The Journal of Rural and Agricultural Research Vol. 14 No. 1, 81-84 (2014)
Received November 2013; Acceptance February 2014

The insurance sector reforms in India

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Abstract

The insurance sector plays a vital role in the economic development of India. It acts as a mobilization of savings, financial intermediary, investment activities, risk manager and stabilizer of financial markets. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market. The Insurance sector reforms were started with the incorporation of IRDA again in 2000. IRDA opened up the market with the application for registration. Foreign companies were allowed ownership of upto 26%. There is a proposal to increase the limit upto 49%. The key objective of the IRDA includes promotion of competition and to enhance the customer satisfaction through increased consumer choice and lower premium, while ensuring the financial security of the insurance sector. Though as at end of September 2013, there were fifty two insurance companies operating in (forty four in private sector and 8 in public sector). Life insurance industry recorded a premium income of Rs. 287202.49 crores in 2012-13 as against Rs. 287072.11 crores in 2011-12 registering a growth of 0.05 per cent. The life insurance industry reported a net profit of Rs. 6948 crores during the year 2012-13 as against of Rs. 5974 crores net profit during the year 2011-12. The public sector companies reported a net profit of Rs. 2603 crores where as private sector insurance reported a net profit of Rs. 679 crores during the year 2012-13.

Key words: IRDA, insurance, private sector, public sector

Introduction

The economic liberalization in India started on 24th July 1991. After Independence in 1947, India adhered to socialist policies. In the 1980s, Prime Minister Rajiv Gandhi initiated some reforms and later the government of Mr. P.V. Narasimah Rao and his finance minister Manmohan Singh started break through reforms. But an unmanageable Balance of Payment and a socially intolerably high rate of inflation pressurized the government to launch massive economic reforms in 1991. Reforms in the Insurance Sector were initiated with the passage of the IRDA Bill in the Parliament in Dec. 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously struck to its schedule of framing regulations and registering the private sector insurance companies. It has put in a frame work of globally compatible regulations and also provided the supporting systems to the insurance sector.

An Overview of the Indian Insurance Sector

In India the advent of Life Insurance started in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. The General Insurance has its roots in the year 1850 in Calcutta from the establishment of Treton Insurance Company Limited by British. In 1870 British Insurance Act was implemented which led to the establishment of various insurance companies by the end of 19th century like Bombay Mutual, Albert Life Insurance, Royal Insurance etc.

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Company Act was passed which enabled the government to collect statistical information about both life and non-life business transacted in India. Later in 1938, the earlier legislation was consolidated and amended by the Insurance Act 1938 to protect the interests of the insured public. By that time there were large number of insurance companies and there were allegations of unfair trade practices too. So govt. decided to nationalize 245 Indian and Foreign Insurance Companies and LIC was formed by an Act of Parliament i.e. LIC Act 1956. The LIC had monopoly till the late 90s. Nationalization was in conformity with the government chosen path of state lead planning and development.

The General Insurance business continued to thrive with the private sector till 1972. Their operation were nationalized through the General Insurance Business (Nationalization) Act, 1972 by grouping 107 insurers into 4 Companies- The National Insurance

Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Ltd. and United India Insurance Company Limited. GIC incorporated as company having above 4 mentioned subsidiaries. In this study, an attempt has been made to analyse the various reforms in insurance sector, there impact on the insurance sector and friendly to point out the challenges being faced by insurance sector in India during last decade. the study was based on secondary data.

Results and Discussion

Insurance Sector reforms

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra was formed to evaluate the Indian Insurance Industry and to recommend its future direction. The basic objective of the committee was to complement the reforms initiated in the financial sector. Committee submitted its report in 1994 and suggested:

1- Govt. stake in the Insurance Co. to be brought down to 50%.
2- Take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
3- Allowing the private company with a minimum paid up capital of INR one billion to enter the sector.
4- No company should deal in both life and general insurance through a single entity.
5- Foreign company to enter the industry only through collaboration with Indian company.
6- Setting up of an independent insurance regulatory body.
7- Reduce the mandatory investment of LIC Life Fund in government securities to 50% from 75%.
8- GIC and its subsidiaries are not to hold more than 5% in any company.
9- Payment of interest by LIC on delays in payment beyond of 30 days.
10-Computerization of operations.
11-Issues of long-term unit linked insurance plans.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. It also felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent company with economic motives. So the proposal of an independent regulatory body i.e. The Insurance Regulations Development Authority was submitted. IRDA comprises of one chairman & four members. Present chairman is Mr. T.S. Vijayan (former chairman of LIC of India) and there four members are-Mr. D.D. Singh, Mr. Sudhir Roy Choudhary, Mr. M. Rama Prasad and Mr. Radha Krishnan Nair.

