A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR IN GENERAL INSURANCE

Thesis submitted to the
Mahatma Gandhi University, Kottayam

in fulfilment of the requirements for
the award of the degree of

Doctor of Philosophy
in
Economics
Under the Faculty of Social Sciences

by

SWATHY VARMA P.R.

Under the supervision of

Dr. N. AJITH KUMAR

Research Centre:

Department of Economics & Research Centre
Sacred Heart College, Thevara 682013
Kerala, India

January 2012

Declaration

I, Swathy Varma P.R., do hereby declare that the thesis entitled "**A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR IN GENERAL INSURANCE"** is a record of bona fide research work carried out by me under the guidance and supervision of **Dr. N. Ajith Kumar,** B. Indraprastha, T.D. Road, Kochi-682035. I further declare that this thesis has not previously formed the basis for the award of any other degree, diploma, associateship, fellowship or other similar titles of recognition.

Department of Economics and Research Centre, *Swathy Varma P.R*
Sacred Heart College, Thevara
Date: - 01 - 2012

Dr. N. AJITH KUMAR, M.A. Ph. D.
B. Indraprastha
T. D. Road
Kochi - 682035

Tel: 0484 – 2369843
Mob: 9895277300
E mail: najithkumar3000@gmail.com

Certificate

Certified that the thesis entitled "**A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR IN GENERAL INSURANCE"** is a record of bona fide research work done by **Ms. Swathy Varma P.R.,** under my guidance and supervision. The thesis is worth submitting in fulfilment of the requirements for the award of the degree of **Doctor of Philosophy** in **Economics** under the Faculty of Social Sciences.

Kochi,
- 01 – 2012.

Dr. N. Ajith Kumar

I dedicate this study to the memory of my father, the late P.K. Rama Varma. Your blessings have made rendered the impossible, possible: Your teachings shape my life. You inspire.

Acknowledgement

*I am deeply indebted to my supervisor, **Dr. N. Ajith Kumar**, whose patience, encouragement and invaluable suggestions helped me in the formulation of my work. This study is a testimony to your passion for research and reflects your commitment to tasks undertaken. Thank you, Sir.*

*I wish to extend my sincere thanks to the **Management of St. Teresa's College**, Ernakulam, and to **Sr. Christabelle,** the former Principal of the college, during whose tenure I began my research work and whose support of my work has been significant. To **Dr. Sr. Teresa,** the Principal of the college, I owe my gratitude for her steadfast encouragement and unshakeable belief in my work. I also wish to thank **Smt. Salimma Abraham,** the former Head of the Department of Economics, St. Teresa's College whose support was invaluable.*

*I am grateful to **Dr. Nirmala Padmanabhan,** Head of the Department of Economics, St. Teresa's College, **all my teachers** and **colleagues** in the Department of Economics and colleagues in other Departments for the timely assistance offered when needed.*

***Dr. Leela Manjooran** deserves a special word of gratitude. A mere 'thank you' seems a poor reward for her belief in me and her generous words of encouragement. She has always been a source of moral support and I am indebted to her.*

*I would like to place on record my gratitude to **Fr. A.J. Saviance,** former Principal, Sacred Heart College, Thevara, **Dr. Johnson X. Palackappillil,** Principal of Sacred Heart College and **Dr. K.V. Raju,** Head of the Research Centre and the Department of Economics, Sacred Heart College, Thevara.*

The librarians and members of the staff of Insurance Institute of India, Cochin University, Nirmala College, Coimbatore, Mahatma Gandhi University, Kottayam, Centre for Development Studies, Trivandrum, Ernakulam Insurance

Institute, St. Teresa's College, Ernakulam, National Insurance Company, Ernakulam and ICICI Lombard provided much needed support I thank them for help rendered.

Mr. Jose M.C, Associate Professor in Statistics, S. B. College, Changanasserry and **Mr. Jabir K J,** Statistical Analyst, Samiiksha Research and Analytical Consultants,CUSAT provided sincere and valuable assistance in the analysis of data during the course of this study and I wish to thank them for the same.

Special thanks are due to **Mr. T.K. Sadasivan**, Sr. Asst. of National Insurance Company, **Mr. Mohanan**, Agent, National Insurance Company, Ernakulam, **Mr. Sreekumar** of ICICI Lombard General Insurance Company, Ernakulam and other officials of public and private sector insurance companies for corresponding with me, and for agreeing to answer questions in relation to my research. I also thank all the respondents for answering the questions patiently.

Finally, I would like to thank my family, my sisters **Swapna Varma** (Amrita Vidyalayam) and **Soumya Varma** (Asst. Manager, Syndicate Bank) and most of all, my father late **P.K.Rama Varma** (Retd. National Insurance Officer) and my mother, **Suseela R Varma,** Retd. Sr. Asst, National Insurance Company, who walked with me every step of the way.

I also bow my head in gratitude to God Almighty for carrying me through these years.

Swathy Varma P.R.

Abstract

The present study is an attempt to examine the comparative performance of public and private sector general insurance companies in India. Indian insurance industry moved into a higher growth trajectory owing to recent reforms. With foreign direct investment in the insurance, sector permitted up to 26 per cent of equity, global insurers have rushed into the Indian market to capitalize on the sizeable middle class. Indian private companies have also entered the insurance sector. The private insurers, besides providing choice to the consumers, expanded the market through innovative product. Insurance reforms have improved the quality of customer satisfaction besides increasing insurance penetration; bringing hitherto untapped section of the population under the insurance net. Indeed the Indian insurance industry has come a long way from a protected sector dominated by public sector insurers to a liberalized industry where private insurers aggressively chase market share.

Indian insurance industry is one of the two fastest growing insurance markets. The key element in the reform process when insurance industry was opened up in 2000 was participation of overseas insurance companies with 26 per cent equity capital. Creating a more efficient and competitive insurance industry in the country was the main objective behind the reform process. On one hand, the issue was to capture a vast untapped population under suitable insurance coverage while the other key concern was to elevate the performance of insurance companies so that they contribute more significantly to the country's economy.

Key Words: Non-Life insurance(General Insurance), Insurance penetration, Insurance density, Gross Direct Premium, Market Share, Insurance Act, Malhotra Committee, IRDA, Pre-reform and Post-reform, Profitability, Claim Ratio, Expense Ratio, Combined Ratio , Underwriting Results Ratio , Net Retention Ratio, Investment Income, Operating Ratio, Net Earning Ratio, Return on Equity Ratio, Customer satisfaction.

Preface

The insurance sector has started growing at a rapid pace after the sector was opened up. The public sector insurance companies made enormous contribution in the spreading the awareness about insurance, and expanded market, it was recognized that their reach was still limited, the range of products offered restricted and service to the customer inadequate. It was also felt that the rapid economic growth witnessed in the 90's cannot be sustained without thriving insurance sector. It was also recognized that India has a vast potential that is waiting to be tapped and this could be achieved when sufficient competition is generated and it is exposed to the developments in the rest of the world. The insurance sector was, therefore, opened up for private participation with provision for limited foreign equity exposure. The gains are obvious for anyone who has been closely monitoring the Indian insurance sector. The private insurers, besides providing choice to the consumers, expanded the market through innovative product. Insurance reforms have improved the quality of customer satisfaction. Over the last ten years , that is after opening up the industry to private participation the total gross direct premium collected by the industry increased to Rs.35815.85 from Rs. 12385.24 in the year 2001-02. The credit for enlarging the insurance market should however goes to the private sector as they came up with an aggressive marketing strategy to establish their presence. The public sector has, in turn, redrawn its priorities, revamped their marketing strategy, and together the public and private sectors have enlarged the market.

The study entitled "A Comparative Study of Public and Private Sector in General Insurance" is an attempt to outline the comparative performance of public and private sectors in general insurance. The study is organized in seven chapters and is based on both primary and secondary data. Statistical techniques like averages, percentages, median, standard deviation, correlation, regression analysis and Mann-Whitney test, pie diagram and bar diagrams are used to present and analyze the data.

A detailed examination of the changes in the gross direct premium and market share of public and private sectors general insurance companies over the last ten years calculated to know the impact of opening up of the industry to private participation. The study found that the gross direct premium of non-life insurance increased sharply due to the entry of private companies in the field. The study also found that the public sector general insurance companies have experienced the large branch network expansion since opening up, but the quantitative expansion has not always been matched by a corresponding improvement in the performance. In addition to the premium and market share wise analysis, profitability analysis also done to know the companies performance. It shows that profitability of both the public and private sector influenced by their underwriting results and investment income. Regarding customer satisfaction analysis about the public and private sector general companies the study revealed that customers have seen to prefer the private sector because it is vibrant and follows more customer oriented approach.

On the basis of the study suggestions were made to improve the performance of public and private sector general insurance companies. To increase the market share of public sector companies it is suggested that special HR training should be imparted to all officials at all levels so that they can bring back the customers whom they lost. To increase the penetration level general insurance companies should focus on under developed lines of business. Claim settlement mechanism is another area general insurance companies need to focus especially the public sector companies. The public sector companies exhibited higher claim ratio and underwriting loss because these insurers got majority of their business from loss making portfolios like motor and health. It is suggested that these companies should also focus on other portfolios like engineering, fire etc.

The study brings to light the performance of general insurance industry and the impact of opening up of the industry. It would be great help to policy makers in the formulations of policies aimed to improve the performance of general insurance business.

CONTENTS

Chapter 4

Chapter 5

PROFITABILITY ANALYSIS OF THE PUBLIC AND PRIVATE SECTORS IN GENERAL INSURANCE.. 129-162

Chapter 6

ANALYSIS & INTERPRETATION 163-192

List of Tables

List of Figures

List of Appendices

Abbreviations

AIC	Agriculture Insurance Company of India .
AML	Anti-Money Laundering Programme.
ATMs	Automatic Teller Mechanisms .
CIRC	China Insurance Regulatory Commission .
CRISIL	Credit Rating Information System of India Limited.
ECGC	Export Credit Guarantee Corporation.
FATF	Financial Action Task Force.
FCR	Financial Condition Report .
FIIs	Foreign Institutional Investors.
GDP	Gross Domestic Product .
GIBNA	General Insurance Business Nationalisation Act.
G.I.C.	General Insurance Company .
IAR	Industrial All Risk .
ICR	Incurred Claims Ratio .
IGCC	IRDA Grievance Call Centre.
IGMS	Integrated Grievance Management System .
IIB	Insurance Information Bureau.
IMCC	Inter-Ministerial Coordination Committee.
IMF	International Monetary Fund.
IRDA	Insurance Regulatory Development Authority.
IRA	Insurance Regulatory Authority .
IPO	Initial Public Offer .
IT	Information Technology.
L.I.C	Life Insurance Corporation .
NICL	National Insurance Company Limited.
NRIs	Non-Resident Indians.
NWP	Net Written Premium .
OCBs	Overseas Corporate Bodies .
OPD	Out Patient Department.

PICC	People’s Insurance Company of China .
PSUs	Public Sector Undertakings .
RBI	Reserve Bank of India .
ROE	Return on Equity.
SCODA	Standing Committee on Disclosures & Accounting Issues.
SEBI	Securities Exchange Board of India .
TAC	Tariff Advisory Committee.
TPA	Third Party Administration.
ULIP	Unit Linked Insurance Policies.
VIP	Variable Insurance Products.

Chapter 1

INTRODUCTION

Contents

"Economic development is powered by competitiveness. The competitiveness is powered by knowledge."

- Dr.A.P.J. Abdul Kalam, Former Hon.President of India.

Financial sector reforms have long been regarded as an integral part of the overall policy reforms in India. India has recognized that these reforms are imperative for increasing the efficiency of resource mobilization and allocation in the real economy and for the overall macroeconomic stability. Today the Indian financial structure is inherently strong, functionally diverse, efficient and globally competitive.[1]

India's rapid rate of economic growth over the past decade has been one of the most significant developments in the global economy. This

[1] "Financial Sector" (2009), www.Ministry of Finance, Government of India.com dated 14-05-2009.

growth has its roots in the introduction of economic liberalisation in the early 1990s, which has allowed India to exploit its economic potential and raise the population’s standard of living. Insurance has a very important role in this process. The formal insurance business as we know it today in both the life as well as the non-life was introduced in India by the British in the beginning of the 19th century. The beginnings of the insurance industry in India date back to the nineteenth century when the first life insurance company was established at Kolkata in 1818. Subsequently, the first general insurance company commenced operations at Kolkata in 1850. Over the years the industry expanded, with numerous entities operating in both life and general insurance segments. The insurance business is normally classified into two segments viz. life and non-life. General insurance is part of the non-life segment and refers to fire, marine and miscellaneous insurance. The term “miscellaneous insurance” includes engineering, motor vehicle insurance, health insurance, etc. General insurance business in the country was nationalised in 1973. More than 100 non-life insurance companies including branches of foreign companies operating within the country were amalgamated and grouped into four companies, viz., National Insurance, New India Assurance, Oriental Insurance and United India Insurance Company Ltd. History has a habit of repeating itself in some form or the other. It has happened once again with the insurance sector. On October 23, 2000, the Government of India, through the Insurance Regulatory and Development Authority (IRDA) created history by bringing insurance business to private companies which had been abolished 44 years back.[2]

[2] www.keralamonitor.com dated 14-09-2007.

Indian insurance industry moved into a higher growth trajectory owing to recent reforms. Currently there are 24 new players in the two sectors of general insurance. [3] The initiatives taken by the private players are very competitive and have given immense competition to the public sector. After the entry of the foreign players, the industry is seeing a lot of competition and improvement of the customer service in the industry. Computerisation of operations, innovative products and updating of technology has become imperative in the current scenario. Private players are bringing in international best practices in service through the use of latest technologies.

1.1 Statement of the Problem

Liberalization, Privatization and Globalization have opened new horizons in the insurance industry. The reform of Indian insurance sector have brought substantial changes in the level of competition, business environment, managing strategies, service quality and the advance technology front. But the most important change that is required is in the mindset of the players vis -a –vis the customer. Experience has already shown that quality of service is the influencing factor in the market and in fact, only those units will survive which offer to the customer what he wants, and to his satisfaction. For the old, established, public sector companies, it is a question of revolutionizing the very approach to the business. For the new players also, it means an attitudinal change, because they have to depart from the systems, procedures and attitudes of the public sector so that the customer will be better served. The insurance industry has offered a new customer friendly products, new

[3] Ibid.,

delivery channels like bancassurance, corporate agents, brokers and direct selling through the internet, greater use of computerization and information technology etc. The public sector general insurance companies have made both quantitative and qualitative progress in the post-liberalisation period. The private companies have proved to be more innovative and have introduced competitive products with specialised features, especially for personal lines policies. For example, they have pioneered health insurance products similar to Mediclaim, including critical illness covers where the insurer pays the sum assured on the diagnosis of any one of the ten identified critical diseases. The rapid expansion of insurance companies since nationalization has given rise to a number of problems relating to the image, operational efficiency, productivity, and the quality of portfolio of the system as a whole. They had been receiving persistent complaints about deterioration in the customer service. Since the onset of the reform, public sector insurance companies have been compelled to review their mechanism in order to compete with private sector companies. Large number of initiatives have been taken by the public sector companies to compete with private sector companies. But still the public sector companies need to reassess their present status after having modified their approach. The reform at this stage need to be reviewed in order to assess general insurance companies growth and performance. So the research problem attempted is to evaluate a comparative study of the performance of the public and private sector general insurance companies in the post-liberalisation era.

1.2 Objectives of the Study

The main objectives of the study are as follows:

1) To review the major initiatives towards opening up of the insurance industry in India.

2) To study the general insurance sector in India in the post reform period.

3) To analyse the comparative performance of the public sector and private sector general insurance companies.

4) To know the satisfaction level of the customers after opening the sector to private general insurance companies.

1.3 Hypothesis

To achieve the objectives of the study, the main hypotheses formulated for the present study are as follows:

1.3.1 The profitability of the private sector general insurance companies is higher than that of the public sector general insurance companies in the post-reform period.

1.3.2 The private sector general insurance companies are providing better service &satisfaction to customers than the public sector general insurance companies.

1.3.3 The privatisation of the insurance sector has had a lasting impact on the performance of public sector insurance companies.

1.4 Scope and Significance of the Study

The insurance sector in India has come a full circle from being an open competitive market to nationalisation and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries[4].

With the liberalization and entry of private companies in insurance, the Indian insurance sector has started showing signs of significant change. Within a short span of time, private insurance has acquired 13 per cent of the life insurance market and 14 per cent of non-life market. However, there is still a huge untapped demand for insurance. Insurance companies have a pivotal role in offering insurance products which meet the requirements of the people and, at the same time, are affordable.

Insurance billboards and advertisements have become ubiquitous in India. Whether driving around the countryside or walking in a busy city centre or relaxing in an airport lounge or flipping through the pages of any popular magazine or national daily, everyone can see insurance advertisements everywhere. The insurance industry in India is surely coming of age, after years of being a public monopoly. Even though the public insurance companies still dominate the market, the fruits of competition are already visible in terms of wide range of products, innovative bundling of insurance with other financial services, aggressive marketing, and better customer care. With the spread of insurance, people are beginning to think of insurance as a real service, instead of being driven merely by tax incentives or statutory insurance requirements. With the introduction of competition in the market, insurance activity has stepped up in the country.

[4] www.keralamonitor.com dated 14-09-2007.

This is a pioneering work. The researcher has not come across a study which covers this part of insurance sector. It is hoped that the study would be useful those persons and policy makers to gauge the effectiveness of the policy of liberalising the insurance sector. So, the researcher has attempted to evaluate how the public and private sector general insurance companies are performing in the post liberalisation era of insurance sector in India.

1.5 Methodology

The study is based on an empirical investigation of the performance of public and private sector general insurance companies. Both primary and secondary data used for the analysis.

1.5.1 Sources of data

Three methods are used to achieve the above objectives:

1) Primary data
2) Secondary data
3) Analytical and statistical tools such as mean, chi-square test, Mann-Whitney test, standard deviation , correlation, regression, graphs etc.

1.5.2 Sample design

1.5.2.1 Primary data mainly collected by conducting sample surveys in Ernakulam district of Kerala. As on 31st March, 2010 there are 24 general insurance companies, which have been granted registration for carrying out non-life insurance business in the country. Of these, six are in public sector and the rest are in private sector. Among the public sector companies, there are two specialised insurance companies: one for credit insurance - Export Credit

Guarantee Corporation Ltd (ECGC) and the other for crop insurance -Agriculture Insurance Company of India Ltd (AIC) and three Standalone Health Insurance Companies –Star Health & Allied Insurance Co, Apollo Munich Health Insurance Co. and Max Bupa Health Insurance Co. Ltd. in the private sector .And one Re-insurer ie. General Insurance Corporation of India. [5]

1.5.2.2 The universe of the study is all general insurance companies operating in India but due to non-feasibility, the scope of the study has been restricted to two general insurance companies, ie., one company from the public sector, namely, National Insurance Company Ltd(NICL) and one from the private sector companies, namely, ICICI Lombard General Insurance Co. Ltd. The private sector company is selected on the basis of their year of registration. For the purpose of uniformity, top one private sector general insurance company registered on the basis of their market share was selected. In the case of selection of public sector insurance company oldest insurance company in India is selected. National Insurance company Limited (NICL) is the second largest non life insurer in India having a large market presence in Northern and Eastern India and four years continuously recorded high growth rate among public sector companies in Kerala. In March 2008, NIC's general reserve stood at 1457.25 crores rupees with an asset value of 8867.99 crores rupees signalling strong financial fundamentals. NICL has been accorded “AAA/STABLE” financial strength rating by Credit Rating Information System of India Limited (CRISIL) rating agency, which reflects the highest

[5] IRDA Annual Report 2009-2010, p 196.

financial strength to meet policyholders' obligations. The primary data was drawn from customers of both public and private sector general insurance companies in Ernakulam district. The questionnaire was developed using the scale of SERVQUAL model. Reliability, responsiveness, assurance and empathy factors included in the questionnaire to analyse the service related influences in selecting the company. Parsuraman, Berry and Zeithaml published this psychometric aspect of service quality model in 1988.[6] Their multi- item SERVQUAL scale is considered to be one of the first attempts to operationalize the customer satisfaction construct.500 customers were approached to collect the required data for the study. 248 from the public sector and 252 from private sector. The sample selected by random method, listing out the policy holders both in public and private separately and selecting every 2nd item in each sector to form the sample. So sampling technique employed is systematic sampling. After collecting the entire information, the primary data were properly classified, processed, tabulated, and necessary statistical package was used to analyse the data. Various statistical tools like averages, percentages, chi-square test, regression, correlation, Pie diagram, bar diagram etc were made use of to interpret the data effectively and vividly.

1.5.2.3 The study is mainly based on the secondary data which has been collected from various books, journals, Annual Reports of IRDA, IRDA Journal, General Insurance Corporation Annual Reports,

---

6 Derek R, Allen and Tanniru R. Rao, (2010), " *Analysis of Customer Satisfaction Data*", New Age Publications, New Delhi, p 2.

Insurance Magazines, Economic Review, Human Development Report, Planning Commission Report, Economic Survey, Economic and Political Weekly, Swiss Sigma Re Reports, News letter, Various periodicals, Books from Insurance Institute Library, Official and reliable websites etc. To supplement these, personal interviews, discussions and investigations have been undertaken with the officials of general insurance companies, Insurance Institute of India members, employees of insurance companies, Kerala State General Insurance Employees union members etc.

1.5.2.4 The study mainly focus to compare the performance of public and private sectors general insurance companies for the past ten years. For this variables like gross direct premium, market share and profitability variables has been used. It also analysed the growth and spread of general insurance business in India by taking into account the Insurance density, Insurance penetration of general insurance companies. Year wise analysis also done to understand the performance of public and private sector companies.

1.5.2.5 To analyze the profitability of the public and private sector general insurance companies from 2001 to 2010, all the four public sector companies, namely, National Insurance Company Limited, The New India Assurance Company Limited , The Oriental Insurance Company Limited, and United India Insurance Company Limited; and eight private sector companies, namely, Royal Sundaram Insurance Company, Reliance General Insurance Company, Iffco-Tokio Insurance Company, TATA AIG General Insurance Company, Bajaj Allianz General Insurance Company

Limited, ICICI Lombard General Insurance Company Limited , Cholamandalam General Insurance Company Limited, and HDFC-CHUBB General Insurance Company Limited, were taken up for the study. Future Generali, Universal Sompo, Shriram, Bharti AXA, Raheja QBE private general insurance companies not included in the study because it started operations only in 2007-08,2008-09,2009-10 respectively and it also exclude specialized institutions like ECGC and AIC and the standalone health insurance companies. The period of the study was 2001-02 to 2009-10. To assess the impact of reforms on the profitability of the public sector general insurance companies, a comparison has been made of gross direct premium and market share of all the four public sector general insurance companies during the pre-reform and post-reform period. The pre-reform period includes the years 1991 to 2000, and the post-reform period 2001 to 2010.

To analyse profitability of the general insurance companies following ratios (expressed in percentage form) has been used. Claim Ratio (net incurred claims divided by net written premium), Expense Ratio (The ratio of expenses of management as percentage of gross direct premium), Combined Ratio (expenses of management including commission and claims paid out to the gross premium earned), Underwriting Results Ratio (net written premium minus increase in the unexpired risk reserve minus expense of management minus commission minus claim incurred), Net Retention Ratio (net written premium divided by gross-direct premium), Investment Income (investment income to net written premium), Operating Ratio (profit before tax divided by net written premium), Net Earning Ratio (profit after tax to net written premium), Return on Equity Ratio (profit after tax to Net worth -share capital minus general reserve). To examine the performance of general insurance companies these ratios have been analyzed by calculating mean, median and standard deviation. To test the profitability hypotheses Mann-Whitney test have used. The Wilcoxon Mann-Whitney U-test is used to determine whether two independent samples are drawn from the same population or not. The Mann-Whitney test has been applied due to the skewed data. Further to analyse the impact of certain variables on profitability the Spearman's rank correlation and regression has been used due to skewed data of profitability parameters.

1.6 Chapter Scheme

For the purpose of convenience, the study is arranged into seven chapters.

The chapter scheme is as follows.

Chapter I: The first chapter gives an introduction to the topic explaining the statement of the problem, objectives, hypothesis, methodology used and scope and significance of the study etc. It also describes the technical aspects like methods and techniques used in the study.

Chapter II: The second chapter deals with the review of literature. Review of literature has been conducted at three levels-review of books with an international perspective, national perspective and with regional perspective. It includes the role, challenges, prospects, reasons for opening up of the insurance industry and other aspects of insurance sector.

Chapter III: The third chapter deals with the evolution of insurance sector, major initiatives towards opening up of the insurance sector and reform process in the general insurance sector and profile of the general insurance companies.

Chapter IV: The fourth chapter deals with the comparative analysis of general insurance industry. It includes international comparison of insurance penetration, insurance density, insurance premium and market share etc.

Chapter V: The fifth chapter deals with the analysis of public and private sector general insurance companies. This chapter analyses the profitability of public and private sector general insurance companies from 2001-2010.

Chapter VI: The sixth chapter deals with the empirical study of satisfaction level of policyholders both in public and private sector general insurance companies. It analyses satisfaction of customers in the premium, service of staff, claim settlement and also includes customers perception regarding opening up of the sector.

Chapter VII: The seventh chapter deals with important findings and conclusions of the study. The conclusion reveals the comparative performance of public and private general insurance companies. The researcher has put forward some recommendations to improve the performance of both public and private sector general insurance companies.

1.7 Limitations of the Study

- The responses for the study have been limited to the district of Ernakulam in Kerala only. The perceptions of the customers in satisfaction level of their concern company in Ernakulam district may vary from those of the rest part of the state.
- The customers of only two general insurance companies were selected for the present study to compare satisfaction of the public and private sector. As a result, the generalization of the findings of the present research should be considered carefully.
- The present research explores the key dimensions of satisfaction in the general insurance industry but there may the possibility of missing other dimensions influencing the consumers' perceptions.
- The information collected for the secondary data based study carries all the limitations inherent with the secondary data.
- This research work assessed the efficiency only in terms of profitability indicator, but other efficiency and productivity indicators could not be assessed due to unavailability of data from general insurance companies.

.

…..ঌ৫…..

Chapter 2

REVIEW OF LITERATURE

Contents

In the insurance sector, the journey from private entities to nationalization and back to the private sector has been quite eventful. There were several reasons and certain historical developments – nationally and globally – which persuaded the Government of India to take steps to open up this sector.

Following the reforms in the banking sector and the stock markets, a new era of insurance was ushered in several years later, when, towards the end of 1999, India took the bold step of opening up that sector. The controversy that erupted thereafter was due to the very concept of liberalizations and the nervous anticipation of some form of privatization of the sector. Developments in insurance thus attracted particular attention and keen concern from the opponents as well as proponents of reform in general and insurance in particular. But research in insurance remains a neglected area in this country.

Various authors have conducted a number of studies on insurance sector. An interesting fact regarding the literature on insurance sector is that books are available on this subject with an international perspective, national perspective but not available in local perspective. A closer scrutiny of works dealing with insurance sector will provide us a better picture regarding the role, challenges, prospects, reasons for opening up of the insurance industry and other aspects of insurance sector.

2.1 International Studies

2.1.1 Dr.P.S.Palande, R.S. Shaw, M.L. Lunawat in their book discuss about insurance sector at the international level and then about insurance in India. This book provides a comprehensive and up-to-date picture of the insurance industry. They analyse recent development, the transformation that has taken place after reforms, and provide a macro perspective on this industry. According to them, in the new economic reality, that is, globalization, insurance companies face a dynamic global business environment. Dramatic changes are taking place owing to the internationalization of activities, the appearance of new risks, new types of covers to match with new risk situations and unconventional and innovative ideas on customer service.

They further, state that numerous governments in developed and developing countries redefined the role of the state and privatization in the insurance and reinsurance sectors has been part of policies pursued by them. Thus, since 1996, Japan has been liberalizing its insurance sector and China too is in the course of the last 10 years, has cautiously started the process of liberalization. Brazil has also liberalized its insurance market as well as begun privatization. Out of the only four countries in the world which persisted with a closed insurance market. India has only recently actively moved out and has opted for deregulation. The other countries which still have closed insurance market are Cuba, North Korea and Myanmar. They also find that, the development of the insurance market demonstrates wide regional disparities. The global insurance business is concentrated in the industrial countries of North America, Western Europe, Japan and Oceania. In most countries, the non-life business registered either a negative or only modest growth, mainly because of the downward trend in commercial growth. Insurance density (premium per capita) is markedly lower in most emerging markets compare to industrialized countries. So low growth rates in developed markets, changing customer needs and uncertain economic conditions in the developing world are exerting pressure on insurer's resources and testing their ability to survive. Private entrants are naturally targeting the profitable and more lucrative segments by providing better services, new products and flexibility. They are targeting the bigger corporate and other clients in the well established metropolitan centres. These new entrants have succeeded in eating into share of the existing entities. This share will increase substantially, if not in the immediate future, but in the long run, if the existing incumbents do not radically alter their marketing structure and practices.

One very serious danger that the government owned units are likely to face is that even if some point of time the government does decide to disinvest a portion of its equity, they may not be free from government interference. They could face a peculiar problem that although on paper and in terms of legal definition, they would not be public sector units. In effect, their working could be no different from what it was before their ownership pattern changed. This could be a genuine threat since they would be competing with units which are free from such artificial and unnecessary restrictions.

Their analysis suggests that the industry has to carefully chart out its strategy on the basis of an appreciation of the strengths and weaknesses as also the possible threats and opportunities. The authors also examine the measures taken by the existing public sector insurance companies to restructure themselves in the present scenario and offers suggestions about the future of the industry in terms of:

a) Its potential and possible growth

b) Initiatives needed to give a further impetus to the industry.

c) The products and services offered

d) Regulatory issues; and

e) The evolving market strategies in the context of the highly competitive environment. [1]

2.1.2 G.N. Bajpai, former Chairman of SEBI (Securities Exchange Board of India) and L.I.C. (Life Insurance Corporation) states that the insurance industry is a progeny of the economic order and growth and sustain ability of the economy has a direct and proportionate bearing on the levels of its evolution and expansion, augmentation and advancement , preservation and progression. There is also very significant relationship between the financial sector and insurance. In fact, the three macro economic environment, financial sector and insurance industry are inextricably interwoven. [2]

2.1.3 A. Vijayakumar in his paper argues that opening up of the insurance sector will foster competition, innovation and product variations. However, in this context one has to consider various issues at state including demand for

---

1 Dr.P.S.Palande, R.S. Shah, M.L.Lunwat (2003), *Insurance in India, Changing Policies and Emerging Opportunities*, Sage Publications,New Delhi,pp 18-69.

2 G.N. Bajpai (2005) "Insurance Industry India's Quest for cover", The Journal of Insurance Institute of India,Vol.No.XXXII, July- December, S.J.Gidwani Publication, p 67.

pension plan, separateness of banking from insurance sector, role of IT (Information Technology), possible use of postal network for selling insurance products and above all, the role of Insurance Regulatory Authority.

According to him, per capita insurance premium in developed countries is very high, it is quite low in India. The insurance premium as a percentage of Gross Domestic Product (GDP) was 14% for Japan, 13% for South Africa, 12% for Korea, 9% for United Kingdom and less than 2% in India in 1999.

His study also reveals that, the insurance industry has been growing between 15 and 20 per cent, but it lags far behind its global counterpart. This was due to the following reasons:

a) Insurance companies create products and go out to find customers. They do not create products that the market wants.

b) Insurance awareness among the general public is low.

c) Term-insurance plans are not promoted.

d) Unit-linked assurances are not available.

e) Insurance covers are expensive.

f) Returns from insurance products are low.

g) There is a dearth of innovative and buyer-friendly insurance products.

h) There is no market research worth the name and computerization is woefully inadequate.

i) Most agents and development officers are interested only in producing new business. Servicing existing customers satisfactorily has not been a priority for them. The reason is that incentives are based on new business generation and not on satisfactory serving of existing customers.

The author, further states the reasons for opening up of the Indian insurance industry. According to him, among the emerging economies, India is one of the least insured countries, but the potential for further growth is phenomenal. The demand for insurance is likely to increase with rising per capita incomes, rising literary rates and increase of the service sectors. Further, opening up of the sector to private firms will also generate greater awareness on the need for buying insurance as a service and not merely for tax exemption, which is currently done. [3]

2.1.4 Ajit Ranade and Rajeev Ahuja discusses about penetration of insurance premium in various countries. They find that opening up of the insurance sector is an integral part of the liberalization process being pursued by many developing countries. Since 1987, when the Korean and Taiwanese insurance sectors were liberalized, the Korean market has grown three times faster than its GDP and in Taiwan the rate of growth has been almost four times that of its GDP. The Philippines opened up its insurance sector in 1992. The major insurance markets in South and East Asia are to varying degrees open. These range from the comparatively free markets of Hong Kong and Singapore to the increasingly more liberal markets of South Korea and Taiwan and more densely regulated insurance sectors of Thailand and Malaysia. [4]

3 A. Vijayakumar (2001), "Globalization of Indian Insurance Sector Issues and challenges", www.indian insurance sector.com.dated 04-03-2005, pp 4- 5.

4 Ajit Ranade and Rajeev Ahuja (1999), "Insurance" in K S Parikh (ed), *India Development Report 1999-2000*, Oxford University Press, New Delhi, pp 224- 229.

2.1.5 The studies done by Dr.Tapen Sinha, the University of Nottingham, Centre for Risk and Insurance Studies found that in India 312 million middle class consumers have enough financial resources to purchase insurance products like pension, health care, accident benefit, life, property and auto insurance. But only 2.5 of this insurable population however, have insurance coverage in any form. The potential premium income is estimated around U.S. $ 80 billion. This will place India as the 6th largest market in the world (after the U.S., Japan, Germany, U.K. and France).

He also mentions the main differences in the way which China and India handled deregulation. They are as follows:

a) Both have followed the path of deregulation and privatization – China started it in 1979 and India in 1991.

b) The Insurance business in India has a premium volume of $ 8.3 billion in 1999 whereas in China the premium volume is $ 16.8 billion in 1999.

c) In China, the people's insurance company of China (PICC) had a monopoly between 1949 and 1959. In 1959, insurance business was deemed capitalistic and all forms of insurance were suspended. The insurance business reopened in 1979, the PICC reassumed its old role as the monopoly.

d) In China, the China Insurance Regulatory Commission (CIRC) was set up in November 1998, well after the first Insurance law was promulgated in 1995. In India, the Insurance Regulatory Development Authority (IRDA) was launched first with the authority to issue licenses.

e) In China, foreign insurers need to have a representative office for three years before they can submit a proposal for operation. In India, there is no such requirement.

f) In China, foreign insurers can only own 25% of the total value of the market. In India, the limit is set at 26% per company. In China, there is no limit at the company level. Thus, a foreign company can own 100% of an approved insurance company in China.

g) In India, the licenses are national. A company with a license can operate in any part of the country. In China, on the other hand, foreign companies are restricted to operation in two metropolitan areas.

h) The IRDA is a law implementing body. On the other hand, the CIRC has been a law making body.

In conclusion, he states that the general insurance business is expected to grow from U.S. $ 1.8 billion in 1998 to $ 12 billion in 2008. The Monitor Group Report predicts that the private companies would have an easier access to the general insurance business. The market share of the newcomers will be 40-50% of the total market. The cause for better market penetration for the new companies comes from the fact that it makes no difference for the insured to switch companies. Unlike, life insurers, it is not expensive to switch insures. However, the lack of good data would hamper the newcomers. [5]

[5] Dr.Tapen Sinha (2002), "Privatization of the insurance market in India: from the British Raj to Monopoly Raj, to Swaraj", CRLS discussion paper series, www.google.com dated 09-05-2005, p 9.

2.1.6 Dimitri Vittas, in his World Bank Policy Research Working Paper "Insurance Regulation in Jordan New Rules - Old System" reported that the Jordanian insurance market has been free from extensive state ownership and pervasive premium, product, investment and reinsurance controls. However, these positive features have been marred by the licensing of a large number of private companies, often on political rather than professional criteria, and the resulting fragmentation of the sector. Various policies have perpetuated the fragmentation of the sector, while regulatory forbearance has allowed the continuing operation of several weak companies. Despite the avoidance of pervasive controls and extensive state ownership and the presence of a large number of private companies, the insurance industry is not well developed. This mainly reflects the underdevelopment of life insurance. In contrast, the level of general insurance is comparable to several other developing countries in the region and elsewhere. A major modernization effort has been undertaken in recent years. This has included the enactment of a new insurance law and the creation of a new Insurance Commission. The latter has made considerable progress in expanding its staff, undertaking a wide-ranging training program to upgrade skills, and implementing a multi-year action plan aiming at modernizing the regulatory framework and enhancing the efficiency of the sector. The new rules entail the use of sound licensing and financial solvency criteria, while reducing the role of political favouritism and regulatory forbearance in deciding the fate of ailing companies. However, several of the modern rules are difficult to implement because of the predominance of family-based companies, the shortage of experienced non-executive directors, the dearth of specialized professionals such as actuaries and auditors, the absence of comprehensive statistical databases, and the lack of liquidity of asset markets.

