - e.g. health products.
The rural consumer is now exhibiting an increasing uncertainty for insurance products. A research conducted exhibited that the rural consumers are ready to dole out anything between Rs.3,500 and Rs.2,900 as premium each year. In the insurance the candid level for life insurance is at its peak in rural India, but the consumers are also mindful about motor, accidents and cattle insurance. In a study conducted by MART the consequences showed that nearly one third said that they had purchased some kind of insurance with the maximum penetration skewed in favor of life insurance. The study also highlighted the private companies have huge task to play in creating awareness and credibility among the rural populace. The predicted avails of buying a life policy range from security of income bulk return in future, daughter's marriage, children's education and good return on savings, in that order, the study adds.

1.8 Domestic Players

Insurance Company in public sector in India

Life Insurance Corporation of India

Life Insurance Corporation (LIC) came to be highlighted on 1st September 1956 through the amalgamation of 154 Indian insurance companies, 16 non-Indian companies and 75 provident. The amalgamation was achieved with the help of Life Insurance Act passed by the Parliament in the same year. The LIC was created with the goal of reaching all the insurable people in the country and providing them financial coverage at a reasonable price. In the year 1956, LIC had 5 zonal offices, 33 divisional offices and 212 branch offices. With time there was a need for a branch office at every district headquarter and many branches were opened, which raised the pace of the organization.

LIC now has 2048 fully computerized branch offices, 100 divisional offices, 7 zonal offices and the corporate office. At present, online premium collection facility is being offered in selected cities as LIC has tied up with some banks and service providers. For providing customer satisfaction the organization has introduced various schemes such as ECS, ATM premium payment facility, IVRS, Info centers which are set up in various cities including Mumbai, Bangalore, Chennai, Kolkata, New Delhi, Pune and many more. It has also come up with SATELLITE SAMPARK offices
providing easy access to policyholders. LIC has crossed many milestones and set standards for itself fostering unmatched performance.

Objectives

- Holding the money with obligation and using it in the best possible manner in the interests of the policyholder and the community.
- Bringing attractive savings plans and making them easily accessible to the policyholders.
- Giving attractive returns to the people and keeping in mind national priorities.
- Being trustworthy to the customers and develop the spirit of corporate social responsibility.

Top five competitors of LIC of India

- SBI Life Insurance Company
- ICICI Prudential Life Insurance Company
- Birla Sun Life Insurance Company
- HDFC Standard Life Insurance Company
- Reliance Life Insurance Company

SBI Life Insurance Company

SBI Life Insurance is a joint venture between the State Bank of India and BNP Paribas Assurance. SBI Life Insurance is registered with an authorized capital of Rs 2000 crores. SBI owns 74% of the total capital and BNP Paribas Assurance the remaining 26%.

State Bank of India enjoys the largest banking franchise in India. Along with its 7 Associate Banks, SBI Group has the unrivalled strength of over 14,500 branches across the country, arguably the largest in the world.

BNP Paribas Assurance is the insurance arm of BNP Paribas - Euro Zone’s leading Bank. BNP Paribas, part of the world’s top 10 group of banks by market value and part of Europe top 3 banking companies, is one of the oldest foreign banks with a presence in India dating back to 1860. BNP Paribas Assurance is the forth largest life insurance company in France, and a worldwide leader in Creditor insurance products offering protection to over 50 million clients. BNP Paribas Assurance operates in 41 countries mainly through the bancassurance and partnership model.
SBI Life Insurance’s mission is to emerge as the leading company offering a comprehensive range of Life Insurance and pension products at competitive prices, ensuring high standards of customer service and world class operating efficiency. SBI Life has a unique multi-distribution model encompassing Bancassurance, Agency and Group Corporate.

SBI Life extensively leverages the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. SBI’s access to over 100 million accounts across the country provides a vibrant base for insurance penetration across every region and economic strata in the country ensuring true financial inclusion.

Agency Channel, comprising of the most productive force of more than 63,000 Insurance Advisors, offers door to door insurance solutions to customers.

**ICICI Prudential Life Insurance Company**

ICICI Prudential is a joint venture between ICICI bank and Prudential plc, both having strong operations in their respective countries. ICICI bank is one of the leading banks in India providing quality financial services and Prudential is an international financial service provider headquartered at United Kingdom. ICICI and Prudential have respective shares of 74% and 26%. The Company started operating in December 2000. Currently, total capital with the company is Rs. 18.15 billion.

