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Research Article

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Rise and Growth of Insurance Sector in Pre & Post Liberalised India

Monoj Kumar Chowdhury
Department of Business Administration, Gauhati University,
Assam, India

Abstract:

This paper studies the rise and growth of Insurance Sector from British period till the recent time. It also studies the citation of the concept of insurance in old Indian scriptures. The trend of growth of insurance in pre liberalisation and post liberalisation period and their effects in Indian economy are discussed in this paper with the help of relevant data. The problems and prospects of insurance sector, especially after entrance of FDI in this sector are also studied and analysed.

Key Words: Malhotra Committee report, IRDA, Overseas Corporate Bodies , Insurance Regulatory Authority Bill 1996, FDI in Insurance

I. INTRODUCTION

Insurance is a form of risk management in which the insured transfers the cost of potential loss to another entity in exchange for monetary compensation known as the premium. Insurance allows individuals, businesses and other entities to protect themselves against significant potential losses and financial hardship at a reasonably affordable rate.
Everyone that wants to protect themselves or someone else against financial hardship should consider insurance. This may include:

- Protecting family after one's death from loss of income.
- Ensuring debt repayment after death.
- Covering contingent liabilities.
- Protecting against the death of a key employee or person in your business.
- Buying out a partner or co-shareholder after his or her death.
- Protecting your business from business interruption and loss of income.
- Protecting yourself against unforeseeable health expenses.
- Protecting your home against theft, fire, flood and other hazards.
- Protecting yourself against lawsuits.
- Protecting yourself in the event of disability.
- Protecting your car against theft or losses incurred because of accidents.

Insurance works by **pooling risk**. What does this mean? It simply means that a large group of people who want to insure against a particular loss pay their premiums into what we will call the insurance bucket, or pool. Because the number of insured individuals is so large, insurance companies can use statistical analysis to project what their actual losses will be within the given class. They know that not all insured individuals will suffer losses at the same time or at all. This allows the insurance companies to operate profitably and at the same time pay for claims that may arise. For instance, most people have auto insurance but only a few actually get into an accident. You pay for the probability of the loss and for the protection that you will be paid for losses in the event they occur. For risks that involve a high severity of loss and a low frequency of loss, then risk transference (i.e. insurance) is probably the most appropriate protection technique. Insurance is appropriate if the loss will cause you or your loved ones a significant financial loss or inconvenience. We should keep in mind that in some instances, we are required to purchase insurance (i.e. if operating a motor vehicle). For risks that are of low loss severity but high loss frequency, the most suitable method is either retention or reduction because the cost to transfer (or insure) the risk might be costly. In other words, some damages are so inexpensive that it's worth taking the risk of having to pay for them yourself, rather than forking extra money over to the insurance company each month.

Insurance in India refers to the market for insurance in India which covers both the public and private sector organisations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the central government.

II. HISTORY

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

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1818 saw the *advent of life insurance business in India* with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The **Life Insurance Companies Act, 1912** made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the **National Insurance Company**, which was founded in **1906**, and is still in business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The **LIC** had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies. With effect from **December 2000**, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: **Oriental Insurance Company Limited**, **New India Assurance Company Limited**, **National Insurance Company Limited** and **United India Insurance Company Limited.** Some of the well-known insurers' logo in India is given.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 where in, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

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.

In **December, 2000**, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

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 services 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.

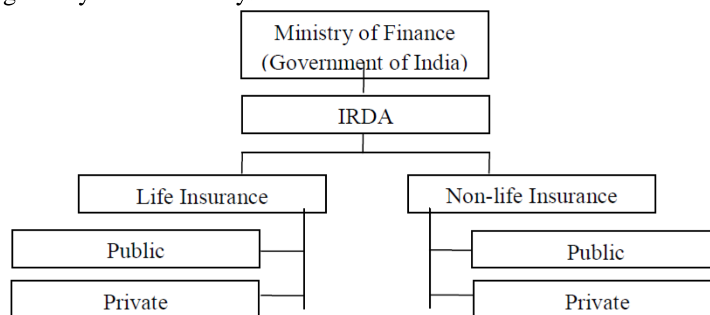

Fig: Indian insurance industry structure

III. PRE-LIBERALISATION POLICIES

Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leaders' exposure to Fabian socialism. Policy tended towards protectionism, with a strong emphasis on import substitution, industrialisation under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation, and central planning. Five-Year Plans of India resembled central planning in the Soviet Union. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalised in the mid-1950s. Elaborate licences, regulations and the accompanying **red tape**, commonly referred to as **Licence Raj**, were required to set up business in India between **1947 and 1990**.

