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Insurance Sector Reforms in India

Abstract

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP. Innovative products, smart marketing and aggressive distribution. Indians, who have always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer. The opening up of the sector is likely to lead to greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies.

Keywords: Insurance, Reforms, Risk, Market.

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Introduction

In the era of economic and financial reforms, sweeping changes are taking place in the emerging markets and insurance operations are getting more and more global, across geographic boundaries of countries and continents. Insurance is playing immensely an important role in the economy of a country. It is an industry, which gives us the vital protection in our day-to-day lives. It is more crucial in developing countries where calamities like floods, earthquakes, and other major natural catastrophes and man-made disasters devastate the economies for a long period of time.

According to the latest study from Swiss Re's sigma series, non life premiums collected in emerging markets are expected to double from \$123bn in 2013 to around \$250bn by 2014, at a constant price. It has also been achieved to some extent also. Emerging markets with their huge potential are set to change the landscape of the insurance sector in the coming years. Life and non-Life insurance premiums in emerging markets have grown annually with impressive growth rated at 10.4% and 7.3% in real terms respectively, compared to the average of 3.4% and 2.6% for advanced countries. Premiums growth is also expected to sustain an impressive rate of 7.5% per year in the coming decades.

According to the Central Statistical Organization (CSO), the insurance and banking services together contribute the country's GDP of 7.1% out of which the gross premium collection forms a major share. India's share in the world's life insurance business has doubled since the sector was opened and interestingly most of the new premium has come from the public sector giant Life Insurance Corporation of India (LIC) has pushed India's ranking to number 17 from 20 in the year 2010. India's contribution to world's premium at present is 1.02% where as in the year 2010, it was 0.5%

Table 1
Global Share of Life Premium

Country	Life Premium ($ Bn)	World Share (%)
Japan	375.90	19.5
Us	517.00	26.2
Uk	154.00	10.11
France	1154.00	7.81
Italy	91.70	4.65
Germany	90.20	4.57
Taiwan	38.80	1.97
China	39.50	2.1
India	20.10	1.02

Source :The Economic Times

Objective of the Study

The present study was carried out, due to the following reasons.

1. To know the significant changes of the insurance industry of India.
2. To highlight the business performances of life and general insurance business of India.
3. To identify the reforms required in insurance industry.
4. To provide suggestions in order to make improvement in insurance industry.

Insurance Industry of India

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers.

India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020. The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US$ 60 billion. During this period, the life insurance market is slated to cross US$ 160 billion. The general insurance business in India is currently at Rs 78,000 crore (US$ 11.7 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.

Table –2

Year	Significant Regulatory Events
1818	Oriental Life Insurance Company, the first life insurance company on Indian soil started functioning.
1870	Bombay Mutual Life Assurance Society, the first Indian life insurance company started its business.
1912	The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.
1928	The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses
1938	Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.
1956	245 Indian and foreign insurers and provident societies are taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 50 million from the Government of India.
1993	Setting up of Malhotra Committee
1994	Recommendation of Malhotra Committee
1995	Recommendation of Mukherjee Committee
1996	IRDA Bill introduced in Parliament and Referred to the Standing Committee
1997	IRDA is withdrawn following opposition to foreign participation
1997	Government of India clears greater autonomy to LIC and GIC
1998	The cabinet decides to allow 40% foreign equity in private insurance companies.26% to foreign companies and 14% to NRIs, OCBs, and FIIs.
1999	Notification of IRDA as a statutory authority
1999	Approval of IRDA Bill by the cabinet with FDI limited to 26%
2000	President gives assent to the IRDA Bill
2006	GOI prepared bill to enhance FDI in insurance sector from 26% to 49%
2015	The long-pending Insurance Bill was passed in Lok Sabha for raising foreign investment cap to 49 per cent with the government insisting that the measure is crucial for expanding the penetration of insurance in the country.

Sources: www.Indiainfoline.com.

Life Insurance Corporation (LIC)

The Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. The central office of LIC is located at Mumbai. Today LIC functions with 2048 fully computerized branch offices, 100 divisional offices, and 7 zonal offices, which are spread all over the country.

Latest position of LIC

The weakened position of the state-owned Life Insurance Corporation (LIC), the market leader for decades, is mainly due to its inability to introduce new products, especially ULIPS (Unit Linked Plans), after the Insurance Regulatory and Development Authority (IRDA) forced its hand to withdraw many of its existing offerings. LIC saw a sharp 14% decline in its new premium collection and a higher 42% plunge in the number of policies in 2014-15 and overall decline in market share to 70% to 75% in 2013-14