ICICI Prudential was the first insurance company in India to receive a National Insurer Financial Strength rating of AAA (Ind.) from Fitch ratings. It has been given the honour of being among the Most Trusted Brands in the industry by Economic Times for 3 consecutive years. It has a network of 450 branches, over 1,50,000 insurance advisors and 18 banc assurance partners.

As the organization grows and develops, it keeps introducing new range of products and services and enhancing the quality of plans and solutions given to the customers. The distribution network is one of the best, and is spreading across the length and breadth of the country. As on December 31, 2006, it had made imprints in over 360 cities and towns in India. It has over 1,75,000 advisors across the country, serving clients with full commitment. It has tied up with ICICI Bank, Bank of India, Federal Bank, Lord Krishna Bank, some co-operative banks, NGOs, MFIs and corporates for making inroads into the rural areas.
**Birla Sun Life Insurance Company Limited**

Birla Sun Life Insurance Company Limited (BSLI) is a joint venture between Aditya Birla Group and Sun Life Financial Inc. BSLI started functioning in March 2001 after getting the certificate of registration from IRDA.

Birla Sun Life Insurance Company Limited introduced unit Linked Life Insurance Solutions in India. Within a short span of time it was able to establish itself as a leading player in the Private Life Insurance Industry. It has been innovative and come up with customer-centric products to provide safety and services. The company has web-enabled IT systems for better customer services and a strong distribution channel which is easily approachable. The company shows corporate governance and a high degree of transparency in all business practices. It has professional knowledge and global expertise of Aditya Birla Group.

Birla Sunlife Insurance has been providing first class financial solutions to its customers and has been amongst the top three private sector life insurance companies. Its mission is to be amongst the top players in the eyes of customers and the first choice of insurance and retirement solutions to individuals and groups. These innovative solutions are linked with global and technical expertise and are deployed by a multi channel distribution network and enhanced technology.

The company aims at keeping all people associated with it - customers, clients, stakeholders and employees- happy and fully satisfied. It wants to provide value added products and services to the customers, job satisfaction to employees and highest returns to the shareholders.

Qualities like integrity, commitment, passion, and speed are the core values of the company. The products offered by the company are:

**HDFC Standard Life Insurance Company Limited**

HDFC Standard Life Insurance Company Limited is one of the first companies to be licensed by IRDA to operate in the Insurance sector. The company came into existence on 14th August 2000. Both Crisil and ICRA have honored it with AAA Ratings. Similarly Moody's and Standard and Poors have also honoured it AAA ratings. HDFC holds 81.4% share in HDFC and the remaining 18.6% stake is with
Standard Life. It integrates the strong expertise and stability of Standard Life and HDFC.

It is one of the most trusted companies; it is easily accessible and approachable, offering value services to its customers.

The company aims to provide:

- Innovative products to cater to different needs of different customers
- Customer service of the highest order
- Use of technology to improve service standards
- Value for money for customers
- Increasing market share
- Professionalism in carrying out business

The values ingrained in the company are to provide financial security to policyholders, maintain trust and keep innovating to establish it as a unique player.

**Reliance Life Insurance Company**

Reliance Life Insurance offers you products that fulfill your savings and protection needs. Our aim is to emerge as a transnational Life Insurer of global scale and standard.

Reliance Life Insurance is an associate company of Reliance Capital Ltd., a part of Reliance - Anil Dhirubhai Ambani Group. Reliance Capital is one of India’s leading private sector financial services companies, and ranks among the top 3 private sector financial services and banking companies, in terms of net worth. Reliance Capital has interests in asset management and mutual funds, stock broking, life and general insurance, proprietary investments, private equity and other activities in financial services.

**Reliance** - Anil Dhirubhai Ambani Group also has presence in Communications, Energy, Natural Resources, Media, Entertainment, Healthcare and Infrastructure.

**1.9 Demand Drivers**

**Before Independence**

The insurance industry originated in India in the year 1818 with the formation of Life Insurance Corporation in Calcutta. The idea behind starting LIC was to provide
insurance coverage for English widows and different premium was charged for the English and for the Indians. In 1870 Bombay Mutual Life Insurance Society established its Insurance business and the same premium was charged for both Indians and English. In 1912 the Insurance sector came under the purview of regulations when the government passed the Life Insurance Companies Act. But it was in the year 1938 when the government came up with the first legislation to bring the insurance sector under state control.

