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A Study On Recent Trends In Insurance Sector

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ABSTRACT

Insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private and government insurance companies in India that have become synonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household.

Keywords: Life Insurance, Substandard, Competitiveness, GDP, Indigenous, Aggressive Marketing, ULIP, Penetration, Pushed Insurer, Gross Premium.

INTRODUCTION

In day to day life every human being is engaged in some activity, it may be related to earn livelihood or household activity. The activity which provides livelihood is known as economic activity. Though there are so many economic activities like manufacturing, trading, banking, transportation and insurance and many more. But in this module we are explaining only the Insurance activity which can be taken by an individual or group of persons to earn their livelihood.

According to Mr J. Hari Narayan, Chairman of insurance watchdog IRDA, Indian insurance industry in set for some serious changes. Speaking to students of Institute of Insurance and Risk Management at their graduation ceremony on Tuesday, Mr Narayan said the Indian insurance industry had matured from its state of childhood to early adulthood. He said that in countries like UK, the agents have adopted themselves to latest form of marketing and very soon such changes will also be introduced in India. With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. Total value of the Indian insurance market is estimated at Rs. 450 billion (US$10 billion). According to government sources, the insurance and banking services' contribution to the country's gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC) for investments are 8% of GDP.

CHANGING TRENDS IN LIFE INSURANCE POLICY

Along with the other objectives of insurance like financial security, tax benefits etc. one of the major objectives is saving and investment. Traditional life insurance policies like endowment

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were becoming unattractive and not meeting the aspirations of the policyholders as the policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. It was, therefore found necessary for the insurance companies to think of a method whereby the expectation of the policyholders could be satisfied. The objective of providing a hedge against the inflation through a contract of insurance pushed insurer to link the insurance policy with market and thus the industry observed the beginning of Unit linked insurance policy (ULIP).

OBJECTIVES

At the end, sTo know

- Why the life & general insurance sector was nationalized
- Why insurance sector was liberalized in 1999
- IRDA action to develop the insurance sector

LIFE INSURANCE

In 1870 two British life insurance companies entered in India and attempted to do life insurance business on Indian lives. After that many Indian & foreign companies started business in India and by the year 1955 there were 255 insurance companies operating in India and transacting the business to the extent of Rs 200 crores. Due to the following reasons the Government decided to
nationalize the life insurance industry.

- No full guarantee to the Policyholders (who are insured).
- The concept of trusteeship (confidence) was lacking.
- Many insurance companies went into liquidation (bankrupt).
- There was malpractice in the business.
- Non-Spreading of life insurance.
- No insurance in rural areas.
- No group insurance
- No social security

To overcome the abovementioned problems the life insurance business was nationalized and formed Life Insurance Corporation with following features:

- The Central Govt. guaranteed the Policyholders through the LIC.

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- Being a Corporation formed under Special Act Passed by the Parliament therefore the public can trust.

- The LIC cannot be liquidated without the order of the Central Govt.

- Under the LIC Act, all day-to-day functions of the Corporation and the method of Investment in Govt. Securities were defined. Therefore, the malpractices were eliminated.

After the nationalization the life insurance business has grown substantially in very first year i.e. from Rs 200 crore upto 1956 to Rs 328 crores in 1957 and till privatization in 2000 the business was transacting worth Rs 73436 crores.

GENERAL INSURANCE

Prior to nationalization of the General Insurance Business in 1972 by enactment of the General Insurance Business Nationalization Act 1972 (GIBNA 1972) there were 55 Indian Companies and 52 non-Indian Companies carrying of the business of General Insurance in India. Before the nationalization the total premium written by these companies was Rs.170 crores as on 1971. At that time the “key Economic indicators” were as follows:

To understand the why of nationalization in the first place it is sufficient to read the following excerpts from the speech of the then Finance Minister Mr.Y.B.Chavan.

“It was the objective of nationalization to remove these malpractices and usher in an era of Insurance run on sound business principles and functioning on healthy and egalitarian lines. The emphasis should be on spreading the message of Insurance as widely as possible and on ensuring that it gives the right weightage to the weaker sections of the society. The principle of competition must have its useful role to play, but not at the expense of unhealthy rivalry.”

“It will be necessary for the Corporation to review the rating structure in order to ensure that all classes of the policyholder receive a fair deal and the equitable rate of premium.”

The Act led to the formation of the General Insurance Corporation (GIC) and the shares of the Indian Insurance Companies and the units of other Insurance Companies operating in India along with the General Insurance business of LIC were transferred to the GIC. The Indian companies became subsidiaries of GIC and the non-Indian Companies were transferred to 4 companies selected as flag companies to operate from 4 zones as under:

- National Insurance Co. Ltd., with its Head Office at Calcutta.
- The New India Assurance Co. Ltd. with its Head Office at Mumbai.
- The Oriental fire & Insurance Co. Ltd., with its Head Office
- at New Delhi (from 1974) (now named as The Oriental Insurance Co. Ltd.)
- United India fire & General Insurance Co. Ltd., with its Head Office at Madras (now named United India Insurance Co. Ltd.)

