Volume : 1 | Issue : 5 | May 2012 ISSN - 2250-1991

Research Paper Commerce

# Developments in Indian Non Life Insurance Industry

* Ms.Kiran Sood ** Ms.Supriya Tandon

* Assistant Professor of Management, RIMT-School of Management Studies, Mandi Gobindgarh

** Assistant Professor of Management, RIMT-School of Management Studies, Mandi Gobindgarh

**ABSTRACT**

*The most important impact of economic liberalization on general insurance sector has been the volume of business. There has been a tremendous effect on the business of insurance sector due to opening of this sector to private and foreign players. The present study attempts to evaluate the emerging trends in the growth and financial performance of General Insurance Companies in India. This impressive growth in the market has been driven by liberalization, with new player's significantly enhancing product awareness. It's the time that Indian General Insurance Industry got a face lift and the government is initiating steps in this direction, the first of which is detariffing. The study highlights that public sector insurance companies are suffering from losses when it comes to their core insurance business, but still manage to get good net earnings, which is mainly attributed to the investment income.*

**Keywords : Detariffing, Indian General Insurance Industry, liberalization**

## INDUSTRY OVERVIEW

In 1929, the occasion of the celebrations to mark the 50th anniversary of the foundation of The Tokio Marine & Fire Insurance Co., Ltd., Mr. Kenkichi Kagami, the chairman of the company, proposed a plan to find an institute for non-life insurance in commemoration of that anniversary. The plan was implemented in 1933, when The Non-Life Insurance Institute of Japan was established with a fund of one million yen donated by The Tokio Marine & Fire Insurance Co., Ltd. After World War II the institute was compelled to suspend its activities when all of its properties were lost in the flames of war in Tokyo in May 1945. Efforts were made to restore the institute and rebuild its library during the difficult post-war period, and in 1947 all the member companies of The Marine & Fire Insurance Association of Japan (now The General Insurance Association of Japan) agreed to provide financial support for the activities of the institute.

The world of insurance market has turned more global, innovative and is continuously restructuring itself. During the last few years several numbers of changes and developments have brought a drastic change in general insurance market, which will assist in minimizing the risk of a fast changing environment. The need for non-life insurance has been increasing in India. Since the liberalization of the sector in FY00, several international general insurance companies have entered the market owing to the enormous opportunities in the sector. While the public sector insurers remain the dominant players in the industry, the gap between private players and the public entities has narrowed substantially over the last few years.

Insurance occupies an important place in the modern world because the risks, which can be insured, have increased in number and extent owing to the growing complexity of the present-day economic system. It plays a vital role in the life of every citizen and has developed on an enormous scale leading to the evolution of many different types of insurance. In fact, now a day almost any risk can be made the subject matter of contract of insurance. The different types of insurance have come about by practice within insurance companies, and by the influence of legislation controlling the transacting of insurance business. Broadly, insurance may be classified into the following categories:

**(1) Classification on the basis of nature of insurance**
(a) Life Insurance
(b) Fire Insurance
(c) Marine Insurance
(d) Social Insurance
(e) Miscellaneous Insurance

**(2) Classification from business point of view:**
(a) Life Insurance
(b) General Insurance

**(3) Classification from risk point of view:**
(a) Personal Insurance
(b) Property Insurance
(c) Liability Insurance
(d) Fidelity Guarantee Insurance

## OBJECTIVE OF THE STUDY

The study is based on a single objective and that is to analyze and compare the financial performance of Public and Private General Insurance Companies in pre and post liberalization periods. The time frame of the study is from 2005 to 2009. To make an appraisal of comparative growth & financial performance of both the Public & the Private Sector, the study mainly focuses on financial parameters. This research is carried out primarily on the secondary data. Only the data available through public sources (internet, journals, magazines, annual reports etc.) is considered for the study.

Status during Pre-Liberalization Period

**Table 1**
**Table (1) showing milestone's in the general insurance business in India**
Source-IRDA Journal

| Year | Milestones in the general insurance business in India |
|---|---|
| 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, frames 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. |
| 1972 | · The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from 1st January 1973.<br>· 107 insurers amalgamated and grouped into four company's 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. Post Liberalization**

The course of the Insurance Regulatory and Development Authority (IRDA) Act of 1999 liberalised the India insurance market. The Act represents the Indian Government's undisputed agreement, after years of deliberation, that opening the market to both Indian and foreign private companies could help the economy meet its growing insurance needs.

- Establish the Insurance Regulatory and Development Authority (the IRDA) to oversee and regulate industry operations
- Re-designate the GIC as a national reinsurer to which all of the country's direct insurers must continue to yield 20% of their business
- Lift the ban on domestic private companies
- Open the market to foreign participants – albeit with certain restrictions.

Thus in Nov 2000, the Government of India restructured the General insurance industry by making GIC the 'Indian Reinsurer'.

