Insurance is the backbone of a country’s risk management system. Risk is an inherent part of our lives. The insurance providers offer a variety of products to businesses and individuals in order to provide protection from risk and to ensure financial security. They are also an important component in the financial intermediation chain of a country and are a source of long term capital for infrastructure and long-term projects. Through their participation in financial markets, they also provide support in stabilizing the markets by evening out any fluctuations. Insurance does influence the growth and development of an economy in several ways. The availability of insurance can mitigate the impacts of risk by providing products which help organizations and individuals to minimize the consequences of risk and has a positive effect on industry growth as entrepreneurs are able to cover their risks.\(^1\) Theoretical studies and empirical evidence have shown that countries with better-developed

financial systems enjoy faster and more stable long-run growth. Well-developed financial markets have a significant positive impact on total factor productivity, which translates into higher long-run growth. Based upon Solow’s (1956) work, Merton (2004) notes that “… in absence of a financial system that can provide the means for transforming technical innovation into broad implementation, technological progress will not have significant and substantial impact on the economic development and growth…”\(^2\) The importance of the insurance-growth nexus is growing due to the increasing share of the insurance sector in the aggregate financial sector in almost every developing and developed country. With the liberalization and entry of private companies in insurance, the Indian insurance sector has started showing signs of significant change. In this chapter, findings and conclusions of the study are presented and based on these some suggestions are also made.

### 7.1 Findings

#### 7.1.1 Findings regarding growth of general insurance sector

The study found that the insurance penetration in India is lower than the industrialised countries. Insurance density is markedly lower in most emerging markets compared to industrialised countries. India is way behind many other countries in this respect also. The general insurance density in India has increased from $2.4 in 2001 to $6.7 in 2009, while in the case of United States, it increased from $1664.1 to $2107.3 during the same period. Even the developing countries like China, Brazil and Russia registered an impressive growth in the general insurance density. A world-

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wide increasing trend in the general insurance density from $158.3 to $ 253.9 can be observed during 2001-2009. General insurance penetration and density in India is too low as compared to the world levels. It seems that even the reform process has failed to provide the desired results despite the fact that Indian insurance sector is still unexplored and untapped. (Table No.4.1. & 4.2). Penetration of insurance critically depends on the availability of insurance products and services. The insurance companies have a pivotal role in offering insurance products which meet the requirements and expectations of the customers and, at the same time, are affordable.

7.1.2 Findings regarding the performance of Indian general insurance sector in the post reform period.

7.1.2.1 The growth rate of public sector general insurance companies in terms of gross direct premium has been higher during the pre-reform period than the post-reform period. There is an upward trend in gross direct premium income of the public sector general insurance companies in post-reform period. New India Assurance emerged as the largest public sector general insurance company during all the years of pre-reform period followed by United India Insurance, Oriental Insurance and National Insurance companies. (Table No.4.3, 4.4.and Table No.4.5)

7.1.2.2 The study also reveals that the market share of all the public sector general insurance companies decreased sharply due to the entry of private companies in the field. New India Assurance emerged as the largest public sector company during the pre- and post-reform periods. (Table No. 4.7.) However, United India insurance from its second place slipped to the fourth and market share of about 20 per
cent during the pre-reform period to 13 per cent in 2009-10. Oriental General Insurance Company which was at the third place during the pre reform-period maintained the same position, but National Insurance Company from its fourth place climbed to the second.

7.1.2.3 The study shows that in 2001-02, the market share of public sector was 96.22 per cent and that of private sector was only 3.78 per cent. However, in 2009-10, the market share of the public sector came down 59.62 per cent and that of private sector increased to 40.38 per cent. (Table No 4.7.) . It shows that 19.24 per cent of the market share was captured by the private sector in terms of gross direct premium. The public sector general insurance companies have experienced a large branch expansion network since opening up, but the quantitative expansion has not always been matched by a corresponding improvement in the performance. Even the large numbers of initiatives taken by the public sector companies have failed to meet the competition thrown by the private sector. As a result, the market share of public sector companies has declined greatly.