To overcome these difficulties, the Insurance Commission needs to strengthen its proactive approach to insurance supervision, complement the role of company directors, and even develop asset valuation models. Its success requires a change of traditional attitudes and acceptance of the rigors of a sound regulatory framework as well as strong political backing for early remedial intervention of weak companies. Another major challenge is the development of life insurance. In addition to strong fiscal incentives, this would also require a robust regulatory framework to protect the interests of policy holders. [6]

2.2 National Studies

Now drifting towards the national scenario, we can make a closer examination of national level literature dealing with public and private sectors of general insurance. The general insurance business has grown in spread and volume after nationalization. The four companies have 2699 branch offices, 1360 divisional offices and 92 regional offices spread all over the country. General Insurance Company (G.I.C.) and its subsidiaries have representation either directly through branches or agencies in 16 countries and through associate/locally incorporated subsidiary companies in 14 other countries. IRDA has so far granted registration to 15 private general insurance companies. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries. So the analysis of opening up of the insurance sector

[6] Dimitri Vittas (2004), "Insurance Regulation in Jordan New Rules - Old System", World Bank Policy Research Working Paper 3298, Financial Sector Development World Bank, http://econ.worldbank.org.

at regional or micro level is essential for the proper understanding of the issue and for carrying out practical solutions. [7]

2.2.1 In the paper "Capacity build up and growth through regional reinsurance co-operation", Albert. J. Nduna, Group Chief Executive Zim Re Holdings Limited reports that the insurance environment in the different parts of the world today is full of challenges of different sizes and complexities including different types of expectations. His study reveals that insurance can be used as an empowerment tool for local people directly as individuals and governments. They could play developmental role by addressing the issues of poverty alleviation, the needs of the rural sector and the formal and informal sectors of the economy. The insurance companies of the developing countries were expected and are still expected to be responsive to the needs of the societies in which they operate. He also says that the world average for insurance penetration for non-life was 4.9% whereas insurance penetration in developing countries was about 1%. This signifies the gap between developed and developing countries in the level of insurance development and at the same time the potential which is still to be unlocked in the latter. [8]

2.2.2 In 1993, Malhotra Committee, headed by former Finance Secretary and Reserve Bank of India (RBI) Governor R.N.Malhotra, was formed to evaluate the Indian insurance industry and recommended its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. Reviewing

[7] "Insurance in India", www.google.com

[8] Albert J. Nduna (2005), "Capacity build up and growth through regional re-insurance corporation", The Journal of Insurance Institute of India, Vol.No.XXXI, January- June, S.J.Gidwani Publication, pp 53-54.

"Malhotra Committee Report" it states that reforms were aimed at "creating more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system".

In 1994, the committee submitted the report and some of the key recommendations included:

2.2.2.1 Structure

a) Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.

b) Government stake in the insurance companies to be brought down to 50%.

c) All the insurance companies should be given greater freedom to operate.

2.2.2.2 Competition

a) Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.

b) No company should deal in both life and general insurance through a single entity.

c) Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.

d) Postal Life Insurance should be allowed to operate in the rural market.

e) Only one state level life insurance company should be allowed to operate in each state.

2.2.2.3 Regulatory Body

a) The Insurance Act should be changed.

b) An Insurance Regulatory body should be set up.

c) Controller of Insurance (currently a part from the Finance Ministry) should be made independent.

2.2.2.4 Investments

a) Mandatory investments of Life Insurance Corporation (LIC), Life Fund in government securities to be reduced from 75% to 50%.

b) GIC and its subsidiaries are not to hold more than 5% in any company. (These current holdings to be brought down to this level over a period of time).

2.2.2.5 Customer Service

a) LIC should pay interest on delays in payments beyond 30 days.

b) Insurance companies must be encouraged to set up unit linked pension plans.

c) Computerisation of operations and updating of technology to be carried out in the insurance industry.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. [9]

---

[9] Malhotra Committee Report,Government of India, Ministry of Finance, New Delhi, 1994.www.Indiagov.org. dated 06-06-2005.

2.2.3 ‘Yojana’, a monthly journal, under the title “Indian Insurance Industry” reports that, Indian insurance industry moved into a higher growth trajectory owing to recent reforms with foreign direct investment in the insurance sector permitted up to 26 per cent of equity, global insurers have rushed into the Indian market to capitalize on the sizable middle class.

They again report that the private insurers with foreign equity participation treated an intense competitive market condition and resulted in driving down premium rates/charges with respect to certain products and in improving the quality of services offered by the insurers.

According to this report, the industry witnessed the beneficial effects of competition in the insurance sector in post liberalization. Some of them are as follows:

a) Opening up of the insurance sector has introduced new products as per the customer’s requirement which enhanced the consumer satisfaction and attracted attention of the insurers.

b) Insurance companies have set up its websites for propagating comprehensive and timely information like information about producers, premium calculators, etc are made available to its policy holders in order to provide value added services to its customers.

c) Insurers have implemented facilities to pay premiums through nonconventional channels like online payments, credit cards, Automatic Teller Mechanisms (ATMs), standard instructions etc.

d) Evolution of Bancassurance with reduced price, high quality product and delivery at customer door steps has increased the market penetration in Indian insurance sector.

e) Using improved technology, the insurers have speeded up the process of settling claims which helped the customers to get the claim money at the earliest.

f) With increased competition among insurers, service has become a key issue. Moreover, customers are getting increasingly sophisticated and tech savvy. People today don't want to accept the current value propositions, they want personalized interactions and they look for more and more features and add-ons and better service.

Comparing the services provided by the public and private sectors, the reports states that, public sector has responded to the challenge by entering into corporate agency relationships with providers of goods and services. The scope for innovation being limited in the tariff market, the private general insurance companies seem to be concentrating on provisions of total risk management services to their corporate clients. This has enabled them to make inroads into the profitable corporate accounts of state insurers. In addition, the private sector has concentrated on providing a host of service to their clients like point of sale issuance of policies, cashless settlement in the case of motor repairs, and SMS alerts on motor claim status. The general insurers have to come out with innovative products in the personal lines if they want to expand business. It is expected that in the tariff free regime this would be possible. [10]

[10] Yojana (2006), "Indian Insurance Industry", Vol.50, Published by Ministry of Information and Broadcasting division, Government of India, April 2006, pp 11-13.

2.2.4 N. Rangachary, former chairman of IRDA, discusses about the reasons for opening up of the insurance industry. According to him, one of the predominant reasons for liberalizing the insurance industry is to create a more contestable market in the insurance that will foster the development of an efficient and forward looking industry. And the deregulation of insurance will lead to a greater range of innovative and customer oriented products. Another advantage of opening up of the insurance sector, he mentions, is that the foreign participation in locally owned direct insurers will enable local players to form alliances with foreign partners and benefit from transfer of technical know-how and increased financial strength. [11]

2.2.5 V.Jagnnathan, in his paper, "Imperatives of competition" reports that a major change in the last couple of years has been the dismantling of the monopolistic status of the state run insurers. The field is no longer confined to them and has been thrown open to private players also. He also feels that the opening up of the insurance sector has given a new dimension to the competitive market while in the previous era competition was among four organizations which were similar in almost all respects, now the fight is among companies with different cultures, capabilities and value systems. [12]

2.2.6 In the paper, "Issues and Challenges", C.S.Rao, IRDA Chairman, reports that the primary objective in regulating the insurance industry is to protect the interests of the policy holders. He feels that regulation or control inevitably resulted in:

[11] N.Rangachary (1999), "The Unfolding Insurance Scenario", The Hindu, Survey of Indian Industry , p 47.

[12] V. Jagannathan (2003), "Imperatives of Competition", The Hindu, Survey of Indian Industry, p 71.

a) Unlimited discretionary powers to the service providers.

b) Operational inefficiency and poor quality of service.

c) Lack of transparency in the decision making, process and of accountability.

d) High barriers to entry and negligible flow of private capital.

e) Lack of protection of consumer interest, with non-competitive prices at the consumer end and highly restricted consumer choices.

But the scope of regulation has varied from country to country and within countries from sector to sector. However, universally, the scope of regulation has, interalia, covered

a) Regulation of tariff

b) Ensuring quality of service

c) Ensuring fair competition in the sector

d) Improving the efficiency and productivity

e) Speedy resolution of disputes between different players.

According to C.S.Rao, the non-life insurance industry witnessed a 180 per cent growth by writing gross premium of Rs.18, 095.25 crores in 2004-05 up from Rs.10, 087.03 crores in 2000-01. The private sector players have taken a market share of 20 per cent of the general insurance industry up to 31st March 2005. The credit for enlarging the insurance sector goes to both the public and private sectors. While the private sector has come up with aggressive marketing strategy to establish presence, the public sector has inturn redrawn its priorities and revamped their marketing strategies to reach out to greater mass of people. [13]

2.2.7 Jagendra Kumar, in the paper "changing scenario of insurance industry", reports that private insurance companies can give good competition to the public sector undertakings (PSUs) in terms of customer orientation and quick settlements. There is a big scope for financiers to look a good fee based income by becoming corporate agents. Before the industry was opened up, the four public sector insurance companies were underwriting Rs.14000/- crores premia a year. So far, the eight private insurers had taken away only 14% of the business.He further states that, insurance companies are today looking at different segments where there is business potential and are trying to customize policies to suit the specific needs of their clients. [14]

2.2.8 The studies done by Shivaji Sarkar found that insurance is picking up with the entry of a large number of private insurers since December 2000. The public sector GIC and LIC have stolen a march over their private rivals. The GIC is treading into areas where the private insurers are shying to enter, areas like car insurance. The GIC has also established itself as an international brand. In Asia, GIC has emerged as the largest insurer apart from Japan. The GIC has set up offices in Moscow and London to tap new business.

---

[13] C.S.Rao (2006), "Insurance – Issues and Challenges", Yojana ,Published by Ministry of Information and Broadcasting, April 2006, ISSN-0971-8400,Vol.No.50,pp 4- 9.

[14] Jagendra Kumar (2004), "Changing Scenario of Insurance Industry", The Journal of Insurance Institute of India,Vol.No.XXX, January- June, S.J.Gidwani Publication, p 44.

He feels that competition has been a blessing particularly for the public sector insurance companies. The public sector GIC has shown that it can live up to the competition. The Tata-AIG is offering to Mumbai citizens an insurance of Rs.5 lakh on accidental death for Rs.1248/- a year. The government owned National Insurance personal accident offers this for only Rs.400 and if a customer takes disability and death cover, GIC sells it to him for Rs.700 anywhere in India. [15]

2.2.9 In the paper "Insurance Regulations in India and future directions", T.K.Banerjee says that insurance liberalization promises many advantages which include better risk management, product innovation and wider customer choice. Moreover insurance industry will face greater competition from other financial service providers for all aspects of their value chain. He states that, one of the spinoffs of liberalization of the insurance sector has been the demand for insurance education and training. So the economic reform process is 'irreversible' and the new insurance companies are expected to hasten the process of producing a strong and efficient insurance market. [16]

2.2.10 The Economic and Political Weekly reported that **"**General insurance Room for More Efficiency and Honesty**" ,**Unlike in life insurance where the fact of expiry of time or of death determines a claim, in general insurance a claim depends not only upon the risk materialising but on the cause being covered by the policy. To some extent, therefore, general insurance requires

[15] Shivaji Sarkar (2002), "Public Sector Insurance Undertakings that Excel", www.Keralamonitors.com, dated 14-07-2006.

[16] T.K.Banerjee (2004), "Insurance Regulations in India and Future Directions" , The Journal of Insurance Institute of India,Vol.No.XXX, July- December, S.J.Gidwani Publication, p 9.

flexibility in operation. While marine and fire insurance cover mostly business risks, motor insurance covers a large number of individuals. Moreover, despite cartelisation (particularly in fire insurance), insurance-writing is an art, and the ability to gauge risk is a skill acquired over years. It is in this context that the decision to form more than one corporation is justified; it will give the insuring public an opportunity to choose its insurer on the basis of service obtained. At the same time, competition to obtain business and to settle claims will be limited by the need to show profits. One waits to see how the new corporations handle these problems. This decision is also of some significance as an experiment in the evolution of control and management of publicly-owned corporations. General insurance is a highly competitive international business — though, of the three lines (marine, fire and accident) marine is the only truly internationally, done business; so far as fire and accident business is concerned, it has only local significance and a local monopoly can be ensured fairly effectively. Yet even in these activities an international link is maintained through re-insurance and Indian insurance companies have been making a net foreign exchange earning through treaty and other re-insurance.[17]

2.2.11 ‘Market Trends’, a monthly magazine of National Insurance Company Limited (NICL) under the title ‘NIC numbers prop up public sector insurance flock’, reported that public sector insurance companies would not have gathered a sizable market share for the first quarter that ended in June 2003. The growth on a year-on-year basis for National Insurance worked out to 15.55%. While the other GIC subsidiary companies have recorded a growth

[17] Economic and Political Weekly (1971) , **“**General Insurance Room for More Efficiency — and Honesty”, 15 May 1971, Vol.VI, No.20, pp 974-975.

of less than 4%. According to the report, the growth rates of other players were as follows.

a) New India Assurance - 1.49%

b) United India Insurance - 2.86%

c) Oriental Insurance Company - 3.78%

According to the report, it appears that the private sector players are helping in widening the market base despite handicaps such as: a) Lack of infrastructure b) Inadequate manpower, c) Low capital base. In growth terms, ICICI Lombard continues to lead the pack with a premium of Rs.126 crore, reflecting a growth of nearly 250% on annuity over the year basis. The growth rates of other players were as follows:

a) Bajaj Allianz - 73%

b) Royal Sundaram - 61%

c) Tata AIG - 68% [18]

2.2.12 In the paper, "BPO and Insurance services the future and the potential", C.P. Udayachandran reports that, the Indian insurance sector will see tremendous changes in the future years. Traditionally, they have been depending on the slow paper based business processes. The challenge before them is to reduce costs, reduce processing time and enhance business profitability. The author also feels that we are going to witness

[18] Market Trends (2003), "Current News-NIC numbers prop up public sector insurance flock" , Niseema Publishers, July – September, Vol.V,No.3, p 5.

rapid changes in the manner these are tackled with effective and efficient IT solutions and robust business processes. [19]

2.2.13 The Economic and Political Weekly, under the title “Privatisation of insurance industry” reported that, the nationalised Life lnsurance Corporation of India and General Insurance Corporation of India have contributed not only for social security of the insured public but for the sustenance of India's planned development of its economy catering to social needs. The Malhotra committee recommendations, if accepted, will destroy these important sources of mobilisation of people's savings for the economic growth of the country.

The government's move will bring into play all the ills that afflicted this industry before nationalisation when people's money was grossly abused for the private gain of the monopolists.The concept of competition, which is being talked about, would only lead to a rate war and malpractices endangering, in the process, policy monies. The LIC and GIC in the public sector have, by conserving premiums and building up enormous resources, successfully protected policy monies. The unmatched claim settlement record of LIC and GIC would bear this out.[20]

2.2.14 Ajit Ranade and Rajeev Ahuja in his article “Issues in Regulation of Insurance” discussed some selected issues relating to regulating insurance business, with particular reference to the scenario in India.

[19] C.P.Udayachandran (2005), “BPO and Insurance services: The Future and the Potential”, Ernakulam Insurance Institute/E11) journal, published by EII, March 2005, Issue 1,Vol. 3 ,p4.

[20] Economic and Political Weekly (1994), “Letters to Editor- Privatisation of Insurance Industry”, 9 July1994,Vol.XXIX,No.28,p 1694.

According to them in the Indian insurance market, the regulator must assure new entrants of a level playing field vis-a-vis hitherto monopoly incumbents. The initial focus of the regulator must be on financial soundness and prior experience of entrants. Tariff and contract standardisation must also be done in the initial stage. The objective of serving the weaker sections of society will be better served with a separate instrument. Regulating a publicly held monopoly such as LIC is virtually redundant, since the profit motive and guarding its monopoly status may not be paramount objectives to a public sector firm, and there may be inbuilt procedures in its operations to deal with issues normally addressed by a regulator. But regulation is an imperative at the commencement of competition, especially in the insurance sector which is vulnerable to market failure. In a sense, apart from the protection of consumer interest, in the Indian context, the regulator’s main brief would also be to conduct a fair competition, but not let it become ‘cut-throat competition’ that results in multiple bankruptcies and market implosion. Of course the current competition between the four subsidiaries of the present GIC is only notional, since there is not much pricing and strategic autonomy. In most countries with longer tradition of a competitive insurance industry, the primary objective of regulation has been protection of consumer interest. Consumer protection has two aspects-protection – against losses arising from the insolvency of institutions, and protection against losses caused by fraudulent practices and other market conduct abuses. A regulator’s main objective is to promote competition and efficiency. To the extent that competition might not lead to efficiency due to various reasons such as asymmetric and imperfect information these concerns are addressed in the nuts and bolts of regulatory design. But this objective of efficiency is not to be confused with the objective of promoting welfare or other social goals, which are the functions of the government. Promoting welfare involves a subjective judgment of the social welfare function (ie., trading off the welfare of the rich (advantaged) versus the poor (disadvantaged)) which in turn is a matter of social choice manifested perhaps by electoral politics. Thus the regulator's job is only to promote efficiency, both in a static and dynamic sense.[21]

2.2.15 M. Siva Narayana, Deputy Manager, The Oriental Insurance Co. Ltd., in his article "Forgotten monies of the non-life insurers", explore the alternate ways and means to improve the non premium revenue of non-life insurers in order to reduce their Under writing losses and to augment their net worth. He discussed about the most important but least bothered or most neglected concept - the RECOVERIES which arise mostly from the claims payments made by the insurers where they have legal rights to recover the same from the third parties/ claimants/carriers etc. And he also explains the important source of recoveries for the non-life insurers, where the insurers neglect / put in cold storage after payment of claims. They are Motor Accident Claims Tribunal (MACT), Marine Claims, Fire Claims, Motor Claims, and Miscellaneous Claims etc. He concluded by proposing to establish a RECOVERY CELL at DO/RO level by the insurers to recover their forgotten money.[22]

---

[21] Ajit Ranade and Rajeev Ahuja (2000), "Issues in Regulation of Insurance", Economic and Political Weekly, 29 January 2000, Vol.35, No.5, p 331.

[22] M. Siva Narayana(2010), "Forgotten monies of the Non-life insurers",The Insurance Times,First monthly Journal on Insurance in India in Service Since 1981,Vol.XXX,No.12 December 2010,ISSN-0971-4480, pp 27-28.

2.2.16 Shanmukha Rao Padala, and Dr. Syed Fasiuddin in their article "Indian Bancassurance - A Composition Under Globalised Economic Scenario" reported that bancassurance is a win-win model for insurance companies and banks. Its simplest form is the distribution of insurance products through a bank distribution channel. In this field of bancassurance, banks are using the strategic marketing practices and IT enabled practices like data warehousing and mining, and more customer focused applications. The present trends of banking operations across the globe have been ever changing and competitive. Whether the banks are in private or public sector, the questions of survival and customer relation management is the primary objective across the globe. According to them with the opening up of this sector to private players, competition has become more intense and the public sector has been challenged with a flood of new products and new means of marketing. Instead of falling back on the individual agents for business, new insurance companies have started to experiment with other channels such as bancassurance and insurance brokers.They concluded that ,according to the Associated Chamber of Commerce and Industry of India (ASSOCHAM) an unprecedented growth of over 200% is likely to be seen in Indian insurance business by 2010-11 in which private insurance business would grow by 140% in view of aggressive marketing technique adopted by them as against 35- 40% of Government owned insurance companies growth rate. For this purpose the banks as well as insurance organizations are functioning with more diversified financial products with diversified strategic approaches in the globalized financial environment. It can be possible to the insurance companies are implementing the various strategic collaborative decisions like bancassurance, insured-mutual fund policies (popularly known as 'Market Plus'), doing the banking business like sanction of loans and advance to customers for house construction and other personal purposes, collecting the fixed deposits from public etc.[23]

2.2.17 Dr. M. Vidyasagar Reddy "A Decade of Liberalisation of Insurance Sector in India", reported that the global financial meltdown has left India largely unaffected. There is universal acknowledgement that this is due to the strong presence of public sector in the Indian banking and insurance industries. The world realized at great peril that finance capital is fundamentally in search of quick profits and hence speculative in character rather than having any enduring links with the industry. Therefore, efforts are being made to tame the finance capital and as a result many of the financial institutions including insurance companies have been taken over by the governments in the developed countries. Therefore, India must remain cautious. The plans to further liberalise the insurance industry must be given up. Today, there is a conflict between the IRDA and SEBI over ULIPs and between RBI and SEBI over interest futures.

The government must take steps to settle these conflicts and strengthen the regulatory mechanism for the orderly growth of the financial sector, insurance included. [24]

2.2.18 H. Ansari in his article "Insurance Reforms" reported that nationalization of insurance helped in deployment of massive financial

[23] Shanmukha Rao Padala, Dr. Syed Fasiuddin(2009), "Indian Bancassurance - A Composition Under Globalised Economic Scenario", Osmania Journal of International Business Studies, July - December 2009,pp 84-91.

[24] Dr. M. Vidyasagar Reddy (2010), "A Decade of Liberalisation of Insurance Sector in India",Journal of Commerce& Management Thought,Vol. I, No. 3 / July 2010,pp 237-238. www.IndianJournals.com, Downloaded from IP - 210.212.129.125 on dated 3-June-2011.

resources. It also helped in spread of insurance with LIC becoming a household name in the country. However, as was then the prevailing culture in public sector, with the passage of time, the responsibility and accountability parameters deteriorated resulting in consumer detriment. Though insurance business in the country grew by leaps and bounds - both in the life and nonlife sectors - and a unique low-cost model of insurance was developed for the first time in the world by public sector companies, the servicing parameters in the insurance sector came down and the ‘chalta hai’ (laidback) attitude prevailed. According to him Insurance is ‘people-centric’ in character. Insurers deal with people who are their policyholders, beneficiaries, claimants, intermediaries and even employees. The government since inception perhaps has exercised more control over the business of insurance than any other business activity. Even when this business was in the hands of private players prior to 1956 (for life insurance) and 1973 (pertaining to general insurance), regulatory control was exercised exclusively at the state level.[25]

2.2.19 Dr. S.C. Das in his paper “Cost Management Practices in Non-Life Insurance Companies : A Comparative Study”, presented that the performance of the general insurance industry in the first three decades after nationalization has been impressive in terms of growth. But while premiums have shown strong growth, claims and operating expenses, both in absolute terms and relative to premiums, have grown faster. Claims as a proportion of premiums, have increased from 51 per cent in 1972-73 to 69 per cent in 1990-91 to 73 per cent in 1992-93, largely due to the motor insurance business. But since the opening up of Indian insurance market, over the years with the effective cost control measures, the claims cost has

[25] H. Ansari (2006), “Insurance Reforms”, IRDA Journal,Vol.IV,No.3, published by C.S.Rao on behalf of Insurance Regulatory and Development Authority, pp 21-24.

been reduced to 54.11 per cent in 2004-05 (% of claims expenses to gross direct premium). Operating expenses in 1972-73 (when the sector was nationalized), which were 30 per cent of gross premium, reduced substantially due to merger efficiencies to 24 per cent in 1990-91 and further to 22 per cent in 2004-05. The steep increase in motor claims over the years has resulted in an underwriting profit of 8 per cent in 1972-73 being converted into a loss of 4 per cent and 20 per cent in 1990-91 and 2004-05, respectively. Investment income has shown strong growth over the years largely driven by increasing yield due to higher interest rates. Overall, despite underwriting losses, net profits have grown from 6.3 per cent in 1972-1973 to 12 per cent and 13 per cent in 1990-91 and 2004-05, respectively due to increasing investment income. Internationally, many insurers lose money on products and make up with investment income. [26]

2.2.20 ICRA Moody's Global Insurance, " Indian General Insurance Outlook Major Changes Expected as Deregulation Continues", reported that with the Indian economy forecast to grow at 7.5% in 2008 and given rising income levels and higher risk awareness among insurers, the country's insurers are optimistic about demand for their products. However, intense competition from new entrants, deregulation and a moderation in returns from the equities market will pressure pricing and ultimately short-term profitability. At the same time, despite rising inflation and a severe correction in the stock market, the prevailing view in Asia is that while China and India are not insulated from the credit crisis afflicting the US and EU, domestic demand is strong enough to support GDP growth. Being less

[26] Dr. S.C. Das (2007), "Cost Management Practices in Non-Life Insurance Companies: A Comparative Study", www.insurance.com, dated 4-09-2007, January-June 2007, pp 3-8.

export dependent, India is also less vulnerable than some of its neighbours. Rising income levels, low penetration for most consumer products, availability of financing and changes in lifestyles/ aspirations are likely to sustain consumer demand over the next few years. In the short term, the focus on infrastructure development will keep the economy going, even if the tightening in credit leads to a slowdown in consumer spending.[27]

2.2.21 According to S V Mony in his article "New initiatives in the insurance sector: opportunities and challenges", reports that the insurance sector in India is nearly 150 years old. It is now in the third phase of its existence. The first phase was the long-growth phase before the two nationalizations in 1956 and 1971 of life and general insurance respectively. At that point of time, there were more than 200 life insurance companies and 108 general insurance companies. They were all private sector insurers with the exception of one state-owned general insurer. Several overseas insurers were operating in India through branches. In the second phase, the entire sector became a state monopoly. In the third phase, we now have several new private sector players competing with the large public sector insurers. Based on the current trends, it seems that, in ten years, the market will have about 35 to 40 players, equally distributed between life and general insurance sectors. Several large global insurers operate in India through joint ventures. In the short time since the market was opened up, a comprehensive set of legislative instruments has been introduced. Relatively high capital

[27] ICRA Moody's Global Insurance(2008), " Indian General Insurance Outlook Major Changes Expected as Deregulation Continues", Indian General Insurance Industry Outlook,www.moodys.com, p 1.

requirement combined with tight solvency norms and the long lead time for returns has kept the number of players relatively small. All the new players are promoted by corporate with financial strength and commitment supported by reputed global insurers with long standing. Stability of the market is, therefore, ensured and customers' interests in terms of security are expected to be well taken care of. [28]

2.3 Regional Studies

2.3.1 Dinesh Kumar, "Role model of Branch Manager in the emerging scenario", reported that in Kerala private sector competitors have consolidated in the metro cities and their activity is percolating to the lesser cities. Result is more competition in the existing market. [29]

2.3.2 Dr.M.K.Sukumaran Nair of Cochin University of Science and Technology, in his paper, reports that privatization is no answer to rescue the industry. Lot of flexibility should be brought in the existing system. Accountability should be there to make the system efficient. Dynamism should certainly be inculcated by restructuring the system. With collective effort of sections of employees, insurance sector can become a responsible and efficient public sector organization. According to him, dynamism can be brought by induction of the following 3c's.

a) Customer Orientation
b) Collective effort – of employees, customers and Management.

[28] S V Mony (2005), "Insurance Industry in India: Structure, Performance, and Future Challenges", Insurance Industry in India, Vikalpa ,Volume 30 , No 3 , July – September 2005, p 97.

[29] Dinesh Kumar (2004), "Role Model of Branch Manager in the Emerging Scenario", Market Trends, Niseema Publishers, April – June, Vol.VI,No.2, p. 12

c) Cumulative effort – flexible working system. [30]

2.3.3 According to 'Market Trends', a monthly magazine of National Insurance Company Limited, reports that the year 1999-2000 was not bright for general insurance industry in Kerala. In fact, it was one of the worst periods during the last decade. The growth rate for the year was only a mere 10.2%, whereas the previous lowest was 15.27% registered during 1991-92. [31]

2.3.4 The magazine "Insurance Master", reports that in Kerala, private sector insurance companies have consolidated in the metro cities. And insurance industry has Ombudsmen in 12 cities. Each Ombudsman is empowered to redress customer grievances in respect of insurance contracts on personal lines where insured amount is less than Rs.20 lakhs, in accordance with the Ombudsman scheme. [32]

The insurance sector in India is developing into a highly vibrant one. The above summary of literature clearly reflects this trend. From all perspectives the sector is all set to take off. The numbers of books received at the local level are few because of non-availability. However the people of Kerala have started reposing greater faith in private sector insurance. This should lead to more literature at this level.

…..ഇവ…..

[30] Dr.M.K.Sukumaran Nair (1999), "Injecting dynamism in Insurance Sector", Ernakulam Insurance Institute Publication , Vol.7,March 1999, pp 4-5.

[31] 'Market Trends' (2000), "Current News", Niseema Publishers, April 2000, Vol.2,No.4, Niseema Publishers, p 7.

[32] Insurance Master (2006), A Magazine for Insurance, The Global Publishing House, Kerala Vol.1, Issue-5, Feb 2006, P 16.

Chapter 3

GENERAL INSURANCE INDUSTRY EVOLUTION AND REFORM

Contents

3.1 The Origin and Evolution of Insurance

Life itself and its inherent uncertainties have only served to underscore the importance of insurance. Today, all kinds of people and legal entities demand insurance both for business and professional requirements and also to cover personal risks. Farmers want crop insurance, travellers want travel insurance, whilst more and more people are availing of medical insurance. And as for film stars and their ilk: even parts of the anatomy become the subject matter of insurance. [1]

[1] Nandita Banerjee (2004), "The Origin and Evolution of Insurance", National Insurance News, published by Shri. D.K.Mitra,Florence Offset Process ,Kolkata, July-Sep-2004, p 31.

The origin of insurance can be traced as far back as to the Babylonian times, around 4000 years ago. Traders assumed the risks of Caravan trade through loans that were repaid (with interest) only after the goods arrived safely. This resembled bottomry and was given legal force in the code of the Hammurabi. The perils of breakdowns, robbery and bad weather appear to be similar to those faced by our modern transporters. The Phoenicians and the Greeks also applied similar systems to their sea-borne commerce.[2]

Manusmrithi one of the oldest law books of ancient India, contains references to the rate of interest on money lent on bottomry indicating the beginnings of the development of the basic principles of marine insurance.[3]

The earliest known insurance contract was signed in 1347, at Genoa. Individuals signed policies either singly or in a group, clearly indicating the quantum of risk they were willing to assume under the proposal, giving rise to the term underwriter.[4]

In London, in 1688, Lloyd's Coffee House, a place where merchants, ship owners and underwriters met, evolved into one of the first modern insurance companies – Lloyd's of London.[5]

As the United States developed into a major economic power, the insurance industry prospered in that country as well. However, the unexpectedly high losses of the New York fire of 1835, followed by the great Chicago fire of 1871, drew attention to the need for adequate reserves

[2] Ibid.,

[3] Ibid .,

[4] Ibid.,

[5] Ibid., p 32.

for such contingencies. The system of losses being distributed amongst many companies (reinsurance), was then, devised as a solution to the challenge of large losses. The Workmen's Compensation Act of 1897 in Britain forced the employers to insure their employees against industrial accidents. Public liability insurance, fostered by legislation, made its appearance in the 1880s, attained major importance with the advent of the automobile.[6]

In the 19th century, many friendly or benefit societies were founded to insure the life and health of their members. Many employers sponsor group insurance policies for their employees. Since the late 19th century there has been a growing tendency for the state to enter the field of insurance, especially with respect to safeguarding workers against sickness and disability either temporary or permanent. The U.S. government has also experimented with various types of crop insurance, a landmark in this field being the Federal Crop Insurance Act of 1938. After 1944 the supervision and regulation of insurance companies, previously an exclusive responsibility of the state, became subject regulation by Congress under the interstate commerce clause of the U.S. constitution.[7]

3.2 General Insurance Business in India

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,

---

6 Ibid., p 32.

7 'A brief history of the insurance sector', Insurance in India,www.insurance.com , dated 19-05-2007,pp 1-15.

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. [8]

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. [9]

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 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

8 'History of Insurance in India'(2007),www.IRDA.gov.in, Date: 12-07-2007 IRDA/ GEN/06/2007,p1.

9 Ibid.,

the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.[10]

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.[11]

An ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers and also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the insurance sector was reopened to the private sector. 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.[12]

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. [13]

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. The General Insurance Corporation of India was

[10] Ibid.,

[11] Ibid.,

[12] Ibid.,

[13] Ibid.,

incorporated as a company in 1971 and it commence business only on January 1st 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. with head offices at Calcutta, Bombay, New Delhi and Madras. The selection of the names of the four companies was not merely a fortuitous coincidence but had deeper significance. An opportunity was extended to serve the insured public and the national economy by the nationalised general insurance companies in the 'National' spirit, through the 'Oriental' culture, to build a new 'New India', which will be the 'United India', in the true Indian tradition. The capital of Rs.2.15 billion of GIC was subscribed by the Government of India, and that of the four companies, by GIC. All the five entities are government companies registered under the Indian Companies Act, 1956. GIC which was the holding company of the four public sector general insurance companies has since been delinked from the latter and has been approved as the "Indian Reinsurer" since 3rd November 2000.[14]

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. 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

[14] Ibid.,

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. [15]

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. [16]

Some of the important milestones in the general insurance business in India are:-

3.2.1 1907:-The Indian Mercantile Insurance Limited Set up, the first company to transact all classes of general insurance business.

3.2.2 1957:- General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

3.2.3 1968:- The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory committee set up.

3.2.4 1973:- The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with from 1st January 1973.

3.2.5 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.

[15] Ibid.,

[16] Ibid.,

3.2.6 1999:- The Insurance Regulatory and Development Authority (IRDA) were constituted as an autonomous body to regulate and develop the insurance industry.

3.2.7 2000:-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%.[17]

3.3 Reforms in Insurance Sector

After the release of the Malhotra Committee Report in 1994, changes in the insurance industry appeared imminent. Unfortunately, changes in the central government slowed down the process. The dramatic climax came on 7 December 1999 when the government finally passed the Insurance Regulatory and Development Authority (IRDA) Act. This Act repealed the monopoly conferred to the Life Insurance Corporation in 1956 and to the General Insurance Corporation in 1972. [18]

As per the provisions of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holder of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry. It paved the way for the entry of private players into the insurance market. Which was hitherto the exclusive privilege of public sector insurance companies/corporations.[19]

Table 3.1. Summarises some of the milestones in India's insurance regulation.

---

[17] Jagendra Kumar(2004) " Changing Scenario of Insurance Industry",The Journal of Insurance Institute of India,Vol.No.XXX, Jan-June 2004, p 43.

[18] 'A Brief History of the Insurance Sector',Insurance in India,www.google.com, dated 03-02-2005,p 1.

[19] www.Indian Insurance Sector.com.,dated 14-03-2005, p11.

Table 3.1 Milestones in India's Insurance Regulation.

1912	First piece of insurance regulation promulgated – Indian Life Insurance Company Act, 1912
1928	Promulgation of the Indian Insurance Companies Act
1938	Insurance Act introduced, the first comprehensive legislation to regulate insurance business in India
1956	Nationalization of life insurance business in India
1972	Nationalization of general insurance business in India
1993	Setting-up of the Malhotra Committee
1994	Recommendations of Malhotra Committee released
1995	Setting-up of Mukherjee Committee
1996	Setting-up of an (interim) Insurance Regulatory Authority (IRA)
1996	The IRA bill was introduced in the Parliament. Equity of 40% to the foreign companies was proposed. The bill was referred to the Standing Committee.
1997	Due to opposition from the BJP and the Left, the bill was withdrawn. A demand was for the reduction of foreign equity.
1997	Mukherjee Committee Report submitted but not made public
1997	The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channelling funds to the infrastructure sector
1998	The cabinet decides to allow 40% foreign equity in private insurance companies – 26% to foreign companies and 14% to non-resident Indians (NRIs), overseas corporate bodies (OCBs) and foreign institutional investors (FIIs)
1998	The Tariff Advisory Committee (TAC) was reconstituted and brought under the IRA.
1999	The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act.
1999	Cabinet clears IRDA Act
2000	President gives assent to the IRDA Act

Source: Compiled from various sources.[20]

The following are the major laws governing insurance business in India:

[20] Tapen Sinha(2005), "The Indian Insurance Industry:Challenges and Prospects", Institute of Insurance and Risk Management India, Swiss Re publications, p 25 and www.irdaindia.gov.in Report No. PA 15 of 2008, pp 1-2.

3.3.1 The Insurance Act, 1938

The insurance Act, originally passed in 1938, has been amended several times, the latest amendment being made in 1999 by the IRDA Act. Accordingly, IRDA Act has become the Authority to perform the tasks prescribed to be done by the Insurance Act. Tasks such as issuing of Licenses including that of Agency, Registration of companies, monitoring the affairs of the insurers, issuing directive, issuing norms for compliances etc. Earlier these tasks were performed by the Controller of Insurance.[21] (Appendix I)

3.3.2 General Insurance Business (Nationalisation) Act, 1972(GIBNA)

This Act was passed in 1972 to set up the General Insurance Corporation of India (GIC) and its subsidiaries for the transaction of Insurance business in India. However, the exclusive privilege granted by the Act to the GIC subsidiaries ceased with the passing of the IRDA Act, 1999. [22]

3.3.3 Malhotra Committee Report

In 1993, Malhotra Committee, headed by former Finance Secretary and Reserve Bank of India (RBI) Governor R.N.Malhotra, was formed to evaluate the Indian insurance industry and recommended its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector.[23]

---

[21] 'General Insurance Agents'- Practical Training Course Material '(2006),Compiled by Alert Academy Training Institute approved by IRDA, p 31.

[22] Ibid., p 34.

[23] Malhotra Committee Report(1994), and www.lawcommissionof india.nic.in, p 7.

Reviewing "Malhotra Committee Report" it states that reforms were aimed at "creating more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system.[24]

In 1994, the committee submitted the report and some of the key recommendations included:

3.3.3.1 Structure

a) Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.

b) Government stake in the insurance companies to be brought down to 50%.

c) All the insurance companies should be given greater freedom to operate.

3.3.3.2 Competition

a) Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.

b) No company should deal in both life and general insurance through a single entity.

c) Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.

d) Postal Life Insurance should be allowed to operate in the rural market.

---

[24] Ibid.,

e) Only one State Level Life Insurance Company should be allowed to operate in each state.

3.3.3.3 Regulatory Body

a) The Insurance Act should be changed.

b) An Insurance Regulatory body should be set up.

c) Controller of Insurance (currently a part from the Finance Ministry) should be made independent.

3.3.3.4 Investments

a) Mandatory Investments of Life Insurance Corporation (LIC) Life Fund in government securities to be reduced from 75% to 50%.

b) GIC and its subsidiaries are not to hold more than 5% in any company. (These current holdings to be brought down to this level over a period of time).