**Reformation of the General Insurance Sector**

- Innovation and Expansion: After opening of the private sector, several new products were introduced. They included products liability, corporate cover, professional indemnity policies, burglary cover, individual and group health policies, weather insurance, credit insurance, travel insurance and so on.

- De-Tariffication: On January 1 2007 the Insurance Regulatory and Development Authority (IRDA) liberalized tariff rates within certain parameters, but insurers must continue to use the forms approved by the Tariff Advisory Committee until March 31 2008. The General Insurance Council (GIC), a statutory body established under Section 64C of the Insurance Act 1938 which represents the collective interests of non-life insurance companies, was given the responsibility of developing standard market wordings for fire, engineering and motor risks for insurers to follow after detariffication. The introduction of a free pricing regime – where general insurance companies are free to fix premiums and offer discounts – remains a major factor that provided a much needed boost to the sector. A Tariff Advisory Committee (TAC) was set up to specify tariffs of products offered by various companies. This was done to rule out the possibility of unhealthy undercutting of premiums between companies. The IRDA adopted a phased approach towards de-tariffing. The first phase was implemented in two steps:

- Partial pricing flexibility introduced on 01-Jan-07 and

- Full pricing flexibility introduced on 01-Jan-08.

The second phase is in de-tariffing started from 01-Jan-09. In this phase, general insurance companies will also be allowed to vary the coverage in segments such as motor, fire and property insurance

India's general insurance industry has undergone de-tariffing in three phases:

- FY94 -- marine cargo, personal accident, health, banker liability and aviation
- FY06 -- marine hull segment

FY07 -- fire, engineering and motor own damage. However, the de-tariffing did not immediately allow for free pricing. Instead, insurers were required to follow the "file and use" method, whereby they were expected to file a charter of proposed rates, which was then approved by IRDA.

**Challenges and outlook**

- Need for Accuracy in Pricing of Risks: De-tariffication of the general insurance sector has also resulted in strengthening the bargaining power of the customers and development of customer centric insurance products.

- Outlook Remains Positive The entry of private players invigorated the insurance industry, resulting in strong premium growth; improved marketing focus along with product innovations. The general insurance industry has been growing a little over 16% CAGR over the past three years.

- **Dictatorship of State Insurers:** Intense competition in the last five years has made it difficult for new entrants to keep pace with the leaders and thereby failing to make any impact in the market.

- **Triumph over Customers:** Now a day's companies interested in retaining their customers should cover two stages process; first, they must determine what is important to customers and second, they must make sure their organization is capable of filling those needs reliably.

- **Worldwide Standards:** Indian companies are becoming increasingly world class. We can take the example of LIC, which has set its vista on becoming a major global player following a Rs280-crore investment from the Indian government. The company now operates in Mauritius, Fiji, the UK, Sri Lanka, and Nepal and will soon start operations in Saudi Arabia.

- Operational Flexibility: Moreover, the public entities lack the operational flexibility enjoyed by the private players. Their limited capacity to innovate has impacted their ability to tailor and aggressively price products for large corporations. The private players by contrast have focused on account-level profitability for large corporations and have expanded their shares by cross-subsidizing tariffed products.

- Client Servicing: The public insurers have also been hampered in claims servicing by their process-oriented approach and limited operational flexibility. They have been unable to expedite claim settlements through out-of-court negotiations since a large proportion of their claims pertain to the third party motor segment, which is subject to adjudication by the Motor Accident Claim Tribunal. The result is a time-consuming and involved process

- Superior Claim Paying: 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. 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.

- Focused Underwriting Strategy: The private players, especially during their initial years, have selectively targeted the more profitable lines of the public sector companies for growth. They benefit from the experiences of the public sector as well as their international joint-venture partners. They have drawn talent from public sector companies.

**Major Performance Indicators**

- **Growth in Premium and Change in Market Share: The** General insurance companies have underwritten a total premium of Rs 306 bn in FY09 as against Rs 249.8 bn in FY07. The public sector insurers have underwritten a premium of Rs 180.3 bn in FY09 as against Rs 162.6 bn in FY07. Different segments in the general insurance business have contributed to increase premium for both public and the private sector insurers. The highest contribution in FY09 came from the motor segment which constituted 43.98% of the total premium underwritten higher than 45.61% in FY08. The fire segment constituted 11.18% in the total premium underwritten in FY09 lower than that in the previous year (12.49%). The contribution of Health insurance in total premiums underwritten in FY09 was 19.90% as against 17.68% in FY08 and the Marine segment contributed 6.5% in FY09.Some of the factors that have enabled private sector players to improve their market share include:

**Leverage:** The private sector players continue to leverage on the business relationships of their parents and their quality of service to gain market share in the general insurance market.

**Originality:** Public players' limited capacity to innovate impacted their ability to tailor and aggressively price products for large corporations. The private players by contrast have focused on account-level profitability for large corporations and have expanded their shares by cross-subsidizing tariffed products.

