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The Highs and Lows of the Insurance Amendment Bill 2021

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Abstract

Insurance services have gained popularity in Indian economy and among the common masses in last few decades. Yet, it has not acquired the status of an essential service, which people think should be taken very seriously. This very fact makes insurance sector as one of the sectors, which holds immense potential of development in next few decades. This is because a very low percentage of Indian population is under insurance cover and this uncovered population gives hope for development to insurance sector, and that too at a very fast pace, given the increasing education levels, income levels, and increased level of awareness regarding the utility of insurance services among the common people. This has led the Indian government to undertake various developmental and improvement measures in order to remove any type of anomalies in the provisions of insurance companies, so that more and more people willingly avail insurance services for themselves and their assets. It is with this imperative the government has announced the Insurance Amendment Bill 2021 to come to terms with the changing times, and provide the best services to the consumers. Present paper endeavors to give an insightful view pertaining to the highs and lows of the Insurance Amendment Bill 2021 and provide useful insights pertaining to the same.

Anuj Goyal
Research Scholar
Dept. of Economics,
Mewar University,
Rajasthan, India

B S Yadav
Professor
Dept. of Economics,
Shri Venkateshwara University
Gajraula, Amroha, UP, India

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Introduction

There is no denying the fact that insurance is one of the most promising and fastest growing sectors worldwide. Apparently, for a country like India it is rather more promising than other nations, as a very vast segment of its population has no insurance cover at all. This makes it all the more beneficial for the aspiring insurance companies to enter the Indian insurance sector and have the share of their success in this lucrative sector.

Insurance is the problems solver in the sense that it is engaged in feats by providing insurance services to people, and their valuable and insurable assets. It is operative in metros, small cities town and even in the far flung areas, which do not have proper connectivity through roads. In this manner it acquires a critical status in Indian economy.

The nature and structure of the insurance industry has undergone a considerable change since liberalization, privatization and globalization of the Indian Economy, in general, and the insurance sector in particular. LIC has been the sole player with virtual monopoly in the life insurance sector from the last four decades. In the early 1990s the government of India implemented the policy of liberalization, privatization and globalization. This policy envisaged opening up of the economy along with most of its core sectors to the private entrepreneurs.

Along with this, it was also planned to allow entry of international corporations into various business and services sectors. The implementation of financial sector reforms by the government attracted some private and international players in the insurance sector also because insurance sector has been one of the major financial sector earners.

Privatization aims at providing benefits of the growth of the industry to the society by providing better customer service and variety of quality products at reasonable prices. It emphasizes and focuses on penetrating the insurance business to the rural and semi-urban areas. Consequently, between 2000 and 2004, 13 private players entered the life insurance sector.

Based on its utility and increased importance of insurance services in last few decades government too has started paying attention to its operations and specially the gaps, which if addressed can serve the economy in not only providing insurance services to people and the assets they hold, but can also act as a useful source of providing employment to the ever increasing workforce of India.

It is with this imperative that government feels responsible for the welfare of general public and takes steps to reframe and amend the processes, which are counterproductive to the insurance sector and are detrimental to the interests of the general public. In this very row of thoughts and motives the government of India has announced the Insurance Amendment Bill 2021, to safeguard the interests of the insurance sector and the masses in equal measure, and more particularly for eh development and expansion of this sector.

Aim of the Study

Present paper attempts to highlight the highs and lows of the Insurance Amendment Bill 2021 and tries to delineate advantages to the Indian economy and the people of the nation along the possibility and growth and development of the economy.