7.1.2.4 The gross premium of the non-life insurance business within and outside India grew from Rs.12385.24 in 2001 to Rs.35815.85 (Rs.in crore) in 2010. (Table No.4.4). The performance of private sector general insurance companies in terms of gross direct premium has been higher than that of the public sector. The private players’ contribution to gross premium is increased from Rs. 467.65 crores to Rs.13977.00 while that of public players is Rs. 11917.59 crores to Rs. 21838.85 during 2001 to 2010.
7.1.2.5 Sector wise analysis of the four public players in terms of gross direct premium shows that both in pre and post reform period, it is the performance of New India that carries the team as a whole to high growth. The other three players are nowhere near its growth rate, the nearest one being United India. This shows that there is a glaring disparity among the public player’s contributions. It is difficult to pinpoint the reasons for it in the absence of more information on their relative department-wise performances. In the private sector it is obvious that it is the private players’ performance that is pushing up the market boundaries in premium volumes. It shows that the private players are taking the lead in widening the market base despite their handicap of lack of infrastructure, inadequate man-power and low-capital base. (Table 4.5)

7.1.3 Findings regarding comparative performance of the public sector and private sector general insurance companies.

7.1.3.1 The study found that during 2001-2010, the average underwriting losses of public sector companies are higher as compared to the private sector companies. The average underwriting results ratio of the public sector general insurance companies is -29.83 per cent and that of private sector companies is -26.15 per cent. (Table 5.4) This is mainly due to a higher average claim ratio of the public insurers, which was 86.20 per cent, whereas for the private insurers, it was 56.80 per cent. (Table 5.1). The average expense ratio of the public insurers and the private insurers was 35.12 per cent and 45.33 per cent respectively. However, the Mann-Whitney test results show that the gap in expense of management ratio of both the public and private sector companies is insignificant (Table 5.2).
7.1.3.2 The product portfolio of general insurance companies reveals that the lower claim ratio of the private insurers is mainly due to the fact that the private sector insurance companies are concentrating more on the smooth business. A close analysis of annual reports of IRDA reveals that, motor policy accounts the largest proportion of gross premium for all players but the data shows that miscellaneous segment, which includes the Motor portfolio, continued to register negative or poor results. This was attributed to the high incidence of claims in the Motor Third Party business. Third party motor, which is about 34% of business, is mandatory. Growth in this segment largely depends on the automobile industry and regulatory changes regarding tariffs. The private players in the past have been reluctant to pick up commercial third party motor policies due to adverse claims histories. In respect of loss making portfolio, such as motor business, they have avoided to enter it to reduce their claim ratio. A sizeable part of motor business relates to the commercial vehicle segment that has heavy incidence of claims for several years now. Increase in insurance tariff rates is a crying need. Because of the importance of the commercial vehicles sector in the economy and their power to command attention, attempts to increase rates have produced only marginal results in the past. Given the pace at which the vehicle population is growing, this portfolio will continue to grow substantially. The new private sector general insurers are reported to be staying away from this business and the government-owned insurance companies seem to be obliged to carry the load of this portfolio at grossly inadequate tariff rates. The incurred claims ratio continued to be the highest in the miscellaneous business, followed by marine and fire segments.
Fire business has traditionally been one of the profitable lines of insurance business. To reduce the loss in this segment public sector companies have entered into various agreements with automobile manufacturers and dealers as part of their customer service strategies. Such arrangements are also prevalent in the private sector.

7.1.3.3 The average investment income ratios of the public and private insurers are 37.04 per cent and 30.83 per cent respectively. It was 6.21 per cent higher in the case of public sector insurers than private insurers (Table 5.6). The average net retention ratio of the public insurers during the period of study is 75.72 per cent, whereas it is 56.23 per cent in the case of private insurers. (Table 5.5.). It is evident that the average net retention ratio of the public insurers is 19.49 per cent higher than that of the private insurers.