Post Independence

In 1956, the Government of India nationalized insurance companies bringing Indian Insurance sector under the purview of the Government. These state owned Insurance companies became highly inefficient and bureaucratic, had excess manpower and countless delay in settlement of claims but the nation did not have an alternative. Any effort by the government to privatize the industry met with stiff resistance from the trade unions.

1.10 Post Liberalisation Policies Regarding Insurance

Under the recommendation of Malhotra Committee the Insurance Regulatory And Development Authority was set up to monitor and control the Insurance industry. Some of the initiatives taken by the government after Insurance sector reforms are:

- Government to have not more than 50 per cent stake in insurance companies.
- Insurance sector to be opened up for private companies and any number of insurance enterprises can operate.
- Private players with minimum paid up capital of Rs.1 billion should be given opportunity to do business.
- Foreign companies can enter Indian market through joint ventures with Indian companies.

The state controlled Insurance companies like LIC and GIC faced stiff competition from private insurance companies post reforms. The monopoly of the national Insurance companies came to an end. The private Insurance companies were able to exploit the shortcomings in the state run Insurance companies. The private insurance
companies launched a variety of new insurance products like health care, pension plans, annuity plans, income protection, market linked products which were welcomed by the end customers. The business for the private sector boomed in both urban and rural sector alike.

**Bodies that regulate the sector:**

For better regulation purpose of the insurance sector the government has established following bodies;

1. IRA: Insurance Regulatory Authority.
2. IRDA: Insurance Regulatory and Development Authority.
3. TAC: Tariff Advisory Committee.

1. **IRA: Insurance Regulatory Authority:**

The IRA, under the chairmanship of Rangacharya, was set-up in January 1996. The IRA Bill has to be passed by parliament to make the IRA a statutory body. Comprehensive legislation aimed at reviewing the insurance Act of 1938 and repealing the life insurance corporation Act of 1956 have to be passed.

The IRA is also preparing an internal rating system to screen all applications, as entry will be in phases. The joint venture status of life insurance companies (with majority holding of the domestic partner) is likely to be approved by the parliament. Consensus also seems to be emerging on the minimum of Rs.1 bn capital stipulations for new insurance companies.

The IRA has stipulated a minimum rural presence for all companies. The exhaustive guidelines have been issued for the appointment of intermediaries (brokers, agents, surveyors and actuaries).

2. **Feature of IRA:**

1. The Bill allowed for up to 26% foreign equity participation in the insurance sector.

2. The current India monopoly companies were required to bring down their equity holding to 26% within a period of 10 years.
Government pronouncement:

1. IRA will be sole Authority, which will be responsible for awarding of, licenses i.e. little or no government or political interference in licensing process.

2. No restriction on the number of licenses.

3. No composite license for life insurance business.

4. Licensing to be only on national basis (no city by city approach)

5. IRA allowed for up to 26% foreign equity participation in the life insurance sector.

6. The current Indian monopolies companies are required to bring down their equity holding to 26% within a period of 10 years.

IRA proposals:

1. New player should start their business within 15-18 months.

2. Trafficking of licenses not to be permitted.

3. IRA to seek business plan with 5-year protection for all applicants.

4. A system of direct brokers to be introduced.

5. IRA to vet top management appointments.

2. Irda: Insurance Regulatory And Development Authority:-

The Insurance Regulatory and Development Authority, constituted under the IRDA Act, 1999, provide for the establishment of an authority to protect the interest policyholders, to regulate, promote and ensure orderly growth of the life insurance industry.

Business Requirement:-

A company will not be issued a license unless the IRDA is satisfied with the sound financial condition, the general character of management, the volume of business, the capital structure, earning prospects for the insurers and that the interests of the general public will be served if registration is granted to the insurer.
Foreign insurance companies have been allowed to have a maximum 26% share holding. No life insurance company can be registered under the Act unless they have a paid up capital of Rs.100 crores. Every life insurer shall deposit with the reserve bank of India one percent of the total gross premium written in India in any financial year, not exceeding Rs.10 crores.

This amount would not be susceptible to any assignment or charge nor would it be available for the discharge of any liabilities other than liabilities arising out of policies issued, so long as any such liabilities remain undercharged.