Before the process of reform began in **1991**, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee, was inconvertible and high tariffs and import licencing prevented foreign goods reaching the market. India also operated a system of central planning for the economy, in which firms required licences to invest and develop. The labyrinthine bureaucracy often led to absurd restrictions—up to 80 agencies had to be satisfied before a firm could be granted a licence to produce and the state would decide what was produced, how much, at what price and what sources of capital were used. The government also prevented firms from laying off workers or closing factories. The central pillar of the policy was **import substitution**, the belief that India needed to rely on internal markets for development, not international trade—a belief generated by a mixture of socialism and the experience of colonial exploitation. Planning and the state, rather than markets, would determine how much investment was needed in which sectors.

Attempts were made to liberalise the economy in 1966 and 1985. The first attempt was reversed in 1967. Thereafter, a stronger version of socialism was adopted. The second major attempt was in 1985 by Prime Minister **Rajiv Gandhi**. The process came to a halt in 1987, though 1967 style reversal did not take place.

In the 80s, the government led by Rajiv Gandhi started light reforms. The government slightly reduced Licence Raj and also promoted the growth of the telecommunications and software industries.

The Vishwanath Pratap Singh (1989–1990) and Chandra Shekhar Singh government (1990–1991) did not add any significant reforms.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

The Government of India issued an Ordinance on **19 January 1956** nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on 1 January 1973.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd

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and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commenced business on **January 1st 1973.**

IV. POST-LIBERALISATION POLICIES REGARDING INSURANCE SECTOR

The economic liberalisation in India refers to the ongoing economic liberalization, initiated in **1991**, of the country's economic policies, with the goal of making the economy more market-oriented and expanding the role of private and foreign investment. Specific changes include a reduction in import tariffs, deregulation of markets, reduction of taxes, and greater foreign investment.

By 1991, India still had a fixed exchange rate system, where the rupee was pegged to the value of a basket of currencies of major trading partners. India started having balance of payments problems since 1985, and by the end of 1990, it was in a serious economic crisis. The government was close to default, its central bank had refused new credit and foreign exchange reserves had reduced to the point that India could barely finance three weeks' worth of imports. It had to pledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes to Bank of England as part of a bailout deal with the International Monetary Fund (IMF). In return for an **IMF bailout**, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprise and competition were encouraged and globalisation was slowly embraced. Most of the economic reforms were forced upon India as a part of the IMF bailout and this resulted in adding a new domain to the economy of India which made India as the fastest growing economy of the world in days to come.

The first sign of government concern about the state of the insurance industry was revealed in the early nineties, when an expert committee was set up under the chairmanship of late **R.N.Malhotra**. The Malhotra Insurance sector reform has become one of the most contentious issues in India's economic reform process. Unlike in the banking sector, the insurance sector continues to defy and stall the course of financial reforms in India Committee, which submitted its report in **January 1994,** made some far reaching recommendations which, if implemented, could change the structure of the insurance industry. The Committee urged the insurance companies to abstain from indiscriminate recruitment of agents, and stressed on the desirability of better training facilities, and a closer link between the emolument of the agents and the management and the quantity and quality of business growth. It also emphasised the need for a more dynamic management of the portfolios of these companies, and proposed that a greater fraction of the funds available with the insurance companies be invested in non-government securities.

But, most importantly, the Committee recommended that the insurance industry be opened up to private firms, subject to the conditions that a private insurer should have a minimum paid up capital of **Rs. 100 crore**, and that the promoter's stake in the otherwise widely held company should not be less than **26 per cent** and not more than 40 per cent. Finally, the Committee proposed that the liberalised insurance industry be regulated by an autonomous and financially independent regulatory authority like the Securities and Exchange Board of India (SEBI). Subsequent to the submission of its report by the Malhotra Committee, there were several abortive attempts to introduce the **Insurance Regulatory Authority (IRA) Bill** in the Parliament. While several political parties were against the very idea of allowing private firms to enter the insurance industry, others were unsure about the extent of the stake that foreign investors/firms should be allowed to have in the post-liberalisation insurance companies. However, it was evident that there was broad support in favour of liberalisation of the industry, and that the bone of contention was essentially the stake that foreign entities was to be allowed in the Indian insurance companies.