3.3.3.5 Customer Service

a) LIC should pay interest on delays in payments beyond 30 days.

b) Insurance companies must be encouraged to set up unit linked pension plans.

c) Computerisation of operations and updating of technology to be carried out in the insurance industry.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives.[25]

[25] Ibid.,

3.3.4 Mukherjee Committee Report

Immediately after the publication of the Malhotra Committee Report, a new committee (called the Mukherjee Committee) was set up to make concrete plans for the requirements of the newly formed insurance companies. Recommendations of the Mukherjee Committee were never made public. But, from the information that filtered out it became clear that the committee recommended the inclusion of certain ratios in insurance company balance- sheets to ensure transparency in accounting. But the Finance Minister objected. He argued that it could affect the prospects of a developing insurance company.[26]

3.3.5 Insurance Regulatory and Development Authority (IRDA) Act, 1999.

The object of this act is to “provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry”. [27] The IRDA at present consists of the Chairman, 4 full-time members and 4 part-time members. The Authority is functioning from its Head Office at Hyderabad, Andhra Pradesh. The core functions of the Authority include (i) licensing of insurers and insurance intermediaries; (ii) financial and regulatory supervision; (iii) control and regulate premium rates; and (iv) protection of the interests of the policyholders. With a view to facilitating development of the insurance sector, the Authority has issued regulations on protection of the interests of policyholders; obligations towards the rural

[26] R.Kumar(2010), “Performance Valuation of General Insurance Companies: A Study of Post- Reform Period” , shodhganga.inflibnet.ac.in. dated 24-06-2011,p 98.

[27] IRDA Annual Report 2004-05, p 21.

and social sectors; micro insurance and licensing of agents, corporate agents, brokers and third party administrators.[28]

This is in addition to the regulatory framework provided for registration of insurance companies, maintenance of solvency margin, investments and financial reporting requirements.

3.3.5.1 Duties, Powers and Functions of Authority -

(1) Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

(2) The powers and functions of the Authority shall include, -

a) Issue to the applicant a certificate of registration, renews, modify, withdraw, suspend or cancel such registration;

b) Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

c) Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;

d) Specifying the code of conduct for surveyors and loss assessors;

e) Promoting efficiency in the conduct of insurance business;

[28] Ministry of Finance, Government of India, Annual Report 2010-11,p 237.

f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;

g) Levying fees and other charges for carrying out the purposes of this Act;

h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;

i) Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);

j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

k) Regulating investment of funds by insurance companies;

l) Regulating maintenance of margin of solvency;

m) Adjudication of disputes between insurers and intermediaries or insurance intermediaries;

n) Supervising the functioning of the Tariff Advisory Committee;

o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);

p) Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

q) Exercising such other powers as may be prescribed. [29]

3.3.6 Insurance Council

The insurance councils that were in existence under the provision of the Indian Insurance Act 1938, were not effective and practically defunct during the days of state monopoly. After the advent of the IRDA in 2001, vide the power vested in it under Sections 64C and 64F of the Insurance Act, 1938, the IRDA revived the Life Insurance Council and the General Insurance Council. These two councils, each headed by a member of the IRDA, play significant roles in establishing industry standards. As a need was felt for the constitution of an appellate authority for the various decisions of the IRDA, on the lines of the Securities Appellate Tribunal, the Government notified the setting up of an appellate authority for the insurance industry, and also set up a single bench and a division bench; it is expected that shortly a full-fledged appellate body would be set up as envisaged in the Law Commission Report on the subject. [30]

3.3.7 Insurance Ombudsman

The institution of Insurance Ombudsman was created by a Government of India Notification dated 11th November, 1998 with the purpose of quick disposal of the grievances of the insured customers and to

[29] IRDA Act (1999), www.irdaindia.com.and Dr.P.S.Palande, R.S.Shah, M.L.Lunarat, (2003), *"Insurance in India, Changing Policies and Emerging Opportunities"*, Sage Publications,New Delhi,pp 358-359. and www.lawcommission of india.nic.in,pp 7-9.

[30] R.Kumar "Performance Valuation of General Insurance Companies: A Study of Post- Reform Period" , shodhganga.inflibnet.ac.in, dated 24-06-2011, p 101.

mitigate their problems involved in redressal of those grievances.[31] This institution is of great importance and relevance for the protection of interests of policy holders and also in building their confidence in the system. The Ombudsman will consider the following nature of complaints.

a) Any partial or total repudiation of claims by an insurer

b) Any dispute in regard to premium paid or payable in terms of the policy

c) Any dispute on the legal construction of the policies in so far as such disputes relate to claim

d) Non-issue of any insurance document to customers after receipt of premium[32]

3.4 Recent initiatives

Recent initiatives taken in the insurance sector include:

3.4.1 Amendment to Insurance Legislation:

The Insurance Laws (Amendment) Bill, 2008 introduced in the Parliament proposes to amend the Insurance Act, 1938, the Insurance Regulatory and Development Authority Act, 1999 and the General Insurance Business (Nationalization) Act, 1972. The amendments to the Insurance Act and the IRDA Act focus on the current regulatory requirements. The proposed changes provide for more flexibility in operations and are aimed at deletion of certain sections which are no longer relevant in the present context. The amendments also provide for

[31] www.Irdaindia.org.

[32] 'General Insurance Agents'- Practical Training Course Material '(2006),Compiled by Alert Academy Training Institute approved by IRDA, pp 39-40.

enhancement of enforcement powers and levy of stringent penalties. This Bills is under exanimation by the Departmental Standing Committee.[33]

3.4.2 Detariffing

The road map for de-tariffing was notified by the Authority on 23rd September, 2005, based on the demand from various stakeholders that continuance of the tariff regime was inconsistent with the opening of the sector to provide healthy competition. De-tariffing of the non-life industry was notified w.e.f., 01-01-2007. As a first step de-tariffing was confined to de-control of rates only and terms & conditions of the policy were not permitted to be changed till 31st March, 2008. In order to moderate the impact of tariff increase on commercial vehicle owners, the Authority has retained the powers to determine the rates of Motor – Third Party premium for commercial vehicles. Further, with a view and to ensuring that all insurers take commensurate exposure to this line of business, a Motor Pool has been created under Section 34 of the Insurance Act, 1938. All non-life insurers are required to collectively participate in a pooling arrangement to share in all motor third insurance business for commercial vehicles underwritten by them w.e.f. 1st April, 2007. After detariffing of the General Insurance industry, a series of steps taken to promote innovations in products and to increase insurance penetration, IRDA has allowed insurers to file variations in deductibles set out in tariffs, new add-on covers/riders over and above the erstwhile tariff covers, extension of engineering insurance coverage to movable/ portable equipments etc., The insurers have also been permitted to extend engineering insurances to mobile/ portable equipments. Industrial All Risk (IAR) policies could now

[33] Ministry of Finance, Government of India, Annual Report 2010-11,p 237.

be issued to all industries including the petrochemical industry with the sum insured less than 100 crore. However, the general insurers have not been permitted to abridge the scope of standard covers available under erstwhile tariffs. [34]

3.4.3 Creation of the Motor Pool:

The Authority (in consultation with the Committee constituted under Section 110G of the Insurance Act 1938) issued directions under Section 34 of the Insurance Act, 1938 to the effect that all general insurance companies shall collectively participate in a pooling arrangement to share in all motor third party insurance business underwritten by them in accordance with the provisions specified for participation in the pooling arrangement, underwriting of motor third party, pooling mechanism through a multi lateral reinsurance arrangement, follow the instructions of General Insurance Council in the matter of procedure in underwriting-documentation-accounting. In order to achieve, speedy and efficient settlement of claims, GIC was appointed the Administrator of the pooling arrangement under an agreement entered into between the insurers. The pooling arrangement to share in motor third party insurance (commercial vehicles) became effective from 1st April, 2007. The Authority reserves the right to issue such directions as may be considered necessary from time to time on review of the operation of the pooling arrangement to regulate the premium rates and terms of cover. The Pool has been set up to ensure availability of statutory Third Party insurance protection and help build database for analyzing the results of the pooling arrangement under the Motor-TP(Third Party) segments. In the initial period of nearly four years,

[34] Ibid.,pp 237-238.

the above two objectives appear to have been met substantially. The supply side constraint has diminished and the data is being collected and stored regularly.[35]

3.4.4 Innovations in Health Insurance:

Eighty per cent of all health expenditure in the country is spent through personal resources. This is despite an increase in premium from 519 crore in 2000-01 to 7311 crore (14 times) in 2009-10. With increasing demand, the health insurance industry has introduced innovative products to enable the policyholder to plan comprehensive protection against health eventualities by combining hospitalization indemnity products with supplementary covers or additional policies to meet specific needs of the policyholder. There are products available that provide Daily Hospital Cash benefit in the form of fixed daily allowance which could be used to cover the incidental costs associated with hospitalization (like travel and stay costs of an attendant). These benefits are available either on standalone basis or as optional component of a packaged health insurance policy. Though most of the health policies offered are annually renewable, insurance companies are finding innovative ways to establish long term arrangements with the policyholder by offering long term policies or by incentivising timely renewals, free health check-ups, loyalty vouchers for Out Patient Department (OPD) covers, etc. Recently, the IRDA has received products under the file and use mechanism, offering pure term life insurance products along with health insurance products under the umbrella of a single product. The IRDA has allowed the same as a product class within a broader policy framework of ensuring an informed choice and

[35] Ibid.,p 238.

effective policy service to the policyholders. It is envisaged that the combi-products could enhance the penetration of personal lines of insurance business with a wider product choice to policyholders. While IRDA adopts a business facilitative approach, it is expected that all insurance companies would put in place prudent market conduct practices and operational procedures for protecting the interests of policyholders.[36]

3.4.5 Micro insurance:

One of the main objectives of promoting financial inclusion packages is to economically empower those sections of society who are otherwise denied access to financial services, by providing banking and credit services thereby focusing on bridging the rural credit gap. The banking sector is focusing on financial inclusion on a priority basis. Vulnerability to various risk factors is one of the fundamental attributes of these sections of the society. Lack of protective elements may, thus, not serve the objective of promoting financial inclusion packages as the targeted sections may fall back into the clutches of poverty in the event of unforeseen contingencies. Hence, to provide a hedge against these unforeseen risks, micro insurance is widely accepted as one of the essential ingredients of financial inclusion packages. Micro insurance regulations issued by IRDA have provided a fillip in propagating micro insurance as a conceptual issue. The micro insurance regulations have been made effective from 2005. These regulations are in addition to the obligations for rural and social sector business to be done by all insurers on an annual basis. There were 8676 (PY 7250) micro insurance agents operating in the micro insurance sector as at the end of 2009-10. The new business premium secured during the

[36] Ibid.,

year was 243.41 crore (205.95 crore in 2008-09) on 1.68 crore lives (1.26 crore lives in 2008-09) in group category and 158.22 crore premium (36.57 crore in 2008-09) on 0.30 crore policies (0.22 crore policies in 2008- 09) in the individual category. An amount of 178 crore (154.63 crore in 2008-09) was paid on 43463 claims (50338 claims in 2008-09) in group category and 8.19 crore (3.31 crore in 2008-09) on 7508 policies (2527 policies in 2008-09) in the individual category during the year 2009-10. [37]

3.4.6 Investments by the insurance sector:

During 2009-10, the IRDA aligned the definition of 'infrastructure facility' with that of the Reserve Bank of India (RBI) thereby creating more room for the insurers to invest in infrastructure sector. The Authority has also relaxed the ceiling of investments in infrastructure to 20 per cent in a "single" investee company as against 10 per cent earlier. The limit is applicable to the combination of both debt and equity taken together without sub ceilings in instruments satisfying certain criteria. An additional exposure of 5 per cent has been permitted in 'debt' alone with prior approval of the respective insurer's Investment Committee. Further strengthening on the risk management structure, IRDA has issued guidelines on the scope for "Internal and Concurrent Audit" for investment operations of insurance companies to monitor investment of both traditional and unit linked portfolio, at a closer level with the aim of mitigating risk. Similar, stipulations are also applicable to nonlife insurance companies. The guidelines for audit of Investment Risk Management Systems and Processes were also issued during the year. The total funds invested by life insurers as on 31st March, 2010 was Rs.12,05,155 crore (Rs.9,16,365 crore

[37] Ibid.,

in 2008-09), of these Rs.3,31,619 crore (27.52 per cent of total funds) represents ULIP (Unit Linked Insurance Policies)funds and the remaining Rs.8,73,536 crore (72.48 per cent) is the contribution by traditional products. The share of ULIP funds in total investments has continued to grow in recent years reflecting the public preference for these products. During 2009-10, ULIP funds contributed 55 per cent of the incremental investments (26.39 per cent in 2008-09). While ULIP funds contributed Rs.1,58,856 crore (Rs.39,686 crore in 2008-09) of the incremental investments, the contribution by the traditional products was Rs. 1,29,934 crore (Rs. 1, 10,710 crore in 2008-09). Non-Life insurers have contributed 5 per cent of total investments made by the insurance industry. The total amount of investments made by the sector, as on 31st March, 2010, was Rs.66,372 crore (Rs.58,893 crore as on 31st March, 2009). During 2009-10, the net increase in investments by the non-life industry stood at Rs.7,479 crore (12.70 per cent growth over previous year). [38]

3.4.7 Initiatives at enhancing public disclosures:

With a view to improving transparency in operations, the Authority has been working towards enhancing disclosures to be made by insurance companies on periodic basis. A major step in this direction has been the issuance of disclosure guidelines in January, 2010. The stipulations on disclosures to be made by insurance companies have been strengthened by the Authority to fill the gap in availability of information in the public domain. These disclosures are required to be made through (i) Publication in Newspapers; and (ii) Hosting on the respective company websites, effective from the period ended 31st March, 2010. This initiative has placed

[38] Ibid., p 239.

the insurance companies, which are presently not publicly listed entities, at par with the listed entities in the corporate world in terms of public disclosures. Listed corporate entities are governed by the terms of the Listing Agreement, which amongst other things provides for public disclosure of performance on a quarterly basis.[39]

3.4.8 Disclosures in the Prospectus Document:

Public disclosure of risks faced by the insurers is critical for ensuring a fair and orderly growth of the insurance sector. The disclosures are required to be reliable and timely to ensure efficiency of the markets. The disclosures also provide necessary feedback to the insurance regulator to ensure safety of investors as well as the policyholders. While individual policyholders may not have the necessary ability and resources to undertake the task of assessing the insurers, other stakeholders, including the analysts in the market can provide necessary inputs based on the disclosures made by the insurance companies. Several insurance companies will be completing 10 years of their operations shortly, after which they may be allowed by the Regulator to go for an Initial Public Offer (IPO). It is essential that the investors are fully aware of the financial performance, company profile, financial position, the risk exposure, elements of corporate governance in place, and the management of the insurance companies. The Authority is participating in the discussions at the meetings of the Standing Committee on Disclosures & Accounting Issues (SCODA) set up by Securities and Exchange Board of India (SEBI) to finalise the disclosure requirements for insurance companies in the prospectus document. While laying down the stipulations on disclosure requirements, the Authority has drawn on the

[39] Ibid., 239.

international best practices in this regard. It is proposed that the disclosure requirements for the life and non-life companies would be separately mandated given the nature of their respective businesses.[40]

3.4.9 Financial Condition Report (FCR) for non-life insurance companies:

The non-life insurance companies have been mandated to submit the Financial Condition Report annually, effective 31st March, 2010 for the said financial year in the prescribed format. The objective of the FCR is to facilitate analysis of the current block of business as on the valuation date to bring out clearly the challenges the insurers face in terms of meeting the solvency requirements, their profitability and other risks viz. morbidity, liquidity, credit and expense, investment return, asset-liability mismatch, etc. This experience will also indicate the insurer’s position on these parameters for the next one year. With this initiative, the Authority has expanded its mandate on the submission of the FCR beyond the life insurance companies to also bring in the nonlife insurers within the ambit of such reporting.[41]

3.4.10 Initiatives at AML/ FATF:

Under the existing framework, the Inter-Ministerial Coordination Committee on Anti- Money Laundering AML/CFT (IMCC) has been set up as the coordinating body on issues relating to membership into Financial Action Task Force (FATF) and further follow up processes. The inputs for the process and implementation of the recommendations are being handled by the respective regulators/agencies. Based on the initiatives of the

[40] Ibid.,

[41] Ibid.,

respective regulators/agencies India has been granted membership of the FATF in June, 2010. Concerns expressed by FATF in terms of implementation of certain recommendations are being addressed through the approved action plan which has been submitted to the secretariat of the FATF. The existing framework has worked satisfactorily and has delivered in terms of India being granted the membership of FATF. More recently, the National Regulatory Framework Assessment Committee comprising of representatives from the financial sector regulators and the Government agencies has been constituted to address various regulatory concerns and to facilitate the process of plugging the various gaps observed in compliance with the various recommendations. IRDA issued the guidelines on Anti-Money Laundering Programme for the insurance industry on 31st March 2006. Insurers are required to ensure that a proper AML policy framework is in place effective from 1st August 2006 in case of life insurance companies and 1st January 2007 in case of non-life insurance companies.[42]

3.4.11 Data Warehouse:

The Authority has constituted the Insurance Information Bureau (IIB), an advisory body which is collecting, processing and disseminating data. IIB has been formed to ensure that the business data of insurance companies is collected and processed in an orderly manner and is made available at regular intervals. Hence, it is useful for the various market players, researchers, policyholders as well as the public at large for real time decision making. IIB functions as a single point official reference for the entire data requirement on the insurance sector. All the necessary

[42] Ibid.,pp 239-240.

decisions regarding processing and dissemination of data are being undertaken as per the policy laid down by the Bureau. All non-life insurers are required to upload the insurance data on motor, health and other lines of business online as per the data formats prescribed and provided by IRDA. As part of the initiative, aggregate level data for the nonlife industry as a whole is made available to the insurers for making better underwriting decisions.[43]

3.4.12 Grievance Redressal:

The Consumer Affairs Department of IRDA handles policyholder grievances, apart from carrying out awareness campaigns on insurance. The Grievance Cell looks into the complaints from policyholders against life and non-life insurance companies. Prospects and policyholders are advised to first file their complaints with the respective insurance companies. The Grievance Cell facilitates redressal by taking up the complaints with the company. Where required, investigations and enquiries are carried out by IRDA. Recently, IRDA has provided an alternative channel for prospects and policyholders to lodge complaints with the Grievance Cell by launching the IRDA Grievance Call Centre (IGCC). The IGCC receives and registers complaints through a Toll Free number. Complainants can also track the status of their complaints through IGCC. The Authority is also in the process of implementing the Integrated Grievance Management System (IGMS) through automation of the Grievance Cell for on-line registration of complaints. The proposed automated system would also enable on-line verification of status and redressal. Further, under the Corporate Governance guidelines, the

[43] Ibid., p 240.

Authority has also mandated that insurers shall have in place the Policyholder Protection Committee.[44]

3.4.13 ULIPs:

With a view to protecting the interests of policyholders, the IRDA has taken a number of initiatives. The objective of these initiatives is to rationalise the product features through such clauses as (i) minimum lock-in period being increased from three years to five years, with the stipulation being applicable to even top-ups; (ii) charges on Unit Linked Insurance Products (ULIPs) have been mandated to be spread evenly over the lock-in-period; (iii) ULIPs, other than single premium products, to have a minimum premium paying term of five years; (iv) individual products to have a minimum policy term of five years, although group products continue to be on annual renewable basis; (v) all products including pension/annuity must have a minimum sum assured payable on death; (vi) ULIP pension/ annuity products shall offer a minimum guaranteed return of 4.5 per cent per annum or as specified by IRDA from time to time; (vii) top up premium must also have insurance cover; (viii) the facility of partial withdrawal to be permissible only after the fifth policy anniversary for individual products. Partial withdrawals in case of pension/annuity products are not allowed and the insurer shall convert the accumulated fund value into an annuity at maturity; and (ix) all ULIPs, other than pension and annuity products must provide the prescribed minimum mortality/health cover. (x) Variable Insurance products: Guidelines have been issued by the Authority on Variable Insurance products (VIP) on 23rd November, 2010. Under the guidelines, all VIPs shall only be offered under nonunit linked platform

[44] Ibid.,

either as participating or nonparticipating products and shall not be permitted under unit linked platform. The guidelines provide that benefits under these products would be payable either on death or maturity. The guidelines further require that only regular premium products with minimum policy and payment terms of 5 years are allowed. Single premium, limited premium and group insurance contracts are not allowed under these products. [45]

3.4.14 Credit Insurance:

Guidelines on Trade credit insurance policies were issued by the Authority which are effective from 13th December, 2010, with a view to standardizing the features of these products. All insurers are required to revise their products in line with the File & Use guidelines and the trade credit insurance guidelines. These guidelines specify that a policyholder should necessarily be a supplier of goods and services and his coverage under the policy should be towards loss incurred due to non receipt of trade receivables. The credit cover and can only be issued on whole turnover basis covering all buyers.[46]

3.4.15 Corporate Governance guidelines for insurance companies:

Corporate Governance guidelines have been put in place for insurance companies. As per the stipulations, insurance companies were required to be compliant with the guidelines effective from 1st April, 2010. The Guidelines provide for the structure, responsibilities and functions of the Board of Directors and the senior management of the company. The guidelines cover the major structural elements of an insurance company,

---

[45] Ibid.,

[46] Ibid.,

including governance structure; Board of Directors; Control functions; senior management - CEO and other senior functionaries, role of Appointed Actuaries, external audit – Appointment of Statutory Auditors; Disclosures; Outsourcing; relationship with stakeholders; interaction with the supervisor; and the whistle blowing policy. Insurers are required to have a minimum of two independent directors on their Board as long as they are unlisted, and all directors must meet the ‘fit and proper’ criteria. The Guidelines have further laid down stipulations on formation of mandatory committees - Audit; Investment; Risk Management; Asset Liability Management (in case of life insurance companies); Policyholder Protection; and optional committees - Remuneration; Nomination; and Ethics.[47]

3.5 Structure and Functions of General Insurance Sector in India

The General Insurance Corporation (GIC) was incorporated as a holding company in 1972 to look after the non-life insurance business ,and it commenced business on January 1st 1973.The corporation (GIC) , is separate and distinct from the subsidiary companies. The corporation is concerned with broad policy matters affecting the entire general insurance industry.

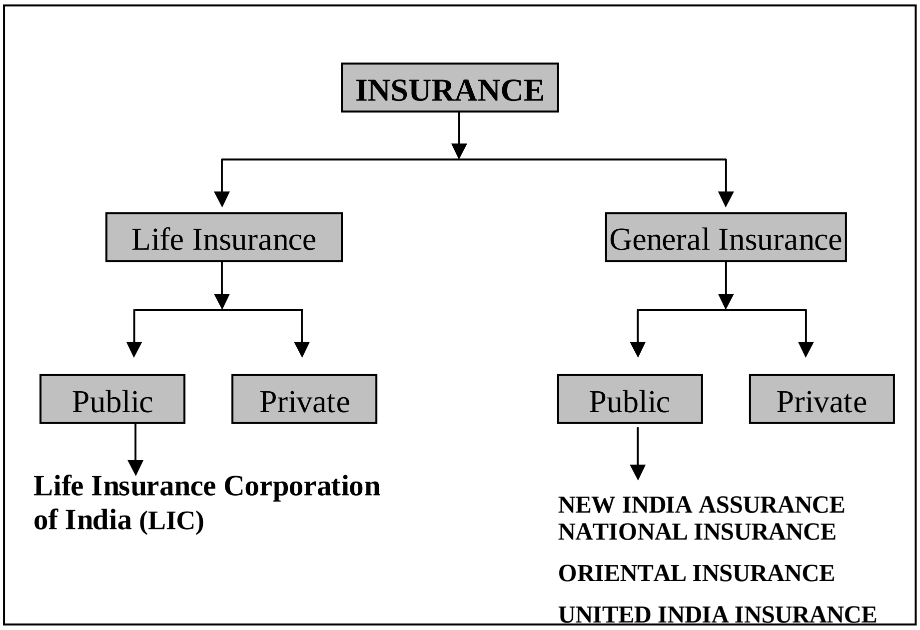
The corporation does not write any direct insurance except the aviation insurance business. It receives by way of reinsurance of all the direct business written in India by the subsidiary companies. GIC which was holding company of the four public sector general insurance companies has been delinked from the latter and approved as the “Indian Reinsurer” since 3rd November 2000.

[47] Ibid.,p 241.

The subsidiary companies

The functions of the companies are to underwrite all types of general insurance business both direct and by way of reinsurance India. The companies also operate in overseas.

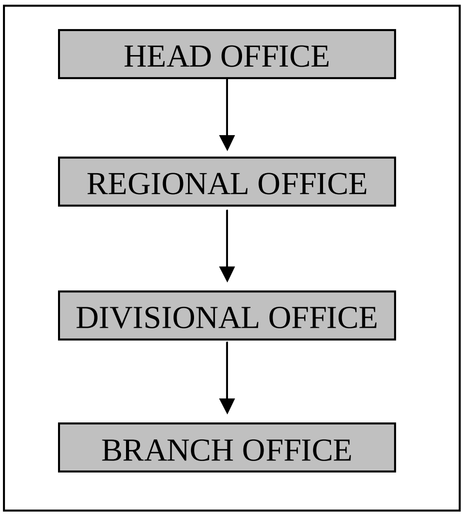
The companies are autonomous with their boards of Directors and Management. The Head Offices are responsible for over all planning, direction and control of Indian and foreign business. The Head offices are also concerned with final accounts, investment, reinsurance and other specialist functions.



Source: Survey Data

Figure 3.1 Structure of Insurance Sector

The organizational structure of the Companies may be illustrated by the following chart.



Source: Survey Data

Figure 3.2 Organizational Structure

All the four companies are having their Regional Offices located at metropolitan cities and other centres in India for effective coordination, supervision and control of Divisional and Branch office in their jurisdiction.

The primary functions of the Divisional offices relate to development of business and its administration including supervision of branches, if any, in their jurisdiction. The development function involves appointment of inspectors and agents, and marketing, planning and procurement of business. The administrative function involves issue of policies, settlement of claims, maintenance of accounts and general administration like personnel and establishment.

The functions of branches are also similar except that they are not empowered to appoint inspectors and settle claims except few classes within certain limits. Broadly speaking, the functions of the branches would include development of business direct and through inspectors and agents, collection of premium, issue of receipts, cover notes, policies etc. minor payments like commission, rent etc and maintenance of accounts in that respect and coordination and control over inspectors.[48]

Over the past century, Indian insurance industry has gone through big changes. It started as a fully private system with no restriction on foreign participation. After independence, the industry went to the other extreme. It became a state –owned monopoly. In 1991, when rapid changes took place in many parts of the Indian economy, nothing happened to the institutional structure of insurance; it remained a monopoly. Only in 1999, a new legislation came into effect signalling a change in the insurance industry structure. IRDA permitted private sector and allowed foreign capital to do business in insurance through joint ventures. Since then, in general insurance industry, 15 private players, of whom 14 are in collaboration with foreign partners, are competing with the four state owned insurance companies. A few specialized state owned firms are also functioning in the industry like ECGS and Agriculture Insurance Co. (Table.No.3.2.).Apart from these there are three private players in health Insurance business.[49]

48 General Insurance Agents' -Practical Training Course Material (2006),Compiled by Alert Academy Training Institute approved by IRDA, pp 192-194.

49 Handbook on Indian Insurance Statistics (2007-08) IRDA India Publication, Parishram Bhavan,Hyderabad, pp 56-57.

Table 3.2 Registered Private General Insurance Companies in India

Sl.No	Name of the Company(Insurers)	Foreign Partners	Regn No.	Date of Registration	Year of Operation 1
1.	Royal Sundaram	Royal Sun Alliance, UK Alliance Insurance	102	23.10.2000	2000-01
2.	Reliance General Insurance Co	……………………..	103	23.10.2000	2000-01
3.	IFFCO TOKIO General Insurance Co.	Millea Asia Pte. Ltd., Japan	106	04.12.2000	2000-01
4.	TATA AIG Insurance Co. Ltd.	American International Co USA	108	22.01.2001	2000-01
5.	Bajaj Allianz General Insurance Co.	Allianz, Germany	113	02.05.2001	2001-02
6.	Cholamandalam MS General Insurance Co	Mitsui Sumitomo, Japan	123	15.07.2002	2002-03
7.	ICICI Lombard General Insurance Co	Fairfax through its . affiliates, Canada	115	03.08.2001	2001-02
8.	HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)	ERGO, Germany	125	27.09.2000	2002-03
9.	Star Health & Allied Insurance Company Limited	Individual Promoters, UAE	129	16.03.2006	2006-07
10.	Apollo DKV Insurance Company Ltd.	Apollo Hospital Enterprises Ltd.; Apollo Energy Company Ltd.; PCR Investments Ltd. & DKV, Germany (August 3, 2007)	131	03.08.2007	2007-08
11.	Future Generali India Assurance Company Ltd.	Pantaloon Retail Ltd.; Shendra Infrastructure Development Ltd. (SIDL); Participatie Maatschapij Graafsschap Holland NV, Netherlands ("Generali")	132	04.09.2007	2007-08
12.	Universal Sompo General Insurance Company Ltd.	Sompo, Japan	134	16.11.2007	2007-08
13.	Shriram General Insurance Company Ltd.	Santam, South Africa	137	08.05.2008	2008-09
14.	Bharti AXA General Insurance Company Ltd.	AXA Holdings, France	139	27.06.2008	2008-09
15.	Raheja QBE General Insurance Company Ltd.	QBE, Australia	141	11.12.2008	2008-09

Source: Handbook On Indian Insurance Statistics - 2007-2008, IRDA, pp 57-58 .
...... Not Applicable

Standalone Health Insurers (3)

Apollo Munich Health Insurance Co. Ltd., Max Bupa Health Insurance Co. Ltd., Star Health and Allied Insurance Co. Ltd

Specialised Insurers (2)

Export and Credit Guarantee Scheme (ECGS) and Agriculture Insurance Co.(AIC)

Re-insurers (1)

General Insurance Corporation of India (GIC) .

3.6 Functions of General Insurance Companies

The important activities on a non-life insurance company are:

a) Procuring from prospective buyers of insurance applications, also called proposals, for grant of requisite insurance cover etc.

b) Scrutinizing the applications or proposals, arranging for inspections, wherever necessary, of the object of insurance and taking a decision of the grant of the cover applied for. This activity is called underwriting and including deciding on the rate of premium to be charged.

c) Issuing a policy document in evidence of the contract of insurance; setting out the terms and conditions of the contract, exclusions and warranties decided upon at the time of underwriting.

d) Processing and paying and claims that may arise after arranging for surveys and assessments by duly competent professionals.

e) Other supporting activities like investments of funds, maintenance of accounts, management of personnel, processing of data, compliance with laws and regulations of the country.

f) Depending on the size of operations, there are different ways of organizing for these activities. All these activities may be concentrated at one place or may be distributed among different offices. If the business is being transacted in many countries, the arrangement in each country may follow different patterns depending on the laws of the respective countries and the nature of the market for business.[50]

3.7 Opening up of the Indian Insurance Sector

The decision to open up the insurance sector witnessed great public debate. The opening up of this crucial sector lacked general consensus. More than 1.54 crore people petitioned the Parliament against opening up of the sector on the basis of the unhappy experience of the pre nationalisation days. Brushing aside objections both within and outside the parliament, the government went ahead to liberalize the insurance sector.[51]

The government came out with the following arguments in justification of liberalization:

a) Insurance penetration and density in the county is low.

b) The county needs massive investments in infrastructure and liberalizing insurance and pensions will help mobilization of long term funds.

[50] ‘General Insurance Agents’- Practical Training Course Material (2006), Compiled by Alert Academy Training Institute approved by IRDA, pp 191-192.

[51] Dr. M. Vidyasagar Reddy (2010) , “A Decade of Liberalisation of Insurance Sector in India”, Journal of Commerce & Management Thought, Vol. I, No. 3 / July 2010, p 238.

c) Allowing foreign companies would help them bring a substantial portion of their worldwide premium funds into Indian infrastructure and

d) India is a large economy and a big market with ample space for both private and public sector.

Those opposed to opening up argued that public sector insurance industry has made significant progress in achieving the tasks and objectives of nationalization. The public sector has given total security to the policyholders and made substantial investments in infrastructure and social sector. Insurance penetration and density depends on the levels of income and the ability to save after meeting the basic requirements of life. Comparison with different countries on the levels of penetration and density ignoring the levels of income is unjustified. They further argued that it makes no sense to say that by allowing foreign capital to do business these companies would invest their global premium funds in India. The investment decisions are always based on profitability and security and surely they would not be made out of gratitude.[52]

These arguments both in favour and against apart, two important developments influenced the opening up of the sector. First, in the struggle between the two contending economic systems, capitalism registered a significant gain with the disintegration of Soviet Union in 1980. The absence of a countervailing force helped the developed nations led by the United States demand opening up of third world economies. The United States threatened imposition of sanctions against India under Super 301 if the insurance market was not opened. The second was the finanicialisation

[52] Ibid.,

of capital. Beginning from 1970, the world witnessed huge concentration of wealth and internationalization of finance capital. The financial wealth gained autonomy from production. Financialisation enabled creation of huge artificial wealth totally unconnected from production of goods and services. This process was helped by governments that adopted policies of deregulations on the understanding that markets are self-regulation and all knowing. The huge concentration of finance capital and its internationalization demanded newer and greater spaces for its investments demands, therefore, were made on the developing countries to liberalize their economies and open them to the international finance capital. Neo liberalism became the dominant ideology dictating economic and political across the world. The role of the state was curtailed and excessive faith was placed in the markets policies. Therefore, it is not right to look at neo-liberalism just as a radical economic liberalism. The events since then have clearly proved that is an ideology that is hostile to the poor, workers and the welfare state concept and promoted massive inequalities both within the nations and among the nations. Beginning from 1991, the dominant classes in India fully embrace neoliberalism. The Industrial Policy of 1956 which had envisioned building up of a self reliant economy through a dominant role of the public sector was given up. The dismantling of public sector began in order to vacate economic space in favour of the private sector. Therefore, it may not be right to say that there was any resistance to the demand for opening up the Indian economy and liberalizing the financial sector. The Indian government was too willing to do it. [53]

However, in order to gain legitimacy in public domain, Malhotra Committee was appointed to suggest reforms in insurance sector. Similarly, K.P. Narasimham Committee was asked to suggest reforms in the banking

[53] Ibid., p 239.

sector. The reports of both these committees were tailor made. These committees recommended placing Indian financial sector into the global financial architecture. Despite public opposition to these recommendations the government went ahead to liberalize the financial sector. Therefore the real reasons for opening up the Indian financial sector were the embracing of neo-liberal ideology and accommodation of the interest of the international finance capital. [54]

3.7.1 General Insurance products before and after deregulation

Before deregulation in 1999, general insurance products that were available in the market were rather limited and similar across the four GIC subsidiaries. They could also be classified by whether they were regulated by tariffs: fire insurance, motor vehicle insurance, engineering insurance and workers' compensation etc that came under tariff; and burglary insurance, mediclaim, personal accident insurance etc that did not. In addition, most specialised insurance (eg. racehorse insurance) did not fall under tariff regulations. After the opening of the sector to private players, more new products were introduced. To take an example, one joint-venture non-life insurer introduced 29 different products during the year, according to the IRDA. They included products liability, corporate cover, professional indemnity policies, burglary cover, individual and group health policies, weather insurance, credit insurance, travel insurance and so on. Some of these products were completely new (eg. weather insurance) while others were already available through the public insurance companies.[55]

[54] Ibid.,

[55] Tapen Sinha(2005), "The Indian insurance industry:Challenges and Prospects", Institute of Insurance and Risk Management India, Swiss Re publications,p 21.

3.7.2 Investment portfolio of the GIC

In India, the pattern of investment was, prescribed in great detail by the government. The statutory requirement enacted by the Indian Parliament in various acts insisted funds of the insurance companies has to be invested in Government securities prescribed in the Act. The investment potential of this sector was one of attractive points which government considered at the time of nationalization of insurance sector. Insurers are required to fulfill certain social commitments as well. As many of the social welfare measures are funded by the state in almost every country, insurance companies are not just regulated but have been mandated to hand over a portion of their funds to the state for investment in infrastructure and for social development through government bonds and securities. [56]

IRDA had recommended that the mandated investment of funds of GIC should be reduced and the composition of portfolios should be flexible, so that portfolio diversification will bring about improvements in returns. On the basis of this report, some changes in the policy have recently been introduced. The IRDA regulations also followed more or less earlier pattern, except that the quantum of investment in government securities etc, has been reduced significantly.[57]

3.7.2.1 Investment allocation and norms

Type of investment percentage

For General Insurance, Section 27B of the Insurance Act of 1938 was amended in 1976. The guideline for investment was set out as follows. It

[56] Dr.P.S.Palande, R.S. Shah, M.L.Lunwat (2003) ,"*Insurance in India, Changing Policies and Emerging Opportunities*" , Sage Publications,NewDelhi,p 324.

[57] Ibid.,

was stipulated that the GIC should invest its funds in the following manner. (Table 3.3)

Table 3.3 Type of Investments by the insurance sector prior to April 1, 1995.

Type of Investments	Percentage of controlled funds
i). Central and State Government Securities	Not less than 12.5%
ii). Special deposits in Central Govt. Securities	Not less than 12.5%
iii). State govt. and other approved securities, debentures, bonds of Public Sector Units (PSUs)	Not less than 10%
iv). Loans to Housing and Urban Development Corporation (HUDCO)/ Delhi Development Authority (DDA)/GIC Grihavitta Ltd. and State Govt. for housing and fire fighting equipment.	Not less than 35%
v). Market investments	Not less than 30%

Source: Dr.P.S.Palande, R.S. Shah, M.L.Lunwat (2003) *"Insurance in India, Changing Policies and Emerging Opportunities"*, Sage Publications, NewDelhi, p 325.

After April 1, 1995, the pattern was slightly changed as given below. (Table 3.4)

Table 3.4 Type of Investments by the insurance sector after April 1, 1995.

Type of Investments	Percentage of controlled funds
i). Central Government Securities	Not less than 20%
ii). State Government Securities and other guaranteed securities	Not less than 30%
iii). Housing and loans to state governments for housing and fire fighting equipment	Not less than 5%
iv). Approved Investments	
a) Infrastructure and Social Sector	Not less than 10%
b) Others governed by exposure/prudential norms.	Not exceeding 30%
c) Other than approved investments governed by exposure/prudential norms	Not exceeding 25%

Source: Dr.P.S.Palande, R.S. Shah, M.L.Lunwat (2003) *"Insurance in India, Changing Policies and Emerging Opportunities"*, Sage Publications,NewDelhi,p 326.