**Investment of Assets:-**

Every insurer is required to invest, and keep invested, assets equivalent to not less than the net liabilities as follows:

a. 25% in government securities,

b. a least 25% of the said sum in government securities or other approved securities and

c. the balance in any approved investment rated as “very stron” or more by reputed rating agencies, which include various debt instruments on which dividend on its ordinary shared for the five years immediately preceding or for at least five out of the six or seven years immediately preceding have been paid and which have priority in payment over ordinary shares of the company in winding up.

The IRDA may in the interest of the policyholder’s directions relation the time, manner and other conditions and investments of assets to be held by an insurer. The IRDA may also direct the insurer to realize the investment, if it sees the investments to be unsuitable or undesirable. The Act prohibits an insurer from directly or indirectly investing policyholder funds outside India.

Further, every insurer has to always maintain an excess of the value of his assets over the amount of his liabilities of not less than Rs. 50 crores in the case of an insurer carrying of life insurance business. If at any time an insurer does not maintain the required solvency margin, he is required to submit a financial plan, as per directions issued by the IRDA, indicating a plan of action to correct the deficiency within three months.
In order to ensure that the company does not risk the money of the policyholder’s, the Act provides that an insurer who does not comply with the aforesaid provisions may be deemed to be insolvent and may be would up by the court.

Insurers are required to get an actuary to investigate the financial conditions of the life insurance business including a valuation of liabilities every year in order to ensure continual compliance.

In order to maintain transparency in its dealings, insurers would have to keep separate account relating to funds of shareholders and policyholders.

3. Tariff Advisory Committee:

The tariff advisory committee established under the Act is empowered to control and regulate the rates, terms, and etc. that may be offered by insurers in respect of any risk or of any category of risks. It is provided that in fixing, amending or modifying such rates etc. the committee shall try to ensure as far as possible that there is no unfair discrimination between risk of essentially the same hazard and also that consideration is given to past and prospective loss experience. Every insurer is required to make payment to the TAC of the prescribed annual fees.

1.11 Tax Policy and Insurance Sector

Another factor, which affects the insurance sector, is the tax policy. The tax reforms in India are such that it encourages the citizens to invest in the insurance sector.

The tax policy of the government is particular relevant for life insurance which is a long-term contract and inculcates among the policyholders the habit of saving. Taxation of returns on investment influences, investment decisions and high rates of taxation will discourage the desire to save. Already in India there are complaints that the rates of return on life policies are not what they could be. Therefore tax incentives play a vital role in determining the attractiveness of such policies. Such tax breaks are available in many countries and have helped in the development of their life sector. In western countries the gain from the proceeds of a life insurance policy is paid free of tax. Provided the policy satisfies certain qualifying conditions. Non-qualifying policies get basic rate tax relief, though higher rate taxpayers may still have to pay tax on the gain, although at a reduced rate. The insurance companies can use such tax
concessions rate. The insurance companies can use such tax concessions to design products for different categories of taxpayers.

The other factors, which affect the insurance sector, are the employment law, and government stability. These are the factors, which affect the insurance industry.

1.12 Key Success Factors

In order to succeed in any of the business it is very necessary to make and follow the strategies. Strategies are very important for any of the business. Following are the general strategies, which are recommending to the insurance sector. One approach is to focus upon product quality, which will instill confidence in minds of the customers that they would be offered best product from out of the several available products.

The other approach, is to focus on the customers need, would involve a heavy investment in developing relationships with policyholders. Under this approach, one can expect a range of products and services designed to give the customer what he specially desires.

The third approach is of greater market segmentation under which the population should be divided into several homogeneous groups and product, and services would be targeted towards such selected markets. The effort would be to “tie” clients to their company- by customized combination of coverage, easy payment plan, risk management advice, and convenient quick claim handling.

Porter Generic Strategies:

One of the expert Michel porters has identified three internally consistent generic strategies, which can be used singly or in combination: overall cost leadership is clearly under stable. In a differentiation strategy, a company seeks to be unique in its industry along some dimensions that are widely valuable by the customer. May be the lowest cycle time for settling a claim under say, a med claim policy could be differentiating factor. In a cost focus, a company seeks a cost advantage in its target segment, while in differentiation focus; a company seeks a differentiation target.
Marginal Different Product:

Another strategy would be for the companies to design products that will make comparison-shopping difficult. They could offer a wide variety of covers with marginal differences and varying prices, whose terms and conditions are difficult to compare for consumers who may not have sufficient experience in purchasing insurance and who would find it difficult to make a clear choice. If the consumer is offered a unique policy, he will have no alternative coverage with which can be compared. Given the combination policy, which can offer protection against a number of losses, the consumer will find comparison even more difficult.