In **November 1998,** the central Cabinet approved the Bill which envisaged a ceiling of 40 per cent for non-Indian stakeholders: 26 percent for foreign collaborators of Indian promoters, and 14 per cent for non-resident Indians (**NRIs**), overseas corporate bodies (**OCBs**) and foreign institutional investors (**FIIs**). However, in view of the widespread resentment about the 40 per cent ceiling among political parties, the Bill was referred to the standing committee on finance. The committee has since recommended that each private company be allowed to enter only one of the three areas of business—life insurance, general or non-life insurance, and reinsurance and that the overall ceiling for foreign stakeholders in these companies be lowered to 26 per cent from the proposed 40 per cent. The committee has also recommended that the minimum paid up share capital of the new insurance companies be raised to **Rs. 200 crore**, double the amount proposed by the Malhotra Committee. The redrafted Bill, which was scheduled to be introduced in the Parliament during the budget session of 1999, is yet to see the light of the day.

The liberalisation of the insurance industry in India has thus emerged as the litmus test for the ability and the willingness of a central government to push through market friendly economic reforms. At the same time, the government's action in this sphere of economic activity is being viewed by some others as the indicator of the extent to which the government is willing to accommodate the dictates of the **International Monetary Fund** and the United States. The consequence has been politicisation of the reform of the insurance sector, and analyses of possible post-liberalisation scenarios have given way to jingoism and doublespeak. The insurance industry is a key component of the financial infrastructure of an economy, and its viability and strengths have far reaching consequences for not only its money and capital markets, but also for its real sector. For example, if households are unable to hedge their potential losses of wealth, assets and labour and non-labour endowments with insurance contracts, many or all of them will have to save much more to provide for events that might occur in the future, events that would be inimical to their interests. If a significant proportion of the households behave in such a fashion, the growth of demand for industrial products would be adversely affected, thereby reining in industrial and GDP growth. Similarly, if firms are unable to hedge against "bad"

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events like fire and on the- job injury of a large number of labourers, the expected payoffs from a number of their projects, after factoring in the expected losses on account of such "bad" events, might be negative. In such an event, the private investment would be adversely affected, and certain potentially hazardous activities like mining and freight transfers might not attract any private investment. It is not surprising, therefore, that economists have long argued that insurance facility is necessary to ensure the completeness of a market.

The country has, obviously, benefited from the reform process. It may be recalled that while the reforms in various sectors of the economy were either welcomed or considered essential to overcome a crisis, there was considerable debate on the need for reforms in insurance industry. There were many who maintained that since insurance contracts between insurers and the insured involve special fiduciary obligations, it is better if those obligations are guaranteed by the State ownership of insurance companies. The first two decades of the twentieth century saw considerable growth in insurance business. From 44 companies with total business-in-force of Rs.22.44 crore, it rose to 176 companies with total business-in-force of Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. In this background came the major enactment of the entire Indian insurance history.

The Malhotra Committee appointed in 1993 to examine the structure of the insurance industry and recommend changes to make it more efficient and competitive concluded that the time was ripe to dispense with state monopoly and allow private enterprise to enter the insurance sector for the following reasons:

- Competition would result in better customer service and help improve range, quality and price of insurance products;
- Though nationalized industry has built up large volumes of business, overall insurance penetration is quite low and entry of private players would speed up the spread of life and general insurance;
- When competition exists in banking, mutual funds, merchant banks and other non-banking financial institutions, there is no reason why the insurance sector should not be exposed to competition;
- The dominant public opinion was in favour of introducing competition;
- The state owned insurance companies have the financial strength and professional competence to face the competition from the private sector.

In order to make the transition from State monopoly to free market smooth, the Committee recommended that only strong and serious players should be permitted to enter the market and an independent regulatory mechanism should be established to instil confidence among the prospective policyholders in the financial viability of the private insurance companies. The independence of the regulator is also to signal the commitment of the Government to ensure that the private companies can operate on a level playing field and no preference is shown to the State owned enterprises.