Table 3.5 Type of investments prescribed to the insurance sector in the post reform period

Type of Investments	Percentage of controlled funds
i). Central Government Securities	Not less than 20%
ii). State Government Securities and other guaranteed securities	Not less than 30%
iii). Housing and loans to state governments for housing and fire fighting equipment	Not less than 5%
iv). Investments in Approved Investments	
a) Infrastructure and Social Sector	Not less than 10%
b) Others to be governed by Exposure Norms. However the investments in ‘ Other than in Approved Investments’ in no case exceed 25% of the assets.	Not exceeding 55%

Source: IRDA Annual Report 2001-02, p 77.

The above table 3.5. Shows the norms of investments after the passage of the IRDA Act. Perhaps the most striking features of these norms is that they still operate in the same form of quantitative restrictions imposed on different types of business as they did in earlier periods.

3.8 Strength and Weakness of the Insurance Industry

The insurance industry, which has been in existence for so long in India, naturally acquired some strengths-but it also developed some shortcomings. The Malhotra Committee apart from eliciting opinions from the persons interviewed, also commissioned an agency to make an independent assessment of the prevailing public opinion about the strength and weakness in the working of the organization and drew some conclusions, the main among which are described below.

Strengths

After nationalization, the Government of India bring about some qualitative improvements in the working of the industry. This was in terms of:

- improved delivery systems,
- a larger number of products on offer, geographical spread, reach and presence in remote areas served by a wide network of intermediaries,
- systems to manage very large funds collected almost on a daily basis,
- substantial fundings of infrastructure creation,
- fulfillment of social obligations,
- and better service through a fair amount of computerization.

As a result, over the years the nationalized industry built up a sound financial base, and improvements in the areas mentioned above. It is served by a large and qualified staff,some of it with experienced professional talent.

There have been some more initiatives from the public sector units to further improve their work culture, but being of recent origin, they are still to bear full fruit and so the quality of work still leaves tremendous scope for improvement.

Even in a difficult field like reinsurance, the general insurance sector under the government control as acquired a good standing in the international market.

All these strengths have put the public sector units in a position to successfully compete with other companies if they are freed from unnecessary government controls and are allowed to take timely, forceful and well-directed action.

Weaknesses

It was to be expected that and entity with a longstanding monopoly position would develop certain weakness too. Certain weaknesses as noted by the Malhotra Committee that did surface the nationalized insurance industry are briefly explained below.

The weak areas of the industry were perceived to be the following:

- Poor customer service;
- Vast marketing and services network inadequately responsive to customer needs.
- The technical knowledge of most agents and development officers was also inadequate and they did not provide sufficient information about the scope of available covers.
- Insurance covers were expensive.
- The awareness level of various plans of insurance was quite limited even amongst the policyholders particularly in the rural areas.
- In addition to excessive staff,there was need for improvement in the work culture, productivity and discipline among the employees.
- Similarly, the spread of rural-and welfare-oriented insurance was very limited.
- Technology was also not very well developed.

Governmental interference affected the functioning of the industry in the public sector mould. There was excessive government-directed investment of funds, which resulted in poor investment skills. Insurance executives felt in inhibited in exercising discretion and taking timely and fair decisions because of apprehensions with regard to external agencies like the Central Vigilance Commission and the Comptroller and Auditor General. However, these checks and balances cannot be done away within a public sector, where large public funds are involved. Further, the phenomenon of corruption has also reared. Its ugly head, which is exacerbated because of the lags in computerization which had seriously affected operational efficiency and customer service.

In the case of general insurance industry the perception of the customer was that the four subsidiary companies were not effectively competing with each other due to tariffs and market agreements in respect of nontariff areas; and that GIC had been exercising excessive and detailed formal and informal control over their operations. Fair settlement of the claim amount, the speed of claim settlement, speed and accuracy in payments and the handling of grievances were the problem areas.

The Tariff Advisory Committee was virtually an in-house wing of GIC and did not enjoy autonomy commensurate with its statutory status. The marketing personal lines of insurance was also poor.

In anticipation of the opening up the insurance sector to private competition, the general insurance industry had formed a core group and prepared a vision(2001) statement in 1997, that recognized its weakness as follows-

- Underwriting losses
- Low employee morale
- Overstaffing
- Weak penetration in rural areas
- Dissatisfied customers
- Low product innovation
- Rigid control mechanisms

Opportunities

The variety of constraints put on it by its owner,viz. the government was both a reason as well as an alibi for the under- performance of the nationalized insurance sector. Now that restrictive government policies are being given up (almost reluctantly) and public sector units are being empowered to make independent decisions, they should be possible for them to prove their potential strength exploiting the tremendous opportunities such as the following substantial potential for growth.(with the existing products and set up);exploring untapped niche areas; and forming limited joint ventures with suitable partners. Easy access to developments in the more advanced markets provide further opportunities to upgrade their working. Technological, financial or specific area-based avenues of absorbing improved systems are also now more easily available.

The expectation that private sector entrance would necessarily take time to secure a foothold in the market was in itself was an opportunity. In practice, though, the new entrants have made inroads faster than expected and are now all set to expand their presence in the market. It is therefore, upto the public sector companies to move quickly and at least prevent further inclusion into their territory. If they do not move fast enough a valuable opportunity will have been lost.

Threats

These opportunities will of course accompanied by threats in the competitive market and may be of the following nature.

Private entrants are naturally targeting the profitable and more lucrative segments by providing better service, new products, and flexibility. They are targeting the bigger corporate and other clients in the well-established metropolitan centres. These new entrants have succeeded in eating into the shares of the existing entities. This share will increase substantially, if not in the immediate future, but in the long run , if the existing incumbents do not radically alter their marketing structure and practices.

One very serious danger that the Government-owned units are likely to face is that even if at some point of time, the Government does decide to disinvest a portion of its equity; they may not be fully free from government interference. They could face a peculiar problem that although on paper interms of a legal definition, they would not be public sector units. In effect, their working could be no different from what it was before their ownership pattern changed. This could be a genuine threat since they would be competent with units which are from such artificial and unnecessary restrictions.

The new units, equipped with state-of-the-art equipment and innovative procedure would have an in-built edge over the erstwhile public sector units. Due to possible negative impact on employment, there was no serious effort at updating technology or equipment. The resultant inadequate investment in infrastructure could lead to their lagging behind in the race. One of the trickiest problems is going to be deal with the surplus staff which they are perforce required to carry, as against the leaner establishments with which their competitors have started their operations. This threat has to be carefully and skillfully handled because sooner or later, some downsizing will have to be resorted to even while protecting the interest of the employees.

This analysis suggest that the industry has to a carefully chart out its strategies on the basis of an appreciation of the strengths and weakness as also the possible threats and opportunities. It lends further support to the argument favoring opening up and restructuring of the insurance sector.[58]

India's approach to institutional reform has been built on the belief that sustainable growth is only possible in an environment which values and promotes financial strength, and stability, management capability and public accountability. It was also realized by the Indian law-makers that effective insurance legislation is a necessary foundation for any meaningful reform in the insurance sector. Therefore, in 1999, the governing legal framework was significantly strengthened with the enactment of the Insurance Regulatory and Development Authority (IRDA) Act, 1999. To operationalise various provisions of the IRDA Act, 1999 and Insurance Act, 1938 the IRDA has so far issued 33 regulations including amendments covering all aspects of insurance business. The insurance sector will grow steadily rather than rapidly. The law and regulations in place are adequate to ensure financial strength and solvency of insurers. The regulator’s challenge lies in monitoring compliance to the several requirements. Delay in taking

[58] Dr.P.S.Palande, R.S. Shah, M.L.Lunwat (2003) *“Insurance in India, Changing Policies and Emerging Opportunities”,* Sage Publications,NewDelhi,pp64-69.

steps against erring parties would erode the credibility of regulations and customer confidence. In these ten years since opening up, new insurance companies have faced the challenge of convincing an average customer that the commitments under the polices will be met by the new companies and that their stability is no less than that of the public sector companies. This depends to a great extent on the credibility of the regulations and the regulator. Early detection of problems and quick solutions are vital for maintaining the confidence of the average consumer.

…..൶൫…..

Chapter 4

COMPARATIVE ANALYSIS OF THE PERFORMANCE OF PUBLIC AND PRIVATE SECTORS IN GENERAL INSURANCE

Contents

This chapter is an attempt to evaluate how the public & private sector general insurance companies in India are performing in the post-liberalized era of insurance sector by taking into account the gross direct premium and market share of these companies from 2001-2010. This chapter also compares the international general insurance penetration and density from 2001 to 2009.

4.1 General Insurance Penetration and Density

One of the main reasons why the insurance industry was opened up for competition was that the policymakers and experts thought, the professionally managed private insurance companies would be able to play a significant role in making deep inroads into the underinsured and uninsured sectors of the industry. The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., Insurance Penetration and Insurance Density. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP). Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison). [1]

4.1.1 Insurance Penetration:-

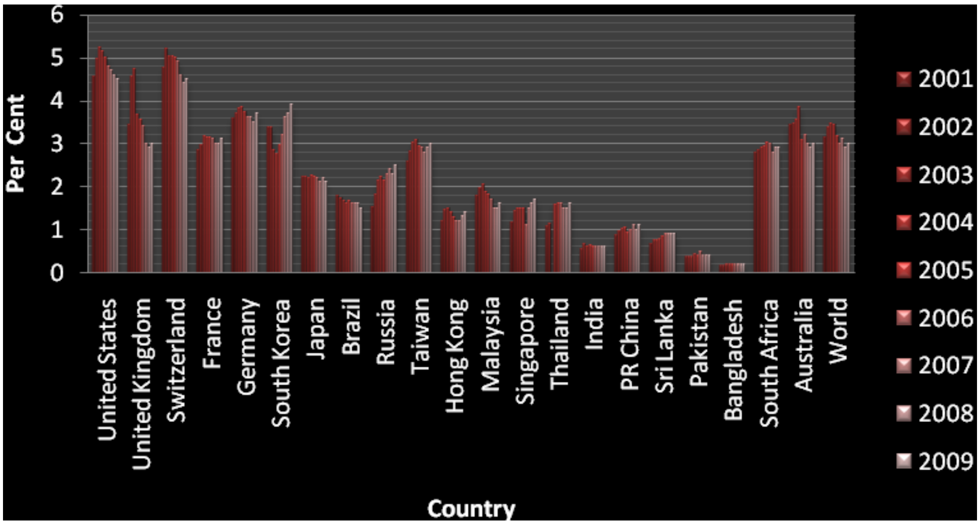
The penetration of non-life insurance sector in the country remains near-constant for the last 9 years at around 0.60 per cent (Table 4.1.) However, there is a marginal increase in density, which has increased from USD 2.4 in 2001 to USD 6.7 in 2009 (Table 4.2).The growth in the insurance industry has been more rapid than the overall growth in the economy.

[1] IRDA Annual Report (2009-10), p12.

Table 4.1 International Comparison of Insurance Penetration 2001-2009 (in per cent)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
United States	4.57	4.98	5.23	5.14	5.01	4.80	4.70	4.60	4.5
Unite d Kingdom	3.45	4.56	4.75	3.68	3.55	3.40	3.00	2.90	3.0
Switzerland	4.76	5.22	5.02	5.02	4.99	4.90	4.60	4.40	4.5
France	2.85	2.97	3.16	3.14	3.13	3.10	3.00	3.00	3.1
Germany	3.59	3.7	3.82	3.86	3.73	3.60	3.60	3.50	3.7
South Korea	3.38	3.38	2.86	2.77	2.98	3.20	3.60	3.70	3.9
Japan	2.22	2.22	2.2	2.25	2.22	2.20	2.10	2.20	2.1
Brazil	1.78	1.74	1.68	1.62	1.68	1.60	1.60	1.60	1.5
Russia	1.51	1.81	2.13	2.22	2.15	2.30	2.40	2.30	2.5
Taiwan	2.59	2.81	3.03	3.07	2.93	2.90	2.80	2.90	3.0
Hong Kong	1.21	1.45	1.5	1.39	1.29	1.20	1.20	1.30	1.4
Malaysia	1.8	1.97	2.06	1.88	1.82	1.70	1.50	1.50	1.6
Singapore	1.18	1.43	1.5	1.48	1.48	1.10	1.50	1.60	1.7
Thailand	1.08	1.15	1.2 3	1.58	1.62	1.60	1.50	1.50	1.6
India	**0.56**	**0.67**	**0.62**	**0.64**	**0.61**	**0.60**	**0.60**	**0.60**	**0.60**
PR China	0.86	0.95	1.03	1.05	0.92	1.00	1.10	1.00	1.1
Sri Lanka	0.67	0.75	0.75	0.77	0.84	0.90	0.90	0.90	0.9
Pakistan	0.38	0.38	0.38	0.43	0.40	0.50	0.40	0.40	0.4
Bangladesh	0.17	0.17	0.2	0.2	0.20	0.20	0.20	0.20	0.2
South Africa	2.78	2.86	2.92	2.95	3.03	3.00	2.80	2.90	2.9
Australia	3.45	3.46	3.57	3.85	3.09	3.20	3.00	2.90	3.0
World	**3.15**	**3.38**	**3.47**	**3.44**	**3.18**	**3.00**	**3.10**	**2.90**	**3.0**

Source: Compiled from IRDA Annual Report 2009-10, p 13 &Insurance Statistics Handbook IRDA 2001-2009, p 161.



Source: Compiled from IRDA Annual Report 2009-10 &Insurance Statistics Handbook IRDA 2001-2009.

Figure 4.1 International Comparison of Insurance Penetration 2001-2009 (in per cent)

Table 4.1 explains the general insurance penetration in India as well as at the global level. The table reveals that in the post-reform period, the general insurance penetration in India has registered a marginal increase. In 2001, it was 0.56 and then it increased to 0.64 in 2004, but it again slipped to 0.60 in 2009. At the global level, the general insurance penetration has witnessed stagnation. In United States, it increased marginally from 4.57 in 2001 to 4.60 in 2008 and again 4.5 in 2009. The figures in the case of other countries also present a similar trend. The world average also declined marginally from 3.15 to 3.0 during the corresponding period. The position of general insurance sector in India is quite discouraging as compared to other developing nations. In developing countries, the relevance of insurance to the economy is typically lower because for a large section of the population, there is hardly any disposable income with expenditure concentrated in fulfilling basic needs. The insurance penetration was 0.56

per cent in the year 2001 in India when the sector was opened up for private sector. It had increased to 0.6 per cent in 2009. The trend is that insurance penetration rises sharply as the overall economy improves.[2]

Compared to the world insurance market, India's contribution seems to be negligible. Nevertheless, the figures also suggest that there is immense scope for coverage and expansion. For any economy, the level of insurance activity is measured by insurance penetration. Increase in country's GDP signals an increase in income levels with the result, it is expected that insurance penetration shall also increase. The higher a country's income, the other things being equal, the more it will spend on all types of insurances. Thus, for India where some 200 million citizens are believed to be in the middle to upper income range, insurance demand is likely to surpass all conservative estimates. It is bound to take off with rising awareness towards the need for insurance. It is to be seen that in a population of 1.3 billion people in India, the number of lives insured is only about 15%. With such huge untapped population base, the importance of insurance is unquestioned and all emphasis needs to be driven towards imparting education and sharing knowledge. For a robust growth and deep penetration of insurance business, the key to success lies in dissemination of information and learning. [3]

4.1.2 Insurance Density:

Table 4.2 examine the general insurance density at the global level and in the Indian perspective.

---

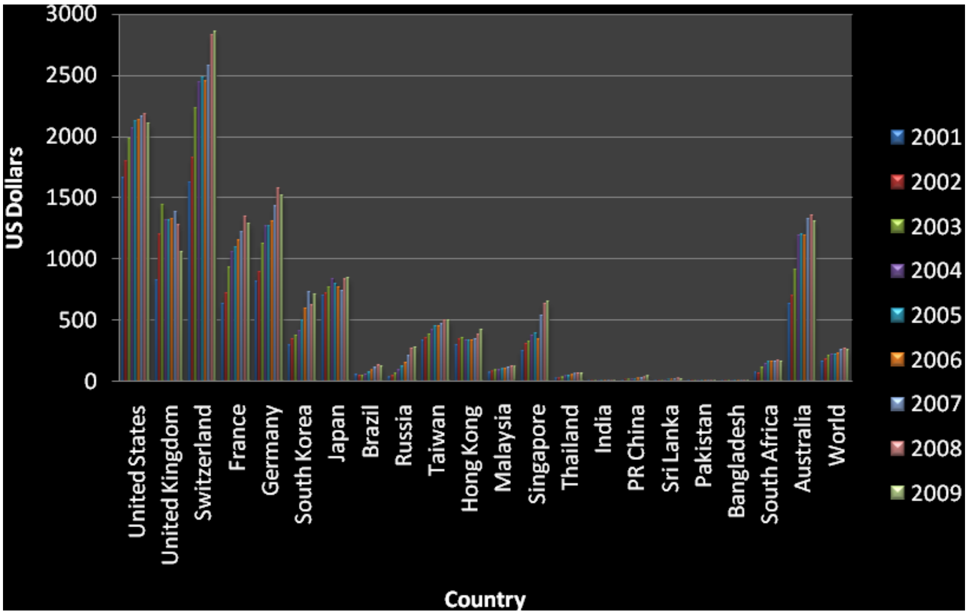
[2] IRDA Annual Report (2009-10),p 13.

[3] Geeta Sarin(2010), "Need for Insurance Education A National Priority", IRDA Journal, Volume III, No. 2 ,Feb 2010, p 33.

Table 4.2 International Comparison of Insurance Density 2001-2009 (in US Dollars)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
United States	1664.0	1799.0	1980.2	2062.6	2122.0	2134.2	2164.4	2177.4	2107.3
United Kingdom	825.9	1199.7	1441.4	1318.0	1311.9	1327.1	1383.2	1275.7	1051.2
Switzerland	1627.1	1822.7	2228.5	2441.3	2480.3	2450.1	2581.7	2827.9	2852.1
France	630.6	714.7	930.4	1057.7	1093.9	1152.9	1219.3	1339.2	1289.4
Germany	809.9	891.0	1120.8	1265.3	1268.4	1300.7	1427.9	1572.7	1518.7
South Korea	296.7	337.9	369.4	412.5	495.5	591.2	727.3	621.0	709.7
Japan	701.1	714.7	768.0	830.8	790.4	760.4	736.0	829.2	840.4
Brazil	53.2	45.0	46.8	55.2	72.1	88.4	106.9	129.1	123.8
Russia	32.6	43.5	64.3	89.6	116.5	146.9	203.3	268.1	276.4
Taiwan	327.6	354.1	383.2	414.4	446.4	450.3	462.3	499.6	494.8
Hong Kong	295.5	345.1	348.7	332.9	331.7	331.6	341.3	380.8	417.5
Malaysia	68.8	79.3	87.2	89.2	95.3	103.0	110.6	119.5	115.0
Singapore	245.8	300.6	320.3	365.4	392.0	341.2	531.2	630.0	645.6
Thailand	19.8	23.1	27.6	41.3	44.4	50.0	58.9	64.9	62.7
India	**2.4**	**3.0**	**3.5**	**4.0**	**4.4**	**5.2**	**6.2**	**6.2**	**6.7**
PR China	7.8	9.5	11.2	12.9	15.8	19.4	25.5	33.7	40.6
Sri Lanka	5.4	6.1	7.2	7.9	9.4	12.8	14.7	19.3	17.7
Pakistan	1.5	1.7	1.8	2.2	2.8	3.6	3.9	4.0	3.6
Bangladesh	0.6	0.6	0.7	0.8	0.8	0.8	0.9	1.1	1.3
South Africa	69.1	64.8	107.4	141.0	156.2	160.2	159.5	163.6	160.9
Australia	628.0	695.5	912.1	1186.3	1203.2	1191.9	1326.1	1348.6	1307.9
World	**158.3**	**175.6**	**202.5**	**220**	**219**	**224.2**	**249.6**	**264.2**	**253.9**

Source: Compiled from IRDA Annual Report 2009-10, p13 &Insurance Statistics Handbook IRDA 2001-2009, p 160.



Source: Compiled from IRDA Annual Report 2009-10, p 13 &Insurance Statistics Handbook IRDA 2001-2009.

Figure 4.2 International Comparison of Insurance Density 2001-2009 (in US Dollars)

Table 4.2 shows that the general insurance density in India has increased from \$2.4 in 2001 to \$6.7 in 2009, while in the case of United States, it increased from \$1664.0 to \$2107.3 during the same period. Even the developing countries like China, Brazil and Russia registered an impressive growth in the general insurance density. A world-wide increasing trend in the general insurance density from \$158.3 to \$253.9 can be observed from the table, during 2001-2009. [4]

It is clearly evident from the table 4.1 & 4.2 that the general insurance penetration and density in India is too low as compared to the world levels. From these figures it is recognized that India has a vast potential that is waiting to be tapped. The insurance sector was, therefore,

[4] IRDA Annual Report 2009-2010, p 13.

opened up for private sector participation with the establishment of IRDA to provide an enabling environment for the insurance industry to realize its growth potential.

But it seems that even the reform process has failed to provide the desired results despite the fact that Indian insurance sector is still unexplored and untapped.

4.2 Gross Direct Premium Trends

Gross Direct Premium is one of the important and main indicators of the performance of the insurance business. The gross direct premium of the public sector general insurance companies for the period 1991 to 2000 and gross direct premium and growth rate of public and private sectors general insurance companies for the period 2001 to 2010 (Post- reform period) has been presented in table 4. 3. and table 4.4 and 4.5.

Table 4.3 Gross Direct Premium of Public Sector General Insurance Companies during 1991-2000(Within & Outside India)
(Rs.in crore)

Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
National Insurance	672 .46	759 .80	759 .80	957 .49	1207.22	1456.45	1636.54	1853.53	2042.11
New India Assurance	1148.23	1386.79	1616.52	1776.93	2132.03	2433.64	2688.5 7	3017.6 4	3306.5 3
Oriental Insurance	629.90	726.03	837.47	983.92	1325.6	1524.2	1709.5	1969.9	2166.5
United India Insurance	730.60	862.35	993.92	1128.55	1554.8	1798.3	1962.7	2260.8	2390.5
Total	2758.60	3229.83	3747.75	4317.78	6219.6	7212.6	7997.2	9101.8	9905.6

Source: Various Annual Reports , Rohit Kumar , (2010) ,"Performance Evaluation of General Insurance Companies: A Study of Post-Reform Period", shodhganga.inflibnet.ac.in. and National Insurance Company Limited Annual Report 1990-2000,p 13.

The table 4.3 shows the comparison of gross premiums accredited by public sector general insurance companies from 1991-2000.There is an upward trend in gross direct premium income of the public sector general insurance companies in pre-liberalization period. New India Assurance emerged as the largest public sector general insurance company during all the years of pre-reform period followed by United India Insurance, Oriental Insurance and National Insurance Companies. Table 4.3 and table 4.4. exhibit that growth rate of public sector general insurance companies during 1991-2000 are higher than the 2001-2010 periods. It clearly shows that the privatization has negatively affected the growth rate of public sector general insurance companies. It is mainly due to the strong competition posed by the private sector, their better marketing strategies and innovative products. The private sector companies have shaken the state owned insurance companies and forced them to act immediately to sustain higher growth rate in the insurance sector.[5]

---

[5] Rohit Kumar (2010), "Performance Evaluation of General Insurance Companies: A Study of Post-Reform Period", shodhganga.inflibnet.ac.in.pp 9-10.

Table 4.4 Gross Direct Premium and Growth rate of Public and Private Sector General Insurance Companies during 2001-2010 (Within & Outside India) (Rs.in crore)

Insurer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Public Sector	11917.59	13520.44	14284.65	14948.82	15976.44	17283.45	17813.71	19107.31	21838.85
Public Sector Growth	(13.59)	(13.45)	(5.65)	(4.65)	(6.87)	(8.18)	(3.07)	(7.26)	(14.30)
Private Sector	467.65	1349.80	2257.83	3507.62	5362.66	8646.57	10991.89	12321.09	13977.00
Private Sector Growth	(6453.98)	(188.64)	(67.27)	(55.35)	(52.89)	(61.24)	(27.12)	(12.09)	(13.44)
Total	12385.24	14870.25	16542.49	18456.45	21339.10	25930.02	28805.60	31428.40	35815.85
	(17.97)	(20.06)	(11.25)	(11.57)	(15.62)	(21.51)	(11.09)	(9.11)	(13.96)
Figures in the bracket represent the growth over the previous year in per cent.									

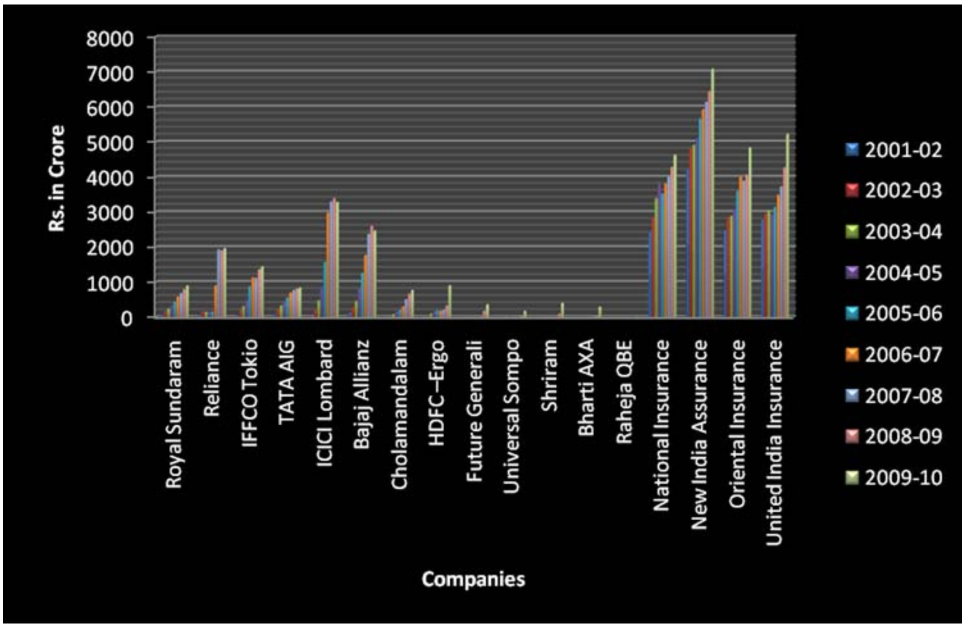
Source: IRDA Annual Report 2009-2010,p 143.

Table 4.5 Gross Direct Premium of Public and Private Sector General Insurance Companies during 2001-2010 (Within & Outside India) (Rs.in crore)

Insurer	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Royal Sundaram	71.13	184.44	257.76	330.70	458.64	598.20	694.41	803.36	913.11
Reliance General Insurance Co	77.46	185.68	161.06	161.68	162.33	912.23	1946.42	1914.88	1979.65
IFFCO Tokio General Insurance Co.	70.51	213.33	322.24	496.64	892.72	1144.47	1128.15	1374.06	1457.84
TATA AIG Insurance Co. Ltd.	78.46	233.93	343.52	448.24	572.70	710.55	782.64	823.92	853.80
ICICI Lombard General Insurance Co	28.13	211.66	486.73	873.86	1582.86	2989.07	3307.12	3402.04	3295.06
Bajaj Allianz General Insurance Co.	141.96	296.48	476.53	851.62	1272.29	1786.34	2379.92	2619.29	2482.33
Cholamandalam MS General Insurance Co	--------	14.79	97.05	169.25	220.18	311.73	522.34	685.44	784.85
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)	--------	9.49	112.95	175.63	200.94	194.00	220.60	339.21	915.40
Future Generali	--------	--------	--------	--------	--------	--------	9.81	186.49	376.61
Universal Sompo	--------	--------	---------	--------	--------	--------	0.48	30.14	189.28
Shriram	--------	--------	--------	--------	--------	--------	--------	113.76	416.93
Bharti AXA	--------	--------	--------	--------	--------	--------	--------	28.50	310.82
Raheja QBE									1.32
National Insurance	2439.41	2869.87	3399.97	3810.65	3536.34	3827.12	4021.97	4295.85	4645.99
New India Assurance	4198.06	4812.79	4921.47	5103.16	5675.54	5936.78	6151.97	6455.79	7099.14
Oriental Insurance	2498.64	2868.15	2899.74	3090.55	3609.77	4020.78	3900.22	4077.90	4854.67
United India Insurance	2781.48	2969.63	3063.47	2944.46	3154.78	3498.77	3739.56	4277.77	5239.05

Source: IRDA Annual Report 2009-2010,p 143.

---------: Not in operation.



Source: IRDA Annual Report 2009-2010.

Figure 4.3 Gross Direct Premium of Public Sector and Private Sector General Insurance Companies during 2001- 2010 (Within & Outside India) (Rs.in crore)

Table 4.5 exhibits that New India Assurance emerged as the largest public sector company during the pre- reform and post-reform period. However, United India Insurance from its second place slipped to the fourth .Oriental General Insurance Company which was at the third place during the pre- reform period maintained the same position, but National Insurance Company from its fourth place climbed to the second. The table reveals that there has been an increasing trend in gross direct premium of general insurance companies belonging to both the public and private sectors during the 2001-2010 periods. However, the growth rate is higher in the case of private sector companies as compared to public sector companies. Among the private sector companies, ICICI Lombard emerged as the largest company followed by Bajaj Allianz during the period 2001 to 2010.[6]

It shows that the privatization of insurance sector has a positive impact on the gross direct premium of general insurance industry.

4.2.1 Year Wise Analysis of Gross Direct Premium of Public and Private Sector General Insurance Companies (2001-2010)

4.2.1.1 Year 2001-02, the public sector insurers continued to underwrite a major component of the non-life business. The ten non-life insurance companies reported a gross premium of Rs.12385.24 crore. Of these, four were public sector companies: National Insurance, New India Assurance, United India Insurance and Oriental Insurance. In the private sector the eight companies which underwrote business were Royal Sundaram, Tata AIG, Reliance, IFFCO-Tokio, ICICI Lombard, Bajaj Allianz, Cholamandalam and HDFC Chubb. The last two entrants in this segment commenced operations from October, 2002. Analysis of the information furnished by the insurers reveals that the four public sector companies have captured Rs.11917.59 crore of the total premiums (Table.4.4) underwritten in the 2001-02.New India leads with Rs.4198.06 crore of the total business underwritten in the non-life segment, followed by United India at Rs.2781.48 crore and Oriental and National underwrote almost equal premiums at Rs. 2498.64 crore & Rs. 2439.41crore respectively(Table.4.5). The private sector accounted for Rs. 467.65 crore of the premiums underwritten during the period (Table.4.4). Of these private insurers, five insurers have been formed as joint ventures with foreign equity participation, in the case of Reliance General Insurance Co. Limited, the company has been promoted as a

[6] Rohit Kumar (2010), "Performance Evaluation of General Insurance Companies: A Study of Post-Reform Period", shodhganga.inflibnet.ac.in, pp 9-10.

subsidiary of Reliance Group. Of the private insurers, Bajaj Allianz was the most aggressive, capturing Rs. 141.96 crore of the total non-life business. While, the newest entrant's ie., Cholamandalam and HDFC Chubb, have still to make their mark (Table.4.5). [7]

4.2.1.2 Year 2002-03, marked the third year of the presence of private players in the general insurance industry, which has over the years been dominated by the public sector insurance companies. Both the private and the public sector players increased the gross premium underwritten by them, with the industry generating a premium of Rs. 14870.25 crore. The private players' contribution to it is Rs.1349.80 crore while that of public players is Rs.13520.44 crore. (Table.4.4).The analysis of the business performance of the public and private players is given below. During the year 2002-03, there were 12 players in the general insurance sector, with Cholamandalam MS General Insurance Company Limited and HDFC Chubb General Insurance Company Limited commenced its operations in October, 2002. Thus, the year witnessed the number of private players increasing from six to eight. It was also the first year of Export Credit Guarantee Corporation Ltd (ECGC) reporting business after its registration with the Authority. ECGC has been providing credit insurance for a number of years, and was an exempted insurer as per the General Insurance Business (Nationalisation) Act, 1972. Analysis of the data furnished by the non-life insurers further reveals that the general insurance market in the country grew at a healthy rate. All the insurers have exhibited impressive growth in the business underwritten by them.Cholamanadalam MS and HDFC-Chubb, being in the first year of their operations, registered a small presence in the market. Public sector analysis of the four public players

[7] IRDA Annual Report 2001-02,p 38.

shows that it is the performance of New India with a growth rate of Rs.4812.79 crore that carries the team as a whole to high growth. The other three players are nowhere near its growth rate, the nearest one being United India, with Rs.2969.63 crore growth rate. This shows that there is a glaring disparity among the public player's contributions. It is difficult to pinpoint the reasons for it in the absence of more information on their relative department-wise performances. In the case of private sector it is obvious that it is more the private players' performance that is pushing up the market boundaries in premium volumes .It shows that the private players are taking a lead in widening the market base despite their handicaps of a lack of infrastructure, inadequate man-power and low-capital base. ICICI-Lombard continues to be the star performer and leads the pack with a premium of Rs.211.66 crore. Bajaj- Allianz has turned in the best performance in 2003, showing a growth of Rs.296.48 crore. There is almost a race between these two for the top honours. It is evident that New India Insurance, by its remarkable performance on the premium front, is propping up the entire team. The private players' performance, with an accretion of Rs. 1349.80 crore, is keeping up the growth momentum of the market as a whole. National Insurance has recorded an accretion of Rs. 2869.87crore, Oriental Rs. 2868.15crore and United India Rs. 2969.63 crore. New India among them seems to be having the toughest challenge on its hands to reassert itself as the market leader. HDFC Chubb has Rs. 9.49 crore accretion followed by Cholamandalam with Rs. 14.79 crore. All other players have also shown increases in their premium levels (Table.4.5).[8]

4.2.1.3 Year 2003-04, the performance of the general insurance companies has hit a relatively new. Both the public and private sector players seem to

[8] IRDA Annual Report, 2002-03,p 103.

be gasping to push up stronger growth rates. The public sector players have increased their premium volumes by Rs. 14284.65 crore and the private sector players by Rs. 2257.83crore.In this scenario, the private sector players will have to put in place strategies aimed not at winning the existing accounts of the public players but at diversifying their market penetration as a whole. The private players in future would have to turn their attention to working in the unorganised and underserved markets. The growth rate of Rs.16542.49 crore in 2003-04 has also to be evaluated in terms of the host of bank tie-ups announced by insurers, increased auto sales, introduction of brokers/ corporate agents to stimulate market demand for insurance covers and sale of Government sponsored Universal Health Insurance Scheme. In the financial year 2003-04, Cholamandalam joined hands with Mitsui Sumitomo of Japan who became their foreign joint venture partners holding 26 per cent equity in the company. Consequent upon the tie-up between two promoters, the name of the insurer was changed to Cholamandalam MS General Insurance Company Limited. It was an exceedingly good year for the general insurance industry. Among the public sector players, New India Assurance continues its march with a growth rate of Rs.4921.47 crore with the aim of reaching the top slot of the team. National and United India have lost further ground by dropping premium volumes by a small margin in 2003. Among the private sector players, ICICI Lombard with an accretion of Rs.486.73 crore followed by Bajaj Allianz with Rs. 476.53 crore. Tata AIG and IFFCO-Tokio have moderate accretion levels of Rs.343.52 crore and Rs. 322.24 crore respectively (Table.4.5).

4.2.1.4 Year 2004-05, has turned out to be yet another year of impressive growth for the non-life insurers. All of them, with the exception of Reliance, have shown growth in their premiums. United India has reversed its loss trend of the previous years and has shown a slight increase. The overall premium accretion for the year for the market has been about Rs. 18456.45 crore. The premium growth of the established player's ie., public sector players (Rs.14948.82) compared to the private players (Rs.3507.62) is notable (Table.4.4). [9]

4.2.1.5 Year 2005-06, the non-life industry has recorded an accretion of Rs. 21339.10crore. The new players have again shown their domination of the growing market by recording an accretion of Rs. 5362.66crore. ICICI Lombard with an accretion of Rs.1582.86 crore has kept up its leadership role in market accretions. The established players with an accretion of Rs. 15976.44 have slid to their old growth rate pattern. Compared to their 2004-05 accretion of Rs. 14948.82 crore the difference is rather more noticeable. New India leads with an accretion of Rs. 5675.54crore followed by Oriental with Rs. 3609.77crore and United India with Rs. 3154.78 crore. National Insurance has dropped yet another year by Rs. 3536.34 crore. The industry added Rs.2882.65 crore additional premium during the financial year 2005-06 with private insurers contributing Rs.1855.04 crore and the remaining Rs.1027.62 crore by public insurers. The growth in business has been contributed by New India Assurance Company Ltd, Oriental Insurance Company Ltd, ICICI-Lombard General Insurance Company, Bajaj Allianz General Insurance Company Ltd and IFFCO-Tokio General Insurance Company Ltd. In the private sector, ICICI-Lombard and Bajaj Allianz reported premium of over Rs.1000 crore. Bajaj Allianz's premium collection grew by 50 per cent to Rs.1272.29 crore (Table.4.5).[10]

---

9 IRDA Annual Report 2004-05,p 20.

10 IRDA Annual Report 2005-06,p 24.

4.2.1.6 Year 2006-07, On the eve of the dismantling of the tariff rates in the Fire, Engineering and Motor segments from 2007, the non-life insurance industry seems to be gearing up for a more vigorous drive to increase the size of the market. The major stimulus for this unprecedented growth in 2006 has come mainly from the established players, who have mounted a very impressive growth rate of Rs. 17283.45crores; the highest ever recoded by them in the fiscal and the private players Rs.8646.57 crore. The industry has recorded a premium income of Rs.25930.02 crore. The impressive performance accretions in the private sector have mainly come from ICICI-Lombard with Rs.2989.07crore, followed by Bajaj Allianz with Rs.1786.34 crore and IFFCO-Tokio with Rs.1144.47 crore. The other major contributors to this very impressive growth 2006-07 are Reliance with Rs.912.23 crore; and New India and Oriental with Rs. 5936.78 crore & 4020.78 crore each. The lower growth rate for the public insurers may be seen in the light of their high base. The general insurance industry has added Rs. 4590.92 crore in premium during the year 2006-07; of which public insurers contributed Rs. 1307.01 crore and the private insurers Rs.3283.91 crore. The increase in premiums was across all the public sector companies. Oriental insurance has added the highest premium of Rs. 411.01 crore followed by United India and National Insurance at Rs.343.99 crore and Rs.290.78 crore respectively. New India has added Rs.261.24 crore.Except HDFC Chubb, all private insurers have added premiums to their earlier levels (Table.4.5).[11]

4.2.1.7 Year 2007-08, the premium underwritten by10 private sector insurers was Rs.10991.89 crore as against Rs.8646.57 crore in 2006-07.