Review of Literature

There has been a definite improvement in the process of dealing with the increased amount of work and specially the frauds in insurance sector, and the technology followed by the process of data mining is certainly one of the best (Mushunje, 2019). Known as the process of knowledge discovery, the process is crucial for the cases, which are to be dealt by special measures. Some of the cases, which are very serious and troublesome, and come under the category of fraudulent practices are to be managed by the authorities of the insurance sector and during these times it is the technique of data mining that comes very handy. These types of cases cannot be dealt through normal practices followed by the insurance sector, and the authorities therein, and they need to be tackled with special techniques. Data mining technique is used to detect the frauds at the earliest and help in the location of the fraudster. The method of data mining helps to quickly detect fraud, reduce operation cost and improves profit margins and increases competitive advantages. Moreover, the application of data mining techniques through sequential pattern mining can help much to predict any future and potential fraudulent cases. This is helpful in planning, and keeping the insurers alerted before the fraudulent risk occurs (Mushunje, 2019)

Insurance plays a fundamental role in the economies of nations worldwide. Protecting the future earnings of individuals, companies from uncertainties, and risks fastens a nation's gross domestic product. The second decade (2D) of the current century (2D/twenty-first century) has witnessed a revolutionary, disruptive, technological advancement, innovative strategies, and financially engineered models in the marketing of insurance products across the insurance sector worldwide (Ratnakaram et al., 2021). The paper further revealed that some of these technologies and advancements are named as "FinTech, InsurTech, Blockchain Technology, Cryptocurrency, Robotics, Cloud Technologies, Data Science, Data Analytics, Big Data, Financial Engineering, ICTs (Information and Communication Technology), IoT (Internet of Things), AI (Artificial Intelligence), Machine Learning, Mobile Phones, Social Media sites, and Drown Technologies" [2]. To list and to explain these major disruptive technologies of the sector is the main purpose of this research work. The main focus was to study the specially designed financial engineering models in the process of insurance marketing. To conclude, the detailed role of financial engineering applications in the design, development, and execution of marketing models in the insurance sector was discussed. It used the descriptive-cum-exploratory research methodology is used (Ratnakaram et al., 2021).

The paper developed by Borros et al., in the year 2005 provided the estimates pertaining to the changes in total productivity, breaking this down into technically efficient change and technological change by means of data envelopment analysis applied to a representative sample of insurance companies operating in the Portuguese market. The aim of procedure was to seek out those best practices that will lead to improved performance in the market. Further the paper ranked the companies according to their change in total productivity for the period 1995-2001, concluding that some companies experienced productivity growth while others experienced a decrease in productivity. The implications arising from the study were considered in terms of managerial policy and had given practical insights to the insurance industry (Barros et al., 2005).

There are many studies, which have been done at on sectors, which are normally not studied by the planners and the scholars. One of these is the climate change and its effect of the insurance sector. The study done by Dlugolecki in 2008 studied the climate change matters to the insurance sector. The paper put forward that in terms of underwriting, on one scenario, the economic cost of weather losses could reach over 1 trillion USD in a single year by 2040. The impacts will be worse in developing countries. Besides it recommended that the private sector needs to work with the public sector, as part of a triple dividend approach that coordinates adaptation, disaster management and sustainable economic development. Moreover, for asset management the indirect impacts are the key. Greenhouse gas emissions have to drop by 60 per cent by 2050, which means transforming the energy economy. Finance for renewables will reach 100 billion USD a year soon. Political uncertainty is a serious blockage to market forces, and the re-evaluation of assets and project returns is happening too slowly. Finally, insurers have a duty as ubiquitous players in the economy and society to help to shape climate policies in a responsible and effective way (Dlugolecki, 2008).

The paper of Eling & Lehmann, 2018 based their study on a dataset of 84 papers and industry studies, and analyzed the impact of digital transformation on the insurance sector using Porter's value chain (The Competitive Advantage: Creating and Sustaining Superior Performance, The Free Press, New York, 1985) and Berliner's insurability criteria (Limits of Insurability of Risks, Prentice-Hall, Englewood Cliffs, NJ, 1982). They also presented future research directions from the academic and practitioner points of view. The results illustrated four major tasks the industry is facing: enhancing the customer experience, improving its business processes, offering new products, and preparing for competition with other industries. Moreover, they identified three key areas of change with respect to insurability: the effect of new and more information on information asymmetry and risk pooling, the implications of new technologies on loss frequency and severity, and the increasing dependencies of systems through connectivity (Eling & Lehmann, 2018).