The recommendations of the Malhotra Committee were widely discussed and there was support for the opening of the sector with a strong and effective regulatory authority. The government established an interim regulatory authority by executive order in September 1996 and decided to bring in legislation to establish an independent regulatory authority for the insurance industry along with modifications required to remove the State monopoly in this area. The enacting of any legislation is a time consuming process even in normal circumstances. In the case of insurance industry however, the issue became more complicated. In December 1996, the government introduced the **Insurance Regulatory Authority Bill 1996** for establishment of an authority to protect the interests of holders of insurance policies and to regulate, promote and ensure orderly growth of the insurance industry. The bill was referred to the standing committee of the Ministry of Finance which submitted its report in May 1997. The bill incorporating the recommendations of the standing committee was taken up for consideration but it could not be passed and was withdrawn by the government. In 1998, a new government came to power at the centre. In the budget speech of 1998, the policy of the government was announced to open up the insurance sector and also to establish a statutory regulatory authority. Accordingly, the Insurance Regulatory Authority Bill 1998 was introduced in the Lok Sabha in December 1998 to permit the entry of private "Indian companies" into the Insurance sector and to make certain consequential amendments to the Insurance Act, 1938. The Bill was referred to the Standing Committee on Finance in January 1999 for examination and report. The standing committee while recommending the Bill suggested some amendments. These amendments were accepted by the government and the Bill was circulated in March 1999. This Bill too could not be taken up for consideration consequent on the dissolution of the Lok Sabha.

Number of Registered Insurers in India

Type of business	Public sector	Private sector	Total
Life insurance	1	23	24
Non-life insurance	6	21	27
Reinsurance	1	0	1
Total	**8**	**44**	**52**

Source: IRDA Annual Report 2013

Fig: Official Status of Insurers in India

A fresh Bill was introduced by the new government in the second half of 1999 by incorporating the provisions of the Insurance Regulatory Authority Bill 1998 and the amendments suggested by the standing committee on finance. The amendments pertained to foreign equity being restricted to 26%; name of IRA being changed to IRDA as also emphasis on development of social, rural and unorganized sectors.

The **IRDA Bill** was passed in December 1999 and became an Act in April 2000. In July 2000, immediately after the first meeting of the Insurance Advisory committee, 11 essential regulations relevant for players entering the Indian market were notified. In October 2000, six licenses to new players in the life and non-life sectors were issued. India thus became a liberalized insurance market. While the long debates in the 90s and the twists and turns that surrounded the opening up of the sector for private participation had at times, thrown up serious concerns about the implementation of insurance reforms in this country, once the legislation was put through, the actual process of inducting private players into the market had gone off smoothly.

The continuity provided by keeping the office of the interim Regulator through those turbulent 4 years between the creation of the office and the passing of the Bill by the Parliament helped the Regulator in understanding the concerns of the Government, the Parliament and the private investors who were anxious to establish private insurance companies. The Regulations that were framed had tried to harmonise the various points of view, without losing focus on internationally accepted best standards. The consultation process adopted by the Regulator with the stakeholders had helped in framing Regulations which not only incorporated some of the internationally acclaimed standards but were also found acceptable to most stakeholders. The opening of the sector has resulted in a large number of business concerns and banking establishments entering the insurance arena resulting in a sudden increase in the capacity to underwrite risk. Most of the senior managers in these establishments come with diverse backgrounds and their appetite for taking risks varies widely. The competitive pressure for obtaining a distinct market share may lead them to adopt unsound practices. The supervisory system has to be, therefore, geared to assess effectively the financial soundness of the insurers and ensure that these companies have safeguards in position so that they are, at all times, in a position to meet their obligations to the policyholders.

V. FDI IN INSURANCE

There is hardly a facet of the Indian psyche that the concept of ‘foreign’ has not permeated. This term, connoting modernization, international brands and acquisitions by MNCs in popular imagination, has acquired renewed significance after the reforms initiated by the Indian Government in 1991. Generally speaking **FDI (Foreign Direct Investment**) refers to capital inflows from abroad that invest in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI inflow helps the developing countries to develop a transparent, broad, and effective policy environment for investment issues as well as, builds human and institutional capacities to execute the same. The insurance sector is of considerable importance to every developing economy; it inculcates the savings habit, which in turn generates long-term investible funds for infrastructure building. The nature of insurance business ensures constant inflow of funds - the pay-out is staggered and contingency related - thereby making it readily available for investment on infrastructure building. Its contribution to GDP is quite significant. The Union government had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to **26 per cent**.

Insurance in India started without any regulations in the nineteenth century. After the independence, the Life Insurance Company was nationalized in 1956, and then the general insurance business was nationalized in 1972. The LIC had monopoly till the late 90swhen the insurance sector was reopened to the private sector. In 1998 the cabinet decides to allow **40%** foreign equity in private insurance companies and **26%** to foreign companies and **14%** to non-resident &investors (FIIs) but again in 1999 the committee decides that foreign equity in private insurance should be limited to 26%. In 1999, the Insurance Regulatory and Development Authority (IRDA) were constituted as an autonomous body to regulate and develop the insurance industry. Since end of 2000, while Life insurance has been privatized, Indian Government has opened the entry door for foreign players with a maximum of 26 per cent of foreign holding and private companies in Life insurance sector. Following the opening up of the insurance sector, many private sector companies have entered the insurance business. The insurance sector has been a fast developing sector with substantial revenue growth in the non-life insurance market, but in spite of its huge population.