[11] IRDA Annual Report 2006-07, p21.

The general insurance industry has added Rs.2875.58 crore in premium during the year 2007-08; of which public insurers contributed Rs.530.26 crore and the private insurers Rs.2345.32 crore. The increase in premiums was witnessed across all the public sector companies except Oriental. New India has added the highest premium of Rs. 215.19crore followed by United India and National Insurance at Rs.240.79 crore and Rs.194.85 crore respectively. Oriental Insurance has shown a decline in its premium by Rs.120.56 crore. All the private insurers have reported increase in premiums during 2007-08. Reliance has added premium of Rs.1034.19 crore. Bajaj Allianz has added Rs.593.58 crore followed by ICICI Lombard with Rs. 318.05 crore added to their earlier premium levels (Table.4.5).[12]

4.2.1.8 Year 2008-09, the performance of the insurance sector in financial year 2008-09 was largely influenced by the sub-prime crisis. The sub-prime crisis started in the United States in late 2007, evolved as a financial crisis in US and later engulfed Europe and UK. By late 2008 it seeped into Asia. As a result, the financial crisis deepened among many countries of the world, thus forcing the respective governments to take necessary steps to come out of the crisis. Besides increased unemployment in various countries, economic growth was also hampered and the International Monetary Fund (IMF) and World Bank lowered the world economic contraction for 2008-09 to 1.1 per cent lower than what was projected earlier. Fall of financial institutions and lack of confidence in the banking system impacted the financial markets. Money and capital markets tumbled down to their lowest levels across the world. As a result, many investors lost their wealth. Internationally, except for a few large companies, insurance companies were fairly insulated, though for the first time since 1980, insurance premiums declined in real terms with non-life premiums

[12] IRDA Annual Report 2007-08,p 28.

falling by 0.8 per cent .Further, because of higher volatility in the financial markets, and insurance companies, lost heavily on investment income. As such, the profitability of the insurance companies deteriorated in 2008 not only due to low investment yields but also because of high cost of guarantees and lower revenues from management fees. As a consequence of the impairment of the value of their investments both banks and insurance companies were forced to recapitalize to meet regulatory requirements. This has thrown a big challenge, as investors lost substantial wealth and were reluctant and unable to make further investments and there was scarcity of capital. The governments across the world have started infusing capital into the financial system so as to bring back stability into the system. Though well insulated, India, could not totally escape the tide of the financial crisis. Due to its higher levels of income growth during the past five years as also because of prudent financial management underpinned by sound and solid banking system supporting the payment and settlement procedures, India had limited the contagion effect. However, the stock values declined sharply effecting capital availability. India also had to loose some of its policies and adopted both conventional and unconventional methods to contain the contagion effect. The fiscal 2008-09 witnessed global financial meltdown. Despite it, the Indian insurance industry, which has big opportunity to expand, given the large population and untapped potential, grew satisfactorily. The general insurance business recorded a growth of 9.11 per cent in 2008-09. The general insurance industry underwrote a total premium of Rs.31428.40 crore in 2008-09 as against Rs.28805.60 crore in 2007-08, registering a growth of 9.11 per cent as against an increase of 11.09 per cent recorded in the previous year. The public sector insurers exhibited a better growth in 2008-09, 7.26 per cent; more than twice of previous years' growth rate of 3.07 per cent. In contrast, the private general insurers could register a growth of 12.09 per cent but witnessed retardation in growth from 27.12 per cent of 2007-08.The premium underwritten by private sector insurers in 2008-09 was Rs.12321.09 crore as against Rs.10991.89 crore in 2007-08. Bajaj Allianz, the second largest company underwrote a total premium of Rs.2619.29 crore in the year under review. The two new private insurers, viz., Bharti Axa and Shriram earned premium income of Rs.28.50 crore and Rs.113.76 crore respectively in their first year of operation. In the case of public sector general insurers, all the four companies expanded their business with an increase in their respective premium collections. United India underwrote a premium of Rs.4277.77 crore in 2008-09 as against Rs.3739.56 crore in the previous year (Table.4.5). [13]

4.2.1.9 Year 2009-10, the non-life insurance industry underwrote a total premium of Rs.35815.85 crore in 2009-10 as against Rs.31428.40 crore in 2008-09.The public sector insurers exhibited an impressive growth in 2009-10 at 14.30 per cent. In contrast, the private non-life insurers registered a growth of 13.44 per cent which is only marginally higher than 12.09 per cent growth over previous year achieved. The figures reflect a comparative hardening of rates in the industry. The premium underwritten by 13 private sector insurers in 2009-10 was Rs.13,977 crore as against Rs.12,321.09 crore in 2008-09. ICICI Lombard continued to be the largest private sector non-life insurance company. Bajaj Allianz, the second largest private sector non-life insurance company, which underwrote a total premium of Rs.2,482.33 crore. Of the 12 private insurers, 10 reported an increase in premium underwritten (9 out of 10 in 2008- 09). In the case of public sector non-life insurers, all four companies expanded their business with an increase in their respective premium collections. United India underwrote a premium of Rs. 5,239.05 crore in 2009-10 as

[13] IRDA Annual Report 2008-09,p 16.

against Rs.4, 277.77 crore in the previous year. New India Assurance with an insurance premium of Rs.7099.14 crore remains the largest general insurance company in India (Table.4.5).[14]

4.3 Market Share Wise Analysis of Public and Private Sector General Insurance Companies

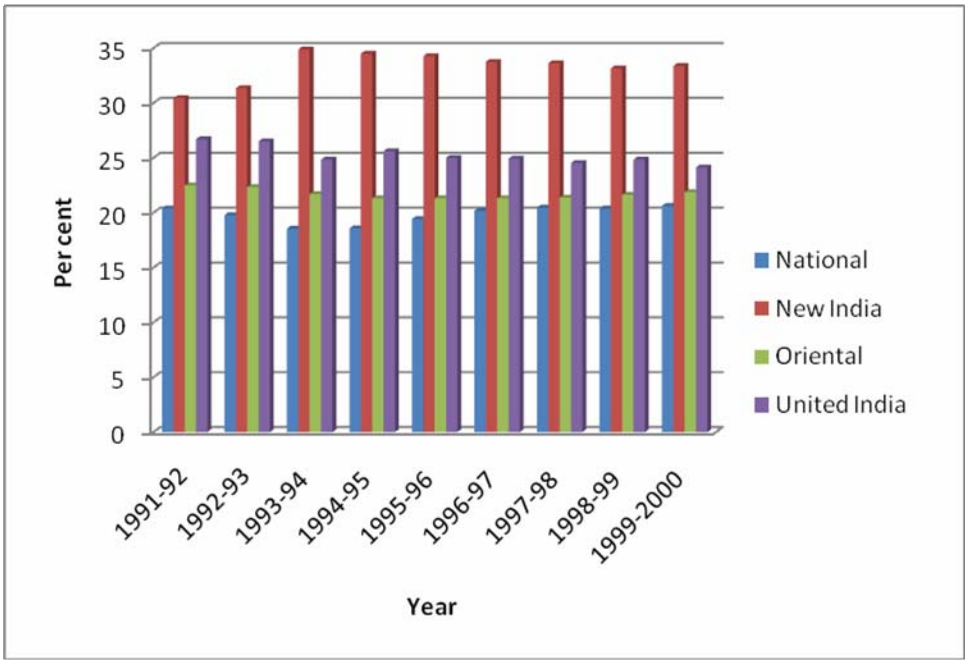
The market share of different players during 1991 to 2000 has been presented in Table 4.6. So that the performance of insurance companies can be examined further by looking at the trend in their market share during the pre- and post-reform period. This trend also differentiates the performance of four public sector general insurance companies. The study also reveals that the market share of all the public sector general insurance companies decreased sharply due to the entry of private companies in the field.

Table 4.6 Market Share of Public Sector General Insurance Companies 1991-2000 (Percentage)

Year	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
National Insurance	20.38	19.78	18.55	18.58	19.42	20.00	20.46	20.37	20.62
New India Assurance	30.44	31.35	34.88	34.49	34.27	33.75	33.62	33.15	33.38
Oriental Insurance	22.48	22.35	21.71	21.32	21.31	21.32	21.38	21.64	21.87
United India Insurance	26.70	26.52	24.86	25.61	25.00	24.93	24.54	24.84	24.13
Total	100	100	100	100	100	100	100	100	100

Source: Compiled from IRDA Annual Report 2001-2010

[14] IRDA Annual Report 2009-10,p 23.



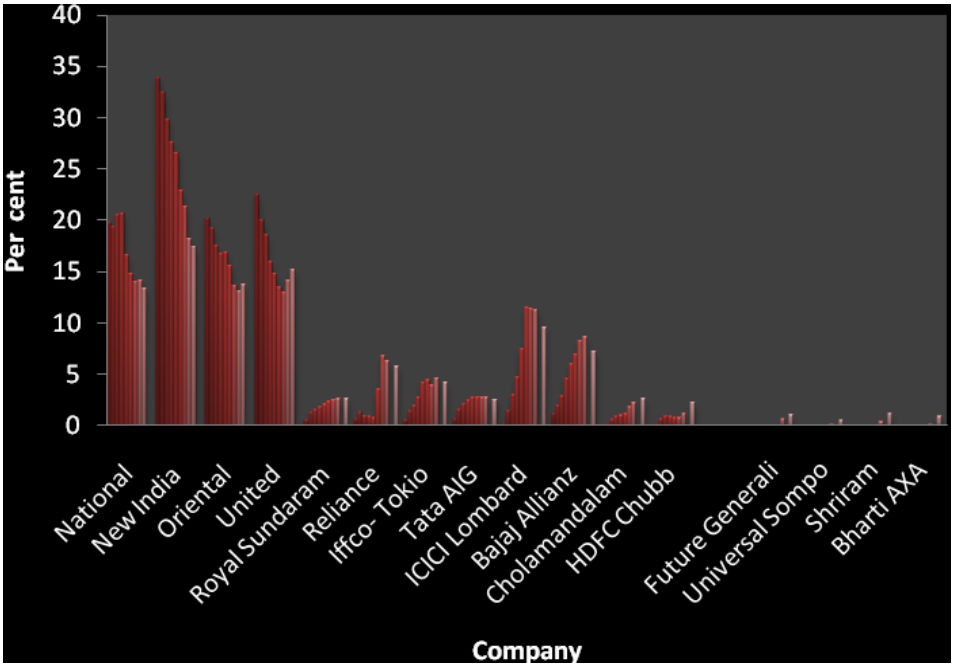
Source: Compiled from IRDA Annual Report

Figure 4.4 Market Share of Public Sector General Insurance Companies 1991-2000 (Percentage)

Table 4.7 Market Share of Public and Private Sector General Insurance Companies (2001-2010) (Percentage)

Name of Company	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
National Insurance	19.70	19.30	20.55	20.65	16.57	14.76	13.96	14.10	13.36
New India Assurance	33.90	32.37	29.75	27.65	26.60	22.90	21.36	18.15	17.45
Oriental Insurance	20.16	19.28	17.53	16.75	16.92	15.51	13.54	13.07	13.68
United India	22.46	19.97	18.52	15.95	14.78	13.48	12.99	14.09	15.13
Public Sector Total	96.22	90.92	86.35	81.00	74.87	66.65	61.85	59.41	59.62
Royal Sundaram	0.57	1.24	1.56	1.79	2.15	2.31	2.47	2.65	2.64
Reliance General Insurance Co	0.63	1.25	0.97	0.88	0.76	3.52	6.76	6.31	5.72
Iffco- Tokio General Insurance Co.	0.57	1.43	1.95	2.69	4.19	4.41	3.92	4.53	4.21
Tata AIG Insurance Co. Ltd.	0.63	1.57	2.08	2.43	2.68	2.74	2.72	2.71	2.47
ICICI Lombard General Insurance Co	0.23	1.44	2.94	4.73	7.42	11.53	11.42	11.21	9.52
Bajaj Allianz General Insurance Co.	1.15	1.99	2.88	4.61	5.96	6.89	8.27	8.63	7.17
Cholamandalam MS General Insurance Co	-	0.10	0.59	0.92	1.03	1.20	1.82	2.26	2.64
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)	-	0.06	0.68	0.95	0.94	0.75	0.77	1.12	2.27
Future Generali	-	-	-	-	-	-	-	0.61	1.09
Universal Sompo	-	-	-	-	-	-	-	0.10	0.55
Shriram	-	-	-	-	-	-	-	0.37	1.20
Bharti AXA	-	-	-	-	-	-	-	.09	0.90
Private Sector Total	3.78	9.08	13.65	19.00	25.13	33.35	38.15	40.59	40.38
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Compiled from IRDA Annual Report 2001-2010
(-Not in operation)



Source: Compiled from IRDA Annual Report 2001-2010

Figure 4.5 Market Share of Public and Private Sector General Insurance Companies (2001-2010) (Percentage)

It is evident from table 4.7 that the market share of public sector general insurance companies has continuously declined, whereas that of private sector companies has increased during the whole period under study. This has been due to the higher growth rate shown by the private sector general insurance companies. In 2001-02, the market share of public sector was 96.22 per cent and that of private sector was only 3.78 per cent. However, in 2009-10, the market share of the public sector came down 59.62 per cent and that of private sector increased to 40.38 per cent. It shows that 19.24 per cent of the market share was captured by the private sector in terms of gross direct premium. The public sector general insurance companies have experienced a large branch expansion network

since nationalization, but the quantitative expansion has not always been matched by a corresponding improvement in the performance. Even the large number of initiatives taken by the public sector companies has failed to meet the competition thrown by the private sector. As a result, the market share of public sector companies has declined greatly. The insurance industry as a whole has started to reveal the potential after liberalization and privatization of the sector. The private sector general insurance companies captured 40.38 per cent market share in terms of gross direct premium during the year 2009-10. So, the private sector general insurance companies have created ripples in the public sector general insurance companies and have forced them to review their style of working and strategies. These public sector general insurance companies have to leverage upon their strengths to give a tough fight to the private sector.
However, the general insurance sector has not shown any significant growth, in tandem with the galloping gross domestic product.

Since the opening up of the insurance sector, private sector players have nibbled the shares of the lucrative business, both fire and engineering by offering discounts. Public Sector Undertakings (PSUs) on the other hand were in fact left with the high loss business, especially motor third party, where the claims were as high as 200 per cent of the premium collected.[15]

The private sector has been steadily growing market share despite the fact that public sector companies have been around for a lot longer. The private insurers enjoy considerable operational flexibility, whereas the public sector companies have been constrained by their traditions and inability to innovate. Due to the effectiveness of private marketing

[15] IRDA Annual Report 2010, p 24.

strategies, the market share of public insurers has consistently declined. Given a faster growth rate, the market share of the private sector is catching that of the public sector and the two will likely converge over the medium term. In the past, private insurers had aggressively targeted the more profitable (and tariffed) corporate fire and engineering businesses by combining them with discounted offers on de-tariffed products, for example, personal accident & health, marine cargo and hulls. The inherent operational flexibility of the private players – such as through aggressive pricing- has allowed them to capture a greater share of large corporate accounts. But such strong penetration of large corporate clients makes future growth in this segment more difficult.[16]

4.3.1 Year Wise Analysis of Market Share of Public and Private Sector General Insurance Companies (2001-2010)

4.3.1.1 In 2001-02, the number of non-life insurers, in the private sector, who have granted registration to underwrite business, within the country, was six. The share of the public sector insurers in the non-life segment during the financial year 2001-02 was 96.22 per cent. In the year 2001-02, while the six private sector players had captured only 3.78 per cent of the business. (Table 4.7.)

4.3.1.2 In 2002-03, the share of the public sector insurers in the non-life segment was 90.92 per cent. The share of eight private players in the financial year 2002-03 was 9.08 per cent, as against six players capturing 3.78per cent in the previous year. Among public sector insurer's New India led, with a market share of 32.37 per cent. The market share of the other three public sector companies was around 20 per cent each. The business

[16] IRDA Annual Report 2009-10,p 6.

composition of the public sector companies followed the market trend. Of the private insurers, Bajaj Allianz General Insurance Company Limited captured 1.99 per cent of the total market share followed by Tata-AIG at 1.57 per cent, ICICI Lombard at 1.44 per cent, IFFCO-Tokio at 1.43 per cent, Reliance at 1.25 per cent and Royal Sundaram at 1.24 per cent of the market share. Cholamanadalam MS and HDFC-Chubb, being in the first year of their operations, registered a small presence in the market. (Table 4.7.)

4.3.1.3 In 2003-04, the market shares have not remained the same, the public sector companies' market share declined to 86.35 per cent and the private sector increased to 13.65 per cent. Among the public sector insurers, New India held a market share of 29.75 per cent, followed by National Insurance Company at 20.55 per cent. United India and Oriental Insurance held a market share of 18.52per cent and 17.53per cent respectively. The new insurers were in their third/ fourth year of operations, have broadly succeeded in stabilizing their operations and held a market share between 2.94 and 0.59 per cent. Except one insurer that is Reliance General Insurance who witnessed a negative growth in the gross premium underwritten,all the new insurers have succeeded in recording impressive growth rates. (Table 4.7).

4.3.1.4 In 2004-05, the new players have maintained their growth rate at the consistent number. Their market share increased to 19 per cent in 2004-05. The consistently high monthly growth rate augurs well for the non-life insurance market. The growth trends among the players seem to be changing. Among the public sector insurers, New India held a market share of 27.65 per cent (29.75 in 2003-04), followed by National Insurance Company at 20.65 per cent (20.55 per cent in 2003-04) . Oriental Insurance and United India held a market share of 16.75 per cent (17.53 per cent) and

15.95 per cent (18.52 per cent) respectively. The private insurers have broadly succeeded in stabilizing their operations and their market share ranged between 4.73 and 0.88per cent. While all the private insurers reported increase in premium underwritten, except one insurer (Reliance), all of them increased their market share (Table 4.7.).

4.3.1.5 In 2005-06, private insurers like ICICI Lombard, Bajaj Allianz and Iffco-Tokio have cornered nearly 18 per cent of the market in the 2005-06. Among the private players, ICICI Lombard was at the top, doubling business and grabbing 70 per cent of the market (7.42%). Among the public sector insurer's New India Assurance had a market share of 26.60 per cent. Despite over four per cent fall in National Insurance's business, it was at the third spot by with a market share of 16.57 per cent. Delhi-based Oriental Insurance cornered 16.92per cent of market. United India expanded its business by a market pie of 14.78 per cent (Table 4.7.).

4.3.1.6 In 2006-07, the private insurers are increasing their market share over the past few years. In 2006-07, the private insurers had a market share of 33.35 per cent which was much higher than 25.13 per cent in 2005-06. This shows an increase of 8.22 percentage points over the previous year. As a consequence there has been a decline in the market share of the public insurers to 66.65 per cent in 2006-07 from 74.87 per cent in the previous year. Among the public sector insurers New India has the largest market share at 22.90 per cent in 2006-07, lower than its market share of 26.60 per cent in the previous year. Oriental insurance and National insurance had market shares at 15.51 per cent and 14.76 per cent respectively as against 16.92 and 16.57 per cent in the previous year.

Among the private insurers, ICICI Lombard has the highest market share of 11.53 per cent followed by Bajaj Allianz with 6.89 per cent and IFFCO-Tokio with 4.41 per cent. HDFC Chubb has reported a negligible market share of 0.75 per cent. Reliance has registered a substantial increase in its market share from 0.76 per cent in 2005-06 to 3.52 per cent in 2006-07 (Table 4.7).

4.3.1.7 In 2007-08, the private insurers had a market share of 38.15 per cent which was higher than 33.35 per cent in 2006-07.But, there has been a decline in the market share of the public insurers to 61.85 per cent in 2007- 08 from 66.65 per cent in the previous year. Despite the decline in the market share of the public sector insurance companies, the volume of premium underwritten by them has increased over the previous year reflecting the expansion of general insurance market. This growth in the volume of business needs to be viewed in the background of 2007-08 being the first full year of complete detariffing of the general insurance. Among the public sector insurers, New India had the largest market share at 21.36 per cent in 2007-08, lower than its market share of 22.90 per cent in the previous year. Oriental Insurance, National Insurance and United India Insurance had market shares at 13.54 per cent, 13.96 per cent and 12.99 per cent respectively as against 15.51 per cent, 14.76 per cent and 13.48 per cent in the previous year (Table 4.7.).

4.3.1.8 In the year **2008-09,** ICICI Lombard continued to be the largest private general insurance company, which accounted for a market share of 11.21 per cent, which declined marginally from 11.42 per cent of the previous year. Bajaj Allianz, the second largest company increased its market share from 8.27 per cent in 2007-08 to 8.63 per cent in2008-09. The market share of Reliance declined to 6.31 per cent in 2008-09 from 6.76 per cent in 2007- 08. In the case of public sector general insurers, all the four companies expanded their business with an increase in their respective premium collections. The market share of these companies, except for United and National, however, declined from their previous year levels. United India which led to its market share to 14.09 per cent from 12.99 per cent in 2007-08 (Table 4.7.).

4.3.1.9 In **2009-10,** ICICI Lombard continued to be the largest private sector non-life insurance company, which accounted for a market share of 9.52 per cent, although its market share declined from 11.21 per cent in 2008-09. Bajaj Allianz, the second largest private sector non-life insurance company, which underwrote a total premium of 2482.33 crore, also saw its market share depleting from 8.63 per cent in 2008-09 to 7.17 per cent during the year under review. In the case of public sector non-life insurers, all four companies expanded their business with an increase in their respective premium collections. While the market shares of Oriental Insurance and United India increased in 2009-10 over 2008-09, the shares declined in case of National and New India. United India, which helped to improve its market share to 15.13 per cent in 2009-10 from 14.09 per cent in the previous year. New India Assurance remains the largest general insurance company in India with market share of 17.45 per cent (Table 4.7.).

.

Chapter 5

PROFITABILITY ANALYSIS OF THE PUBLIC AND PRIVATE SECTORS IN GENERAL INSURANCE

Contents

5.1 Concept of Profitability

Performance is the process of carrying into effect policies, programmes and plans in order to achieve defined and measurable results. Performance in an organisation can be measured in such terms as Net Profit, Return on equity, and Earnings per share etc. In the changing economic scenario marked by liberalisation of policies and increased competition for sheer survival, a company has to make profits. Profits are the ultimate yardstick of management's ability to coordinate, plan and act in the interest of the consumer. Profits, in the accounting sense, defined as the excess of revenue receipts over the costs incurred in producing this revenue.[1]

---

[1] P.L.Mehta(2005), "*Managerial Economics- Analysis,Problems and Cases*",Sultan Chand & Sons publication,New Delhi,XI edition, p 397.

The nature of Insurance business is long-term and its profitability is a key issue, which depends upon many factors and is measured differently. The overall performance of the four public sector and private sector general insurance companies were assessed using certain key indicators like the retention ratio, the incurred claims ratio, operating profits or losses in different business segments as also the costs of procuring business which is represented by commission payouts.

To analyze the drivers of profitability, it is useful to decompose Return on Equity (ROE) into its main components. Profits are determined first by underwriting performance (losses and expenses, which are affected by product pricing, risk selection, claims management, and marketing and administrative expenses); and second, by investment performance, which is a function of asset allocation and asset management as well as asset leverage. The first fork of the decomposition shows that an insurer's ROE is determined by earnings after taxes realized for each unit of net premiums (or profit margin) and by the amount of capital funds used to finance and secure the risk exposure of each premium unit (solvency). The after-tax profit margin equals the pre-tax profit margin time's one minus the corporate tax rate. The tax rate depends upon individual tax strategies and is otherwise an exogenous parameter of the industry. The pre-tax profit margin is the sum of the underwriting result (or underwriting margin) and the investment result. The investment result is determined by total investment yield (relative performance including realized capital gains) multiplied by invested assets (asset leverage).The underwriting result - in per cent of net premiums - is determined by the loss ratio, the expense ratio (Rudolf, 2001).[2]

[2] Rudolf, E. (2001), "Profitability of the Non-Life Insurance Industry: It's Back- to-Basics Time", Swiss RE, Sigma, No.5, pp 1-38.

5.2 Profitability Analysis of the Public and Private Sector General Insurance Companies during 2001-2010.

5.2.1 Claim Ratio

The processing and settlement claims constitute one of the most important functions in any organisation. Indeed, the payment of claims may be regarded as the primary service of insurance to the public. The prompt and fair settlement of claims is the hallmark of good services to the insuring public.[3] The claim settlement ratio, which is an index of customer service. Claims incurred ratio may be defined as total net incurred claims divided by net written premium (NWP). It indicates the extent to which the 'net premium' is to be applied to meet this obligation and is a measure of the risk retained by the insurer.This enables an assessment of profitability of underwriting operations and reinsurance arrangements. The Incurred Claims Ratio (ICR) of the four public and eight private general insurance companies, over the 2001-2010 year period is given in Table 5.1.

[3] 'General Insurance Agents - Practical Training Course Material '(2006),Compiled by Alert Academy Training Institute approved by IRDA, p 133.

Table 5.1 Claim ratio of general insurance companies during 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	95.14	76.01	84.10	79.92	105.49	83.85	89.05	99.16	85.05	88.64	85.05	9.55
New India Assurance	83.30	76.77	74.65	74.58	83.64	76.68	85.01	89.00	89.87	81.50	83.30	5.99
Oriental Insurance	100.50	77.25	78.09	86.04	82.57	81.91	90.40	99.69	90.79	87.47	86.04	8.57
United India insurance	87.06	91.06	85.63	91.99	91.78	84.68	87.00	78.62	86.74	87.17	87.00	4.21
Mean	91.50	80.27	80.62	83.13	90.87	81.78	87.87	91.62	88.11	86.20		
Median	91.10	77.01	81.10	82.98	87.71	82.88	88.03	94.08	88.31			
SD	7.77	7.21	5.14	7.54	10.58	3.59	2.36	9.96	2.68			
Private												
Royal Sundaram	31.65	53.68	57.33	56.40	54.45	52.30	55.93	68.95	71.21	55.77	55.93	11.26
Reliance General Insurance Co	68.09	99.48	68.73	61.91	62.01	34.34	56.13	77.30	84.74	68.08	68.09	18.39
Iffco-Tokio General Insurance Co.	32.60	40.70	54.63	50.79	51.03	68.66	68.42	83.44	79.45	58.86	54.63	17.25
Tata- AIG Insurance Co. Ltd.	28.28	47.41	44.84	48.31	47.56	49.81	46.77	60.54	67.21	48.97	47.56	10.74
Bajaj Alliance General Insurance Co.	15.16	59.01	52.59	47.22	58.68	53.44	53.96	71.90	73.59	53.95	53.96	16.99
ICICI Lombard General Insurance Co	16.32	39.89	53.96	48.23	53.04	56.10	69.02	85.35	86.77	56.52	53.96	22.03
Cholamandalam MS General Insurance Co		13.78	43.23	61.16	69.94	44.43	48.47	71.56	74.49	53.38	54.82	20.31
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		13.34	34.99	58.94	55.50	60.12	68.49	80.73	98.95	58.88	59.53	26.28
Mean	32.02	45.91	51.29	54.12	56.53	52.40	58.40	74.97	79.55	56.80		
Median	29.97	44.06	53.28	53.60	54.98	52.87	56.03	74.60	76.97			
SD	19.22	27.41	10.23	6.16	7.00	10.25	9.10	8.31	10.27			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Claim Ratio**	**-7.372**	**<0.001**

Table 5.1 shows the ratio of claim incurred as a percentage of net written premiums of the public and private sector general insurance companies during the period 2001-02 to 2009-10. The table also exhibits the mean, median and standard deviation for each general insurance company. The sector-wise analysis shows that the claim incurred ratio of the public sector general insurance companies is higher than that of the private sector general insurance companies. Among the public sector companies, National Insurance Company Ltd. showed a maximum average claim ratio of 88.64 per cent followed by Oriental Insurance Co. Ltd. with 87.47 per cent and United India and New India with 87.17per cent and 81.50 per cent respectively. However, among the private insurers, Reliance General Insurance Co. showed a maximum average claim ratio of 68.08 per cent followed by HDFC and IFFCO-Tokio with 58.88 per cent and 58.86per cent respectively. TATA-AIG, the private insurer showed the least average claim ratio of 48.97per cent followed by Cholamandalam with the ratio of 53.38 per cent. The average claim ratio of all the public sector insurers is 86.20 per cent and that of private insurers is 56.80 per cent, which clearly indicates a big difference between the public and private insurers' claim ratio. Year-wise analysis shows that the average claim ratio of the public sector is the highest, i.e., 91.62 per cent in the year 2008-09 followed by 91.50 per cent in the year 2001-02. The private insurers' average claim ratio is also the highest in the year 2009-10 with 79.55 per cent followed by the year 74.97 per cent in the year 2008-09. Mann-Whitney test shows that there is significant difference

between the claim ratio of the public and the private sector general insurance companies.

5.2.2 Expense Ratio

Commission expenses and operating expenses constitute a major part of the total expenses in general insurance companies. The ratio of expenses of management as percentage of gross direct premium reflects how much percentage of revenue is being utilised for expenses on management. This ratio is a pointer of the cost effectiveness and the productivity. Regarding expenses of Non-life insurers, Section 40C of the Insurance Act, 1938 lays down the limits for management expenses in general insurance business. The expenses of management are required to be within the prescribed limits under Rule 17E of the Insurance Rules, 1939.Expenses of management are generally operating expenses which include Depreciation, Retirement benefits to employees, apportionment of expenses, employees remuneration and benefits, office and administrative expenses. A higher ratio reflects financial instability of the business because a decrease in revenue may result in losses, whereas lower ratio is an indicator of better performance.[4] It becomes important to examine, how far the public sector and private sector general insurance companies have been in a position to reduce their operating costs after opening up of the industry.

[4] IRDA Annual Report 2009-10, p27.

Table 5.2 Expense ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	30.59	30.40	32.08	33.11	38.14	32.20	34.55	31.87	36.46	33.27	32.20	2.63
New India Assurance	29.20	30.83	43.05	39.70	38.76	32.48	30.08	36.65	38.27	35.45	36.65	4.93
Oriental Insurance	32.20	33.71	41.70	37.25	38.16	29.65	33.17	34.48	35.13	35.05	34.48	3.57
United India insurance	31.56	28.82	38.77	41.92	46.75	38.04	36.42	35.06	33.17	36.72	36.42	5.46
Mean	30.89	30.94	38.90	38.00	40.45	33.09	33.56	34.52	35.76	35.12		
Median	31.08	30.62	40.24	38.48	38.46	32.34	33.86	34.77				
SD	1.31	2.04	4.89	3.77	4.21	3.54	2.67	1.99				
Private												
Royal Sundaram	97.58	38.36	33.51	33.52	33.22	34.77	35.75	37.65	35.08	42.16	35.08	20.86
Reliance General Insurance Co	271.06	-10.02	23.10	23.63	24.31	20.16	36.14	36.43	31.21	50.67	24.31	83.79
Iffco-Tokio General Insurance Co.	63.06	20.28	21.15	22.12	23.52	28.05	26.72	26.69	27.70	28.81	26.69	13.17
Tata- AIG Insurance Co. Ltd.	108.95	37.28	37.31	38.52	37.39	43.58	43.65	49.14	46.97	49.20	43.58	22.84
Bajaj Alliance General Insurance Co.	28.94	28.31	27.55	22.36	21.96	25.66	28.57	31.03	29.43	27.09	28.31	3.14
ICICI Lombard General Insurance Co	119.51	55.55	-6.94	18.12	23.51	21.25	23.86	28.49	24.90	34.25	23.86	35.69
Cholamandalam MS General Insurance Co		248.89	51.03	34.12	35.93	36.63	34.09	31.31	33.52	63.19	35.03	75.28
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		140.49	48.10	42.30	45.58	51.68	41.52	44.75	24.69	54.89	45.17	35.50
Mean	114.85	69.89	29.35	29.34	30.68	32.72	33.79	35.69	31.69	45.33		
Median	103.27	37.82	30.53	28.58	28.77	31.41	34.92	33.87	30.32			
SD	83.45	84.40	18.24	8.88	8.62	11.07	6.99	7.94	7.22			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Expense Ratio**	**-1.061**	**0.289**

Table 5.2 reports the results of insurer-wise expense of management ratio from the year 2001-02 to 2009-10. The table also shows mean, median and standard deviation for each general insurance company during 2001-10.The results show that average expense of management ratio of the public sector general insurance companies is 35.12 per cent, whereas that of the private sector companies is 45.33 per cent which is higher by 10.21 per cent in the case of private sector general insurance companies during the period 2001 to 2010. However, the Mann-Whitney test results show that the gap in expense of management ratio of both the public and private sector companies is insignificant. Among the public sector insurers, United India has registered the highest expense of management ratio (36.72 per cent) followed by New India (35.45 per cent), Oriental (35.05 per cent) and National (33.27 per cent). Among the private sector insurers, Cholamandalam has exhibited the highest average expense ratio of 63.19 per cent followed by HDFC ERGO (54.89 per cent) and Reliance 50.67per cent. However, Bajaj Alliance has registered the least average expense of management ratio of 27.09 per cent followed by Iffco-Tokio with 28.81 per cent. Year-wise results explain that the average expense ratio of the public sector companies during the year 2001-02 was 30.89 per cent which increased to 40.45 per cent in the year 2005-06. However, it came down to 35.76per cent during the year 2009-10. Among the private sector insurers, the average expense ratio in the year 2001-02 was 114.85 per cent which reduced to 31.69 per cent in

the year 2009-10. So, it is evident from the table that in the initial years of reform the private sector had to spend more on commission and other administrative expenses. But with the passage of time, these private sector general insurance companies took various cost effective measures which led to improve their performance. It is clear that there was wide variation in the expense ratio of the private sector and public sector general insurance companies during the period 2001to 2010.

5.2.3 Combined Ratio

The Combined Ratio correlates expenses of management including commission and claims paid out to the gross premium earned. It is the most common measure of underwriting profitability. The ratio reveals whether premium earned was adequate to meet expenses of management and claim payouts. The ratios as computed and reported by the companies for the period 2001-2010 are detailed in Table 5.3. When the combined ratio exceeds 100 per cent, the implication is that the company had, during the year, not been able to raise adequate earnings to meet these expenses. If it is less than 100, it indicates a positive underwriting result. It is a suitable measure for comparisons because it is not an absolute figure like the underwriting result, but a relative figure like that measures the cost of insurance as a percentage of premium income.

Table 5.3 Combined ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	125.73	106.41	116.18	113.03	143.63	116.05	123.60	131.03	121.51	121.91	121.51	10.95
New India Assurance	112.50	107.60	117.70	114.28	122.40	109.16	115.09	125.65	128.14	116.95	115.09	7.16
Oriental Insurance	132.70	110.96	119.79	123.29	120.73	111.56	123.57	134.17	125.92	122.52	123.29	8.04
United India insurance	118.62	119.88	124.40	133.91	138.53	122.72	123.42	113.68	119.91	123.90	122.72	7.75
Mean	122.39	111.21	119.52	121.13	131.32	114.87	121.42	126.13	123.87	121.32		
Median	122.18	109.28	118.75	118.79	130.47	113.81	123.50	128.34	123.72			
SD	8.75	6.09	3.58	9.67	11.48	5.96	4.22	9.02	3.82			
Private												
Royal Sundaram	129.23	92.04	90.84	89.92	87.67	87.07	91.68	106.60	106.29	97.93	91.68	13.86
Reliance General Insurance Co	339.15	89.46	91.83	85.54	86.32	54.50	92.27	113.73	115.95	118.75	91.83	84.54
Iffco-Tokio General Insurance Co.	95.66	60.98	75.78	72.91	74.55	96.71	95.14	110.13	107.15	87.67	95.14	17.06
Tata- AIG Insurance Co. Ltd.	137.23	84.69	82.15	86.83	84.95	93.39	90.42	109.68	114.18	98.17	90.42	18.50
Bajaj Alliance General Insurance Co.	44.10	87.32	80.14	69.58	80.64	79.10	82.53	102.93	103.02	81.04	80.64	17.69
ICICI Lombard General Insurance Co	135.83	95.44	47.02	66.35	76.55	77.35	92.88	113.84	111.67	90.77	92.88	27.20
Cholamandalam MS General Insurance Co		262.67	94.26	95.28	105.87	81.06	82.56	102.87	108.01	116.57	99.08	59.87
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		153.83	83.09	101.24	101.08	111.80	110.01	125.48	123.64	113.77	110.91	21.10
Mean	146.87	115.80	80.64	83.46	87.20	85.12	92.19	110.66	111.24	101.46		
Median	132.53	90.75	82.62	86.19	85.64	84.07	91.98	109.91	109.84			
SD	100.68	64.89	15.01	12.59	11.11	16.77	8.59	7.34	6.59			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Combined Ratio**	**-6.311**	**<0.001**

The combined ratio results for the period 2001 to 2010 have been exhibited in table 5.3. The table also shows the mean, median and standard deviation for each general insurance company during 2001-2010. The results reveal that the average combined ratio in the case of public sector general insurance companies during the period 2001 to 2010 is 121.32 per cent, whereas it is 101.46 per cent in private sector insurance companies. It is evident that combined ratio of the public sector is higher by 19.86 per cent than the private sector. This has been due to higher claim ratio of the public sector. Among the public insurers, United India exhibits the highest average combined ratio of 123.90per cent followed by Oriental 122.52 per cent, National 121.91 per cent and New India 116.95 per cent. However, among the private insurers, Reliance has exhibited the highest average combined ratio of 118.75 per cent followed by Cholamandalam 116.57 per cent, HDFC ERGO 113.77 per cent, Tata AIG 98.17per cent, ICICI Lombard 90.77 per cent, IFFCO-Tokio 87.67per cent , and Bajaj Allianz 81.04 per cent. Year-wise, the average combined ratio of the public sector in the year 2001-02 was 122.39 per cent which increased to 131.32 per cent in the year 2005-06. Again, it showed a decreasing trend and reached at 123.87 per cent in the year 2009-10. The average combined ratio of the private sector general insurance companies in the year 2001-02 was 146.87 per cent which reduced to 111.24 per cent in the year 2009-10. This analysis shows that the variation in the combined ratio of the private sector general insurance companies is higher. The results of Mann-Whitney test also indicate that the combined ratio of the public sector is significantly higher than that of the private sector general insurance companies.