The paper of Aznar et al., in 2021 put forward that during the last decade, the use of nano-materials, due to their multiple utilities, has exponentially increased. Nano-materials have unique properties such as a larger specific surface area and surface activity, which may result in health and environmental hazards different from those demonstrated by the same materials in bulk form. Besides, due to their small size, they can easily penetrate through the environmental and biological barriers. In terms of exposure potential, the vast majority of studies are focused on workplace areas, where inhalation is the most common route of exposure. The main route of entry into the environment is due to indirect emissions of nanomaterials from industrial settings, as well as uncontrollable releases into the environment during the use, recycling and disposal of nano-enabled products. Accidental spills during production or later transport of nanomaterials and release from wear and tear of materials containing nanomaterials may lead to potential exposure. In this sense, a proper understanding of all significant risks due to the exposure to nanomaterials that might result in a liability claim has been proved to be necessary. In this paper, the utility of an application for smartphones developed for the insurance sector has been validated as a solution for the analysis and evaluation of the emerging risk of the application of nanotechnology in the market. Different exposure scenarios for nanomaterials have been simulated with this application. The results obtained have been compared with real scenarios, corroborating (Aznar et al., 2021).

Climate change is projected to cause severe economic losses, which has the potential to affect the insurance sector and public compensation schemes considerably. The article of Botzen & Van Den Bergh, 2008, discussed the role insurance can play in adapting to climate change impacts. The particular focus was on the Dutch insurance sector, in view of the Netherlands being extremely vulnerable to climate change impacts. The usefulness of private insurance as an adaptation instrument to increased flood risks is examined, which is currently unavailable in the Netherlands. It was questioned whether the currently dominant role of the Dutch government in providing damage relief is justified from an economic efficiency perspective. Characteristics of flood insurance arrangements in the Netherlands, the United Kingdom, Germany, and France are compared in order to identify possible future directions for arrangements in the Netherlands. It was argued that social welfare improves when insurance companies take responsibility for part of the risks associated with climate change (Botzen & Van Den Bergh, 2008).

The paper presented by Acharya et al., 2013, summarized the literature on the impact of state subsidized or social health insurance schemes that have been offered, mostly on a voluntary basis, to the informal sector in low-and middle-income countries. A substantial number of papers provided estimations of average treatment on the treated effect for insured persons. They summarized papers that correct for the problem of self-selection into insurance and papers that estimate the average intention to treat effect. Summarizing the literature was difficult because of the lack of (1) uniformity in the use of meaningful definitions of outcomes that indicate welfare improvements and (2) clarity in the consideration of selection issues. They found the uptake of insurance schemes, in many cases, to be less than expected. In general, they found no strong evidence of an impact on utilization, protection from financial risk, and health status. However, a few insurance schemes afford significant protection from high levels of out-of-pocket expenditures. In these cases, however, the impact on the poor is weaker. More information is needed to understand the reasons for low enrollment and to explain the limited impact of health insurance among the insured (Acharya et al., 2013).

The purpose of the article of Appuhami (2007) was to investigate the impact of the value creation efficiency on investors' capital gains on shares. To investigate the impact of corporate value creation efficiency on investors' capital gains, the author used the data collected from listed companies in Thailand's stock market and Pulic's (1998) Value Added Intellectual Coefficient (VAIC TM) as the measure of intellectual capital and a developed multiple regression model. The empirical research found that firms' intellectual capital has a significant positive relationship with its investors' capital gains on shares. The findings enhance the knowledge base of intellectual capital and develop a concept of intellectual capital in achieving competitive advantages in emerging economies such as Thailand's (Appuhami, 2007).