At present there are 44 private insurance companies authorized by the Insurance Regulatory and Development Authority (IRDA) operating in the country. These comprise of 23 life insurance, 17 general insurance and four health insurance companies, since the insurance sector was opened for private sector in the year 2000. These are all joint ventures between the Indian promoters who hold up to 76% and foreign insurance companies who hold up to 26% as mandated by the law. The government created a specific Board to deal with promotion of FDI in India and to be the sole agency to handle matters related to FDI. The ‘**Foreign Investment Promotion Board’** (**FIPB**) as it is known, is chaired by the Secretary Industry (**Department of Industrial Policy & Promotion or DIPP**) within the office of the Prime Minister. Its key objectives are to promote FDI in India with investment promotion activities both domestically and internationally by facilitating investment in the country via international companies, NRIs (non-resident Indians) and other forms of foreign investors.

There are a number of issues that were confronted on introduction of FDI in the insurance sector and many were supporting it whereas many were concerned about the future of the Indian Insurance industry. Some of the points that came up in the debate after a proper analysis by market genius were as such.

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VI. SWOT ANALYSIS

STRENGHTS/OPPORTUNITY

- A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches.
- These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003.
- India has a large population with an increase in its per capita income.
- India's middle income is rapidly increasing emerging as a profitable market.
- India's improving economic fundamentals will support faster growth in per capita income in the coming years, which will translate into stronger demand for insurance products.
- Strong growth can be sustained for 30–40 years before the market reaches saturation.
- There is plenty of room for growth in personal accident, health and other liability classes.
- Rising household income and risk awareness will be the key catalysts to spurring more demand for these lines of business in the future.
- Health insurance could potentially have an important role in driving insurance market development forward.

WEAKNESS/THREATS

- India is among the lowest-spending nations in Asia in respect of purchasing insurance (China, which spent USD 36.3 per capita on insurance products & Indian spent USD 16.4).
- Even after the liberalization of the insurance sector, the public sector Insurance companies have continued to dominate the insurance market.
- In the long run, other forms of non-price competition like aggressive advertisement wars are likely to lead to increasing costs, eventually harming the interests of the consumers.
- A key challenge for India's non-life insurance sector will be to reform the existing tariff structure. From a pricing perspective, the Indian non-life segment is still heavily regulated.
- Reinsurance is only provided by GIC.
- While the insurance business is highly concentrated in India, the share of foreign companies is low.
- Strong growth prospects pose pressure on the industry, and the economy at large, to better manage the exposure to natural perils.
- Questionable Reputation of the Foreign Partners.

The Indian insurance industry seems to be in a state of flux.
After a decade of strong growth, the Indian insurance industry is currently facing severe headwinds owing to reasons like:

1. SlowingGrowth
2. Rising Costs
3. Reforms being stalled
4. Worsening distribution structure

To understand this better, let us have a look into IRDA's (Insurance Regulatory and Development Authority) report on Indian Insurance Industry landscape for the 10 year period between 2001 and 2010.

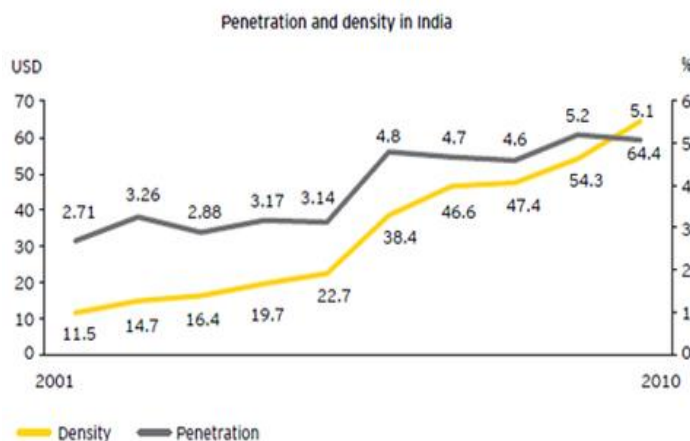

Fig: IRDA Annual Report 2010-11

Despite strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales.