With the passing of IRDA Act in 1999, reforms in insurance sector were initiated in India. IRDA incorporated as a statutory body in April 2000 and brought about several crucial policy changes. The goals of IRDA are to safeguard the interests of insurance policy holders, as well as to initiate different policy measures to help sustain growth in Industry. This Authority has notified 27 Regulations on various issues like Registration of insurers, Registration of Insurance agents, Re-insurance, solvency margin, obligation of insurers to rural and social sector etc.

IRDA opened up the market in August 2000 with the invitation for applications registration. Foreign Companies are allowed ownership upto 26%. The Authority has power to frame regulations under Section-114-A of the Insurance Act, 1938 and from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policy holder's interests. Today there are 24 life Insurance companies, 27 General Insurance companies and one Reinsurance company operating in India. Table 1 below exhibits the number of registered Life, General and Reinsurance Insurance companies in India as on 30th September 2013 in public as well as Private Sector.

Table 1: Registered Insurances in India (As on 30th September 2013)

Type of	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General Insurance	6	21	27
Reinsurance	1	0	01
Total	8	44	52

Present Scenario

With the opening up of the insurance sector is likely to lead greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. Indian insurance industry is flourishing with several national and international players competing and growing at rapid rates. The success comes usually from the easing of policy regulations and India has become more familiar with different insurance products. The period from 2010-2015 is projected to be golden age for Indian Insurance industry.

India is the fifth largest life insurance market with US$ 41 Billion. According to IRDA, the insurers sold 10.55 million new polices in 2009-10 with LIC selling 8.52 millions and private companies 2.03 million polices. Indian Insurance Industry is one of the booming industries of the economy and is growing at the rate

Table 2: New Business Performance of LIC and Private Insurance in India

	As at Sep 2011 Premium (Cr.)	Policies		As at March 2012 Premium (Cr.)	Policies
Private	5245.77	2150294	Private	8135.46	2900976
LIC	8016.24	7607114	LIC	17292.82	14069604
Industry Total	13262.01	9757408	Industry Total	25628.28	16965580

Table 3: Total Premium Under Written by Life Insurance in India

(in Crores)

	2009-10 Premium	2010-11 Premium	2011-12 Premium	2012-13 Premium
LIC	186077.31(18.30%)	203473.40(9.35%)	202889.28(-0.29%)	208803.58(2.92%)
Pvt.	79369.94(23.06%)	88131.60(11.04%)	84182.83(-4.52%)	78398.91(-6.87%)
Total	265447.25(19.69%)	291604.99(9.85%)	287072.11(-1.57%)	287202.49(0.05%)

(Figure in brackets show the growth %)

of 15-20% per annum. It contributes about 7% to the GDP of the country. The following Table 2 exhibits the New Business performance of LIC and Private Insurance Companies in India on the counts of Premium and number of polices as at Sep. 2011 and March 2012.

India's insurance industry is expected to touch the USD 400 billion mark by 2020 with scope for further penetration. According to a joint study done by FICCI and The Boston Consulting Group (BCG) the insurance industry will be USD 350-400 (about Rs. 18 lakh crore) in premium income by 2020, making India a top 3 life insurance market and a top 15 non-life insurance market by 2020. Business figures exhibited in the Table "C" below pertaining to the financial years 2009-10; 2010-11; 2011-12 and 2012-13 of Total Premium under written by LIC and Private Life Insurance in India advocates the study done by FICCI and The Boston Consulting Group (BCG). In the Table 3 the figures in brackets show the growth percentage as compared to the previous financial year.