7.1.3.4 The higher investment return of the public sector offsets their underwriting losses which resulted into better operating, net earning and return on equity ratio of the public sector than the private sector. The average operating ratios of the public and private sector general insurance companies for the period are 11.49 per cent and 4.25 per cent respectively which indicates that the public sector insurers average operating ratio is 7.24 per cent higher than that of the private sector insurers (Table 5.7) and the average net earning ratios of the public and the private insurers for the period 2001 to 2010 are 10.10 per cent and 2.43 per cent respectively (Table 5.8). The analysis provides that the average return on equity of the public sector insurers is 10.70 per cent, and that of private sector insurers is 2.87 per cent which means the
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public sector insurers earn 7.83 per cent higher average return on equity than the private insurers (Table 5.9). The Mann-Whitney test implies that the operating ratio, net earning ratio and return on equity ratio of the public sector general insurance companies are significantly higher than that of the private sector companies. Thus, the hypothesis is rejected that the profitability of the private sector general insurance companies is higher than that of the public sector general insurance companies during the year 2001-2010.

7.1.3.5 The Spearman's correlation analysis highlights that investment income ratio has a significant positive correlation with return on equity and the coefficient is 0.669 which was significant at 1 per cent level; and investment income and underwriting results were negatively correlated (-0.322). (Table 5.10). The correlation analysis of the private sector shows that expense ratio was negatively correlated (-0.532) with return on equity, net retention ratio was also negatively correlated (-0.160) and underwriting results ratio was positively correlated (0.798) with return on equity which was significant at 1 per cent level. (Table 5.11).

7.1.3.6 The regression results of the public sector general insurance companies indicated that in the second step, investment income ratio and underwriting results ratio (adjusted $R^2=0.661$) explained 66.1 per cent variation in return on equity (Table 5.12), whereas in the private sector general insurance companies in the second step, underwriting results ratio and investment income ratio (adjusted $R^2=0.273$) explained a significant variation of 27.3 per cent in return on equity. (Table 5.13). The regression analysis found that underwriting results and investment income have a significant
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effect on return on equity. The variation in return on equity is due to both underwriting results and investment income of both the public and private insurers.

7.1.4 Findings regarding the satisfaction level of the customers after opening the insurance sector to private companies.

7.1.4.1 The study found out that percentage of respondents taking their policy from public sector decreases as income increases. It is found that those who have annual income of more than Rs.1,00,000/- are more interested in taking policies from the private sector. And majority who purchase policies from the private sector fall in the age group between 25-45 years. This shows that young population are more interested in private sector. But aged group are more interested in taking policies from the public sector, because their mind is already set to the feeling that security & safety is more in the public than in the private sector. (Table 6.4)

7.1.4.2 The study brought out that 225 (90.73 per cent) customers of the public sector and 247 (98.02 per cent) customers of the private sector have availed claim from their respective companies. (Table 6.11) Among those respondents who availed the claim, experiences of the respondents with respect to claim settlement was also examined. Regarding claim settlement, study found that 87 respondents (35.08 per cent) from the public sector are positive in their response regarding claim settlement. They responded that they got claim amount in less than 1 month. Among the private sector companies, 137 (54.37 per cent) customers are found to be satisfied because they got the claim amount in less than 1 month. (Table 6.12). It has been found that the private insurers have less
formality to follow while making a claim settlement, and also have an easy and quick process to complete the formalities. It has been observed that the service provided by a general insurance company at the time of taking a policy is, no doubt, of better quality than that provided at the time of settling a claim. Therefore, strong, expeditious, and fair claims-handling strategy and machinery must be put in place to deal with the increased volume of business and increased claims.

7.1.4.3 The study found out that customer satisfaction level is good in the case of private sector but it is average in the case of public sector. Customer satisfactions of the public and private insurers are 18.95 per cent and 29.76 per cent respectively which fall between average and satisfied categories (Table 6.6).

7.1.4.4 The study also examined customers' perceptions towards the overall service quality, customer satisfaction, and purchase intention behaviour of the customers of both the public and private sector general insurance companies. 187 respondents have favourably perceived the customers' satisfaction of the public sector general insurance companies of whom 35 (14.11 per cent) are highly satisfied. On the other hand, 160 customers favourably perceived the customers' satisfaction of the private sector general insurance companies of whom 13 (5.16 per cent) highly satisfied (Table 6.6). The Chi-square test indicates that there is significant difference between customers’ perceptions towards customer satisfaction of the public and private insurers. The study also found that there is strongest association between the overall service quality and again make same choice. The correlation coefficients of the public and private insurers between
overall service quality and customers' satisfaction are 0.219 and 0.415 respectively which indicates significant positive correlation. The analysis provides that the overall service quality level has a strong effect on customer satisfaction otherwise they shift their policies to other sector (Table 6.19).

