Research Paper Commerce

IMPACT OF RECENT DEVELOPMENTS IN INDIAN INSURANCE SECTOR

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ABSTRACT

The insurance industry in our country underwent a big change in 2000 when private participants were allowed into the industry along with a streamlined regulatory and supervisory regime. Liberalisation, Privatisation and Globalisation have become a much talked of subject among economists, businessmen, Politicians and Professionals in modern days. Privatisation is expressed as the supporting pillar on which is the edifice of new economic policy of our Government has been erected and implemented since 1991.The fundamental reason for the reversal of policy from nationalisation to Privatisation is the growing disappointment with the functioning of the public sector undertaking and state owned enterprises. This study is mainly focus on how insurance sector has faced changes and how the changes become the growth of insurance sector to improve the economic condition.

KEYWORDS Liberalisation, Globalisation, Privatisation.

INTRODUCTION

As Part of the wide-ranging economic reforms announced in 1991, Industrial policy measures were initiated by the Government of India to liberalise the MRTP and FERA regulations. The most important aspect of the MRTP Act was amended to totally remove pre-entry restrictions on establishments of new undertaking and expansion of the existing firms. As part of liberalisation process, the Government had to review the role of insurance sector and Government's investment in it. Accordingly, the Malhotra committee set up to study the insurance sector suggested in 1944 in its reports among other things the privatisation of the insurance sector. It stated that there was a large untapped potential for insurance in the country and this led to the first step being taken towards opening up of this sector to private player. As the results of the committee's recommendation to open up the sector to participation was implemented by the government in 2000.

INSURANCE AND GROWTH

Insurance and economic growth mutually influences each other. As the economy grows, the living standards of people increase. As a consequence, the demand for life insurance increases. As the assets of people and of business enterprises increase in the growth process, the demand for general insurance also increases. In fact, as the economy widens the demand for new types of insurance products emerges. Insurance is no longer confined to product markets; they also cover service industries. It is equally true that growth itself is facilitated by insurance. A well-developed insurance sector promotes economic growth by encouraging risk-taking. Risk is inherent in all economic activities. Without some kind of cover against risk, some of these activities will not be carried out at all. Also insurance and more particularly life insurance is a mobilize of long term savings and life insurance companies are thus able to support infrastructure projects which require long term funds. There is thus a mutually beneficial interaction between insurance and economic growth. The low income levels of the vast majority of population have been one of the factors inhibiting a faster growth of insurance in India. To some extent this is also compounded by certain attitudes to life. The economy has moved on to a higher growth path. The average rate of growth of the economy in the last three years was 8.1 per cent. This strong growth will bring about significant changes in the insurance industry.

At this point, it is important to note that not all activities can be insured. If that were possible, it would completely negate entrepreneurship. Professor Frank Knight in his celebrated book "Risk Uncertainty and Profit" emphasized that profit is a consequence of uncertainty. He made a distinction between quantifiable risk and non-quantifiable risk. According to him, it is non-quantifiable risk that leads to profit. He wrote "It is a world of change in which we live, and a world of uncertainty. We live only by knowing something about the future; while the problems of life, or of conduct at least, arise from the fact that we know so little. This is as true of business as of other spheres of activity". The real management challenges are uninsurable risks. In the case of insurable risks, risk is avoided at a cost.

THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

Today there are 28 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance servic-

es add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

PRIVATE INSURERS IN INDIA:

Insurance industry earlier comprised of only two state insurers. Life Insurers (ie) Life Insurance Corporation of India (LIC) and General Insurers(ie) General Insurance Corporation of India (GIC) GIC had four subsidiary companies. With effect from Dec'2000, these subsidiaries have been delinked from parent company and made as an independent insurance company. Oriental Insurance Company Limited,New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited. The first batch of licenses were issued by the Insurance Regulatory and Development Authority (IRDA) in 2001. As on December 2012 following are the players in the Indian Market. Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country.

GROWTH OF INSURACE SECTOR AFTER PRIVATISATION

The Indian life insurance industry has emerged as the mainstay of entire insurance space with Rs 2.9 trillion (US$ 58.7 billion). With over 35 crore life insurance policies in force, the industry has registered remarkable growth since its privatization in 2000. The 24 life insurance players' premiums collected in April-December 2011 stood at Rs 71, 953.54 crore (US$ 14.59 billion) while the industry sold about 27.24 million policies during the period, according to data collected by IRDA.