**Strong Infrastructure and Systems:** Private players are not hindered by their charters or legacy systems and have constructed technologically advanced infrastructure. They started with large investments in technology, which helped them to build robust data management systems.

**Claims Settlement:** The public insurers have also been hampered in claims servicing by their process oriented approach. They have been unable to expedite claim settlements through out-of-court negotiations since a large proportion of their claims pertain to the third party motor segment.

**Distribution:** The Indian general insurance industry has historically been dominated by the agency channel. But in recent periods other channels such as bancassurance, brokers, corporate agents, direct marketing and direct sales channels are gaining importance. In a deregulated environment, the broking community is slowly becoming an integral part of the insurance and risk financing process.

**Table-2 Challenges Faced by Non-Life Insurers**

Table showing Numbers of Non-Life – Registered Insurers (Public and Private Sectors) (2005-2010) Source-IRDA Journal

| Years | General Insurance (Public Sector) | General Insurance (Private Sector) |
|---|---|---|
| **2005-2006** | **4** | **9** |
| **2006-2007** | **4** | **11** |
| **2007-2008** | **4** | **14** |
| **2008-2009** | **4** | **15** |
| **2009-2010** | **4** | **18** |

Table-2 demonstrates, the number of non-life insurers has increased significantly over the past few years, doubling to 18 currently from nine in 2005-2006.

**Table 3 Table showing numbers of policies issued by non-life insurers**
**Source-IRDA Journal**

| Insurer | **2008-09** | **2007-08** | **2006-07** | **2005-06** | **2004-05** | **2003-04** |
|---|---|---|---|---|---|---|
| Public Sector | 45137181 (17.09) | 38547040 (13.47) | 33972092 (-19.48) | 42193079 (-5.47) | 44634047 (16.15) | 38427204 (-8.26) |
| Private Sector | 21922906 (17.21) | 18703219 (47.36) | 12692053 (41.85) | 8947516 (73.92) | 5144755 (55.96) | 3298827 (96.72) |
| Private Sector | 67060087 (17.13) | 57250259 (22.69) | 46664145 (-8.75) | 51140595 (2.74) | 49778802 (19.30) | 41726031 (-4.21) |

The total number of policies issued by the general insurers in 2008-09 was 670.60 lakh as against 572.50 lakh in 2007-08 an increase of 17.13 per cent over 2007-08. However, the rate of growth was lower than the growth in 2007-08 which was 22.69 per cent. This is because of the lower increase in new policies issued by the private insurers. The private insurers could sell 17.21 per cent more policies in 2008-09, as against 47.36 per cent in 2007-08. In contrast, the number of policies issued by the public insurers increased by 17.09 per cent as against 13.47 per cent in the previous year.

Notably, the insurance sector is the only component of the financial sector which continues to be heavily dominated by state-owned entities. The privatization of State-Life Insurance Company is still pending, and the process of implementation of the planned reforms has been rather gradual. Given the extent of concentration in the industry, efficiency and competitiveness will only be enhanced once these reforms pave the way for the existing companies to acquire a stronger footing based on sound financial performance. This impressive growth in the market has been driven by liberalization, with new player's significantly enhancing product awareness and promoting consumer education and information. This research will help to analyze the leading-edge opportunities critical to the success of General insurance industry in India.

**REFERENCES**

Ahuja, R. (2004),"Health insurance for the poor in India", Indian Council for research on international economic relations". Indian council for Research on international economic relations. www.icrier.org/pdf/wp161.pdf,2004. ~ Azam, M.S. (2005),"Customers' Attitude towards General Insurance Service: Contrasting the Public and Private Sectors in Bangladesh", Insurance Journal, July, pp. 91-109. ~ Christianson, B.; & Taylor R. (2002) "Defined-Contribution Health Insurance Products: Development and Prospects,"Health Affairs, V o l u m e 2 1, N0.1, 2002. ~ Curak, M.; & Loncar, S.(2008),"Insurance development and economic growth nexus" Journal of International research publication, Economy and business, Volume .3.ISSN 1313-8006, Bulgaria ~ Davis, E. (2000),"Portfolio regulation of life insurance companies and pension funds" Brunel University, WestLondon.4-8September, 2000. ~ Gartner. I. (2004), "Insurance – Product Design and Development" UBM white paper 2004 ~ Singh & Kumar R, (2009)," Emerging Trends in Financial Performance of General Insurance Industry in India" Indian Management studies Journal, Volume .13, No.1, pp.31-44. ~ Soppe, R.; & Pitts H. (2010), "Speeding Insurance Product Development: Removing Constraints through an Adaptive Systems Approach."
SITES REFERRED
• www.irda.com • www.generalinsuranceco.com • www.instituteofinsurance.com • www.niapune.com