7.1.4.5 The study found that most of the respondent’s have opted the present company because of security, 43.4 per cent of the respondent’s opted because of better service and 65 (13 per cent) respondent’s they opt present company because of the companies ability to settle the claim at faster time (Table 6.18 and Appendix IV).

7.1.4.6 The study found that the customers perception towards shifting of purchase of policies from their present company to other only a small number i.e., 67 (13.4 per cent) respondents revealed that they want to change their policies from present insurance companies. (Table 6.10). It was found that very few respondents, i.e., 18 from the public sector and 10 from the private sector shifted to another company (Table 6.13). The various reasons for the shifting were analysed. It was found that delay in claim settlement has been the most pertinent reason for this shifting i.e., 7 (2.82 per cent) from the private sector and 5 from the public sector shifted to another company due to this reason only. (Table 6. 13). This shows that both the public and private companies succeed in bringing the loyalty to their customers.

7.1.4.7 The respondents feel that competition has contributed to bring improvement in the overall working of the public sector. Out of 500 respondents, 443 respondents (88.6 per cent) said that opening
up of the insurance industry made a lot of difference to public sector in the form of better service, varieties of products, fast claim settlement, computerisation, bancassurance etc (Table 6.22).

7.2 Recommendations

7.2.1 The study found that over a period of ten years the share of public sector companies has dropped drastically from 96.22 per cent to 59.62 per cent. This is indicative of the fact that there is a fall in the efficiency standards of public sector companies in comparison with private sector companies. This means an element of dynamism should be inculcated to reform the system. The customers have seen to prefer the private sector because it is vibrant and more customers oriented in its approach. The officials are more friendly and create a good environment for customers. In these circumstances the public sector companies should make the management and staff more customer oriented. Special HR training should be imparted to all officials to all levels so that they shed their bureaucratic approach. It is a fact that given the choice the common customer prefers the public sector to the private sector. So all out efforts should be made to change their approach of officials and thus bring back the customers whom the public sector companies have lost.

7.2.2 The study found the fact that general insurance business has been growing at a healthy rate, its penetration level is just 0.60% of India’s GDP against world average of 2.14. In 2001, it was 0.56 and then it increased to 0.64 in 2004, but it again slipped to 0.60 in 2009. This shows that Indian insurance sector is still unexplored and untapped. The vast potential is waiting to be tapped. The above figures no doubt indicate the ample scope that the Indian market has,
to offer. With such huge untapped population base, the importance of insurance is unquestioned and all emphasis needs to be driven towards imparting education and sharing knowledge to increase the level of insurance penetration. For a robust growth and deep penetration of insurance business, the key to success lies in dissemination of information and learning. The more educated or literate a household, the greater the likelihood of understanding the need for insurance protection. So IRDA together with the industry participants need to work hard to improve awareness of insurance and its importance to society by and large through effective publicity campaigns through TV and other electronic media, print media, policy brochures, product literatures, and rate charts etc. Considering the unlimited extent of market potential, there is a need to spread insurance education to general population advising on the benefits of insurance and guiding them on assessing their need requirements. It is equally important to impart quality insurance education to the personnel of the insurance companies to ensure right selling and quality service deliveries to clients. At the same time the Tendulkar Commission report has put the figure of those below poverty level at nearly 40 per cent of the population. A large number of these people live in rural India. And there is a serious talk of inclusive growth now. If the government seriously takes measures to improve the life and purchasing capacity of these people, then rural India would provide a huge opportunity for growth for the insurance business. Therefore, there is need for the government and IRDA to force the insurance companies to come out with personal line products and general insurance cover for unorganized labour, traders, and self-employed etc.
7.2.3 The study reveals that the majority who purchase policies from the private sector fall in the age group between 25-45 years. This shows that young population are more interested in private sector. India’s statistic shows that India is fast emerging as one amongst the youngest nations in the world. By the year 2013, almost 60 per cent of our population in the 18-35 years bracket. This segment is the ideal target audience for an entire range of ‘cradle to grave’ insurance plans. The evolving change in this key demographic variable along with the significant increase in the middle class segment of the Indian society will augur very well for the future and would throw up enormous business opportunities for the players. So the established players when they formulate product portfolio they should target on these group and formulate policies that satisfy the youth.