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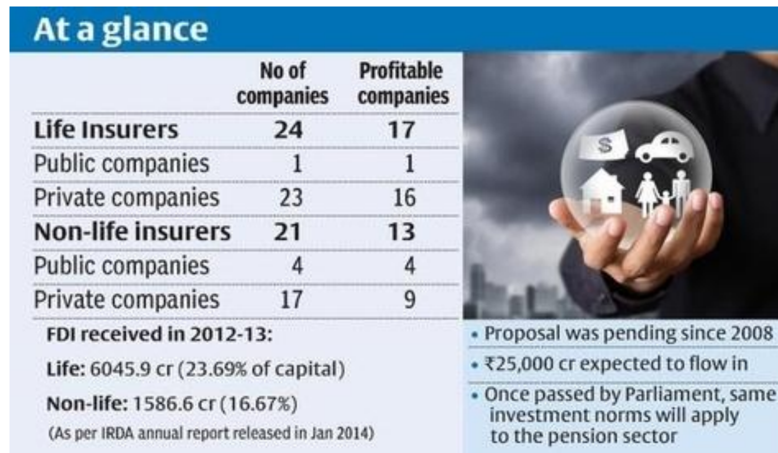

At a glance

	No of companies	Profitable companies
Life Insurers	**24**	**17**
Public companies	1	1
Private companies	23	16
Non-life insurers	**21**	**13**
Public companies	4	4
Private companies	17	9

FDI received in 2012-13:
Life: 6045.9 cr (23.69% of capital)
Non-life: 1586.6 cr (16.67%)
(As per IRDA annual report released in Jan 2014)

- Proposal was pending since 2008
- ₹25,000 cr expected to flow in
- Once passed by Parliament, same investment norms will apply to the pension sector

Fig: IRDA's annual report 2014

The Insurance Amendment Bill to raise FDI cap in the insurance industry from 26 per cent to 49 per cent was pending in the Rajya Sabha since 2008. Application also needed to be approved by two levels at Automatic Approval - by the country's Central Bank, the Reserve Bank of India (RBI), Mumbai and subject to obtaining license from IRDA. There were many political and other hurdles in passing this approval. Many thought it to be conducive for the economy and more particularly for the cash starved insurance sector, while many thought it to be detrimental to their cause as increased FDI can lead to privatization of the nationalised sector and then many things would be put into stake.

But in July, 2014 when the Modi-Government came into power, the Cabinet Committee on Economic Affairs headed by Prime Minister Narendra Modi approved the limit of Foreign Direct Investment (FDI) in Insurance sector to 49 percent from the existing 26 percent. The cabinet cleared the FDI limit in insurance companies through FIPB route which necessitates the management control with the Indian promoters. This was a long due reform which the Modi government has undertaken and was surely bound to benefit the insurance sector.

The factors which have been counted as the benefits of increased FDI in the insurance sector are as follows: -

1. **Insurance products**: Private as well as government insurers will benefit from the proposed hike of FDI; these companies will offer better and wide range of insurance products to customers at larger competitive prices.
2. **Smaller Companies:** FDI will help smaller insurance companies to break-even faster and help monetize (convert into currency) the holdings of the promoters of the older life insurance companies.
3. **Capital inflow:** Immediate capital inflows of $2 billion and long term inflows of about $10 billion can be expected.
4. **Aggression:** The industry has been cautious in selling products which are capital intensive, it will be able to become more aggressive.
5. **Technology:** Insurers will not just get capital but also technology and product expertise of the foreign partner who is the domain expert.
6. **New Players:** We can expect about 100 life and non-life insurance companies to serve a market of our size. Increasing FDI could see 25-30 new insurers entering the market.
7. **State-Run Companies:** People in the country have more faith on government insurance companies and less on private ones, this hike will benefit the state-run companies more than the private ones.
8. **Penetration:** With the population of more than 100 crores, India requires Insurance more than any other nation. However, the insurance penetration in the country is only around 3 percent of our gross domestic product. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.
9. **Employment:** With more money coming in, the insurance companies will be able to create more jobs to meet their targets of venturing into under insured markets through improved infrastructure, better operations and more manpower.
10. **Consumer Friendly:** The end beneficiary of this amendment will be common men. With more players in this sector, there is bound to be stringent competition leading to competitive quotes, improved services and better claim settlement ratio.

VII. EFFECTS OF INSURANCE SECTOR ON INDIAN ECONOMY

For economic development investments are necessary. Investments are made out of savings. Life Insurance Company is a major instrument for the mobilization of savings of people, particularly from the middle and lower group. All good life insurance companies have huge funds accumulated through the payments of small amounts of premium of individuals. These funds are invested in ways that contribute substantially for the economic development of the countries in which they do business The system of insurance provides numerous direct and indirect benefits to the individuals and his family as well as to industry and commerce and to the community and the nation as a whole. Present day organization of industry, commerce and trade depend entirely on insurance for their operation, banks, and financial institutions lend money to industrial and commercial undertakings only on the basis of the collateral security of insurance.