Table-3

Life Insurance- Business Performances

Business Performance	2013-14		2012-13	
	Public Sector	**Private Sector**	**Public Sector**	**Private Sector**
Premium under written (Rs in Crores)	236942.30	77340.90	208803.58	78398.91
New Policies Issued (in Lakhs)	345.12	63.60	367.82	74.05
Number of Offices	4839	6193	3526	6759
Benefits Paid (Rs in Crores)	158081	58994	134922	56923
Individual Death Claims (Number of Policies)	760334	125027	750576	127906
Individual Death Claims Amount Paid (Rs in Crores)	8475.26	2385.33	7222.90	2147.32
Group Death Claims (Number of lives)	267296	158682	245467	119970
Group Death Claims Amount Paid (Rs in Crores)	1882.83	1222.25	1697.37	949.08
Individual Death Claims (Figures in per cent of policies)	98.14	88.31	97.73	88.65
Group Death Claims (Figures in per cent of lives covered)	99.65	90.45	99.54	87.79
No. of Grievances reported during the year	85284	289336	73034	267978
Grievances resolved during the year	85828	288836	72655	268415
Grievance Resolved (in percent)	100.64	99.83	99.48	100.16

Source: IRDA

It is depicted in table 3 that the share of premium underwritten has increased from Rs 208803.58 cr in 2012-13 to Rs 236942.30 cr in 2013-14 in public sector whereas in private sector, the share of premium underwritten has declined from Rs 78398.91 cr to Rs 77340.90 cr in 3013-14. The share of new policies has declined from Rs 367.82 lakhs in 2012-13 to Rs 345.12 lakhs in 2013-14 in public sector whereas there is also a decline in the share of new policies from Rs 74.05 lakhs to Rs 63.60 lakhs in private sector. Overall, there is increase in opening of new insurance offices, more benefits are paid. There is increase in individual death claims from 97.73% in 2012-13 to 98.14% in 2013-14 in public sector whereas there is marginal decline from 88.65% in 2012-13 to 88.31% in 2013-14. Group death claims have increased from 99.54% in 2012-13 to 99.65% in 2013-14 in public sector. In private sector also, there is increase in group death claims from 87.79% in 2012-13 to 90.45% in 2013-14.The grievance are more resolved in public sector from 99.48% in 2012-13 to 100.64% in 2013-14 and in private sector , grievance are declined from 100.16% in 2012-13 to 99.83% in 2013-14.

General Insurance Corporation of India

The General Insurance Corporation (GIC) of India was formed by the Parliament Act, General Insurance Business Nationalization Act, (GIBNA), 1972.It was incorporated under the Indian Companies Act, 1956 on November 22, and 1972.GIC was formed for the purpose of superintending, controlling and carrying on the business of general insurance. The four fully owned subsidiary companies of GIC are National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and the United India Insurance Company Limited. On April 19, 2000, the Insurance Regulatory and Development (IRDA) Act came into force and it led to the amendment of GIBNA and the Insurance Act, 1938.GIC was renotified as the Indian Reinsurer in November 2000 and its supervisory role over subsidiaries was ended through administrative action. With the General Insurance Business (Nationalization) Amendment Act 2002 (40 of 2002) from March 21, 2002, GIC ceased to be a holding company of its subsidiaries. The functioning of GIC has to be with in the regulations of The Companies Act 1956, Insurance Act, 1938, GIBNA,1972, General Insurance Business (nationalization) Amendment Act, 2002, and IRDA act,1999.The GIC is 100%owned by the Government of India.

Table-4
General Insurance- Business Performances

Business Performance	2013-14		2012-13	
	Public Sector	Private Sector	Public Sector	Private Sector
Premium Underwritten (Rs in Crores)	38599.71	32010.30	35022.12	27950.69
New Policies Issued (in Lakhs)	600.06	424.47	689.68	380.56
Number of Offices	7869	2003	6272	1827
Net Incurred Claims (Rs in Crores)	27817.96	17874.11	25061.37	14562.24
Number of Grievances reported during the year	17658	45677	20164	60358
Grievances Resolved During the Year	18083	45653	19057	60230

Source: IRDA

In table 4, the premium underwritten is increased from Rs 35022.12 cr in 2012-13 to Rs 38599.71 cr in 2013-14 in public sector and in private sector, it is also increased from Rs 27,950.69 cr in 2012-13 in 2012-13 to Rs 32,0101.30 cr in 2013-14. The share of new policies has declined from Rs 689.68 lakhs in 2012-13 to Rs 600.06 lakhs in 2013-14 in public sector whereas there is increase in the share of new policies from Rs 380.56 lakhs to Rs 424.47 lakhs in private sector. Overall, there is increase in opening of new insurance offices whereas there is decline in number of grievances reported and resolved from 2012-13 to 2013-14.

Reforms Required in Different Areas of in Insurance Sector

Following are the points, which needed reforms in insurance sector.

Detailted Standards

As part of new framework, detailed standards should be issued covering the constitution and methods of calculation of reserves and provisions and the amount of credit for amounts recoverable under reinsurance arrangements to ensure that all companies follow sound policies.

Claim Management

The issue involved with nomination of a policy on insurance has trapped every party in unnecessary litigation. There is a need to clearly differentiate the position with regard to beneficial nominee and collector nominee. An option can be given to the policyholder to clearly express as to who shall be the beneficial nominee and who shall be the collector nominee. The insurer should be given a right to claim valid discharge in case he has paid the money to the nominee. Once paid then it becomes the problems of the nominee and the legal heirs of the insured. The insurer should not be dragged into unnecessary litigation.