7.2.4 The study reveals that the awareness level among the people about general insurance products is low, the commission structure was not very attractive for good agents, the distribution channels were not responsive to customer needs and the awareness level of various plans of insurance was quite limited even amongst the policy holders. The study shows that only 379 policy holders including public and private out of 500 customers know the details about their policy. So the officials of general insurance industry should take steps to provide all details about policies to customers and transparent system and write norms and conditions of policies in simple language understandable to common man. This will improve the image and customer’s loyalty towards the organization.

7.2.5 A company’s financial health and reputation in the market depend on efficient and judicious settlement of claims; The processing and
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settlement claims constitute one of the most important functions in any organisation. The prompt and fair settlement of claims is the hallmark of good services to the insuring public. The study highlights that the claim settlement process of the public sector insurance companies has adversely affected their service quality. The analysis provides that the private sector general insurance companies take lesser time to settle the claim as compared to public sector companies. The claim settlement performance of the private sector has also been superior because of the limited amount of third party motor business that they have underwritten. Such claims normally take a longer time to settle. Third party claims are the major source of outgo for the public sector company. While the formation of the motor pool may assist in sharing the liabilities arising out of the motor third party business, the companies would still need to address the issues related to lack of comprehensive data, inadequate underwriting and claims management systems. In these circumstances steps need to be taken to build databases which will enable improved underwriting, claims management and settlement while also mitigating risks associated with fraudulent claims especially in Motor Third Party business. Secondly, the industry should actively work with the State Governments so as to bring uninsured vehicles under insurance cover. This will enable the insurance companies for proper loading of premium for motor vehicles. So the public sector companies should initiate measures to install web-enabled information technology systems so that once the claim has been processed all the information relating to it can be transferred into a data base which stores claim experience which are expected to resolve issues related to database, claims management as well as to improve transparency in the system.
7.2.6 The sector-wise analysis shows that the average claim incurred ratio of the public sector general insurance companies over the last ten years is 86.20 per cent which is higher than that of the private sector general insurance companies of 56.80 per cent. The study further found that the loss incurred by the public sector insurance companies in underwriting business was due to the loss in third party claims relating to motor insurance business, health and the loss arising out of other miscellaneous insurance business. From the customers’ point of view the delay in claim settlement has been the most pertinent reason for shifting of purchase of policies from one company to another. But in the case of private sector insurance companies the combination of superior technology and selective underwriting has allowed the private sector to set high standards for policyholder services, thereby differentiating themselves from public sector insurers. To solve this problem public sector companies should provide training to staff in claims department, and increase the number of surveyors and loss assessors so that leakage of revenue by way of incorrect settlement of claims can be avoided. In addition to this for faster and fair claim settlement, insurance companies need to separate claims into high value and complex ones and those that are not so. The former claims should be dealt with by senior technical experts to monitor them to achieve the common objectives of both the insurer and the claimant in a speedy and fair manner. And create and consolidate Industry-level database of all the insurers issuing motor policies to enable identification of duplicate claims and possible fraudulent claims. This will definitely reduce underwriting loss and claim ratio. Companies can also form the Claims Minimisation Team (CMT) choosing intelligent, dedicated, honest and enthusiastic people to do
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this most important job. They should, along with the department officials, visit the site of claim; make a conscious effort to take inventory of the loss; follow up for documents and discuss with both the surveyor and the insured; and arrive at the assessment of loss as soon as possible. This will improve the underwriting results and profitability of public sector general insurance companies.