The paper of Cummins & Weiss in the year 1999, analyzed the efficiency of stock and mutual organizational forms in the property-liability insurance industry using non-parametric frontier efficiency methods. They tested the managerial discretion hypothesis, which predicted that the market will sort organizational forms into market segments where they have comparative advantages in minimizing the costs of production, including agency costs. Both production and cost frontiers are estimated. The results indicate that stocks and mutuals are operating on separate production and cost frontiers and thus represent distinct technologies. The stock technology dominates the mutual technology for producing stock output vectors and the mutual technology dominates the stock technology for producing mutual output vectors. However, the stock cost frontier dominates the mutual cost frontier for the majority of both stock and mutual firms. The finding of separate frontiers and organization specific technological advantages is consistent with the managerial discretion hypothesis, but they also found evidence that stocks were more successful than mutuals in minimizing costs suggesting the existence of agency problems (Cummins & Weiss, 1999).

Supervision et al., (n.d) discussed that as long as the volatile economic terms blend with a constantly changing competitive environment, the financial services will be at a crossroads and the future of a large number of companies will be uncertain. The lack of an adequate financial supervision can lead to a financial disaster, as the one from 2007 till 2008 which started a global, unprecedented, systematic, profound, lasting crisis and nevertheless it has revealed significant gaps inside the control and supervision of the financial services on national and international level. The article further presented the financial supervision terms and the systemic risk through a systematic integration analysis of the scientific specialized literature without forgetting the latest information provided by the supervisors (Supervision et al., n.d.).

Insurance amendment bill

The insurance amendment bill is a new addition to endeavors of the government for the development of the insurance sector and to safeguard the interest of the inhabitants of India. as consequence to this, in yet another remarkable move, both the houses of Parliament have passed the Insurance Amendment Bill in the budget session. The Bill amends the Insurance Act 1938, increasing the FDI limit from 49% to 74%. In 2015, the Modi government increased it to 49% from 26%, and now, in 2021, it has been raised to 74%. In 1994, a committee headed by former RBI Governor RN Malhotra, formed by the then Congress government, recommended inclusion of private insurers and foreign collaborators. But, it wasn't until 2000, under the Vajpayee government, that a Bill was passed to welcome private players and allow foreign investment up to 26%. This was the first time that insurance sector witnessed policy reforms.

Since 1994, in the three occasions when Congress governments came to power, they failed to pass any noteworthy reforms in the sector. The NDA government, which has persistently showcased aptitude for bold policy reforms through GST, Insolvency Bankruptcy code, Development finance institution and privatization, has once more proven its strong political will in bringing about groundbreaking reforms through this amendment.

This amendment is an enabling provision. It is not mandatory to have 74% FDI in Indian insurance companies. However, if the company desires, then it may increase its foreign equity share up to 74%. We would be mistaken if we assumed that companies do not require expansion in FDI limit. Five private sector companies have already reached the 49% mark and therefore can benefit from the added increase.

The Bill carries several safeguards that ensure ultimate control lies with the Indian entity. Section 27 E of the Insurance Act ensures that funds of policyholders are within Indian boundaries—"No insurer shall directly or indirectly invest outside India the funds of policyholders". The "Indian ownership and control" requirements under the Insurance Act have been amended. Half of board members and key management members (CEO, CFO, CRO, etc) have to be Indian residents. Furthermore, a fixed proportion of the income has to be kept in the general reserve to provide for policyholder claims regardless of foreign investor's financial situation. Effectively, management control of the company would be with the Indian promoter.

The amendments have been formulated after an all-embracing consultation with 60 insurance companies carried out by the Insurance Regulatory and Development Authority of India, the regulatory body for the insurance sector in India. Apprehensions that foreign investors will invade the Indian companies can be put to rest as the insurance sector is highly regulated. IRDAI shoulders the responsibility of regulating and approving prices, products, marketing, investment and ownership.

In order to be on a par with its global counterparts, India requires healthier insurance penetration and density. The said metrics are symbolic of development of the insurance sector in the nation. Insurance penetration in India is 3.76%, which is lower than this is in countries like Malaysia (4.72%), Thailand (4.99%) and China (4.3%), and appallingly lower than the global average of 7.26%. Similarly, India's insurance density performance is not encouraging either. India stands at $78 against a whopping global average of $818. Growing premium would aid in improving insurance penetration and density, and this can happen only if more funds are infused into the companies. India has 56 insurers, extremely low when compared to the US which has 5,965 insurance companies catering for diverse categories.