Besides, there has been a massive increase in the number of people covered. In life insurance, the number of policies in force has increased from about 20 million in 2001 to about 230 million in 2009, a nearly 12-fold increase, the study said. The study further explained that the progress has been aided by the dramatic shift in the availability of products including better term, ULIP's, whole life, maximum NAV (Net Asset Values) guarantee, auto assistance and disease management. Table 4 below exhibits the number of policies issued in the F.Y. 2009-10; 2010-11; 2011-12; 2012-13 by the LIC and private insurances. The number of policies in 2009 equal to 230 million was increased by nearly 131% i.e. it was nearly 2.3 fold in 2010.

Presently, there are 31 general insurance companies with 4 public sector and 27 private insurers. Although the public sector still dominates the general insurance business, the private players are slowly gaining a foothold. The 12 private insurers in the life insurance market have already grabbed nearly 9% of the market in terms of premium income. Innovate products, smart marketing and aggressive distribution in the triple whammy combination that has enabled fledging private insurance companies to sign up Indian customers faster than anyone ever expected. Another noticeable characteristics is that they are coining money is new niches that they have introduced. The state owned companies still dominate segments like endowments and money back policies. But in the annuity or pension products business the private players

Table 4: Polices Issued in Lakhs

	2009-10	2010-11	2011-12	2012-13
LIC	388.63(8.21%)	370.38(-4.70%)	357.51(-3.47%)	367.82(2.88%)
Pvt.	143.62(-4.25%)	111.14(-22.61%)	84.42(-24.04%)	74.05(-12.28%)
Total	532.25(4.25%)	481.52(-9.53%)	441.93(-8.22%)	441.87(-0.01%)

have already captured 33% of the market.

Impact of Reforms on Insurance Sector-

Inspite of phenomenal progress of LIC of India especially in the 1980s, the government and public at large were not quite satisfied with it. By signing GATT accord, the Government of India became committed to opening of insurance sector to private sector, local and global operators.

Before market liberalization, LIC sold mostly savings plans with premiums being tax-deductible in the hands of consumers. Protection business was a relatively small proportion of its total business. Not surprisingly, the new entrants have introduced a wider range of products along with more need-based selling techniques. They are offering a choice of riders, covering benefits such as accidental death, critical illness, waiver of premium, total and permanent disability and guaranteed insurability. Several of the new players following them LIC also introduced the unit liked products to fight competition with private players.

Before LPG distribution was entirely via agencies. The focus of many new entrants has been to implement multi-channel strategies including bancassurance element. They are bringing international experience, new technology, new channels of distribution and new products. LIC has also charged up with new channels of bancassurance, Direct Marketing and the chief like insurance advisors restructuring along with traditional Agent and Development Officers channel. The existing public sector players are also gearing up with matching strategies so as to face competition.

The biggest beneficiaries of the liberalization of the insurance sector will be the Indian consumers. While there may not be any significant benefit in terms of the cost of premiums, they would surely benefit in terms of the number and variety of products and service standards. Consumers have a wider choice new of insurance schemes. Furthermore, the claims settlement will be customer friendly.

The Indian Insurance Challenges-

The transition of the insurance industry in India from a public monopoly to a highly competitive environment posses a number of challenges not only to the new players but also to the customer. The insurance industry penetration as well as size of the average cover is well below international averages. This provides a great market opportunity for the insurers.

*Presently personalized selling is dominating the product-market relationship. Companies will have to transform customer relationship management to value-based client relationship. A flexible pricing structure for sustaining customer confidence and interest will be challenging task for Indian issuers. The insurance company should focus on pricing, distribution, risk management and investment decision-making.

*Insurers will have to improve the productivity of their distribution channels thereby positively affecting their top line and bottom line growth.

*Indian non-life insurance companies have higher expenses ratio between 33-35%. It should be lowered down to international standards of 15-20% as a high expense ratio has a direct impact on profitibility.

*In order to achieve success in the marketing of insurance products, the entire business environment needs to be considered. The issuers must have quality people and innovative management. They must be able to employ technology effectively as the customers are well-equipped with information in today's world.

*There is a lack of consumer maturity specially in rural areas, driven primarily by limited efforts by the industry. To truly educate the customer of India the companies will have to each the remotest interiors of the country.

*In the global scenario, the existing new players will need to devise different strategies to retain and enhance their market share. They would have to introduce new practices, set up new service standards and create new benchmarks.

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