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India became the 10th largest insurance market in the world in 2013, rising from 15th rank in 2011. At **a total market size of US$66.4 billion** in 2013, it remains small compared to world's major economies, and Indian insurance market accounts for 2% of world's annual insurance business. India's life and non-life insurance industry has been growing at double digit growth rates and this growth is expected to continue through 2021.

Life insurance: Indian economy retains about 360 million active life insurance policies, the largest in the world. Of the 52 insurance companies in India, 24 are active in life insurance business. The life insurance industry in the country is projected to increase at double digit compounded annual growth rates through 2019, with targets to reach US$1 trillion annual notional values by 2021.

Other insurance: The industry which reported a growth rate of around 10 percent during the period 1996–97 to 2000–10 has, post opening up the sector, reported **average annual growth of 15.85% over the period 2001–02 to 2010–11**. In addition, the specialized insurers Export Credit Guarantee Corporation and Agriculture Insurance Company (AIC) are offering credit guarantee and corp insurance respectively. AIC, which has initially offering coverage under the National Agriculture Insurance Company (NAIS), has now started providing crop insurance cover on commercial line as well. It has introduced several innovative products such as weather insurance and specific crop related products. The premium underwritten by the non-life insurers during 2010–11 was Rs 42,576 crore as against Rs 34,620 crore in 2009–10. The growth was satisfactory, particularly in the view of the across the broad cuts in the tariff rates. The private insurers underwrote premium of Rs 17,424 crore as against Rs 13,977 crore in 2009–10. The public sector insurers on the other hand, underwrote a premium of Rs 25,151.8 in 2010–11 as against Rs 20,643.5 crore in 2009–10, i.e. a growth of 21.8% as against 14.5% in 2009–10. Indian Insurance Industry is one of the booming Industries of the economy and is growing at the rate of **15-20 % per annum**. Along with banking services, it contributes to about **7% to the country's GDP.**

The economic reform of 1991 played a pivotal role in the economic development of India. Reaping its benefit the growth of the country reached around 7.5% in the late 2000s.Insurance is a risk transfer mechanism whereby the individuals or the business enterprise can shift some of the uncertainties of life on the shoulder of other. In case the insurance providers of trade industry which ultimately contribution towards human progress. Thus, insurance is the most lending force contribution towards economic, social and technological progress of man. The Indian insurance market is the 19th largest globally and ranks 5th in Asia, after Japan, South Korea china and twain.

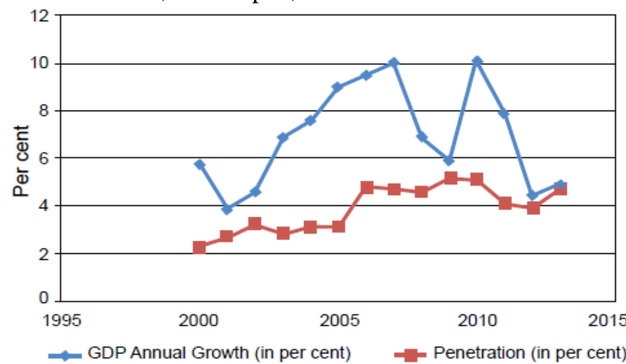

Fig : GDP growth and insurance penetration in India

Gross Domestic Product and Insurance Penetration in India

Year	Per capita GDP (in US$)	GDP growth (in per cent)	Insurance penetration (in per cent)
2000	564.21	5.8	2.32
2001	576.93	3.9	2.71
2002	595.60	4.6	3.26
2003	608.99	6.9	2.88
2004	647.10	7.6	3.17
2005	687.31	9.0	3.14
2006	740.12	9.5	4.80
2007	797.26	10.0	4.70
2008	863.46	6.9	4.60
2009	885.17	5.9	5.20
2010	947.75	10.1	5.10
2011	1034.24	7.9	4.10
2012	1085.23	4.5	3.95
2013	1106.80	4.9	4.70

Source: www.tradingeconomics.com and World Bank report

Fig: Relationship of GDP with Insurance penetration in India

Various studies indicate that there is a positive correlation between the per capita GDP and total insurance penetration in an economy. Life insurance penetration in India is about 4.0 per cent of gross domestic product in terms of total premiums underwritten in a year, much lower than 11.5 per cent in Japan and 19.7 per cent in UK. A low and uneven development of insurance, especially in the non-life insurance business, hampers economic activities. There is a need to speed up the growth of the insurance sector to make it competitive at a global level. The government should act as a promoter and facilitator of insurance services, and bring the insurance sector up to the standards of the global market.