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NEW INITIATIVES TAKEN BY GOVERNMENT OF INDIA:

1. The Insurance Laws (Amendment) Bill, 2008.

The Insurance Laws (Amendment) Bill, 2008, which proposed amendments in the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999 was introduced in the Rajya Sabha on the 22nd December, 2008. The proposed amendments were aimed at removing archaic and redundant provisions in the legislations and incorporating certain provisions to provide IRDA with flexibility to discharge its functions more effectively.

The Insurance Laws (Amendment) Bill, 2008 was referred to the Standing Committee on Finance for examination and report. The Standing Committee submitted its report to Parliament on the 13th December, 2011. The Standing Committee on Finance, in its report, has made several recommendations suggesting amendments in the Bill. The Notice to introduce the Insurance Laws (Amendment) Bill with official amendments was sent to Rajya Sabha Secretariat on several occasions prior to schedule sessions, including most recently on 30.01.2014. The matter could, however, not be taken up by the House. The Cabinet approved amendments to the Insurance Laws (Amendment), Bill, 2008, pending in the Rajya Sabha.

2. Varishtha Pension Bima Yojana (VPBY) as a pension scheme for senior citizens.

The revived Varishtha Pension Bima Yojana (VPBY) was formally launched by the Finance Minister on 14.08.2014 and will be open during the window stretching from 15th August, 2014 to 14th August, 2015 for the benefit of citizens aged 60 years and above. The scheme will be administered by LIC. The subscription to the scheme is likely to create a corpus of more than Rs. 10,000 crore, and would thus also be a significant source of resource mobilization for the development of the country. Pension would be on immediate annuity basis in monthly, quarterly, half-yearly or annual mode, varying, respectively, between Rs. 500 to 5000 (monthly), Rs. 1500 to 15,000 (quarterly), Rs. 3000 to Rs. 30,000 (half-yearly) and from Rs. 6,000 to Rs. 60,000 (annually), depending on the amount subscribed and the option exercised. The pay-out implies an assured return of 9% on monthly payment basis, which amounts to an annualized return of 9.38%. As on date 2477 beneficiaries have registered and total amount received is 74.52 crore.

3. Pradhan Mantri Jan Dhan Yojna (PMJDY)

(PMJDY) targeting comprehensive financial inclusion has been launched by PM on 28th August 2014. To ensure wide coverage of the micro insurance products of life/ - life sector and AABY under the program PSICs have been requested to ambitiously finalise targets for coverage/issue of policies and follow up in consultation with the State Level Bankers Committee (SLBC), District Level Bankers Committee (DLBC) and Block Level Bankers Committee (BLBC) coordinators, for each Sub Service Area (SSA) under PMJDY. These targets would be aggregated to arrive at block, district, State and National level targets and achievements, to be reported regularly through the SLBC coordinators as part of PMJDY in the prescribed formats. PSICs have been requested to ensure that all Regional/ Branch offices are closely associated with the roll out of this programme and attainment of its goals through close coordination with the field banking entities and regular monitoring.

CONCLUSION:

The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities. The three guiding principles of the industry must be to charge premium no higher than what is warranted by strict actuarial considerations, to invest the funds for obtaining maximum yield for the policy holders consistent with the safety of capital and to render efficient and prompt service to policy holders. With imaginative corporate planning and an abiding commitment to improved service, the mission of widening the spread of insurance can be achieved.

The Union Cabinet, granted approval for increase of foreign direct investment (FDI) limit in the insurance sector from the present 26 per cent to 49 per cent. Alongside, it also cleared amendments aimed at attracting investments and bringing transparency in the working of the insurance companies. This is done to meet the growing capital requirement of insurance companies. Foreign re-insurers will be permitted to open branches only for re-insurance business in India and the provisions of Section 27E, which prohibits an insurer to invest directly or indirectly outside India the funds of policy holder, would apply to such branches. There is no doubt that these all changes would strengthens the growth of Insurance business in India.

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