Insurance companies are plagued by high risk due to the business's capital-intensive nature and an unusually long break-even period that can vary anywhere between 7 years and 10 years. Indian investors are not willing to capitalize companies to a magnitude that is essential to meet the solvency ratio and growth requirements of the sector. Instead, the promoters of the company are being pressurized to liquidate. Additionally, the ongoing pandemic and the ensuing state of the economy demand some financial respite. Given the complex nature of the business, it is only befitting to invite more foreign collaboration as and when need arises.

Like most other fields, privatization in this area will go long way. The records of FY19 data suggests that 20 companies out of the 24 private life insurers that entered the market after 2000 have reported profit and only seven general insurers out of 21 reported loss. Today, the private sector insurance companies' account for 42.2% of the premium in the insurance sector, thanks to the reform passed in 2000 by the Vajpayee government. They have recorded a solvency margin of more than 150%, an accomplishment that is held by only LIC (165%) in public sector. Public-sector United India Insurance (86%) and National Insurance (20%) are way below the minimum required solvency ratio recommended by IRDAI (150%), indicating financial stress. Besides, the private sector has engaged 24 lakh employees as of today, as against 17 lakh in public sector. More FDI will benefit private players and accentuate private participation.

In 1999, there were six insurance companies in the public sector and none in the private sector. Now, we have 70 insurance companies (including re-insurers). When the FDI limit was revised from 26% to 49% (in 2015), the sector observed an influx of Rs 26,000 crore. Nearly 40 insurers have FDI ranging from 26% to 49%. Insurance density spiked from $11.5 to $78. The demonstrated benefit from increasing the FDI limit from 26% to 49% paints a sanguine picture of the latest amendment. It is estimated that Rs 30,000 crore will get infused as a result of elevating FDI limit to 74%; Rs 13,500 crore has been set aside for the development of insurance sector because it is in dire need of funds. If foreign investment can supplant government-funding for the insurance sector, then, in future budgets, the money can be allotted to other development-focused sectors such as infrastructure or defense.

Higher insurance penetration would imply accelerated competition, more products and services at lower costs, and amplified innovation. Insurance schemes have invariably registered long-term assets for the nation's economy; for instance, the huge infrastructure investments made by LIC.

The latest change will improve efficiency of household savings. Small insurance companies will benefit immensely from this. Boosted foreign collaborations would imply adaptation of global technology and practices.

Last but not the least, this will also boost employment opportunities. With only 56 insurance companies, we have nearly 41 lakh employees including agents, signifying enormous job creation potential. To bolster the insurance sector, we need a dozen more institutions like LIC. In the 21st century, we cannot hold a mindset that belongs to the 18th century. The way to 'Atmanirbhar Bharat' is through radical measures, as the one taken by the NDA government for the insurance sector.