VIII. CONCLUSION

The insurance sector plays a fundamental role in the economy. A world without insurance would be much less developed economically and much less stable.

The risk transfer function of the insurance sector contributes, on the one hand, to the creation of a more stable operating environment for companies and, on the other hand, to a reduction in the level of capital required by undertakings to protect themselves against risk. This allows companies to concentrate their attention and resources on their core business.

Insurance provides an efficient way to support the State in the provision of pensions, healthcare and social security. Through products designed to complement State provision, the insurance sector contributes significantly to guaranteeing a stable and lifelong level of revenue (pension, education leave, maternity leave) and to limiting the impact of demographic change on states' budgets. Insurers have also demonstrated their ability to manage other fields of social security such as compensation and rehabilitation accidents at work.

These products have a double economic impact, protecting workers from the economic consequences of accidents, and encouraging a healthy working population.

Insurance not only provides a stable operating environment, but it also improves companies' awareness of risk management, and influences their investment decisions. Differences in price and policy conditions are key factors that influence undertakings' and households' decisions, and contribute to sustainable and responsible use of available resources. For instance, insurance contributes to the reduction of risks linked to climate change by supporting Government policies designed to limit climate change and to reduce its impact.

The growth of the Indian economy has been diminishing due to various reasons, but the Indian growth story is still alive as Indians has a habit of moving slowly but steadily and in the end we win the race. Currently the situations are not in our favour but as soon the above problems settles down, we may back on track. At the same time many sectors are supporting to the growth of the Indian economy, among that insurance sector‘s contribution is very high. The growth performance of the insurance industry has increased tremendously since the establishment of IRDA in India, which supervise and controlled the entire insurance industry. The increase in number of insurer both in life and non-life, growth in insurance penetration and density, increase in number of policies issued and increase in the speed of claims settlement and the in many more aspects the IRDA is playing a prominent role in the Indian insurance sector. It might be argued that if the insurance and pension fund industries are liberalised, and if the fund managers of all these companies indulge in active portfolio management, the liquidity of the bond market will increase significantly. Such increase in liquidity across the board would enable the fund managers to invest in investment grade bonds of lower rating and thereby add to the average yield of their investment without adding significantly to their portfolio risk.

The problem, however, is that till the imperfect character of the bond market is removed to a significant extent, the insurance companies might either have to operate with thinner margins or remain exposed to unacceptably high levels of liquidity risk. It might, therefore, be prudent for the policymakers to impose stringent capital and reserve norms on the insurance companies, in order to ensure their viability in the short to medium run. Subsequent to liberalisation, the Indian insurance industry might also be at the receiving end of regulations governing insurance prices/premia. Specifically, there might be highly politicised interventions in the markets for workers' compensation and medical insurance. The government might also be under pressure to "regulate" the prices of infrastructure related lines like freight and marine insurance. In principle, the risks associated with such liability insurance policies may be hedged by way of Reinsurance. But if the reinsurers price the risks accurately and the Indian insurance companies are forced to under-price the risks, the margins of the insurance companies will be affected adversely, thereby reducing their long-term viability. In view of these political and financial realities, it might be better to subsidise the policyholders of politically sensitive lines directly or indirectly through tax benefits, if at all, rather than distort the pricing of the risks themselves.

At the end of the day, it has to be realised that while competition enhances the efficiency of market participants, the process of "creative destruction," which ensures the sustenance and enhancement of efficiency, is not strictly applicable to the financial markets. Hence, while exit is perhaps the most efficient option for insolvent firms in many markets, insolvency of financial intermediaries' calls for government action and usually affects the governments' budgetary positions adversely. At the same time, other things remaining the same, the risk of insolvency is perhaps higher for insurance companies than for other financial intermediaries because of the option-like nature of their liabilities. Therefore, competition in the insurance industry has to be tempered with appropriate prudential norms, regular monitoring and other regulations, thereby making the robustness of the industry (in India) critically dependent on the

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organisation (and efficiency) of and regulatory powers accorded to the proposed Insurance Regulatory Authority. Preventing a malady, as conventional wisdom goes, is better than trying to cure it once the disease has set in.

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