Designing New Strategies:

The existing insurance companies cannot be satisfied with concentrating on the consolidation of their existing markets, but have to achieve further growth and penetration. They must, therefore, concentrating on strengthening existing points of service, designing new channel of distribution, direct contact with their ultimate customers, and front line employee empowerment. They also need to refresh their marketing set up. The new comers, on the other hand give priority to tapping the market, left unexploited by the public sector companies.

1.13 Moves towards Rural Market

It is one of the most important suggestions; data says that rural market is still uncovered by this sector. We believe that the sector should move towards the rural market. Insurance penetration can be achieved by tapping the neglected Rural Markets. There is vast potential for insurance growth in the rural sector. A recent survey by foundation for research, training and Education in insurance (FORTE) suggests that insurance can be sold profitably to rural communities in India. The survey reveals that

- There is distinct hierarchy of needs in rural areas.
- Rural people find security in groups the saving habit is very strong in rural areas.
- Average saving across the most important socio-economic strata comes to 30-35% of annual income or Rs.13,500 annually, which is significant.
• There is high level of awareness about life insurance and fairly high-level about 36% already own life insurance.

• 51% of these who own life insurance would like to buy more.

• Amongst the savers, a significant percentage does not save through formal financial modes or institutions.

• Rural buyers of insurance prefer a half yearly mode of premium payment to coincide with the time of the harvest. Thus there are very much chances for any of the companies to work over this scenario. So we believe and suggest all the players to move towards the rural areas.

**Motivation of sales force:**

A life insurance company should constantly be involved in the process of motivating the sales force in the turbulent times. The following strategies are recommending;

- Building relationship is real perk. One should be sure to build in networking times for agents during the program-in addition to entertainment and education.

- Web should be frequently used for creating gift ideas.

- Hold sales contests in the forth quarter. It is the best times ti motivates agents who wants to qualify for a trip.

- Consider a contrast within the contest ‘for- top-tier producers; additional rewards for additional milestones that are met, such as air and guest room upgrades.

**Use of Internet:**

The present scenario is such that the products sold with the help of Internet. The technological advancement is such that force the companies to take such steps. Still the full-fledged use of Internet is not done in our country. As suggestion earlier the Internet based life insurance will help the companies to reduce the transaction cost and time. At the time it can improve the quality of service to its customers, which is the mission of the company.
1.14 Environmental Issues

Political Factors Affecting Life Insurance Industry:
Within India political ambitions and rise of communalism, fissiparous tendencies are on the rise and may well continue for quite some time to time. Therefore, it expected that the insurance companies might consider offering political risk coverage also. The only area where Indian insurers consider giving cover is with regard to customs duty change under certain conditions.

Certain type of political risk at the international level has serious implications for exporters. The term ‘political risk’ has a wider connotation than commonly understood or assumed. It covers events arising not just from politics, but risks in the course of international transactions. In this connection, it may be noted that export credit insurance has evolved out of uncertainties relating to international trade, particularly due to problems arising out of foreign legal jurisdiction, political changes and currency exchange difficulties faced by many developing countries.

Economical Factors Affecting Life Insurance Industry
Interest rate at bank and interest rate of P.F variation very much affect to life insurance industry, because people always attract by higher return. Therefore, they do not prefer lower return policy. Unemployment also affects insurance industry, because the unemployment people will not have earning, so saving also affect to life insurance sector. Life insurance industry will directly affected by Earthquake, Monsoon, and Natural calamity. Because of these events turns into lots of death, so the life insurance companies have to pay claim against policy. Infant mortality rate and maternity mortality rate are also affecting to life insurance. Typical Indian want luxurious product against low income, so that they prefer installment or annuity (EMI), so that they may not have extra saving to invest in life insurance.

Socio-Cultural Factors Affecting Life Insurance Industry:
The basic social factors that affect the life insurance sector are as under: -

- Population
- Life style
- Educational level
Level of earning

Societal benefits

These are the major social factors, which affect the life insurance sector. We will discuss all of them in brief.

Population:

Growth in the population is a major factor pushing up the demand. It is also going to exert a special influence on the life insurance market in other ways. Apart from exerting pressure on demand for goods and services, and through that, ill effects of uncontrolled growth of population also could spur the growth of demand. For example, overcrowding in public places of entertainment, public support, or too many vehicles on the road can result in hazards like stampedes and pollution, which require covers and still are not sold on a large scale today. Thus the positive as well as the negative aspects of population growth are going to spur demand.