Insurance Amendment Bill 2021

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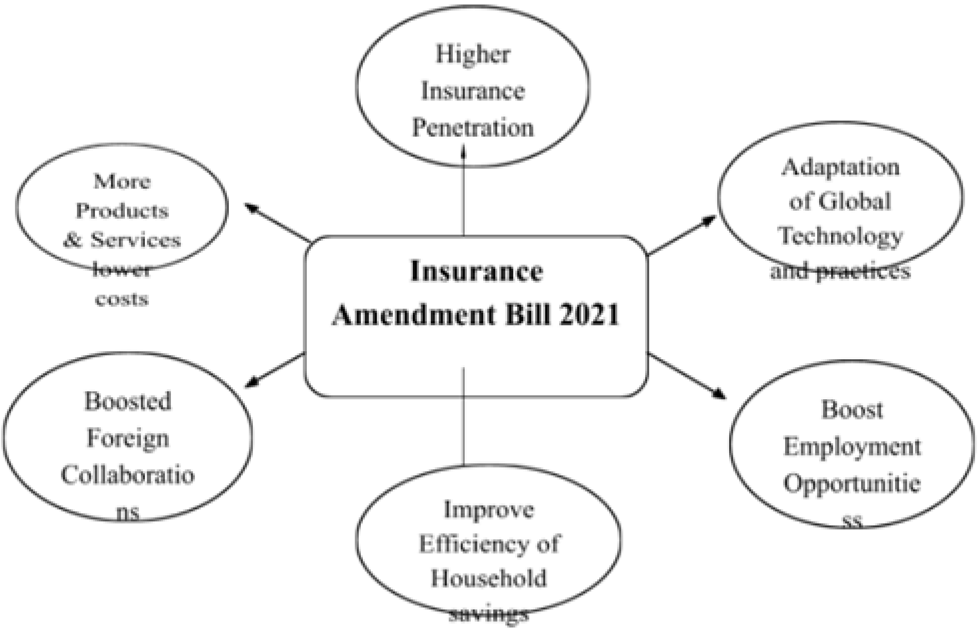

Figure 1: Benefits of the Insurance Amendment Bill 2021

Implications

The insurance amendment bill is an endeavor to boost the overall sentiment of the economy pertaining to insurance services provided by different private and the government players and help in boost the sales of insurance products to the people residing in the nook and corner of the Indian subcontinent.

The insurance amendment bill is proposed and destined to lead to the following changes, and will help in the attainment of the following objectives:

Higher Insurance Penetration

Higher penetration of insurance is assured by the introduction of the Insurance Amendment Bill 2021, which will lead to purchase of large amount of insurance products by general public.

Adaptation of Global Technology

It is certain that the adoption and implementation of the Insurance Amendment Bill 2021 is destined to help in the adaption of the global technology not only for the insurance providers, but for the masses that are planning to purchase insurance products.

Boost Employment Opportunities

India is a vast nation, with immense potential in the form of demographic dividend wherein its force is increasing at a galloping rate and it is becoming a thing of concern for the government machinery to provide employment to the tune of increase as such. Hence, the nomination and adoption of this bill will lead to introduction and creation of large scale employment opportunities for the people who are hunting for jobs.

Improve Efficiency of Household savings

With the adoption of this bill government has increased the chances of efficient utilization of savings done by people. Moreover, people will be able to invest their savings in the manner, which will not only secure their future but will also make the efficient and perfect use of their household savings by adding to their future assets and life security.

Boosted Foreign Collaborations

More and more companies are entering Indian isnurace sector, reason being the fast pace of development that the insurance sector of India has witnessed in past few decades. This has increased chances of foreign collaborations of different types, which in the long run are destined to help the Indian insurance sector grow and lead to the overall growth of the economy.

More Products & Services

The introduction of Insurance Amendment Bill 2021 has led to introduction and availability of better and more products and services pertaining to insurance for public and assets. This will certainly lead to increase in the overall utility of insurance services, with increased reach and expansion of insurance service for general public and result in greater happiness in terms of services and utility for the masses and the insurance players in equal measure.

Conclusion

Insurance services are the services, which are not really an option of investment but it is the thing or service, which is the need of life and survival. Its utility lies in the support it provides in financial terms, and the security it provides to the families and the lives, which are prone to risk of loss. In addition, it provides security of payment or against the monetary damage of the assets that are held by people and offer them cover in case any damage occurs to the property or the asset in consideration. And hence, the Government of India from time to time has kept emphasizing its utility. The insurance amendment bill is the best move in this direction. The introduction of this bill is certainly the one, which will provide financial security to the people against the damage and loss they are prone to suffer and increase the overall expansion of insurance sector, besides providing employment and happiness to people who are unable to get good jobs and means to live their lives. Moreover, it promises for better products and better foreign collaborations to ensure better future for the growth of the insurance sector and the growth of the economy as a whole.

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