7.2.7 The study found that the average net retention ratio of private sector companies over the last ten years was 56.23 per cent which is lower than that of public sector insurance companies 75.72 per cent. As it shows the companies “ability to bear risks” the private sector companies must bring more capital to improve net retention so that they can increase risk bearing capacity which results into their increase in business and investment income. The reason for low net retention ratio of private sector is lower underwriting results and investment income and also the companies capital and surplus not put to effective use. Net retention primarily depends on insurer’s own resources i.e., paid up capital and surplus, amount of premium expected to be generated by a portfolio, composition of the portfolios i.e., size and number of policies, geographical location and risks, and past experience of the insurer in the class of business etc. So when the insurer’s formulate their investment plan they should take this aspect into consideration and choose that portfolio which improve their net retention ratio.

7.2.8 The present study highlights that all the insurers both public and private sector companies have exhibited underwriting losses. The average underwriting results ratio of the public sector general insurance companies is -29.83 per cent and that of private sector
companies is -26.15 per cent. Thus, the underwriting losses of public sector companies are higher as compared to the private sector companies. So, to enhance the profitability, these companies must focus on their underwriting results. The study also reveals that the poor underwriting results of public sector is mainly because of two reasons: one is higher claim ratio and second is losses in their core business. The public sector insurance companies have exhibited higher claim ratio because these insurers got majority of their business from loss making portfolios like motor and health. It is suggested that these companies should also focus on other portfolios like engineering, fire, personal accident, marine, etc. Fire is still a profitable portfolio despite the lowering of premium rates.

7.2.9 Excellence in customer service is the performance yardstick of a service organisation. In this era, customer expectations have increased and there is demand for faster and better service. Despite there is a fund of goodwill for existing public sector organisations the study shows that customer satisfaction is only average in public sector insurance companies. To improve the customer satisfaction level public sector insurance companies need to provide the customers information about insurers’ prices, products and financial strength to ensure good market performance. The public sector companies need to improve their systems and practice to the expected levels, then only customers will prefer to them over the new players.

7.2.10 The study reveals that in private sector 78 respondents purchased their policies through recommendation by friends or relatives. The results show that many people consult their friends or family members for recommendations of good insurers before making the
purchase decision. So family is the most important consumer-buying organization in society and most influential reference group. Based on the analysis, it is found that reference group is an important factor towards the purchase of policies as they may influence the buyer decision through their experience in dealing with the company. So private sector insurance companies should ensure the prompt and efficient after sales service to its customers’, so that it can retain its customers’ loyalty and prevent them from switching to other competitors.

7.2.11 In the present age of information explosion and competition, insurance companies cannot survive without an action based philosophy of excellent after sales service. After sales service in an insurance industry includes collection of premium, revival/ lapsed policies, policy renewal, settlement of claims etc. An agent can render invaluable help to its clients in these areas. The study highlights that the insurance agents still remain the main source through which insurance products are sold. 330 respondents out of 500 customers’ depend on agents for taking policy. This reveals that the development of an insurance company depends mostly on how developed the agents of the company are. The quality of service provided by the agents to their clients determines the image of the an insurance company among the insuring public. Therefore, both public and private sector general insurance companies should groom their agency force to make them 100 per cent professionals. Special training and motivation should provide to the agents to make them understand about products and to deal sensitively with the emotions of their customers. Public sector companies should provide special
training to individual to promote their personnel line business so that
they can reduce their underwriting loss also.

7.3 Conclusion

Competition has already set in and public sector and private sector
players should take steps to recapture the market by changing their strategy
in the above lines. The future growth of the insurance sector will depend on
how effectively the insurers are able to come up with product designs
suitable to our context and how effectively they are able to change the
perceptions of the Indian consumers and make them aware of the insurable
risks. The future growth of insurance also depends on how service oriented
insurers are going to be. On the demand side, the rise in incomes will
trigger the growth of physical and financial assets. With the growth of
infrastructure projects, the demand for insurance to cover the project and
the risks during operations will increase. The other growth trigger is the
increase in international trade.

However, servicing of the large domestic market in India is a real
challenge. Some of these challenges pertain to the demand conditions,
competition in the sector, product innovations, delivery and distribution
systems, use of technology, and regulation.