Life style:

The peculiar lifestyle of a country or an age also influences the insurance business. Change therein produces different demands for life insurance. For e.g. All over the world, family size is shrinking and the fact that in decades to come, both presents are more frequently likely to work outside the home will mean that there could be a greater possibility of property loss. Similarly, a larger number of vehicles on the roads for people commuting to their jobs or business would mean larger incidence of accidents. This will increase the demand for life insurance products.

Of course, there is also the other possibility that wherever it is possible, some people will try to spend a part of their time working at home either because they would like to be with their families or because they find it more convenient. Activities like life insurance and financial services are particularly well suited for such arrangements.

In recent times, there has been a surge in the high end business of the LIC. For instance, as against 90 policies each worth more than Rs 10 million in 1999-2000, the number was as high as 900 policies in the next year. Or again, the number of jeevan shri policies jumped from 88,000 to a total of 2,33,000 policies in the same period.
Level of education:

India is one of the developing countries: the level of education is very low here. The literacy rate is very poor. More than 50% of the population is still uneducated or more or less not educated. Thus the people are not able to understand the concept of the life insurance. Among the educated people the quality of the education is still a big question mark. Thus the awareness is not created and it has become a big challenge for the industry. Thus one of the factors, which affect the life insurance sector, is low level of education.

Level of earning:

Another factor, which affects the life insurance sector, is the level of earning. In India the rule of 80-20 is working. The 80% of the total population is having the 20% of the wealth and the 20% of the total population is having 80% of total wealth. Thus the richer are richer and poorer are poorer. Due to this the life insurance sector is affected very much.

Societal benefits:

In view of the fact that large sections of India have inadequate life insurance cover, an important social responsibility of the government relates to spreading it far and wide. In addition, the government attempts to extend life insurance with certain social obligations in view in both urban and the rural areas through such means special schemes for the weaker sections, and by tilting of the life insurance companies’ investments in favour of social developments.

The social changes emerging in the country provide opportunities for insurers to sell financial services products such as family health care programmed, retirement plans disability insurance, long-term care for senior citizens and different employee benefit plans.

The population in the age group 15-55 is usually regarded as the insurable population, since this can be considered as the main “active” age group (in the sense of working, earning. And supporting others), and beyond this range life risk may be considered to be not worth insuring.

There is one opinion, which suggests that in our country the age group 15-55 as the base is not totally suitable. Due to various factors including the unemployment
problem, real earning starts from around the age of 25 for salaried persons. For others, particularly small entrepreneurs, traders and businessman, the starting age is a little higher. Only in the affluent sector of society life insurance can be taken before personal earning starts. Thus, number wise life insurance below the age of 25 is not so significant (although amount wise it need not be so). On the other hand, people over the age of 50 rarely apply for fresh life insurance, mainly because in India the normal retirement age is around 60 years. Also, a high percentage of the population in the lower income group does not remain “insurable” after the age of 50. thus, in our country the practical age range for insurable population actually narrows down to 25 to 50.

**Technological Factors Affecting Life Insurance Industry:**

Internet as an intermediary in the current Indian market customer is not aware about the intrinsic value of insurance. He thinks of insurance only in the mount of March as a tax saving measure. The security provide by an insurance cover is rarely thought about. In such a scenario Internet can be an effective medium for educating the consumers about insurance. It serves as a single window for disseminating product, process and procedural information to the consumers.

Product development and target marketing through the Internet: with increase in the number of insurance companies there will be a need for market segmentation and subsequently product designed for each of them. In such a scenario Internet can be a effective channel for pushing product specific information to a particular market segment. Consumer feedback about a particular product as well as suggestions for different types or covers can also be generated through the Internet.

**Maintaining the database**

The most important facto that is affecting the insurance industry is the marinating the database of the customers. The insurance industry having a huge list of the customers.

In order to maintain it in manual format it is really the work of stupidity. With the change in time the computers has taken the work of this things. Thus with the development of the technology it has becoming possible to maintain such huge database very easily. A person can switch over to the computer and get the details of
the customer very easily. Thus maintaining the database has really become easy due to the development in technology.