5.2.4 Underwriting Results Ratio

The underwriting results of a general insurance company is illustrated by taking net written premium minus increase in the unexpired risk reserve minus expense of management minus commission minus claim incurred. The underwriting results indicate the performance of an insurance company from core insurance business. The underwriting results ratio is calculated by dividing underwriting results to net written premium. (Appendix II and Appendix III).

Table 5.4 Underwriting Results ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	-25.51	-14.15	-21	-18.96	-40.63	-19.13	-28.92	-31.09	-22.12	-24.61	-22.12	7.97
New India Assurance	-18.05	-13.82	-18.96	-17.57	-27.5	-13.72	-17.18	-26.15	-28.64	-20.18	-18.05	5.75
Oriental Insurance	-32.62	-13.21	-22.77	-27.56	-26.52	-18.12	-23.65	-34.18	-26.79	-25.05	-26.52	6.59
United India insurance	-22.15	-19.08	-25.09	-34.37	-40	-28.9	-29.62	-15.58	-21.02	-26.2	-25.09	7.77
Mean	-24.58	-15.06	-21.96	-24.61	-33.66	-19.97	-24.84	-26.75	-24.64	-29.83		
Median	-23.83	-13.99	-21.89	-23.26	-33.75	-18.63	-26.29	-28.62	-24.455			
SD	6.17	2.70	2.61	7.86	7.70	6.40	5.76	8.15	3.66			
Private												
Royal Sundaram	-93.63	-21.59	-6.24	-3.98	-3.65	-1.43	-8.05	-9.86	-7.81	-17.36	-7.81	29.18
Reliance General Insurance Co	-288.09	-41.1	-15.63	-8.02	10.86	-6.07	-20.5	-13.91	-16.26	-44.30	-15.63	92.44
Iffco-Tokio General Insurance Co.	-67.17	-4.57	-0.61	1.79	-2.21	-2.39	-8.43	-11.12	-8.75	-11.50	-4.57	21.30
Tata- AIG Insurance Co. Ltd.	-102.11	-19.27	-6.02	0.79	-0.15	-1.61	-4.46	-9.68	-13.63	-17.35	-7.85	32.46
Bajaj Alliance General Insurance Co.	-32.42	-2.07	0.39	7.81	3.29	1.56	-1.77	-4.55	-4.19	-3.55	-1.92	11.50
ICICI Lombard General Insurance Co	-122.88	-34.05	13.9	0.84	-4.65	-3.82	-4.82	-14.83	-12.36	-20.30	-8.59	40.59
Cholamandalam MS General Insurance Co		-237.78	-44.95	-15.88	-16.17	-1.15	-5.06	-6.07	-10.6	-42.21	-13.24	80.18
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		-147.39	-38.15	-12.42	-4.77	-6.41	-20.47	-27	-23.98	-35.07	-22.22	46.72
Mean	-117.71	-63.48	-12.16	-3.63	-2.18	-2.67	-9.20	-12.13	-12.20	-26.15		
Median	-97.87	-27.82	-6.13	-1.60	-2.93	-2	-6.56	-10.49	-11.48			
SD	89.12	84.29	20.02	7.99	7.70	2.67	7.28	6.95	6.04			

Source: Compiled from IRDA Annual Report 2001-2010

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	Underwriting Results Ratio	-5.237	<0.001

The underwriting results to net written premium ratio of both the public and private sector general insurance companies from 2001 to 2010 have been presented in table 5.4. It is clear that the average underwriting results ratio of the public sector general insurance companies is -29.83 per cent and that of private sector companies is -26.15 per cent. Thus, the underwriting losses of public sector companies are higher as compared to the private sector companies. Among the public sector companies, United India has registered the highest average underwriting losses of -26.2 per cent followed by Oriental -25.05 per cent, National -24.61 per cent and New India -20.18 per cent which means that all the public sector general insurance companies have shown huge underwriting losses. However, among the private insurers, Reliance has shown the highest average underwriting loss of -44.30 per cent followed by Cholamandalam -42.21 per cent, HDFC ERGO -35.07 per cent, ICICI Lombard -20.30 per cent, Royal Sundaram -17.36, Tata AIG-17.35 per cent, and IFFCO-Tokio -11.50 per cent and of all the private insurers, Bajaj Allianz showed a very low average underwriting loss of -3.55 per cent. Year-wise, the public insurers showed constant trend during the period 2001 to 2010, when average underwriting losses remained around 26 per cent except the year 2005-06 and 2002-03.However, the private insurers showed fluctuating trend. The average underwriting losses of the private sector companies during the year 2001-02 were -117.71 per cent which reduced to just -2.18 per cent in the year 2005-06 and again increased to -12.20 per cent in the year 2009-10. All the private insurers except Reliance, Cholamandalam and HDFC ERGO, exhibited underwriting losses lower than the public sector insurers. The above analysis indicates that the variation in underwriting ratio of the private sector general insurance companies is higher. The Mann-Whitney test also reveals that there is a significant gap between underwriting ratio of the public and private insurers. The main reason for higher underwriting losses of the public insurers is mainly due to higher expenses of management and incurred claim. Their excessive management expenses have been higher due to massive strength of manpower and the loss incurred by the public sector general insurance companies in underwriting business was due to the loss in third party claims relating to motor insurance business and the loss arising out of other miscellaneous insurance business. On the other hand, private companies have minimum staff strength and advanced technology at their disposal. So, public sector general insurance companies need to reduce the staff strength and use more advanced technology to compete with the private sector.

5.2.5 Net Retention Ratio

The retention ratio measures the premium retained by the insurer after cessions to reinsurers, to the gross premium, which includes acceptances. Net Retention ratio may be defined as net written premium divided by gross-direct premium. It is a measure of the companies ability to bear risks. The Insurance companies pass on or cede a part of the risk covered by them to reinsurers. For this protection, a pre-determined portion of the premium is ceded to the reinsurers. Similarly, companies accept part of the risk of other insurers for which they receive a predetermined portion of the premiums of the ceding companies called "acceptances". In general, the companies having a stronger capital base are able to retain more of their portfolios, whereas the companies, with relatively lower capitalization (and hence lower capacity to retain risks) have resorted to higher utilization of reinsurance.

Table 5.5 Net Retention ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	74.33	74.25	73.78	74.32	75.87	74.61	79.26	85.05	85.61	77.45	74.61	4.76
New India Assurance	73.09	73.06	73.86	76.33	76.51	80.03	79.88	85.19	84.55	78.06	76.51	4.65
Oriental Insurance	72.78	66.19	70.11	71.77	69.27	71.62	73.81	79.33	81.62	72.94	71.77	4.84
United India insurance	73.52	70.46	70.23	73.79	70.55	72.30	77.03	82.06	79.98	74.44	73.52	4.33
Mean	73.43	70.99	72.00	74.05	73.05	74.64	77.50	82.91	82.94	75.72		
Median	73.31	71.76	72.01	74.06	73.21	73.46	78.15	83.56	83.09			
SD	0.67	3.57	2.11	1.87	3.67	3.81	2.74	2.79	2.60			
Private												
Royal Sundaram	51.67	59.19	60.64	60.97	64.73	65.12	76.76	83.19	82.64	67.21	64.73	11.09
Reliance General Insurance Co	3.03	10.38	21.45	38.32	34.21	55.28	68.71	73.09	72.17	41.85	38.32	26.88
Iffco-Tokio General Insurance Co.	18.62	32.83	41.38	47.46	53.58	50.73	65.39	64.46	67.97	49.16	50.73	16.34
Tata- AIG Insurance Co. Ltd.	45.97	54.15	54.91	57.95	58.80	58.52	67.47	71.30	67.93	59.67	58.52	7.99
Bajaj Alliance General Insurance Co.	59.21	60.97	60.10	56.28	54.92	58.21	73.64	76.61	79.43	64.37	60.10	9.43
ICICI Lombard General Insurance Co	38.99	21.03	26.67	36.72	46.36	48.54	53.82	62.21	70.22	44.95	46.36	15.97
Cholamandalam MS General Insurance Co		30.43	49.79	52.86	44.76	51.09	61.48	63.33	65.57	52.41	51.98	11.50
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		68.70	78.50	76.44	71.49	68.61	75.97	57.42	64.31	70.18	70.10	7.03
Mean	36.25	42.21	49.18	53.38	53.61	57.01	67.91	68.95	71.28	56.23		
Median	42.48	43.49	52.35	54.57	54.25	56.75	68.09	67.88	69.10			
SD	21.36	21.29	18.82	12.86	11.83	7.10	7.78	8.57	6.55			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Net Retention Ratio**	**-6.654**	**<0.001**

Table 5.5 presents the trends of net retention ratio of all the public and private sector general insurance companies from the years 2001-02 to 2009-10. The average net retention ratio of the public insurers during the period of study is 75.72 per cent, whereas it is 56.23 per cent in the case of private insurers. It is evident that the average net retention ratio of the public insurers is 19.49 per cent higher than that of the private insurers. Among the public insurers, New India has exhibited the highest average net retention ratio of 78.06 per cent followed by National with a percentage of 77.45 per cent, United India has 74.44 per cent and Oriental 72.94 per cent. Among the private insurers, HDFC ERGO has exhibited the highest average net retention ratio of 70.18 per cent followed by Royal Sundaram with a percentage of 67.21 per cent, Bajaj Allianz 64.37 per cent, Tata AIG 59.67 per cent, Cholamandalam 52.41 per cent , IFFCO-Tokio 49.16 per cent, ICICI Lombard 44.95 per cent, and Reliance 41.85per cent. The Year-wise trends indicate that, the public insurers have reported on upward trend. Their average net retention ratio in the year 2001-02 was 73.43 per cent which increased to 82.94per cent in the year 2009-10. Similarly, the private insurers also reported an upward trend. Their average net retention ratio in the year 2001-02 was 36.25 per cent which increased to 71.28 per cent in the year 2009-10. As is evident from the above analysis, the investment income offset the effect of underwriting loss and contributing to the profitability of insurers. So, in order to increase investment income and profitability, the private sector companies need to enhance their net

retention. The Mann-Whitney test indicates that there is a significant gap between the net retention ratio of public and private sector general insurers.

5.2.6 Investment Income

Income from Investments is the critical source of revenue for all the companies and accounts for their overall profits. Investment performance reveals the effectiveness and efficiency of investment decisions. It is a function of asset allocation and asset management as well as asset control. The investment income ratio is calculated by investment income to net written premium.

Table 5.6 Investment Income ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	S.D
Public												
National Insurance	24.26	22.80	26.41	24.19	37.64	36.94	37.04	28.45	33.90	30.18	28.45	6.17
New India Assurance	27.94	25.05	34.85	38.32	47.96	47.46	47.74	30.49	35.66	37.27	35.66	8.80
Oriental Insurance	24.06	25.39	46.39	48.79	44.69	40.29	39.71	30.78	29.51	36.62	39.71	9.36
United India insurance	30.53	32.07	43.95	49.26	62.92	51.96	54.75	30.98	40.30	44.08	43.95	11.57
Mean	26.70	26.33	37.90	40.14	48.30	44.16	44.81	30.18	34.84	37.04		
Median	26.10	25.22	39.40	43.56	46.33	43.88	43.73	30.64	34.78			
SD	3.12	4.00	9.13	11.77	10.65	6.80	8.04	1.17	4.46			
Private												
Royal Sundaram	27.51	17.47	11.45	6.67	7.10	8.44	9.00	11.31	12.30	12.36	11.31	6.56
Reliance General Insurance Co	616.60	121.80	47.01	22.58	27.06	6.34	7.78	10.47	10.72	96.71	22.58	198.32
Iffco-Tokio General Insurance Co.	81.49	18.25	11.26	8.01	7.49	9.83	9.97	11.90	12.10	18.92	11.26	23.67
Tata- AIG Insurance Co. Ltd.	33.80	12.31	11.18	9.92	8.94	9.13	9.54	12.21	15.53	13.62	11.18	7.85
Bajaj Alliance General Insurance Co.	16.99	11.47	10.68	8.11	7.45	8.55	10.64	10.70	11.84	10.71	10.68	2.81
ICICI Lombard General Insurance Co	51.87	33.45	19.62	16.01	12.11	9.37	12.61	17.28	20.42	21.42	17.28	13.38
Cholamandalam MS General Insurance Co		168.67	32.16	12.03	13.19	9.88	8.23	8.87	10.35	32.92	11.19	55.40
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		42.94	14.05	8.42	9.36	10.99	8.59	13.84	8.13	14.54	10.18	11.71
Mean	138.04	53.30	19.68	11.47	11.59	9.07	9.55	12.07	12.67	30.83		
Median	42.84	25.85	12.75	9.17	9.15	9.25	9.27	11.61	11.97			
S.D	235.53	59.10	13.24	5.38	6.64	1.37	1.55	2.55	3.76			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Investment Income Ratio**	**-3.716**	**<0.001**

Table 5.6 highlights the investment income to net written premium ratio of the public and private insurers for the period 2001to 2010. The results indicate that the average investment income ratios of the public and private insurers are 37.04 per cent and 30.83 per cent respectively. Thus, it is 6.21 per cent higher in the case of public sector insurers. Among the public sector insurers, United India exhibits the highest average investment income ratio of 44.08 per cent followed by New India 37.27per cent ,Oriental 36.62 per cent, and National 30.18 per cent. However, among the private insurers, Reliance exhibits the highest average investment income ratio of 96.71 per cent followed by Cholamandalam 32.92 per cent , ICICI Lombard 21.42 per cent, IFFCO-Tokio 18.92 per cent ,HDFC ERGO 14.54 per cent, Royal Sundaram 12.36 per cent and Tata AIG 13.62 per cent. Bajaj Allianz has shown the least average investment income ratio ie., 10.71. There is a wide gap in the investment income ratio of Reliance and Cholamandalam with other private sector insurance companies and this is mainly due to the investment income ratio during the first two years. Year-wise, the average investment income of all the public insurers in the year 2001-02 was 26.70 per cent which showed an increasing trend up to 2005-06 when it rose to 48.30 per cent. Then it showed a downward trend and became 34.84 per cent in the year 2009-10. In the case of private insurers', average investment income ratio displayed a downward trend and during the period 2001-02 to 2008-09, it decreased from 138.04 per cent to 12.67

per cent. The Mann-Whitney test also indicates that the gap in the investment income of public sector insurance companies is significantly greater than that of the private sector.

5.2.7 Operating Ratio

Operating Ratio may be defined as profit before tax divided by net written premium.

Table 5.7 Operating ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	5.18	6.54	2.91	4.99	2.22	15.96	5.40	-3.65	6.75	5.14	5.18	5.15
New India Assurance	6.75	8.90	1.78	20.48	19.70	33.96	30.96	5.40	0.76	14.30	8.90	12.43
Oriental Insurance	-12.92	9.23	22.35	21.27	13.37	21.86	15.36	-2.73	2.23	10.00	13.37	12.29
United India insurance	7.66	10.24	18.29	14.65	20.34	20.57	22.84	14.32	19.64	16.51	18.29	5.12
Mean	1.67	8.73	11.33	15.35	13.91	23.09	18.64	3.34	7.35	11.49		
Median	5.97	9.07	10.60	17.57	16.54	21.22	19.10	1.34	4.49			
SD	9.78	1.57	10.52	7.51	8.40	7.68	10.89	8.38	8.58			
Private												
Royal Sundaram	-66.72	-4.20	5.13	2.65	3.42	6.98	0.89	1.46	4.51	-5.10	2.65	23.32
Reliance General Insurance Co	313.61	79.60	30.37	11.64	37.93	0.44	-12.17	-3.58	-6.34	50.17	11.64	102.92
Iffco-Tokio General Insurance Co.	13.02	13.37	31.68	10.07	5.04	7.31	1.60	0.78	3.90	9.64	7.31	9.45
Tata- AIG Insurance Co. Ltd.	-76.46	10.20	3.85	9.39	7.98	7.95	5.10	1.62	2.03	-3.15	5.10	27.67
Bajaj Alliance General Insurance Co.	-15.77	9.46	11.10	16.06	11.71	11.26	9.58	7.46	9.12	7.78	9.58	9.15
ICICI Lombard General Insurance Co	-101.28	9.66	32.54	16.79	7.43	5.52	7.31	0.01	6.84	-1.69	7.31	38.49
Cholamandalam MS General Insurance Co		-69.11	-12.73	-3.73	-2.54	8.66	3.28	2.73	0.36	-9.14	-1.09	25.03
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		-97.09	-25.03	-5.95	3.34	1.88	-10.00	-12.94	-16.05	-20.23	-11.47	32.41
Mean	11.07	-6.01	9.61	7.12	9.29	6.25	0.70	-0.31	0.55	4.25		
Median	-41.25	9.56	8.12	9.73	6.24	7.15	2.44	1.12	2.97			
SD	154.01	54.42	21.38	8.59	12.30	3.56	7.83	5.95	8.15			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Operating Ratio**	**-3.139**	**0.002**

Table 5.7 carried the data regarding operating ratio of the public and private insurers for the period 2001-02 to 2009-10. It is evident from the table that the average operating ratios of the public and private sector general insurance companies for the period are 11.49 per cent and 4.25 per cent respectively which indicates that the public sector insurers average operating ratio is 7.24 per cent higher than that of the private sector insurers. Among the public sector insurers, United India achieved the highest average operating ratio of 16.51per cent followed by New India 14.30, Oriental 10.00 per cent and National with 5.14 per cent. Among the private insurers, Reliance has exhibited the highest average operating ratio of 50.17per cent followed by Iffco-Tokio 9.64, Bajaj Allianz 7.78. The other private insurers suffered average operating losses, whereas HDFC ERGO showed the highest negative average operating ratio of -20.23 per cent followed by Cholamandalam with a percentage of -9.14per cent, Royal -5.10, Tata –AIG -3.15 per cent and ICICI Lombard -1.69 per cent. So, among the private insurers, Reliance, Iffco-Tokio and Bajaj Allianz have exhibited better operating ratios as compared to other private insurers. Year-wise analysis shows that the average operating ratio of the public insurers has shown an upward trend during the period 2001-02 to 2004-05 ,it increased from 1.67per cent to 15.35per cent, and again it came down to 13.91per cent in the year 2005-06, and further in 2006-07 it became 23.09per cent. The private insurers in the year 2001-02 showed average operating ratio of 11.07 per cent.

However, from the year 2003-04 onwards it registered a positive operating ratio with no consistent trend, i.e., it showed an upward trend up to 2005-06 and again showed a downward trend from 2006-07 and in 2008-09 showed a negative operating ratio. Overall, the public sector companies earned a higher average operating profit as compared to their counter-parts. The Mann-Whitney test also indicates that there is a significant gap between the operating ratios of the public and private insurers.

5.2.8 Net Earning Ratio

The Net Earning Ratio has been calculated by dividing profit after tax to net written premium. The Net Earning Ratio shows how profitable the insurance business is. Table 5.8 explains that the net earning ratios of the public and private sector General Insurance Companies.

Table 5.8 Net Earning ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	4.99	6.33	2.84	4.63	-3.96	28.86	5.13	-4.08	5.65	5.60	4.99	9.59
New India Assurance	4.59	7.28	16.24	10.33	16.50	30.72	28.51	4.08	6.74	13.89	10.33	10.00
Oriental Insurance	-12.96	3.34	15.56	14.90	11.35	17.27	0.32	-1.63	-1.12	5.23	3.34	10.18
United India insurance	7.50	8.17	17.68	14.16	20.45	20.91	21.93	13.56	16.89	15.69	16.89	5.30
Mean	1.03	6.28	13.08	11.01	11.09	24.44	13.97	2.98	7.04	10.10		
Median	4.79	6.81	15.90	12.25	13.93	24.89	13.53	1.23	6.20			
SD	9.42	2.10	6.88	4.70	10.70	6.40	13.41	7.84	7.43			
Private												
Royal Sundaram	-66.72	-4.20	5.13	2.48	2.91	5.44	0.88	0.85	4.10	-5.46	2.48	23.16
Reliance General Insurance Co	288.09	74.36	26.06	14.25	16.20	0.32	-12.38	-3.74	-3.53	44.40	14.25	94.94
Iffco-Tokio General Insurance Co.	12.72	9.08	23.83	6.27	3.06	4.67	0.97	0.28	2.56	7.05	4.67	7.44
Tata- AIG Insurance Co. Ltd.	-76.46	-10.20	8.11	4.71	4.04	5.19	3.06	0.72	1.16	-6.63	3.06	26.69
Bajaj Alliance General Insurance Co.	-11.43	5.31	7.58	9.82	7.38	7.23	6.03	4.74	6.13	4.75	6.13	6.25
ICICI Lombard General Insurance Co	-77.30	7.66	24.48	15.06	6.86	4.71	5.78	1.11	6.22	-0.60	6.22	29.58
Cholamandalam MS General Insurance Co		-69.11	-12.73	-3.73	-3.17	7.84	2.25	1.61	0.46	-9.57	-1.36	24.78
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		-97.09	-25.03	-5.95	3.07	1.50	-10.14	-13.22	-16.02	-20.36	-11.68	32.33
Mean	11.48	-10.52	7.18	5.36	5.04	4.61	-0.44	-0.96	0.14	2.43		
Median	-39.08	0.56	7.85	5.49	3.56	4.95	1.61	0.79	1.86			
SD	140.55	52.29	18.41	7.68	5.53	2.57	6.97	5.46	7.27			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Net Earning Ratio**	**-3.005**	**0.003**

Table 5.8 highlights the trends of net earning ratio of the public and private sector general insurance companies for the period 2001-02 to 2009-10. The average net earning ratios of the public and the private insurers for the period 2001to 2010are 10.10per cent and 2.43 per cent respectively which exhibits that the net earning ratio of public insurers is higher by 7.67 per cent than that of the private insurers. Among the public sector insurers, United India has earned the highest average net earning ratio of 15.69per cent followed by, New India of 13.89, National and Oriental with the respective percentages of 5.60per cent, and 5.23per cent. Among the private insurers, Reliance has earned the highest average net earning ratio of 44.40 per cent followed by IFFCO-Tokio 7.05 per cent and Bajaj Allianz of 4.75 per cent. Among the other private insurers, HDFC ERGO, suffered the highest average loss of - 20.36 per cent, followed by Cholamandalam with -9.57 per cent, Tata-AIG with a loss of -6.63 per cent, Royal with -5.46 per cent and ICICI Lombard with -0.60 per cent. Year-wise analysis provides that the public insurers have registered the highest average net earning ratios of 24.44per cent in 2006-07.However, no clear trend in the case of the public insurers could be observed. In the case of private insurers, the average net earning ratio is highest during the years 2001-04 except 2002-03. The results of Mann-Whitney test also indicate that there is a significant gap between the net earning ratio of the public and private insurers.

5.2.9 Return on Equity Ratio

Return on Equity Ratio indicates how well the resources of the owners have been used. It is calculated by dividing profit after tax to Net worth (share capital minus general reserve). Table 5.9shows the return accruing to owners' capital in the Public and Private Sector General Insurance companies.

Table 5.9 Return on Equity ratio of general insurance companies 2001-2010 (Percentage)

Companies	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Mean	Median	SD
Public												
National Insurance	9.38	12.58	6.39	10.78	-9.57	29.39	10.49	-10.59	14.21	8.12	10.49	12.19
New India Assurance	4.42	7.52	14.97	9.32	14.90	24.25	20.09	3.06	5.45	11.55	9.32	7.40
Oriental Insurance	-35.03	7.59	28.20	23.30	17.25	24.55	0.46	-2.67	-2.29	6.82	7.59	19.74
United India insurance	11.77	11.83	21.22	15.16	18.04	19.15	19.46	13.17	17.05	16.32	17.05	3.49
Mean	-2.37	9.88	17.70	14.64	10.16	24.34	12.63	0.74	8.61	10.70		
Median	6.90	9.71	18.10	12.97	16.08	24.40	14.98	0.20	9.83			
SD	21.99	2.70	9.27	6.28	13.22	4.18	9.22	10.00	8.78			
Private												
Royal Sundaram	-18.86	-3.54	6.17	3.85	6.17	14.88	2.66	2.54	12.20	2.90	3.85	9.79
Reliance General Insurance Co	6.19	11.60	6.79	4.21	9.40	0.63	-27.27	-6.56	-5.00	0.00	4.21	11.92
Iffco-Tokio General Insurance Co.	1.62	5.94	8.66	11.75	5.22	9.14	2.36	0.55	5.35	5.62	5.35	3.74
Tata- AIG Insurance Co. Ltd.	-22.33	-10.46	12.39	9.79	6.98	8.85	6.22	1.25	1.94	1.63	6.22	11.21
Bajaj Alliance General Insurance Co.	-8.80	8.77	16.52	26.36	19.31	18.68	18.29	14.15	15.23	14.28	16.52	9.85
ICICI Lombard General Insurance Co	-7.75	3.11	14.07	19.38	13.49	8.62	9.56	1.47	8.60	7.84	8.62	8.02
Cholamandalam MS General Insurance Co		-2.96	-4.33	-2.35	-2.20	8.80	4.96	4.57	0.84	0.92	-0.68	4.70
HDFC ERGO General Insurance Co. (Earlier HDFC Chubb General Insurance Co. from 27.9.2000 to 5.4.2008)		-6.32	-18.58	-6.68	3.54	1.60	-11.33	-14.78	-29.40	-10.24	-9.01	10.80
Mean	-8.32	0.77	5.21	8.29	7.74	8.90	0.68	0.40	1.22	2.87		
Median	-8.28	0.08	7.73	7.00	6.58	8.83	3.81	1.36	3.65			
SD	11.11	7.77	11.53	10.94	6.50	6.01	13.99	8.38	13.97			

Source: Compiled from IRDA Annual Report 2001-2010.

Test of Significance

Test	Ratio	Z-value	Asymp. Sig. (2-tailed)
Mann- Whitney Test	**Return on Equity Ratio**	**-6.478**	**<0.001**

The trend on return on equity of both the public and private sector general insurance companies for the period 2001-02 to 2009-10 has been shown in table 5.9. The analysis provides that the average return on equity of the public sector insurers is 10.70per cent, and that of private sector insurers is 2.87per cent which means the public sector insurers earn 7.83 per cent higher average return on equity than the private insurers. Among the public sector insurers, United India has earned the highest average return on equity of 16.32 per cent followed by New India ,National and Oriental, with the respective percentage of 11.55, 8.12 and 6.82.Two public sector insurers ie., New India and United India assurance have shown a positive return on equity during all the years.Among the private sector insurers, Bajaj Allianz achieved the highest average return on equity of 14.28 per cent followed by ICICI Lombard (7.84 per cent), IFFCO-Tokio (5.62 per cent), Royal Sundaram (2.90per cent), Tata AIG (1.63per cent), Cholamandalam (0.92 per cent)and HDFC ERGO suffered a loss and showed a negative average return on equity of -10.24per cent. Year-wise analysis provides that public sector insurers' average return on equity was the highest in the year 2006-07 which is 24.34 per cent followed by the percentages of 17.70 per cent, 14.64per cent and 12.63per cent which appeared during the years 2003-04, 2004-05 and 2007-08 respectively. In the case of the private insurers, the average return on equity is the highest, i.e., 8.90per cent followed by 8.29 per cent, 5.21per cent which appeared during the years 2006-07,2004-05, and 2003-04 respectively. The Mann-Whitney test also indicates that there is a significant gap between the return on equity of the public and private insurers. The return on equity of the public insurers is significantly higher than that of the private insurers. Therefore, the study rejected the hypothesis that the profitability of the private insurers is significantly higher than that of the public insurers.

5.3 Correlation and Regression Analysis of the Profitability of Public and Private Sector General Insurance Companies

Correlation analysis measures and analyses the degree or extent to which two variables fluctuate with reference to each other.The correlation measures the closeness of the relationship between the variables. Interdependence among variables is a common characteristic of most multivariate techniques and correlation matrix is a table used to display correlation coefficients between these variables. The degree of association between the selected variables and public sector insurers' profitability is studied for both the public and private sector companies and the correlation matrices are given in Tables 5.10 and 5.11 respectively.

Table 5.10 Spearman's Correlation of Public Sector General Insurance Companies 2001-2010

	Return on equity	Claim Ratio	Expense Ratio	Under Writing Results	Investment Income	Net Retention Ratio
Return on equity	1.000					
Claim Ratio	-0.429**	1.000				
Expense Ratio	0.191	-0.001	1.000			
Under Writing Results	0.211	-0.796**	-0.455**	1.000		
Investment Income	0.669**	0.018	0.549**	-0.322	1.000	
Net Retention Ratio	-0.278	0.178	-0.105	0.117	-0.105	1.000

** Correlation is significant at 1% level & * Correlation is significant at 5% level.

Table 5.10 shows the correlation between dependent variable return on equity with other independent variables of the public sector general insurance companies from 2001-2010. It can be seen from the table that only one independent variable, viz. investment income ratio has a significant positive correlation with return on equity and the coefficient is 0.669. All other independent variables have insignificant correlation with return on equity. Claim ratio have significantly but negatively correlated with return on equity. Expense ratio and claim ratio have a significant negative correlation with underwriting results and their coefficients are -0.455 and -0.796 respectively. Underwriting results have negative correlation with investment income ratio. But in public sector this higher underwriting loss is offset by higher investment income ratio which resulted into higher profitability.

Table 5.11 Spearman's Correlation of Private Sector General Insurance Companies 2001- 2010

	Return on equity	Claim Ratio	Expense Ratio	Under Writing Results	Investment Income	Net Retention Ratio
Return on equity	1.000					
Claim Ratio	0.043	1.000				
Expense Ratio	-0.532**	-0.299*	1.000			
Under Writing Results	0.798**	-0.022	-0.563**	1.000		
Investment Income	-0.192	-0.072	0.246*	-0.558**	1.000	
Net Retention Ratio	-0.160	0.341**	0.204	0.000	-0.424**	1.000

** Correlation is significant at 1% level & * Correlation is significant at 5% level.

Table 5.11 highlights the correlation between the dependent variable, viz. return on equity with other independent variables of the private sector general insurance companies from 2001to 2010. It can be seen from the table that one independent variable, namely, underwriting results ratio have significant positive correlation with return on equity and the coefficient is 0.798.Other independent variables, namely, investment income ratio and net retention ratio have no significant correlation with return on equity. Few independent variables have also significant correlation with one another, such as claim ratio has significant negative correlation with expense of management ratio and the net retention ratio has significant positive correlation with claim ratio. Expense of management has a significant negative correlation with underwriting results and underwriting results has a significant negative correlation with investment income ratio and the coefficient is -0.558.

5.4 Multiple Regression Analysis of the Profitability of Public and Private Sector General Insurance Companies

In multiple regression analysis more than two variables are included in the examination to explain a variation in profitability of the public and private sector general insurance companies in India during the period 2001-2010.

Table 5.12 Multiple Regression analysis of Public Sector General Insurance Companies 2001- 2010

Step	Constant	Unstandardized Coefficients		R^2	Adjusted R^2	F - value	p – value
		Investment	Underwriting				
I	-14.257 (-2.126)*	0.674 (3.853)*	--	0.304	0.283	14.848	<0.001
II	1.902 (0.359)	0.976 (7.522)*	1.140 (6.226)*	0.680	0.661	35.049	<0.001

* Significant at 5 percent level

The results of multiple regression analysis for the four public sector general insurance companies are given in table 5.12. The analysis shows that investment income to net written premium entered the regression model in first step, singularly explaining 28.3 % variation in return on equity of the public insurers with significant regression coefficient 0.674. In second step, underwriting results to net written premium has been entered the analysis and together with investment income ratio explain 66.1 per cent variation in return on equity with significant regression coefficient 1.140. It has been found that return on equity of the public insurers was affected by investment income to NWP and underwriting results to NWP and it significantly affecting profitability of the public sector general insurance companies.

Table 5.13 Multiple Regression analysis of Private Sector General Insurance Companies 2001- 2010

Step	Constant	Unstandardized Coefficients		R^2	Adjusted R^2	F - value	p-value
		Underwriting	Investment				
I	4.741 (3.449)*	0.070 (2.835)*	--	0.206	0.193	8.037	0.006
II	4.787 (3.890)*	0.195 (5.280)*	0.104 (4.225)*	0.294	0.273	13.938	<0.001

* Significant at 5 percent level

Table 5.13 shows the multiple regression analysis of the private sector general insurance companies. The results show that underwriting results to net written premium entered the regression model in first step, singularly explaining 19.3 per cent variation in the private insurers' profitability with significant regression coefficient 0.070. In second step, investment income to net written premium has been entered the analysis and together with underwriting results ratio explain 27.3 per cent variation with significant regression coefficient 0.104, i.e., one unit of investment income to NWP leads to 0.104 increase in the private insurers' profitability.

The regression analysis shows that underwriting results and investment income have significant impact on return on equity. It is evident from the analysis that the significant variation in return on equity is due to both underwriting results and investment income of both the public and private insurers. But all the insurers have exhibited underwriting losses. So, in order to improve their profitability, both public and private sector general insurance companies need to focus on their underwriting results.

…..ꙮꙮ…..

Chapter 6

ANALYSIS AND INTERPRETATION

Contents

In this chapter an empirical verification of this study is made. The sample size of 500 which is spread over 338 males and 162 females' where 248 are related to the public sector and 252 are related to the private sector. It is also found that those with family and income encumbrances prefer to take such policies. This research also found that those with the higher incomes are the ones with the policy holders. This analysis is done by taking the following aspect which is considered relevant for the study. The demands of the customers vary as per their age, income, occupation, education level etc. The customers selected for the study belonged to different categories made on the basis of sex, age, occupation, annual income and policy. The study aims to have a comparative service analysis of the public and private sector general insurance companies. The Chi-square test has been used to investigate the significant difference between the profile of the different categories of customers of both public and private sector general insurance companies. It categorised into five parts.

a) General profile of the customers

b) Customers perception towards satisfaction and purchase decision.

c) Customers perception towards claim settlement

d) Customers perception towards companies' role in providing information.

e) Customers perception regarding choosing an insurance company for taking policy.

6.1 General Profile of the customers

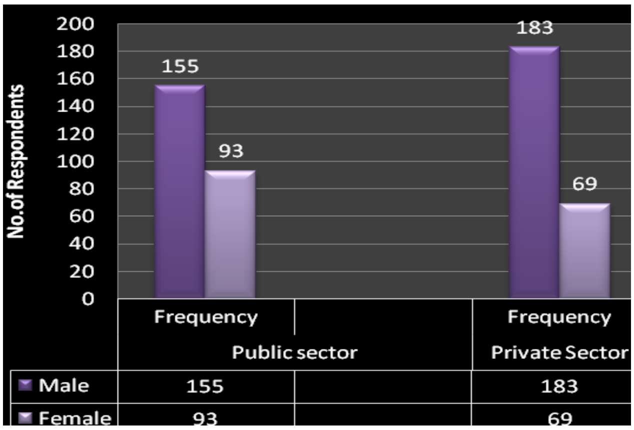
This part analyses the general profile of the respondents. It includes gender, age, occupation, annual income and duration of their policy subscription etc.

Table 6.1 Gender and Sector wise profile of the respondents

Gender	Public sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Male	155	62.5	183	72.62	338	67.6
Female	93	37.5	69	27.38	162	32.4
Total	248	100	252	100	500	100

Source:Survey Data

Chi-square value = 5.843, d.f. = 1, P-value =0.016



Source: Survey Data

Figure 6.1 Gender and Sector wise profile of the respondents

The table 6.1. reveals that the numbers of male respondents are more than the females in both the public and private sector general insurance companies under study. In the public sector companies, 155(62.5%) of the respondents are male and 93(37.5%) are female. However, in the private sector companies, 183(72.62%) respondents belong to male category and the remaining 69(27.38%) belong to female category. The Chi-square test results (P < 0.05) exhibit that sex-wise, there is significant difference between the respondents from the public and private sector general insurance companies.

Table 6.2 Age profile of the respondents

Age	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Below 25 years	9	3.63	14	5.56	23	4.6
25-35 years	29	11.69	64	25.40	93	18.6
35-45 years	108	43.55	66	26.19	174	34.8
45-55 years	71	28.63	71	28.17	142	28.4
55-65 years	31	12.5	37	14.68	68	13.6
Total	248	100	252	100	500	100

Source: Survey Data

Chi-square value = 24.896, d.f. = 4, P- value = 0.00.

The age-wise distribution of the respondents from both the public and private sector general insurance companies is exhibited in Table 6.2. It is clear from the table that 9(3.63%) and 14(5.56%) respondents from both the public and private sector companies respectively are below the age of 25 years. Similarly, 29 (11.69%)and 64(25.40%) respondents fall in the age category of 25 to 35 years, 108(43.55%) and 66 (26.19%)in the age of 35 to 45 years, 71(28.63%) and 71(28.17%) in the age group of 45-55 years whereas 31(12.5%) and37 (14.68%) between 55-65 years in the public and private sector companies respectively. The table reflects that majority of the respondents are up to the age of 55 years in both the sectors. The Chi-square test shows that there is significant difference among the respondents belonging to different age categories in the public and private sector insurance companies.