Prudential and Capital Adequacy Standards

Prudential and capital adequacy standards should be brought in line with best international practice. The solvency margin based on the average net claims over a specified period (between 3 and 7 years depending on the volatility of losses) should be introduced to complement the solvency margin that is based in net premiums.

Internal Risk Management

When the capacity is committed for long-term obligations, the funds supporting this capacity needs to be efficiently managed keeping in mind the adequate liquidity for meeting the obligations that may arise any time. At the same time, the time gap between the present revenues available and future obligations need to be capitalized. Efficiancy, therefore mainly depends on the internal risk management. Risk management strategies and capital management strategies have to be applied together. Leading insurers and reinsurers are developing their own internal risk management techniques as part of overall risk management.

Special Consideration

Special considerations would be required to expedite the liquidation process, require the submission of reorganization of reorganization plans, and facilitate the reinsurance and or transfer of policies. These considerations would protect the assets of the failed companies from the expenses of protracted liquidation and thus maximize the amounts available for distribution to policy holders and other clients.

Insurance Information Bureau

An Insurance Information Bureau should be created with data on underwriting policies, loss claims and incidents of insurance fraud. The bureau should facilitate sharing of these data by all licensed companies and should contribute toward higher underwriting standard.

Obtaining Reliable Documentation

Securing reliable documentation such as proof of age in rural region can be a problem since there are no governmental birth records available in many cases. Claims management can be problematic; verifying the authenticity of claims arising in rural areas can be time-consuming and expensive. For example, several cases of accidental death due to snake bite have been reported, but companies have found difficult to place reliance on the report of attending medical or paramedical personnel.

Suggestions for Reforms in Insurance Sector

Simplify Policy Forms

Insurance companies need to simplify policy forms. The terms and conditions should be written in a language that is easily understood and they should be fair to both the contracting parties.

Well-Trained Insurance Agents

There is need for well trained insurance agents and greater compliance with IRDA regulations pertaining to agents being an upswing in the demand of trained insurance agents. The existing training infrastructure is not adequate to meet the increasing training needs of the insurance industry in India. There is potential for new institutions to fulfill these training needs. It was concluded that the right kind of training will play a key role in enabling insurance companies to become more competitive and provide better service to consumers, and those that have better-trained personnel will dominate the market. Some of the training can be provided in-house, but the more advanced training programmes are best left to professional training agencies.

Complete Transparency

There should be complete transparency in the entire transaction, including investigations into claims. The policyholders should get a copy of the surveyor's report, and all decisions should be taken quickly and conveyed in writing.

Policyholder's Charter

Every insurance company should formulate a policyholder's charter, committing itself to certain quality standard in respect of servicing of the policy. This should be strictly adhered to, whether it is about the time taken for sending the policy document or claim settlement or redressal of grievance.

Strict Compliance of Irda Regulations

There should be strict compliance of IRDA regulations on various issues pertaining to the protection of consumers, including the marketing of policies. There was also a call for stringent enforcement of IRDA regulations on the protection of policyholders.

Independent Grievance Redressal Committees

There should be independent grievance redressal committees and their working should be regularly audited at board level.

Review and Comply The Orders of Law Courts

Insurance companies should review the orders of law courts to examine where the problem lies and rectify it. Insurers should also strictly comply with court orders and desist from filing unnecessary appeals.

Regular Training for Officials

There should be a regular training for officials of insurance companies so as to bring about an attitudinal change Vis-a-Vis the policyholder.

Client Friendly Guidelines

Suitable and client-friendly guideline may be issued to improve the application forms especially with regards to clarity. Efforts should also be afoot to improve the online application procedure, in order to reduce the number of declined claims. Every condition has a technical interpretation, which could be difficult for the common man to understand. A misinterpretation could prove costly and can result in a rejected claim. The significance of familiarizing oneself with the fine print cannot be accentuated. One has to quiz his/her agent and understand the repercussions before going in for cover.

Insurance Sector in India-Future Scenario

In India, only 10% of the market share has been tapped by LIC and GIC and the balance 90% of the market still remains untapped. Out of one billion people in India, only 36 million people are covered by insurance. India's life insurance premium as a percentage of GDP is just 1.77 per cent. Indian insurance market has touched $25 billion by 2010, This vast potential which is tapped only by a large number of insurance. With the increase in the standard of living, life expectancy and nuclear families, each individual now has arranged cover for himself and for his family. Therefore, coverage of insurers growing very fast.

Conclusion

Emerging markets have maintained tremendous growth over the last decade. Improving economic fundamentals, rising income levels, more competition, introduction of new products and distribution systems are helping insurers to ride the boom. Hence, in this millennium, insurance industry is likely to play an important role in changing the economic landscape of the country.

The whole industry is working its way through the adjustments needed to reposition insurance businesses to succeed in this new environment. Because the products are new and there is a shift away from ULIPs towards traditional products, there needs to be a lot more training of insurance advisors. They need to be equipped with better tools so that they can make it easy to do business, to do more concept selling, consultative selling as opposed to just pushing products. However, the success of the insurance industry will primarily depend upon meeting their rising expectations of the consumers who will be the real king in the liberalized insurance market in future.

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