**E-business insurance in India: -**

The Internet has played a vital role in transforming the business of the 21st century. Computers are now being used extensively for creating a storing data, information with the help of complex and sophisticated technological tools in every kind of business. This change having been widely accepted, the advantages are numerous such as fast processing improved. Efficiency, cost reduction among several other benefits. However, with every positive change, there is an evil attached and technology is no exception. In technical is an evil attached and technology is no exception. In technical terms, increased sophistications of technology brings with it, an increased factor of risk involved. The risk can be of various attributes, for example, the risk of data being lost due to a virus attack, the theft of important and confidential information and so on, which ultimately results in losses for the business entity. With this change in the business process, insurers have to devise new methods for assessing, underwriting and servicing claims for the so-called e-business insurance.

Insurers face challenges to ascertain risks, in order to quantify them because such risks don’t have any past data, which makes it all the more difficult for actuaries. Moreover, what financial impact a particular risk can have is very difficult to be determined. For example, if some hackers obtain credit card information of few customers, it’s a loss for banks, their credibility, customers and also their brand. Will an insurance policy cover all of this is million dollars question hence; the difficulty is to design a cover first of all, which really answers the needs of customers. But even after designing and pricing such products with difficulty, the challenge to underwrite and handle claims for such policies remains existent.

Life Insurance Industry completes a decade of opening up. Currently there are 23 players in the Life Insurance Industry. 20 Insurance companies have Joint Venture with foreign partners. LIC, Reliance Life Insurance and Sahara Life Insurance Company are the three companies, who do not have Joint Venture. All the major international players are present in the Indian Insurance market. Foreign partners have brought in capital of Rs.5053 Crs as FDI. (As of 31st March 2010). India has the largest in-force policies in the world.
1.15 Current Players in Indian Life Insurance Sector

Table 1.2 Current scenario of Life Insurance Sector of India

<table>
<thead>
<tr>
<th>SR. No</th>
<th>Insurers</th>
<th>Foreign Partners</th>
<th>Regn. No.</th>
<th>Date of Registration</th>
<th>Year of Operation</th>
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<tr>
<td>7.</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>BNP Paribas Assurance SA, France</td>
<td>111</td>
<td>29.03.2001</td>
<td>2001-02</td>
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<td>8.</td>
<td>ING Vysya Life Insurance Co. Ltd.</td>
<td>ING Insurance International B.V., Netherlands</td>
<td>114</td>
<td>02.08.2001</td>
<td>2001-02</td>
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<td>9.</td>
<td>Allianz Bajaj Life Insurance Co. Ltd.</td>
<td>Allianz, Germany</td>
<td>116</td>
<td>03.08.2001</td>
<td>2001-02</td>
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<td>10.</td>
<td>Metlife India Insurance Co. Ltd.</td>
<td>Metlife International Holdings Ltd., USA</td>
<td>117</td>
<td>06.08.2001</td>
<td>2001-02</td>
</tr>
<tr>
<td>12.</td>
<td>AVIVA</td>
<td>Aviva International Holdings Ltd., UK</td>
<td>122</td>
<td>14.05.2002</td>
<td>2002-03</td>
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<tr>
<td>Co. Ltd.</td>
<td>France</td>
<td>No.</td>
<td>Date</td>
<td>Period</td>
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<td>16. Future Generali India Life Insurance Company Ltd.</td>
<td>Generali, Italy</td>
<td>133</td>
<td>04.09.2007</td>
<td>2007-08</td>
<td></td>
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<td>18. Canara HSBC OBC Life Insurance Company Ltd.</td>
<td>HSBC, UK</td>
<td>136</td>
<td>08.05.2008</td>
<td>2008-09</td>
<td></td>
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<td>19. Aegon Religare Life Insurance Company Ltd.</td>
<td>Religare, Netherlands</td>
<td>138</td>
<td>27.06.2008</td>
<td>2008-09</td>
<td></td>
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<td>20. DLF Pramerica Life Insurance Co. Ltd.</td>
<td>Prudential of America, USA</td>
<td>140</td>
<td>27.06.2008</td>
<td>2008-09</td>
<td></td>
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<td>22. IndiaFirst life insurance company</td>
<td>Legal &amp; General Middle East Limited, UK</td>
<td>143</td>
<td>05.11.2009</td>
<td>2009-10</td>
<td></td>
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<tr>
<td>23. Life Insurance Corporation of India</td>
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<td>512</td>
<td>01.09.1956</td>
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