Table 6.3 Occupation profile of the respondents

Occupation	Public sector		Private sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Govt. Employees	110	44.35	54	21.43	164	32.8
Company Executives/ Managers	24	9.68	72	28.57	96	19.2
Self employed	60	24.19	49	19.44	109	21.8
Daily worker	13	5.24	10	3.97	23	4.6
Business	41	16.53	67	26.59	108	21.6
Total	248	100	252	100	500	100

Source: Survey Data

Chi-square value = 50.854, d.f. = 4, P- value = .000

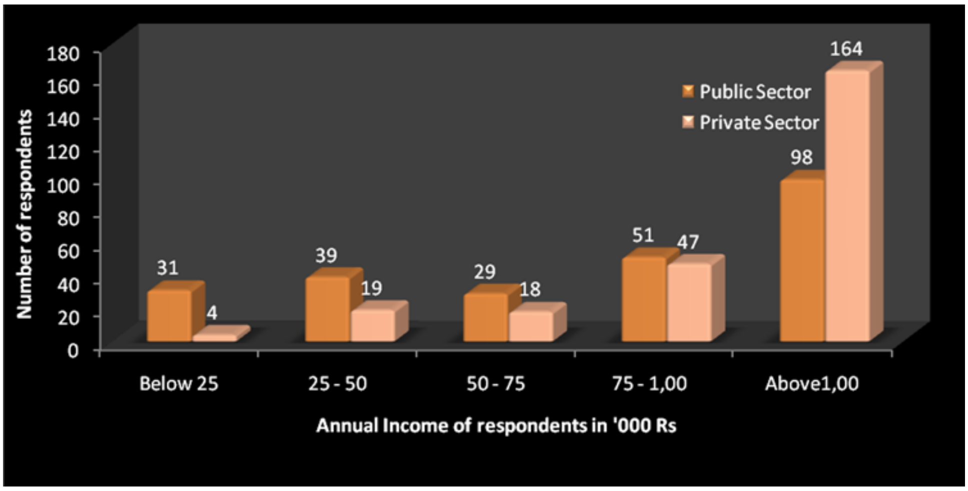
Table 6.3 presents the occupation-wise distribution of respondents from the public and private sector insurance companies separately. An analysis of the table provides that maximum number of respondents from the public sector general insurance companies under study, i.e., 110 (44.35%)belong to Government employee category, whereas 60(24.19%) and 41(16.53 %)respondents represent the self employed and businessman categories respectively. Further, 24 (9.68%)respondents represent Company executives/Managers category and a small number of respondents ie., 13(5.24%) belong to daily worker category. However, majority of the respondents from the private sector general insurance companies, i.e., 72(28.57%) belong to the Company executives/Managers category, while 67(26.59%), 54 (21.43%), 49(19.44%) and 10(3.97%) respondents represent the businessman, Government employee, self employed and daily worker categories respectively. The results of Chi-square test ($P < 0.05$) reveal that there is significant difference between occupation-wise respondents of both the public and private sector insurance companies.

Table 6.4 Annual Income of the respondents

Annual Income	Count Percentage within Annual income	Sector		Total
		Public	Private	
Below Rs.25,000	Count % within Annual Income	31 88.6%	4 11.4%	35 100.0%
Rs.25,000-Rs.50,000	Count % within Annual Income	39 67.2%	19 32.8%	58 100.0%
Rs.50,000-Rs.75,000	Count % within Annual Income	29 61.7%	18 38.3%	47 100.0%
Rs.75,000-Rs.1,00,000	Count % within Annual Income	51 52.0%	47 48.0%	98 100.0%
Above Rs.1,00,000	Count % within Annual Income	98 37.4%	164 62.6%	262 100.0%
Total	Count % within Annual Income	248 49.6%	252 50.4%	500 100.0%

Source: Survey Data

Chi-square value = 47.060, d.f. = 4, P- value = .000



Source: Survey Data

Figure 6.2 Annual Income of the respondents

The table 6.4 gives the annual income and the sector from which the respondents have taken their policy. This table try to examine whether the annual income has any relationship with the sector chosen. 31 (88.6%) respondents out of the 35 having their annual income less than Rs. 25,000 have taken their policy from Public sector. 67.2% in the income group of Rs.25,000-Rs.50,000, 61.7% in the income group Rs.50,000-Rs.75,000, 52% in the income group Rs.75,000 –Rs. 1,00,000 and 37.4% in the income group above Rs.1,00,000 taken policy from public sector. It is evident from the table that percentage of respondents taking their policy from Public sector decreases as income increases. Chi Square test for independence give a P Value which is negligible (approximately zero) and hence it is concluded at 5% level of significance that income and preference to the sector are related.

Table 6.5 How long have been subscribing the policy

		How long you been subscribing the specified policy				
		1 year	2 years	3 years	4 years or more	Total
Sector	Public	27 10.9%	26 10.4%	47 19.0%	148 59.7%	248 100.0%
	Private	26 10.3%	43 17.1%	84 33.3%	99 39.3%	252 100.0%
Total		53 10.6%	69 13.8%	131 26.2%	247 49.4%	500 100.0%

Source: Survey Data
Chi -square value – 24.348, d.f - 3, P Value - 0.000

The table 6.5. reflects that among the public sector insurance companies, majority of the respondents, i.e., 148 (59.7%) have been the customers of their respective companies for 4 or more than 4 years, while 47(19.0%)respondents have been the customers of their companies for three years, 27 (10.9%) respondents have been the customers of their companies for 1 year, Similarly, an equal number of customers i.e., 26 (10.4%)have been the customers of their companies for two years. However, maximum numbers of respondents from the private sector insurance companies, i.e., 99 (39.3%) have been the customers of their respective companies for 4 or more years, whereas the other respondents, i.e., 84 (33.3%), 43(17.1%) and 26 (10.3%)have been the customers for three years, two years and 1 year respectively. The Chi-square test indicates that there is significant difference between duration of customer profile of the respondents from both the public and private sector insurance companies.

6.2 Customers perception towards satisfaction and purchase decision

In a competitive environment, since the customer is the focus of business, not only do marketing practices acquire critical importance, but the manner in which the customer is served also needs close attention. The consumer has great international exposure and is now much informed. Customer therefore demands better service which has led to radical changes in marketing. These changing circumstances are exerting pressure on existing players in the industry to rewrite their strategies and policies.

The main focus of this analysis is to examine the customer satisfaction and purchase decision behaviour of the customers of both the public and private sector general insurance companies. To analyse the service quality, satisfaction level of customers towards the company, premium rate, service of the staff of insurance companies , whether the company provides all information about policy during the purchase of policy, reaction of policyholders, whether the selection of their respective company is right or wrong, customers perception towards usefulness of their policy, product variety satisfaction, customers attitude towards emerging private companies etc. are taken to examine the above fact. This will be helpful for both public and private sector general insurance companies when they rewrite their strategies.

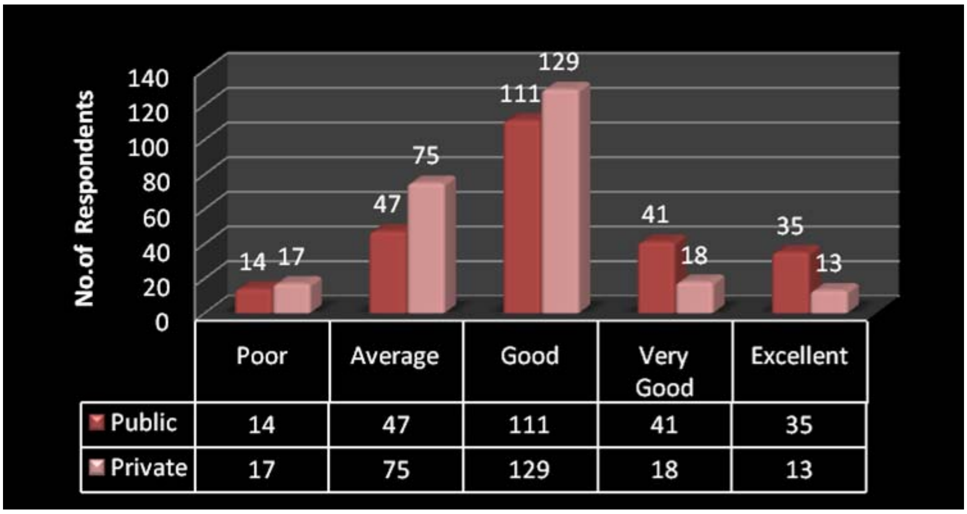
6.2.1 Customer Satisfaction

Today organisations are very concerned about customers. No one will deny that there is a much higher sensitivity about customers and genuine attempts at giving better service. Business theory as its great proponents say, have the customer as the basic reason of business activity. Without customers and their revenue, organisations and their assets are mere “costs” and major investments become dangerous “sunk cost”. All such costs get converted into revenue and profits only by the buying acts of customers. Customer service must be concretized as strategic activities and felt by customers. Customers are always clear about what they want. It is often organisations that are not clear about what they want to offer. Customers remain the most important centre of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. The customer satisfaction begins at the point of designing a good insurance programme for the customer, and not with the prompt issuance of policy document. To analyse the satisfaction level of the customers' of their respective company, questions regarding the overall satisfaction about the policy and company, premium rates, service rendered during the renewal time of policy, general service by the staff of the companies, whether they like to shift the companies etc. were asked. Chi-square value was taken to test the hypothesis.

Table 6.6 Overall satisfaction level of the customers

Satisfaction	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Poor	14	5.65	17	6.75	31	6.2
Average	47	18.95	75	29.76	122	24.4
Good	111	44.76	129	51.19	240	48
Very Good	41	16.53	18	7.14	59	11.8
Excellent	35	14.11	13	5.16	48	9.6
Total	248	100	252	100	500	100

Source: Survey Data
Chi -square value – 27.086, d.f - 4, P Value - 0.001



Source: Survey Data

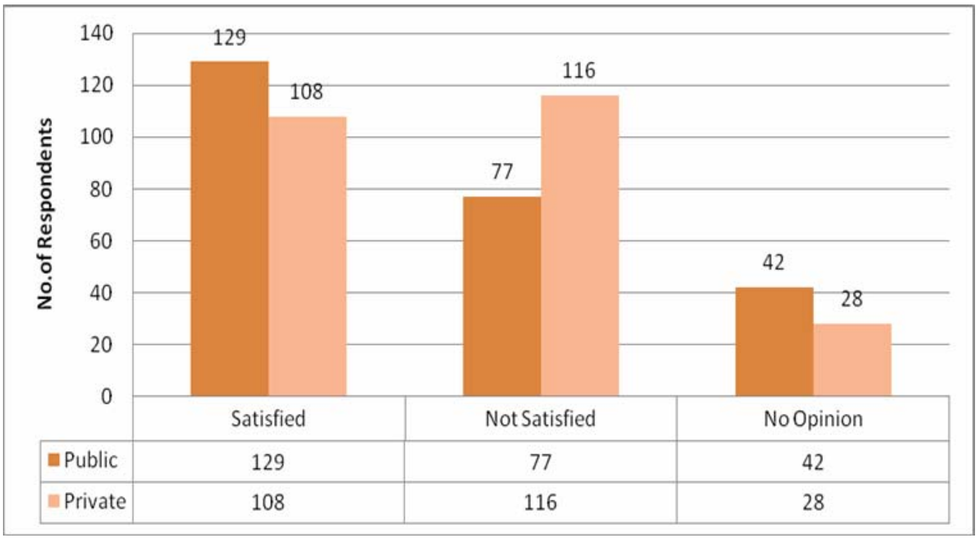
Figure 6.3 Overall satisfaction level of the customers

The table 6.6 shows the satisfaction level of the customers with regard to their respective companies. 35 (14.11%) respondents out of the 248 have taken their policy from public sector marked excellent. 41(16.53%) marked very good, 111(44.76%) marked good, 47(18.95%) marked average and 14(5.65%) marked poor regarding the satisfaction. On the other hand, 13(5.16%) respondents out of 252 customers favourably perceived the customers' satisfaction of the private sector general insurance companies of whom 129(51.19 %) responded good, 75 (29.76 %) ranked average, 18(7.14 %) ranked very good and 17(6.75%) ranked poor regarding the customers' satisfaction. Chi-square value regarding satisfaction of the public and private insurers indicates that there is significant difference between satisfaction level of the respondents of public and private sector insurance companies.

Table 6.7 Customers' satisfaction with regard to the premium rates

		Satisfaction with regard to premium			
		Satisfied	**Not Satisfied**	**No Opinion**	**Total**
Sector	Public	129 52.0%	77 31.0%	42 16.9%	248 100.0%
	Private	108 42.9%	116 46.0%	28 11.1%	252 100.0%
Total		237 47.4%	193 38.6%	70 14.0%	500 100.0%

Source: Survey Data



Source: Survey Data

Figure 6.4 Customers' satisfaction with regard to premium rates

Table 6.7 shows the satisfaction level of customers regarding the premium rates of their respective policies. 129(52.0%) out of 248 respondents among the public sector are satisfied with the premium rate. 77 (31.0 %) are not satisfied with their premium rates. Among the private sector policy holders, 116 (46.0%) out of 252 respondents are not satisfied with the premium rates.108 (42.9%) are satisfied with the premium rates. But the interesting fact that in both public and private sector 70(14.0%) respondents have no opinion regarding premium rates. It is high among public sector. This shows that customers are not aware of their policy details and companies not taken interest to provide full details of the policy to customers. It also highlighted the fact that policy holders who took insurance from public sector insurance companies are more satisfied than private sector.

Table 6.8 Satisfaction with respect to the service rendered during the renewal of the policy

Satisfaction	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Satisfied	198	79.84	199	78.97	397	79.4
Not satisfied	11	4.43	17	6.75	28	5.6
Average	39	15.73	36	14.28	75	15
Total	248	100	252	100	500	100

Source: Survey Data

Table.6.8 shows that almost equal number of respondents (198 (79.84%) and 199(78.97%) in public and private respectively satisfied with the service provided by the insurance companies during the policy renewal time. 39 (15.73%)respondents out of 248 public insurance policy holders reported average level of satisfaction. 11(4.43%) respondents are not satisfied with their companies. Among the private sector, 36 (14.28%) out of 252 respondents reported average level of satisfaction and 17(6.75%) are not satisfied with the service rendered during the renewal time.

Table 6.9 Satisfaction with regard to rendering service by staff

Service of staff	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Good	179	72.18	144	57.14	323	64.6
Improving	61	24.60	89	35.32	150	30
Bad	8	3.22	19	7.54	27	5.4
Total	248	100	252	100	500	100

Source: Survey Data

Source: Survey Data

Figure 6.5 Satisfaction with regard to rendering service by staff

Table.6.9 shows that 179(72.18%) respondents out of 248 respondents in public sector opined that service rendered by the staff of the general insurance company is good and144 (57.14%) respondents in private sector said the same comment. 89(35.32%) respondents of private sector said that it is improving and 61 (24.60%)respondents of public sector opined same thing. 19(7.54%) respondents out of 252 private insurance policy holders responded service rendered by the staff is not good.

Table 6.10 Customers' perception towards shifting of policies from the present company

Like to purchase new policies from other sector	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Yes	20	8.06	47	18.65	67	13.4
No	228	91.94	205	81.35	433	86.6
Total	248	100	252	100	500	100

Source: Survey Data

Table 6.10 shows the customers perception towards shifting of purchase of new policies from their present company to other. Out of 500 respondents only a small number ie., 67(13.4%) respondents revealed that they want to change their policies from present insurance companies and majority revealed that they again make the same choice. This shows that both the public and private companies succeed in bringing the loyalty to their customers.

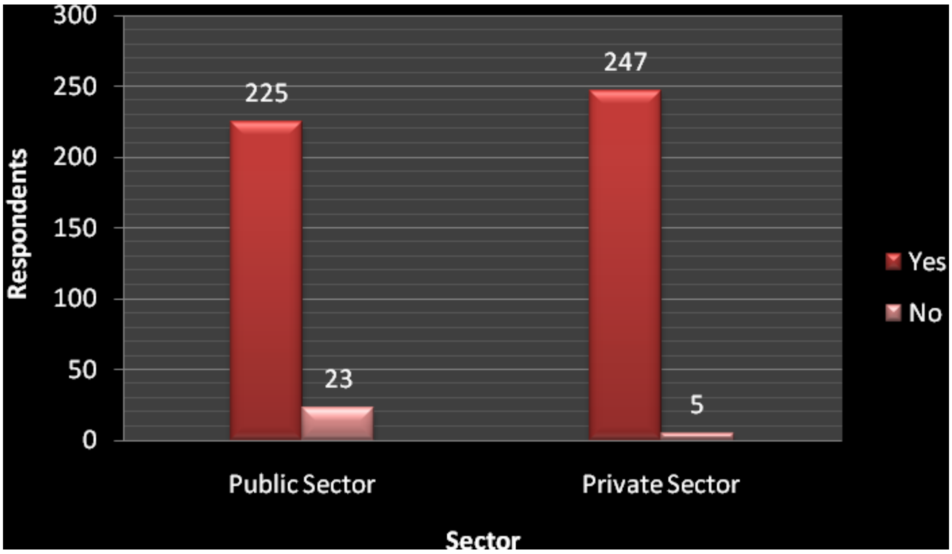
6.3 Respondents perception towards claim settlement

Claims settlement is an integral part of marketing, and one of the indicators of the quality of customer service, on which the image of the industry is dependent, is the speed and ease with which claims are settled. The claim settlement is the most important factor to retain a customer. It has been established in many studies that the customers' perception regarding the overall service quality of their company is changed when they actually avail the claim from their company. It has been observed that the service provided by a general insurance company at the time of taking a policy is, no doubt, of better quality than that provided at the time of settling a claim. Therefore, strong, expeditious, and fair claims-handling strategy and machinery must be put in place to deal with the increased volume of business and increased claims.

Table 6.11 Avail any claim

Made any claims under the policy	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Yes	225	90.73	247	98.02	472	94.4
No	23	9.27	5	1.98	28	5.6
Total	248	100	252	100	500	100

Source: Survey Data
Chi-square value =12.566, d.f. = 1, P-value <0.001



Source: Survey Data

Figure 6.6 Avail any claim

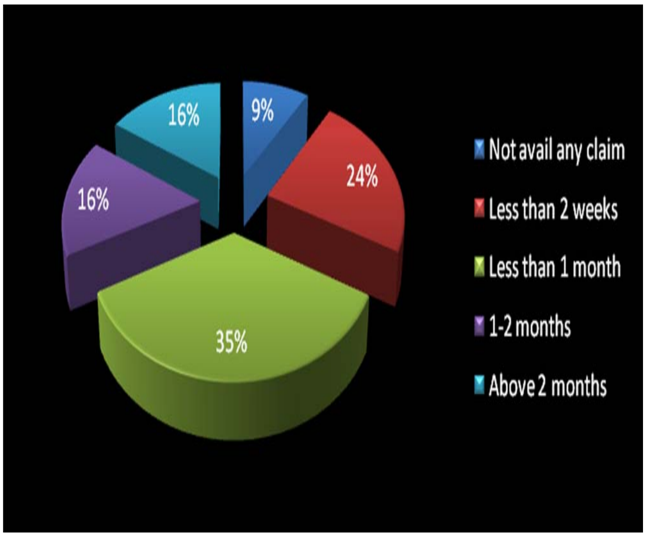
Firstly, the respondents were asked whether they have availed any claim or tried to avail claim from general insurance company or not. The sector-wise responses of the respondents in this regard have been presented in table 6.11. It has been observed that 225 (90.73%) customers of the public sector and 247 (98.02%) customers of the private sector have availed claim from their respective companies. The Chi-square test shows that there is significant difference among the respondents in claim availing in the public and private sector insurance companies. The proportion of customers availing claim is comparatively higher in the case of private sector than the public sector general insurance companies.

Table 6.12 Time taken to settle the claim

Time	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Not avail any claim	23	9.27	5	1.98	28	5.6
Less than 2 weeks	58	23.39	30	11.90	88	17.6
Less than 1 month	87	35.08	137	54.37	224	44.8
1-2 months	40	16.13	51	20.24	91	18.2
Above 2 months	40	16.13	29	11.51	69	13.8
Total	248	100	252	100	500	100

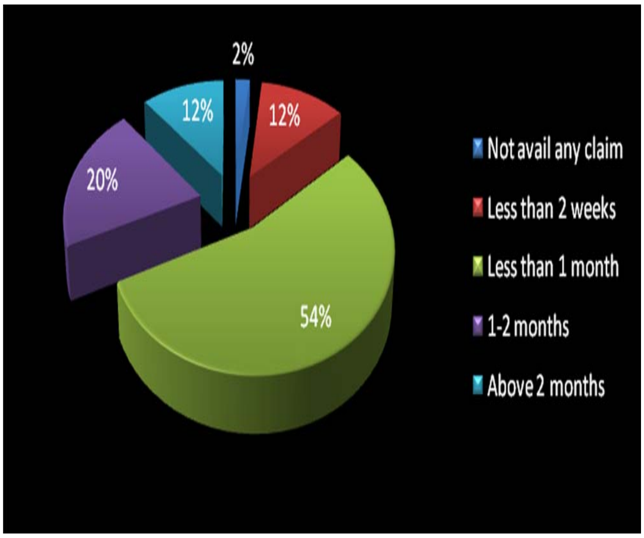
Source: Survey Data

Chi -square value – 31.320, d.f - 4, P Value < 0.001



Source: Survey Data

Figure 6.7 Time taken to settle the claim-Public sector



Source: Survey Data

Figure 6.8 Time taken to settle the claim-Private sector

Table 6.12 carries the data showing sector-wise responses of respondents regarding claim settlement. It is evident from the table that majority of the customers (87-35.08%) from the public sector responded that they got claim amount in less than 1 month and 58(23.39%) customers who got the amount in less than 2 weeks, for 40 (16.13%)customers it took 1and above 2 months. Among the private sector companies, majority of the customers (137- 54.37%) are found to be satisfied because they got the claim amount in less than 1 month followed by 51(20.24%) customers it took 1-2 months for settle the claim. The Chi-square test results (P < 0.05) exhibit that regarding time taken to settle the claim, there is significant difference between the respondents from the public and private sector general insurance companies.

Table.6.13 Reason for shifting the policy to the present company

Reason for shifting	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Customers not shifted	230	92.74	242	96.03	472	94.4
Better service	6	2.42	1	.40	7	1.4
Security	2	.81	1	. 40	3	0.6
Convenience	1	0.40	1	. 40	2	0.4
Easy terms and conditions	2	.81	2	.79	4	0.8
Fast settlement of claims	7	2.82	5	1.98	12	2.4
Total	248	100	252	100	500	100

Source: Survey Data

Table 6.13 highlights the reasons for shifting of customers from one general insurance company to another. The analysis revealed that

7(2.82%) customers have shifted their policy from private sector company to the present company due to fast settlement of claims in public sector followed by 6 (2.42%) customers due to better service, 2(.81%) customers due to security point of view, 2 customers due to rigid terms and conditions in private sector, and 1 customer due to inconvenience. However, 5 (1.98 %)customers have shifted their policy from the public sector company to the present company due to delay in claim settlement in their company, followed by 2(.79%) customers due to rigid terms and conditions in public sector,1(.40%) customer due to insecurity etc. It is evident from the table that most of the customers from both the public and private sector companies shifted from one company to another due to delay in their claim settlement. So, to improve customers' retention and trustworthiness these companies need to focus more on improving procedures and formalities of claim settlement so that it can be settled as early as possible. Further, the amount of claim settlement needs to be paid reasonably.

The analysis provides that the private sector general insurance companies take lesser time to settle the claim as compared to their counterparts and the satisfaction level of the private sector customer is higher than that of the public sector regarding the time taken to settle the claim. It has been found that the private insurers have fewer formalities to follow while making a claim settlement, and also have an easy and quick process to complete the formalities.

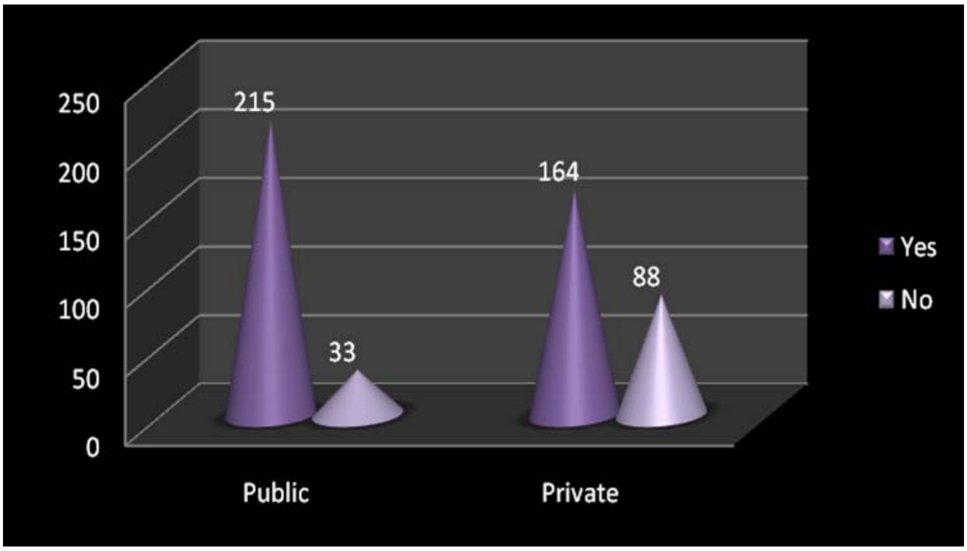
6.4 Customers perception towards companies' role in providing information.

Enhancing consumer information about insurers' prices, products and financial strength is a critical function given to ensure good market performance. IRDA will look to market institutions and intermediaries to ensure that prospectuses contain all the relevant information necessary to enable the potential policy holder to make an informed decision. The following table shows customers perception towards whether company provides all information about the policy.

Table 6.14 Respondents' perception regarding whether the company provides all the policy details before signing

Provides details about the policy	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Yes	215	86.69	164	65.08	379	75.8
No	33	13.31	88	34.92	121	24.2
Total	248	100	252	100	500	100

Source: Survey Data



Source: Survey Data

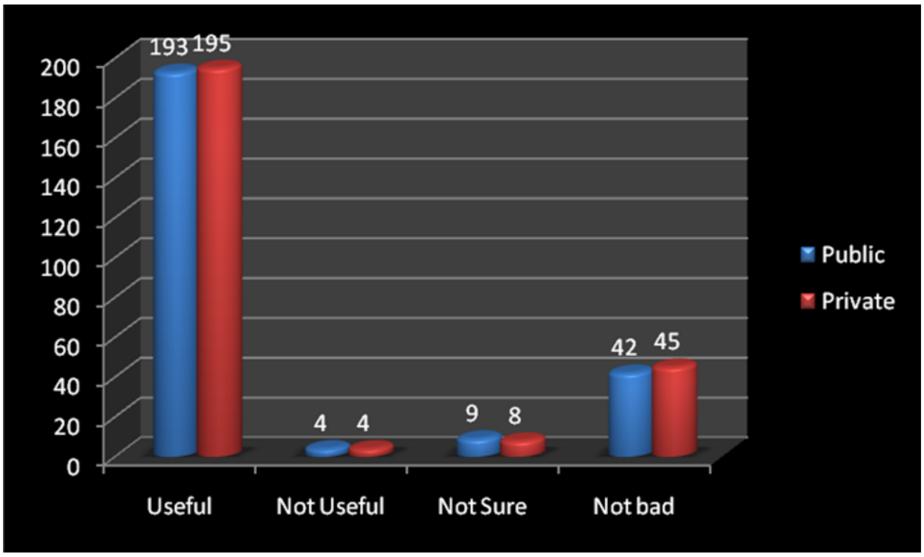
Figure 6.9 Respondents' perception regarding whether the company provides all the policy details before signing

Table 6.14 shows that out of 248public sector policy holders, 215(86.69%) respondents reported that company provided all the information about the policy before signing it. But 88 (34.92%) respondents of private sector said that company did not provide all the details before signing it. This shows that in the competition era, both public and private sector companies take keen interest in providing information about the policy to its customers.

Table 6.15 Respondents' perception regarding usefulness of the policy

Opinion about usefulness of policy taken	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Useful	193	77.82	195	77.38	388	77.6
Not Useful	4	1.61	4	1.59	8	1.6
Not sure	9	3.63	8	3.17	17	3.4
Not bad	42	16.94	45	17.86	87	17.4
Total	248	100	252	100	500	100

Source: Survey Data



Source: Survey Data

Figure 6.10 Respondents' perception regarding usefulness of the policy

Table 6.15 shows that majority of the respondents ie., 193(77.82%) in public and 195(77.38%) in private sectors reported that insurance policy is useful to them. Only 4 respondents in each sector revealed that it is not useful. 42 (16.94%) in public and 45(17.86%) in private sector policy holders commended not bad. A very few ie., 9 (3.63%) in public and 8(3.17%) in private not sure about their policy usefulness.

Table 6.16 Source of information about policy

Source	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Agents	181	72.98	149	59.13	330	66
Friends	26	10.48	34	13.49	60	12
Relatives	14	5.65	44	17.46	58	11.6
Media	27	10.89	25	9.92	52	10.4
Total	248	100	252	100	500	100

Source: Survey Data

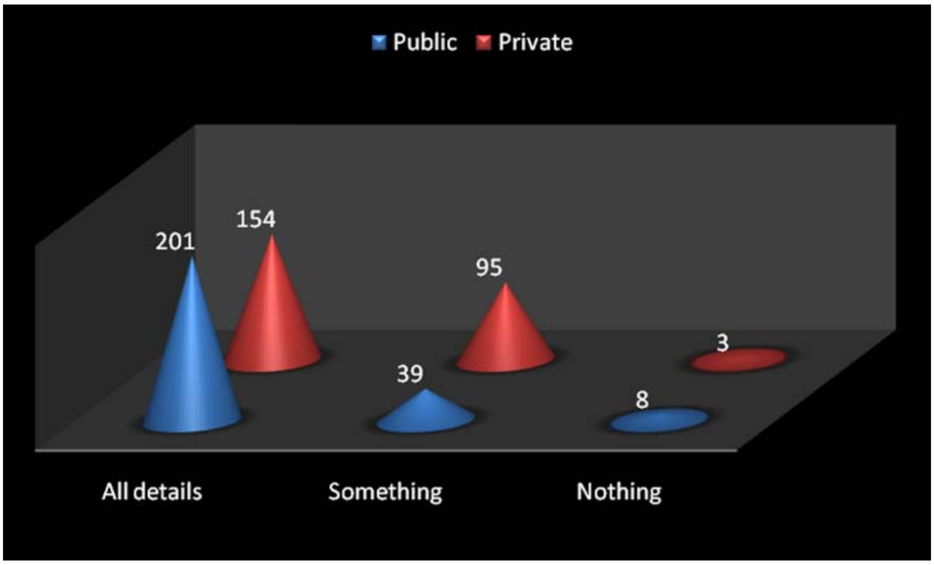
Chi -square value – 19.733, d.f - 3, P Value < 0.001

Table 6.16 shows that the insurance agents still remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are direct selling, corporate agents, Group selling, Brokers and Bancassurance etc. It is clear from the above table that still majority of respondents both in public and private sector depend on agents. 181(72.98%) respondents in public and 149(59.13%) in private depend on agents for knowing the policy. The Chi-square test results (P < 0.05) exhibit that there is significant difference between the respondents from the public and private sector general insurance companies.

Table 6.17 Respondents' perception regarding details of the policy

Knowing the details about the policy	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
All details	201	81.04	154	61.11	355	71
Something	39	15.73	95	37.70	134	26.8
Nothing	8	3.23	3	1.19	11	2.2
Total	248	100	252	100	500	100

Source: Survey Data



Source: Survey Data

Figure 6.11 Respondents' perception regarding details of the policy

Table 6.17 shows that regarding whether policy holder knows about the details of the policy, 201(81.04%) respondents in public sector knows all details about the policy.154(61.11%) respondents in the private sector responded the same.39(15.73%) in public sector reported that they knew something about the policy details and 95(37.70%) in the private sector also knew something about the policy. 8(3.23%) and 3(1.19%) in public and private sector respectively knew nothing about their policy. This shows that insurance companies should take more effective steps to campaign their products among the public.

6.5 Customers perception regarding choosing an insurance company for taking policy.

It has been found that privatization has contributed towards improving the overall working of both the public and private sector general insurance companies. The private sector general insurance companies have comparatively shown more improvement than the public sector companies in terms of overall working, time taken to settle claim, procedure and formalities to settle claim, etc. However, the public sector companies have recorded greater improvement than the private sector companies in relation to innovation of new policies and products.

Table 6.18 Reasons for selecting the insurance company

	N	Minimum	Maximum	Mean	Rank – Frequency	Per cent	Std. Deviation
Is better service the reason for taking policy from the respective company	500	1.00	8.00	4.8660	98	19.6	2.49810
Is security the reason for taking policy from the respective company	500	1.00	8.00	6.6560	126	25.2	1.33312
Is convenience the reason for taking policy from the respective company	500	1.00	8.00	3.4800	26	5.2	2.30396
Is trust is the reason for taking policy from the respective company	500	1.00	8.00	4.6920	41	8.2	1.85148
Is easy terms and conditions the reason for taking policy from the respective company	500	1.00	8.00	3.7080	12	2.4	1.46254
Is less official procedure compared to other sector the reason for taking policy from the respective company	500	1.00	8.00	3.2060	13	2.6	1.69272
Is fast settlement of claims the reason for taking policy from the respective company	500	1.00	8.00	4.7200	65	13	2.15845
Is pressure of friends/agents the reason for taking policy from the respective company	500	1.00	8.00	4.6660	114	22.8	2.69610

Source: Survey Data

Table 6.18 shows the major reason for taking a policy from the company concerned. The above table give the reason wise preference according to mark given for the ranks.8 is the highest mark given for ranks. The highest average mark (6.656) is for security and this reason is given the first rank (recoded as 8 mark) by 126 (25.2%) (Appendix IV) for selecting the company and second rank (recoded as mark 7) by 217 (43.4%) of the respondents for better service. The second highest average mark (4.8) is for better service provided by the company. 98(19.6) respondents ranked it first for selecting the company. The third average mark (4.72) is for fast claim settlement. Respondents when they decide to buy policy they take into consideration of the companies’ ability to settle the claim at faster time. 65(13%) respondents ranked it first for selecting the company. Almost same average mark given to trust factor (4.69), ie., 41(8.2%) marked 1 rank (recoded as 8 marks) to trust factor for selecting the company. The fifth average mark (4.66) is for pressure of agents and friends. They pursue the respondents to take policies. And agents are one of the most powerful medium for marketing the product.114 (22.8%) ranked it 1st reason for selecting their insurance company. Easy terms and conditions, convenience and less official procedure etc. are ranked sixth, seventh and eighth average rank for selecting the company.(Appendix IV)

6.6 Relationship between the overall service, customer satisfaction and factors influence in buying service

To examine the relationship between the service quality and the customer satisfaction, customer satisfaction and customers' purchase intention, service quality and customers' purchase intention, correlation analysis have been used.

6.6.1 Relationship between overall service and customer satisfaction:

Table 6.19 Correlation matrix of overall service satisfaction level and again makes same choice

Sector	R	p - value	N
Public	0.219	<0.001	248
Private	0.415	<0.001	252

Source: Survey Data

Table 6.19 show that there is the strongest association between the overall service quality with again make same choice .The correlation coefficients of the public and private insurers between overall service quality and customers' satisfaction are 0.219 and 0.415 respectively which indicates significant positive correlation. The analysis provides that the overall service quality level has a strong effect on customer satisfaction otherwise they shift their policies to other sector.

6.7 Analysis of impact of privatization of insurance sector on the public sector general insurance companies

Table 6.20 Customers' perception regarding emerging private sector insurance companies will harm public sector companies

Response	Total	
	Frequency	Per cent
Yes	64	12.8
No	374	74.8
Neutral	62	12.4
Total	500	100

Source: Survey Data

Table 6.20 shows that out of 500 respondents 374(74.8%) believed that opening up of the insurance sector and emerging new private companies will not affect public sector insurance companies.62 (12.4%) neutral in their response.64(12.8%) opined that emerging private sector companies will harm public sector insurance companies.

Table 6.21 Respondents' attitude towards welcoming new private general insurance companies

Response	Frequency	Percent
Yes	181	36.2
No	194	38.8
No Opinion	125	25
Total	500	100

Source: Survey Data

Table 6.21 shows that 194 (38.8%) respondents are not in favour of welcoming new companies.181 (36.2%) respondents welcoming new private insurance companies and 125(25%) having no opinion.

Table 6.22 Opinion regarding opening up of the industry made impact on the public sector

Response	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Yes	207	83.47	236	93.65	443	88.6
No	41	16.53	16	6.35	57	11.4
Total	248	100	252	100	500	100

Source: Survey Data

Chi-square value = 12.832, d.f. = 1, P-value <0.001

Table 6.22 reveals that, out of 500 respondents, 443 respondents (88.6%) said that opening up of the insurance industry made a lot of difference to public sector in the form of better service, varieties of products, fast claim settlement, computerisation, bancassurance etc. Only a small number 57 (11.4%) reported that it did not made any impact on the public sector.

Table 6.23 Respondents' perception regarding innovation of products after opening up the industry

Innovation of products	Public Sector		Private Sector		Total	
	Frequency	Per cent	Frequency	Per cent	Frequency	Per cent
Yes	152	61.29	60	23.81	212	42.4
No	96	38.71	192	76.19	288	57.6
Total	248	100	252	100	500	100

Source: Survey Data

Chi-square value = 71.897, d.f. = 1, P-value <0.001

Table 6.23 explains that 152(61.29%) customers of the public sector general insurance companies have favourably perceived the impact of privatization on innovation of new policies/products as per the requirement of customers. Among the respondents of the private sector 192 (76.19%) opined no impact on opening up of the industry in the innovation of products. The Chi-square test results exhibit that regarding respondents' perception of innovation of products after opening up the industry, there is significant difference between the respondents from the public and private sector general insurance companies.