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REVIEW OF INSURANCE BUSINESS IN INDIA

From above you must have observed that the insurance business has grown manifold after the nationalization of Life Insurance in 1956 and General Insurance in 1972. But the international comparison as per details given below will show that insurance penetration and insurance density in India is at low level as compared to the developing/developed countries.

LIBERALIZATION: means abolition of industrial licensing, removal of the limit on industrial investment & a more welcoming approach to foreign investment.

GLOBALIZATION: means opening of the Indian economy for global cooperation in economic activities. This would involve foreign direct investment in industry and foreign institutional investors investing in the securities market by way of mutual funds etc., removal of quantitative restrictions on imports and reduction of import tariff.

PRIVATIZATION: means refers to allowing private sector to invest in government companies as well as invest in areas earlier reserved for the public sector. It also implies greater participation of private sector in areas exclusively reserved for public sector.

Before liberalization the Insurance sector was controlled by Controller of Insurance but now the corporate body known as Insurance Regulatory & Development Authority (IRDA) has been formed under IRDA Act 1999 whose main objectives are as follows:
So far, the IRDA has issued licences to 20 Life Insurance companies and to 15 General Insurance companies including exclusive health insurance company. The private insurers have started their business during the year from 2000 to 2001; and till date there is growth in insurance penetration from 1.93 to 2.40 as well as insurance density from 8.50 to 9.36.

POLICIES AND MEASURES TO DEVELOP INSURANCE MARKET

The Authority has taken a pro-active role in the establishment of a vibrant Insurance market in the country by taking the following steps:

- The market regulation by prudential norms,
- The registration of players who have the necessary financial strength to withstand the demands of a growing and nascent market,
- The necessity to have “fit and proper” person in-charge of businesses, The implementation of a solvency regime that ensures continuous financial stability, and above all,
- The presence of an adequate number of insurance companies to provide competition and choice to customers all these steps lead to the establishment of a regime committed to an overall development of the market in normal times.

RESEARCH AND DEVELOPMENT ACTIVITIES UNDERTAKEN BY THE INSURANCE COMPANIES

The insurers have been conducting market research either in-house or through professional agencies

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- to introduce tailor-made products targeted at specific segments of the population so that Insurance can become more meaningful and affordable.
- Risk assessment studies are being carried out for measuring accumulation of risk of a particular place at any one point of time.
- Consumer awareness campaigns are being encouraged to improve insurance literacy levels by conducting workshops, distributing literature etc.

PROTECTION OF INTERESTS OF POLICYHOLDERS

To protect the interests of holders of Insurance policies and to regulate, promote and ensure orderly growth of the Insurance industry the Authority has taken the following steps:

- a leading consumer activist has been inducted into the Insurance Advisory Committee.
- In addition to this member, this committee has drawn representation form the industry, Insurance agents, women's organizations and other interest groups.
- While the Government has taken steps to strengthen the Boards of the State-run companies by inducting representatives from consumer organization and policyholder, the Authority, on it part, was careful to ensure that all the new private companies registered have a director representing consumer interests on their Boards.
- In addition to this measure all insurers have been advised to streamline their grievance redressal machinery and set benchmarks for efficient and effective service.
- All insurance companies are adhering to the Insurance Ombudsman scheme formulated by the Government and complaints against insurance companies are being referred to them by the aggrieved policyholders from time to time.

MONITORING OF INVESTMENTS OF THE INSURERS

Investment income is a key determinant in the calculation of premium rates for any insurance company under the various insurance policies/schemes and for declaration of bonus by life insurers. It is a core function of an insurance company, which cannot be outsourced by an insurer. In the case of general insurance, investment income compensates underwriting losses, if any, of the insurance company, which in turn enables then to keep their premium rates competitive.

Therefore, insurance companies essentially invest these funds judiciously with the combined objectives of liquidity, maximization of yield and safety. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year. Since the insurance companies keep the policyholders money in their fiduciary capacity they are also required to maintain a minimum level of solvency to meet the reasonable expectations of the policyholders. For this, the Authority has mandated the pattern of investment to be followed by the insurance companies. Investments in Government securities, approved investments and infrastructure and the social sectors have been prescribed in the Insurance Act, 1938. (details have been explained in other module)

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HEALTH INSURANCE

All the new insurance companies have been advised that they will carry out health insurance business not as a stand-alone product but as a combined rider with existing life/ non-life policies, and introduce health products in the market. At the moment the health products available is of the standard reimbursement type policy and its variants. IRDA has recently notified regulations for Licensing of Third Party Administrators (TPA)- Health Services in order to popularize health insurance. Health services rendered by a TPA shall include services in connection with health insurance business. However this shall not include the business of insurance company or the soliciting, directly or through an insurance intermediary including an insurance agent. It is expected that TPAs will bring some sort of regulation regarding standard and quality of treatment, period of treatment and rates. The Authority is encouraging to business community to come forward to start exclusively health insurance Company. Till date there is only insurer who is exclusively engaged in health insurance business.

PUBLIC COMPLAINTS

Many customers of insurance companies approach the Authority-both formally and informally for the settlement of their grievances. IRDA follows up for the settlement of these grievances on the complaints on a continuous basis with the insurance companies. Timely attention is given to these complaints and the insurers are advised to settle claims and grievances promptly. A system of grievance redressal has been built in the Authority supervised by one of its senior officers. This system has proved useful to the Authority not only to see that complaints get attended to but also to give it an idea of the areas of working of an insurer where have to be improved. The experience gained in this regard is reflecting in the regulations made by the Authority.

FUNCTIONING OF OMBUDSMAN (A PERSON WHO DECIDES THE COMPLAINTS OF AN INDIVIDUAL ON INSURANCE MATTERS)

The institution of Insurance Ombudsman has great importance and relevance for the protection of interest of policyholders and also to build up their confidence in the system.This institution has helped to generate and sustain the faith and confidence amongst the consumers in insurers. The Insurance Council, which is the administrative body has appointed twelve ombudsmen across the country and have provided them with the necessary infrastructure. The companies are required to honour the awards passed by an Ombudsman within three months.

The awards are binding on the Insurance companies: the customer, however, can resort to in case he decides on the insurance companies; the customer, however, can resort to it case he decides to do so, other methods of grievance settlement. The complaint has to be writing, and addressed to the jurisdictional Ombudsman within whose territory a branch or office of the insurer complained against is located. The complaint can relate to any:

- Grievance against insurer.
- Partial or total rejection of claims by the insurer.
- Dispute in regard to premium paid or payable in terms of the policy.
- Dispute on the legal construction of the policy in so far as such dispute relate to claims. Delay in settlement of claims.
- Non-issue of any insurance document to customers after receipt of premium.

The limit of an Ombudsman’s powers is at present prescribed as Rs.20 lakhs. The insurance Ombudsman Scheme is complementary to the regulatory functions of IRDA, which has been mandated to take all necessary steps to protect the interest of the policyholders. The institution of ombudsman has evoked a good deal of public appreciation as is evident from media reports and performance appraisal made by the Authority.

RE-INSURER (MEANS INSURANCE OF INSURANCE COMPANIES)

Reinsurance Business in India is being transacted by General Insurance Corporation. Before the privatization of the Insurance sector the General Insurance Corporation was performing the dual functions i.e. Insurance and Reinsurance. The Insurance business was transacted through its four subsidiaries namely the New India Assurance Co. Ltd., National Insurance Co. Ltd., The Oriental Insurance Co. Ltd., United India Insurance Co. Ltd. After the privatization the functions of GIC has been restricted to reinsurance and civil aviation Insurance. The Insurance Act 1938 has notified under Section 101A that Indian Reinsurer will be General Insurance Corporation and the four subsidiaries have been de-linked from GIC and shall work under the Central Government.

The Reinsurance Programme of every Insurer, carrying on general insurance business, shall be guided by the following objectives viz;

- To maximize retention within the country;
- To develop adequate capacity;
- To secure the best possible protection for the reinsurance costs incurred; and
- To simplify the administration of business.

CUSTOMER SERVICE

One of the innovations that some of the insurers have introduced is opening up of “call centers” which are functioning on a 24x7 basis. These centers act not only as enquiry offices for new business to be developed but also function as points of reference and records for claims, which have arisen. It is note worthy to find that some of the new insurers have found it possible to settle claims within 24 to 48 hours.

CONCLUSION

Keeping in view the above mentioned steps taken by the Govt. to develop insurance sector, it is expected that growth of insurance will be as follows:

Presently the private players are making their presence felt only in the urban areas as they have open their offices in the selected cities. To increase the insurance penetration and density these players have not only to operate in the rural area but also to develop new products to meet the customers needs. Where almost all the industries in the world trying hard for survival due to the major economic meltdown, Indian life insurance industry is one of the sectors that is still observing good growth. It is the changing trends of Indian insurance industry only that has made it to cope with the changing economic environment. Indian insurance industry has modified itself with the passage of time by introducing customized products based on customers’ need, through innovative distribution channels, Indian life insurance industry searched its path to grow.

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Changing government policy and guideline of the regulatory authority, IRDA have also played a very vital role in the growth of the sector. Move from non-linked to unit liked insurance policies is one of the major positive changes in Indian life insurance sector. Similarly, opening on the sector for private insurer broke the monopoly of LIC and bring in a tough competition among the players. This completion resulted into innovations in products, pricing, distribution channels, and marketing in the industry. Though the sector is growing fast, the industry has not yet insured even 50% of insurable population of India. Thus the sector has a great potential to grow. To achieve this objective, this sector requires more improvement in the insurance density and insurance penetration. Development of products including special group policies to cater to different categories should be a priority, especially in rural areas. The life insurers should conduct more extensive market research before introducing insurance products targeted at specific segments of the population so that insurance can become more meaningful and affordable. By adopting appropriate strategy along with proper government support and able guidance of IRDA, India will certainly become the new insurance giant in near future.

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