6.8 Conclusion

The above analysis of performance of general Insurance Industry can be concluded by the following findings.

a) The study found out that percentage of respondents taking their policy from public sector decreases as income increases. It is found that those who have annual income more than Rs.1, 00,000/- are more interested in taking policy from the private sector. And majority who purchase policy from the private sector belong to the age group between 25-45 years. This shows that young population are more interested to private sector. But aged group are more interested in taking policy from the public sector. Because their mind is already set to the feeling that securityand safety is more in public than private.(See table 6.4)

b) Regarding customers perception towards claim settlement, study found that majority of the customers from the public sector are neutral in their response regarding claim settlement. They responded that they got claim amount in less than 1 month.

Among the private sector companies, majority of the customers are found to be satisfied because they got the claim amount in less than 1 month (see table 6.12). It has been found that the private insurers have fewer formalities to follow while making a claim settlement, and also have an easy and quick process to complete the formalities.

c) Satisfaction level of the customers regarding their company shows that it is good in the case of private sector but it is average in the case of public sector.(see table 6.6)

It has been found that privatization has contributed towards improving the overall working of both the public and private sector general insurance companies. The private sector general insurance companies have comparatively shown more improvement than the public sector companies in terms of overall satisfaction, time taken to settle claim, etc. However, the public sector companies have recorded greater improvement than the private sector companies in relation to innovation of new policies and products.

…..ꙮ…..

Chapter 7

FINDINGS, CONCLUSION AND RECOMMENDATIONS

Insurance is the backbone of a country's risk management system. Risk is an inherent part of our lives. The insurance providers offer a variety of products to businesses and individuals in order to provide protection from risk and to ensure financial security. They are also an important component in the financial intermediation chain of a country and are a source of long term capital for infrastructure and long-term projects. Through their participation in financial markets, they also provide support in stabilizing the markets by evening out any fluctuations. Insurance does influence the growth and development of an economy in several ways. The availability of insurance can mitigate the impacts of risk by providing products which help organizations and individuals to minimize the consequences of risk and has a positive effect on industry growth as entrepreneurs are able to cover their risks.[1] Theoretical studies and empirical evidence have shown that countries with better-developed

---

1 Ramesh Bhat (2005), "Insurance Industry in India: Structure, Performance, and Future Challenges", Insurance Industry in India, Vikalpa, Volume 30 • No 3 • July – September 2005, p94.

financial systems enjoy faster and more stable long-run growth. Well-developed financial markets have a significant positive impact on total factor productivity, which translates into higher long-run growth. Based upon Solow's (1956) work, Merton (2004) notes that "… in absence of a financial system that can provide the means for transforming technical innovation into broad implementation, technological progress will not have significant and substantial impact on the economic development and growth…".[2] The importance of the insurance-growth nexus is growing due to the increasing share of the insurance sector in the aggregate financial sector in almost every developing and developed country. With the liberalization and entry of private companies in insurance, the Indian insurance sector has started showing signs of significant change. In this chapter, findings and conclusions of the study are presented and based on these some suggestions are also made.

7.1 Findings

7.1.1 Findings regarding growth of general insurance sector

The study found that the insurance penetration in India is lower than the industrialised countries. Insurance density is markedly lower in most emerging markets compared to industrialised countries. India is way behind many other countries in this respect also. The general insurance density in India has increased from $2.4 in 2001 to $6.7 in 2009, while in the case of United States, it increased from $1664.1 to $ 2107.3 during the same period. Even the developing countries like China, Brazil and Russia registered an impressive growth in the general insurance density. A world-

[2] Peter Haiss , Kjell Sümegi(2006), "The Relationship of Insurance and Economic Growth – A Theoretical and Empirical Analysis",Paper presentated at the EcoMod Conference, Hongkong, June 28-30, p.1

wide increasing trend in the general insurance density from $158.3 to $ 253.9 can be observed during 2001-2009. General insurance penetration and density in India is too low as compared to the world levels. It seems that even the reform process has failed to provide the desired results despite the fact that Indian insurance sector is still unexplored and untapped. (Table No.4.1. & 4.2). Penetration of insurance critically depends on the availability of insurance products and services. The insurance companies have a pivotal role in offering insurance products which meet the requirements and expectations of the customers and, at the same time, are affordable.

7.1.2 Findings regarding the performance of Indian general insurance sector in the post reform period.

7.1.2.1 The growth rate of public sector general insurance companies in terms of gross direct premium has been higher during the pre-reform period than the post-reform period. There is an upward trend in gross direct premium income of the public sector general insurance companies in post-reform period. New India Assurance emerged as the largest public sector general insurance company during all the years of pre-reform period followed by United India Insurance, Oriental Insurance and National Insurance companies. (Table No.4.3, 4.4.and Table No.4.5)

7.1.2.2 The study also reveals that the market share of all the public sector general insurance companies decreased sharply due to the entry of private companies in the field. New India Assurance emerged as the largest public sector company during the pre- and post-reform periods. (Table No. 4.7.) However, United India insurance from its second place slipped to the fourth and market share of about 20 per cent during the pre-reform period to 13 per cent in 2009-10. Oriental General Insurance Company which was at the third place during the pre reform-period maintained the same position, but National Insurance Company from its fourth place climbed to the second.

7.1.2.3 The study shows that in 2001-02, the market share of public sector was 96.22 per cent and that of private sector was only 3.78 per cent. However, in 2009-10, the market share of the public sector came down 59.62 per cent and that of private sector increased to 40.38 per cent. (Table No 4.7.) . It shows that 19.24 per cent of the market share was captured by the private sector in terms of gross direct premium. The public sector general insurance companies have experienced a large branch expansion network since opening up, but the quantitative expansion has not always been matched by a corresponding improvement in the performance. Even the large numbers of initiatives taken by the public sector companies have failed to meet the competition thrown by the private sector. As a result, the market share of public sector companies has declined greatly.

7.1.2.4 The gross premium of the non-life insurance business within and outside India grew from Rs.12385.24 in 2001 to Rs.35815.85 (Rs.in crore) in 2010. (Table No.4.4). The performance of private sector general insurance companies in terms of gross direct premium has been higher than that of the public sector. The private players' contribution to gross premium is increased from Rs. 467.65 crores to Rs.13977.00 while that of public players is Rs. 11917.59 crores to Rs. 21838.85 during 2001 to 2010.

7.1.2.5 Sector wise analysis of the four public players in terms of gross direct premium shows that both in pre and post reform period, it is the performance of New India that carries the team as a whole to high growth. The other three players are nowhere near its growth rate, the nearest one being United India. This shows that there is a glaring disparity among the public player's contributions. It is difficult to pinpoint the reasons for it in the absence of more information on their relative department-wise performances. In the private sector it is obvious that it is the private players' performance that is pushing up the market boundaries in premium volumes. It shows that the private players are taking the lead in widening the market base despite their handicap of lack of infrastructure, inadequate man-power and low-capital base. (Table 4.5)

7.1.3 Findings regarding comparative performance of the public sector and private sector general insurance companies.

7.1.3.1 The study found that during 2001-2010, the average underwriting losses of public sector companies are higher as compared to the private sector companies. The average underwriting results ratio of the public sector general insurance companies is -29.83 per cent and that of private sector companies is -26.15per cent.(Table 5.4) This is mainly due to a higher average claim ratio of the public insurers, which was 86.20 per cent, whereas for the private insurers, it was 56.80 per cent.(Table 5.1). The average expense ratio of the public insurers and the private insurers was 35.12 per cent and 45.33 per cent respectively. However, the Mann-Whitney test results show that the gap in expense of management ratio of both the public and private sector companies is insignificant (Table 5.2).

7.1.3.2 The product portfolio of general insurance companies reveals that the lower claim ratio of the private insurers is mainly due to the fact that the private sector insurance companies are concentrating more on the smooth business. A close analysis of annual reports of IRDA reveals that, motor policy accounts the largest proportion of gross premium for all players but the data shows that miscellaneous segment, which includes the Motor portfolio, continued to register negative or poor results. This was attributed to the high incidence of claims in the Motor Third Party business. Third party motor, which is about 34% of business, is mandatory. Growth in this segment largely depends on the automobile industry and regulatory changes regarding tariffs. The private players in the past have been reluctant to pick up commercial third party motor policies due to adverse claims histories. In respect of loss making portfolio, such as motor business, they have avoided to enter it to reduce their claim ratio. A sizeable part of motor business relates to the commercial vehicle segment that has heavy incidence of claims for several years now. Increase in insurance tariff rates is a crying need. Because of the importance of the commercial vehicles sector in the economy and their power to command attention, attempts to increase rates have produced only marginal results in the past. Given the pace at which the vehicle population is growing, this portfolio will continue to grow substantially. The new private sector general insurers are reported to be staying away from this business and the government-owned insurance companies seem to be obliged to carry the load of this portfolio at grossly inadequate tariff rates. The incurred claims ratio continued to be the highest in the miscellaneous business, followed by marine and fire segments.

Fire business has traditionally been one of the profitable lines of insurance business. To reduce the loss in this segment public sector companies have entered into various agreements with automobile manufacturers and dealers as part of their customer service strategies. Such arrangements are also prevalent in the private sector.

7.1.3.3 The average investment income ratios of the public and private insurers are 37.04 per cent and 30.83 per cent respectively. It was 6.21 per cent higher in the case of public sector insurers than private insurers (Table 5.6).The average net retention ratio of the public insurers during the period of study is 75.72 per cent, whereas it is 56.23 per cent in the case of private insurers. (Table 5.5.). It is evident that the average net retention ratio of the public insurers is 19.49 per cent higher than that of the private insurers.

7.1.3.4 The higher investment return of the public sector offsets their underwriting losses which resulted into better operating, net earning and return on equity ratio of the public sector than the private sector. The average operating ratios of the public and private sector general insurance companies for the period are 11.49 per cent and 4.25 per cent respectively which indicates that the public sector insurers average operating ratio is 7.24 per cent higher than that of the private sector insurers (Table 5.7) and the average net earning ratios of the public and the private insurers for the period 2001to 2010are 10.10per cent and 2.43 per cent respectively (Table 5.8). The analysis provides that the average return on equity of the public sector insurers is 10.70 per cent, and that of private sector insurers is 2.87per cent which means the public sector insurers earn 7.83 per cent higher average return on equity than the private insurers (Table 5.9). The Mann-Whitney test implies that the operating ratio, net earning ratio and return on equity ratio of the public sector general insurance companies are significantly higher than that of the private sector companies. Thus, the hypothesis is rejected that the profitability of the private sector general insurance companies is higher than that of the public sector general insurance companies during the year 2001-2010.

7.1.3.5 The Spearman's correlation analysis highlights that investment income ratio has a significant positive correlation with return on equity and the coefficient is 0.669 which was significant at 1 per cent level; and investment income and underwriting results were negatively correlated (-0.322). (Table 5.10). The correlation analysis of the private sector shows that expense ratio was negatively correlated (-0.532) with return on equity, net retention ratio was also negatively correlated (-0.160) and underwriting results ratio was positively correlated (0.798) with return on equity which was significant at 1 per cent level. (Table 5.11).

7.1.3.6 The regression results of the public sector general insurance companies indicated that in the second step, investment income ratio and underwriting results ratio (adjusted R2=0.661) explained 66.1 per cent variation in return on equity (Table 5.12), whereas in the private sector general insurance companies in the second step, underwriting results ratio and investment income ratio (adjusted R2=0.273) explained a significant variation of 27.3 per cent in return on equity. (Table 5.13).The regression analysis found that underwriting results and investment income have a significant effect on return on equity. The variation in return on equity is due to both underwriting results and investment income of both the public and private insurers.

7.1.4 Findings regarding the satisfaction level of the customers after opening the insurance sector to private companies.

7.1.4.1 The study found out that percentage of respondents taking their policy from public sector decreases as income increases. It is found that those who have annual income of more than Rs.1, 00,000/- are more interested in taking policies from the private sector. And majority who purchase policies from the private sector fall in the age group between 25-45 years. This shows that young population are more interested in private sector. But aged group are more interested in taking policies from the public sector, because their mind is already set to the feeling that security& safety is more in the public than in the private sector. (Table 6.4)

7.1.4.2 The study brought out that 225 (90.73 per cent) customers of the public sector and 247 (98.02 per cent) customers of the private sector have availed claim from their respective companies.(Table 6.11) Among those respondents who availed the claim, experiences of the respondents with respect to claim settlement was also examined. Regarding claim settlement, study found that 87 respondents (35.08 per cent) from the public sector are positive in their response regarding claim settlement. They responded that they got claim amount in less than 1 month. Among the private sector companies, 137 (54.37 per cent) customers are found to be satisfied because they got the claim amount in less than 1 month. (Table.6.12). It has been found that the private insurers have less formality to follow while making a claim settlement, and also have an easy and quick process to complete the formalities. It has been observed that the service provided by a general insurance company at the time of taking a policy is, no doubt, of better quality than that provided at the time of settling a claim. Therefore, strong, expeditious, and fair claims-handling strategy and machinery must be put in place to deal with the increased volume of business and increased claims.

7.1.4.3 The study found out that customer satisfaction level is good in the case of private sector but it is average in the case of public sector. Customer satisfactions of the public and private insurers are 18.95 per cent and 29.76 per cent respectively which fall between average and satisfied categories (Table 6.6).

7.1.4.4 The study also examined customers' perceptions towards the overall service quality, customer satisfaction, and purchase intention behaviour of the customers of both the public and private sector general insurance companies.187 respondents have favourably perceived the customers' satisfaction of the public sector general insurance companies of whom 35(14.11 per cent) are highly satisfied. On the other hand, 160 customers favourably perceived the customers' satisfaction of the private sector general insurance companies of whom 13 (5.16 per cent) highly satisfied (Table 6.6). The Chi-square test indicates that there is significant difference between customers' perceptions towards customer satisfaction of the public and private insurers. The study also found that there is strongest association between the overall service quality and again make same choice. The correlation coefficients of the public and private insurers between overall service quality and customers' satisfaction are 0.219 and 0.415 respectively which indicates significant positive correlation. The analysis provides that the overall service quality level has a strong effect on customer satisfaction otherwise they shift their policies to other sector (Table 6.19).

7.1.4.5 The study found that most of the respondent's have opted the present company because of security, 43.4 per cent of the respondent's opted because of better service and 65(13 per cent) respondent's they opt present company because of the companies ability to settle the claim at faster time (Table 6.18 and Appendix IV).

7.1.4.6 The study found that the customers perception towards shifting of purchase of policies from their present company to other only a small number ie., 67 (13.4 per cent) respondents revealed that they want to change their policies from present insurance companies .(Table 6.10). It was found that very few respondents, i.e., 18 from the public sector and 10 from the private sector shifted to another company (Table 6.13). The various reasons for the shifting were analysed. It was found that delay in claim settlement has been the most pertinent reason for this shifting i.e., 7 (2.82 per cent)from the private sector and 5 from the public sector shifted to another company due to this reason only. (Table 6. 13).This shows that both the public and private companies succeed in bringing the loyalty to their customers.

7.1.4.7 The respondents feel that competition has contributed to bring improvement in the overall working of the public sector .Out of 500 respondents, 443 respondents (88.6 per cent) said that opening up of the insurance industry made a lot of difference to public sector in the form of better service, varieties of products, fast claim settlement, computerisation, bancassurance etc (Table 6.22).

7.2 Recommendations

7.2.1 The study found that over a period of ten years the share of public sector companies has dropped drastically from 96.22 per cent to 59.62 per cent. This is indicative of the fact that there is a fall in the efficiency standards of public sector companies in comparison with private sector companies. This means an element of dynamism should be inculcated to reform the system. The customers have seen to prefer the private sector because it is vibrant and more customers oriented in its approach. The officials are more friendly and create a good environment for customers. In these circumstances the public sector companies should make the management and staff more customer oriented . Special HR training should be imparted to all officials to all levels so that they shed their bureaucratic approach. It is a fact that given the choice the common customer prefers the public sector to the private sector. So all out efforts should be made to change their approach of officials and thus bring back the customers whom the public sector companies have lost.

7.2.2 The study found the fact that general insurance business has been growing at a healthy rate, its penetration level is just 0.60% of India's GDP against world average of 2.14. In 2001, it was 0.56 and then it increased to 0.64 in 2004, but it again slipped to 0.60 in 2009. This shows that Indian insurance sector is still unexplored and untapped. The vast potential is waiting to be tapped. The above figures no doubt indicate the ample scope that the Indian market has, to offer. With such huge untapped population base, the importance of insurance is unquestioned and all emphasis needs to be driven towards imparting education and sharing knowledge to increase the level of insurance penetration. For a robust growth and deep penetration of insurance business, the key to success lies in dissemination of information and learning. The more educated or literate a household, the greater the likelihood of understanding the need for insurance protection. So IRDA together with the industry participants need to work hard to improve awareness of insurance and its importance to society by and large through effective publicity campaigns through TV and other electronic media,print media, policy brochures,product literatures, and rate charts etc. Considering the unlimited extent of market potential, there is a need to spread insurance education to general population advising on the benefits of insurance and guiding them on assessing their need requirements. It is equally important to impart quality insurance education to the personnel of the insurance companies to ensure right selling and quality service deliveries to clients. At the same time the Tendulkar Commission report has put the figure of those below poverty level at nearly 40 per cent of the population. A large number of these people live in rural India. And there is a serious talk of inclusive growth now. If the government seriously takes measures to improve the life and purchasing capacity of these people, then rural India would provide a huge opportunity for growth for the insurance business. Therefore, there is need for the government and IRDA to force the insurance companies to come out with personal line products and general insurance cover for unorganized labour,traders, and self-employed etc .

7.2.3 The study reveals that the majority who purchase policies from the private sector fall in the age group between 25-45 years. This shows that young population are more interested in private sector. India's statistic shows that India is fast emerging as one amongst the youngest nations in the world. By the year 2013, almost 60 per cent of our population in the 18-35 years bracket. This segment is the ideal target audience for an entire range of 'cradle to grave' insurance plans.The evolving change in this key demographic variable along with the significant increase in the middle class segment of the Indian society will augur very well for the future and would throw up enormous business opportunities for the players. So the established players when they formulate product portfolio they should target on these group and formulate policies that satisfy the youth .

7.2.4 The study reveals that the awareness level among the people about general insurance products is low, the commission structure was not very attractive for good agents, the distribution channels were not responsive to customer needs and the awareness level of various plans of insurance was quite limited even amongst the policy holders. The study shows that only 379 policy holders including public and private out of 500 customers know the details about their policy. So the officials of general insurance industry should take steps to provide all details about policies to customers and transparent system and write norms and conditions of policies in simple language understandable to common man. This will improve the image and customer's loyality towards the organization.

7.2.5 A company's financial health and reputation in the market depend on efficient and judicious settlement of claims; The processing and settlement claims constitute one of the most important functions in any organisation. The prompt and fair settlement of claims is the hallmark of good services to the insuring public. The study highlights that the claim settlement process of the public sector insurance companies has adversely affected their service quality . The analysis provides that the private sector general insurance companies take lesser time to settle the claim as compared to public sector companies. The claim settlement performance of the private sector has also been superior because of the limited amount of third party motor business that they have underwritten. Such claims normally take a longer time to settle. Third party claims are the major source of outgo for the public sector company. While the formation of the motor pool may assist in sharing the liabilities arising out of the motor third party business, the companies would still need to address the issues related to lack of comprehensive data, inadequate underwriting and claims management systems. In these circumstances steps need to be taken to build databases which will enable improved underwriting, claims management and settlement while also mitigating risks associated with fraudulent claims especially in Motor Third Party business. Secondly, the industry should actively work with the State Governments so as to bring uninsured vehicles under insurance cover. This will enable the insurance companies for proper loading of premium for motor vehicles. So the public sector companies should initiate measures to install web-enabled information technology systems so that once the claim has been processed all the information relating to it can be transferred into a data base which stores claim experience which are expected to resolve issues related to database, claims management as well as to improve transparency in the system .

7.2.6 The sector-wise analysis shows that the average claim incurred ratio of the public sector general insurance companies over the last ten years is 86.20 per cent which is higher than that of the private sector general insurance companies of 56.80 per cent. The study further found that the loss incurred by the public sector insurance companies in underwriting business was due to the loss in third party claims relating to motor insurance business, health and the loss arising out of other miscellaneous insurance business. From the customers' point of view the delay in claim settlement has been the most pertinent reason for shifting of purchase of policies from one company to another. But in the case of private sector insurance companies the combination of superior technology and selective underwriting has allowed the private sector to set high standards for policyholder services, thereby differentiating themselves from public sector insurers. To solve this problem public sector companies should provide training to staff in claims department, and increase the number of surveyors and loss assessors so that leakage of revenue by way of incorrect settlement of claims can be avoided. In addition to this for faster and fair claim settlement, insurance companies need to separate claims into high value and complex ones and those that are not so. The former claims should be dealt with by senior technical experts to monitor them to achieve the common objectives of both the insurer and the claimant in a speedy and fair manner. And create and consolidate Industry-level database of all the insurers issuing motor policies to enable identification of duplicate claims and possible fraudulent claims. This will definitely reduce underwriting loss and claim ratio. Companies can also form the Claims Minimisation Team (CMT) choosing intelligent, dedicated, honest and enthusiastic people to do this most important job. They should, along with the department officials, visit the site of claim; make a conscious effort to take inventory of the loss; follow up for documents and discuss with both the surveyor and the insured; and arrive at the assessment of loss as soon as possible. This will improve the underwriting results and profitability of public sector general insurance companies.

7.2.7 The study found that the average net retention ratio of private sector companies over the last ten years was 56.23 per cent which is lower than that of public sector insurance companies 75.72 per cent. As it shows the companies "ability to bear risks" the private sector companies must bring more capital to improve net retention so that they can increase risk bearing capacity which results into their increase in business and investment income. The reason for low net retention ratio of private sector is lower underwriting results and investment income and also the companies capital and surplus not put to effective use.Net retention primarily depends on insurer's own resources i.e., paid up capital and surplus, amount of premium expected to be generated by a portfolio, composition of the portfolios ie., size and number of policies, geographical location and risks, and past experience of the insurer in the class of business etc.So when the insurer's formulate their investment plan they should take this aspect into consideration and choose that portfolio which improve their net retention ratio.

7.2.8 The present study highlights that all the insurers both public and private sector companies have exhibited underwriting losses. The average underwriting results ratio of the public sector general insurance companies is -29.83 per cent and that of private sector companies is -26.15 per cent. Thus, the underwriting losses of public sector companies are higher as compared to the private sector companies. So, to enhance the profitability, these companies must focus on their underwriting results. The study also reveals that the poor underwriting results of public sector is mainly because of two reasons: one is higher claim ratio and second is losses in their core business. The public sector insurance companies have exhibited higher claim ratio because these insurers got majority of their business from loss making portfolios like motor and health. It is suggested that these companies should also focus on other portfolios like engineering, fire, personal accident, marine, etc. Fire is still a profitable portfolio despite the lowering of premium rates.

7.2.9 Excellence in customer service is the performance yardstick of a service organisation .In this era, customer expectations have increased and there is demand for faster and better service. Despite there is a fund of goodwill for existing public sector organisations the study shows that customer satisfaction is only average in public sector insurance companies. To improve the customer satisfaction level public sector insurance companies need to provide the customers information about insurers’ prices, products and financial strength to ensure good market performance. The public sector companies need to improve their systems and practice to the expected levels, then only customers will prefer to them over the new players.

7.2.10 The study reveals that in private sector 78 respondents purchased their policies through recommendation by friends or relatives. The results show that many people consult their friends or family members for recommendations of good insurers before making the purchase decision . So family is the most important consumer-buying organisation in society and most influential reference group. Based on the analysis, it is found that reference group is an important factor towards the purchase of policies as they may influence the buyer decision through their experience in dealing with the company. So private sector insurance companies should ensure the prompt and efficient after sales service to its customers', so that it can retain its customers' loyality and prevent them from switching to other competitors.

7.2.11 In the present age of information explosion and competition, insurance companies cannot survive without an action based philosophy of excellent after sales service. After sales service in an insurance industry includes collection of premium, revival/ lapsed policies, policy renewal ,settlement of claims etc. An agent can render invaluable help to its clients in these areas. The study highlights that the insurance agents still remain the main source through which insurance products are sold.330 respondents out of 500 customers' depend on agents for taking policy. This reveals that the development of an insurance company depends mostly on how developed the agents of the company are. The quality of service provided by the agents to their clients determines the image of the an insurance company among the insuring public. Therefore, both public and private sector general insurance companies should groom their agency force to make them 100 per cent professionals. Special training and motivation should provide to the agents to make them understand about products and to deal sensitively with the emotions of their customers. Public sector companies should provide special training to individual to promote their personnel line business so that they can reduce their underwriting loss also.

7.3 Conclusion

Competition has already set in and public sector and private sector players should take steps to recapture the market by changing their strategy in the above lines. The future growth of the insurance sector will depend on how effectively the insurers are able to come up with product designs suitable to our context and how effectively they are able to change the perceptions of the Indian consumers and make them aware of the insurable risks.The future growth of insurance also depends on how service oriented insurers are going to be. On the demand side, the rise in incomes will trigger the growth of physical and financial assets. With the growth of infrastructure projects, the demand for insurance to cover the project and the risks during operations will increase. The other growth trigger is the increase in international trade.

However, servicing of the large domestic market in India is a real challenge. Some of these challenges pertain to the demand conditions, competition in the sector, product innovations, delivery and distribution systems, use of technology, and regulation.

…..ജാൽ…..

Bibliography

Books/Journals/ Article

Allen, R Derek and Tanniru R. Rao,(2010), " *Analysis of Customer Satisfaction Data*", New Age Publications, New Delhi.

Ansari, H. (2006), "Insurance Reforms", IRDA Journal,Vol.IV,No.3, published by C.S.Rao on behalf of Insurance Regulatory and Development Authority.

Bajpai G.N. (2005) "Insurance Industry India's Quest for cover", The Journal of Insurance Institute of India,Vol.No.XXXII, July-December, S.J.Gidwani Publication.

Banerjee, T.K (2004) "Insurance Regulations in India and Future Directions", The Journal of Insurance Institute of India,Vol. No.XXX, July- December, S.J.Gidwani Publication.

Bhat, Ramesh (2005), "Insurance Industry in India: Structure, Performance, and Future Challenges", Insurance Industry in India, Vikalpa, Volume 30 , No 3, July – September 2005.

Chopra, P.N(2009), "*Managerial Economics*", Kalyani Publishers, New Delhi.

Das, S.C (2007), "Cost Management Practices in Non-Life Insurance Companies: A Comparative Study", www.insurance.com, dated 4-09-2007,January-June 2007.

Dhanam(2008), "Insurance", Business Magazine, June, Reg.no. KL/EKM/ 032/2006-08 RN 44620/87.

Economic and Political Weekly (1971) , **"**General Insurance Room for More Efficiency — and Honesty", 15 May 1971, Vol.VI, No.20.

Economic and Political Weekly (1994),“ Letters to Editor- Privatisation of Insurance Industry”, 9 July1994,Vol.XXIX,No.28.

“Financial Sector”(2009), www.Ministry of Finance, Government of India.com dated 14-05-2009.

‘General Insurance Agents - Practical Training Course Material’ (2006), Compiled by Alert Academy Training Institute approved by IRDA.

Haiss , Peter and Kjell Sümegi(2006), “The Relationship of Insurance and Economic Growth – A Theoretical and Empirical Analysis”,Paper presentated at the EcoMod Conference, Hongkong, June 28-30.

ICRA Moody’s Global Insurance(2008), “ Indian General Insurance Outlook Major Changes Expected as Deregulation Continues”, Indian General Insurance Industry Outlook,www.moodys.com.

Insurance Chronicle , Various Icfai University Press - ISSN 0972-5199.

“Insurance in India” www.google.com.

Insurance Statistics Handbook IRDA 2007, www.irda.com.

Insurance Times(1993), “Indian Insurance News”, The only monthly Journal on Insurance in India,Vol.XIII,No.11,November.

Jagannathan, V (2003), “Imperatives of Competition”, The Hindu, Survey of Indian Industry.

Kothari, C R (1996), “ *Research Methodology,Methods and Techniques”*, Wiley Eastern Publishers, New Delhi.

Kumar, Dinesh (2004), “Role Model of Branch Manager in the Emerging Scenario”, Market Trends, Niseema Publishers, April–June, Vol.VI, No.2.

Kumar, Jagendra (2004), “Changing Scenario of Insurance Industry”, The Journal of Insurance Institute of India,Vol.No.XXX, January- June, S.J.Gidwani Publication.

Kumar,P S, Mohana (1998), *“ A Hand Book on Research Methodology”*, Right Publishers, Kudavechoor.

Kumar, Rohit (2010), “Performance Evaluation of General Insurance Companies: A Study of Post-Reform Period”, shodhganga.inflibnet.ac.in.

Malhotra Committee Report (1994), Government of India, Ministry of Finance, New Delhi,www.Indiagov.org.

‘Market Trends’ (2000), “Current News”, Niseema Publishers, April 2000, Vol.2,No.4, Niseema Publishers.

Market Trends (2003), "Current News-NIC Numbers Prop up Public Sector Insurance flock", Niseema Publishers, July – September, Vol.V,No.3.

Mehta, P.L (2005), *“Managerial Economics- Analysis, Problems and Cases”*,Sultan Chand & Sons publication,New Delhi,XI edition.

Mony, S V (2005), “Insurance Industry in India: Structure, Performance, and Future Challenges”, Insurance Industry in India, Vikalpa ,Volume 30 , No 3 , July – September 2005.

Nair , M.K .Sukumaran, (1999), “Injecting dynamism in Insurance Sector”, Ernakulam Insurance Institute Publication , Vol.7,March 1999.

Nandagopal, R, K Arul Rajan and N Vivek (2008), *“Research Methods in Business”*, Excel book publications, New Delhi.

Narayana, M .Siva (2010), “Forgotten monies of the Non-life insurers”,The Insurance Times,First monthly Journal on Insurance in India in Service Since 1981,Vol.XXX,No.12 December 2010,ISSN-0971-4480.

Nduna, Albert J (2005), “Capacity build up and growth through regional re-insurance corporation”, The Journal of Insurance Institute of India,Vol.No.XXXI, January- June, S.J.Gidwani Publication.

Palande, P.S, R.S. Shah, and M.L.Lunwat (2003), *Insurance in India, Changing Policies and Emerging Opportunities,* Sage Publications, New Delhi.

Pillai, N K Jayakumar,"General Insurance in India", GIECOS Souvenir'07, Published by General Insurance Employees Co-operative Society, Ernakulam.

Ranade, Ajit and Rajeev Ahuja (1999), "Insurance" in K S Parikh (ed), *India Development Report 1999-2000,* Oxford University Press, New Delhi.

Ranade, Ajit and Rajeev Ahuja (2000), "Issues in Regulation of Insurance", Economic and Political Weekly, 29 January 2000,Vol.35,No.5.

Rangachari, N (1999), "The Unfolding Insurance Scenario", The Hindu ,Survey of Indian Industry.

Rao, C.S (2006), "Insurance – Issues and Challenges", Yojana,Published by Ministry of Information and Broadcasting, April 2006,ISSN-0971-8400,Vol.No.50

Reddy , M. Vidyasagar (2010), " A Decade of Liberalisation of Insurance Sector in India",Journal of Commerce& Management Thought,Vol. I, No. 3 / July 2010.

Rudolf, E. (2001), "Profitability of the Non-Life Insurance Industry: It's Back- to-Basics Time", Swiss RE, Sigma, No.5.

Sarin, Geeta (2010), "Need for Insurance Education A National Priority", IRDA Journal, Volume III, No. 2 ,February.

Sarkar, Shivaji (2002). "Public Sector Insurance Undertakings that Excel",www. Keralamonitors.com.

Shanmukha, Rao Padala, and Syed Fasiuddin(2009), "Indian Bancassurance - A Composition Under Globalised Economic Scenario", Osmania Journal of International Business Studies, July - December 2009.

Sinha, Tapen (2002), “Privatization of the insurance market in India: from the British Raj to Monopoly Raj, to Swaraj”, CRLS discussion paper series,www.google.com

Udayachandran, C.P. (2005), “BPO and Insurance services: The Future and the Potential”, Ernakulam Insurance Institute/E11) journal, published by EII, March 2005, Issue 1 ,Vol. 3.

Vijayakumar, A (2001), “Globalization of Indian Insurance Sector Issues and challenges”, www.indian insurance sector.com.

Vittas, Dimitri (2004), “Insurance Regulation in Jordan New Rules - Old System”, World Bank Policy Research Working Paper 3298, Financial Sector Development World Bank, http://econ.worldbank.org.

Yojana (2006), “Indian Insurance Industry”, Vol.50, Published by Ministry of Information and Broadcasting division, Government of India, April 2006.

www.icicilombard.com

www.IndianJournals.com, Downloaded from IP - 210.212.129.125.

www.indistat.com

www.inflibnet.com

www.insurance.keralagov.in

www.insurancetimes.com

www.economicandpoliticalweekl.com

www.irda.gov.in

www.keralamonitor.com.

www.newindiaassurance.com

www.nicl.com

www.orientalinsurance.com

www.unitedindiainsurance.com

Annual Reports

IRDA Annual Report 2001-02.

IRDA Annual Report, 2002-03.

IRDA Annual Report 2003-04.

IRDA Annual Report 2004-05.

IRDA Annual Report 2005-06.

IRDA Annual Report 2006-07.

IRDA Annual Report 2007-08.

IRDA Annual Report 2008-09.

IRDA Annual Report 2009-10.

National Insurance Company Limited Annual Report 1999-2000.

Ministry of Finance, Government of India, Annual Report 2010-11.

Insurance Statistics Handbook.

Swiss Sigma Re Reports.

India Development Reports 1999-2000.

The Journal of Insurance Institute of India- Various.

National Insurance News- Reg No. RN 27120/75.

…..ꟳꟳ…..

APPENDICES

Appendix -I

THE INSURANCE ACT, 1938

[AS AMENDED BY INSURANCE (AMENDMENT) ACT, 2002]

[4 of 1938]

An Act to consolidate and amend the law relating to the business of insurance

Whereas it is expedient to consolidate and amend the law relating to the business of insurance; it is hereby enacted as follows: -

PART I

PRELIMINARY

Short title, extent and commencement.

1. (1) This Act may be called Insurance_Act, 1938.

(2) It extends to the whole of India.

(3) It shall come into force on such date[3] as the Central Government may, by Notification in the Official Gazette, appoint in this behalf.

Definitions.

2. In this Act, unless there is anything repugnant in the subject or context, -

(1) "actuary" means an actuary possessing such [3a][qualifications as may be specified by the regulations made by the Authority];

[4][(1A) "Authority" means the Insurance Regulatory and

Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999;]

(2) "policy-holder" includes a person to whom the whole of the interest of the policy-holder in the policy is assigned once and for all, but does not include an assignee thereof whose interest in the policy is defeasible or is for the time being subject to any condition;

(3) "approved securities," means-

(i) Government securities and other securities charged on the revenue of the Central Government or of the Government of a State or guaranteed fully as regards principal and interest by the Central Government or the Government of any State;

(ii) debentures or other securities for money issued under the authority of any Central Act or Act of a State Legislature by or on behalf of a port trust or municipal corporation or city improvement trust in any Presidency-town;

(iii) shares of a corporation established by law and guaranteed fully by the Central Government or the Government of a State as to the repayment of the principal and the payment of the divided;

(iv) securities issued or guaranteed fully as regards principal and interest by the Government of any Part B State and specified as approved securities for the purposes of this Act by the Central Government by notification in the Official Gazette; and

(4) "Auditor" means a person qualified under the Chartered Accountants Act, 1949 (38 of 1949), to act as an auditor of companies ;

(4A) "banking company" and "company" shall have the meanings respectively assigned in them in clauses (c) and (d) of sub-section (1) of Section 5 of the Banking Companies Act, 1949 (10 of 1949);

(5) "certified" in relation to any copy or translation of a document required to be furnished by or on behalf of an insurer or a provident society as defined in Part III means certified by a principal officer of 6Esuch insurer or provident society to be a true copy or a correct translation, as the case may be;

(5A) "chief agent" means a person who, not being a salaried employee of an insurer, in consideration of any commission-

- (i) performs any administrative and organising functions for the insurer, and
- (ii) procures life insurance business for the insurer by employing or causing to be employed insurance agents on behalf of the insurer;

[(5-B) "Controller of Insurance" means the officer appointed by the Central Government under section 2B to exercise all the powers, discharge the functions and performs the duties of the Authority under this Act or the Life Insurance Corporation Act, 1956 (31 of 1956) or the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972) or the Insurance Regulatory and Development Authority Act, 1999;]

(6) "Court" means the principal Civil Court of original jurisdiction in a district and includes the High Court in exercise of its ordinary original civil jurisdiction;

(6A) "fire insurance business" means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance Policies;

(6B) "general insurance business" means fire, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them;

(7) "Government security" means a Government security as defined in the Public Debt Act, 1944 (18 of 1944);

[2][(7A) “Indian insurance company” means any insurer being a company-

(a) which is formed and registered under the Companies Act, 1956 (1 of 1956);

(b) in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed twenty-six percent paid-up equity capital of such Indian insurance company;

(c) whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business.

Explanation- For the purpose of this clause, the expression “foreign company" shall have the meaning assigned to it under clause (23A) of section 2 of the Income-tax Act, 1961 (43 of 1961);]

(8) "insurance company" means any insurer being a company, association or partnership which may be wound up under the Indian Companies Act, 1913 (7 of 1913), or to which the Indian Partnership Act, 1932 (9 of 1932), applies;

(8A) "insurance co-operative society" means any insurer being a co-operative society,-

(a) which is registered on or after the commencement of the Insurance (Amendment) Act, 2002, as a co-operative society under the Co- operative Societies Act, 1912 (2 of 1912) or under any other law for the time being in force in any State relating to Co-operative Societies or under the Multi-State Co-operative Societies Act, 1984 (51 or 1984);

(b) having a minimum paid-up capital, (excluding the deposits required to be made under section 7), of rupees one hundred crores;

(c) in which no body corporate, whether incorporated or not, formed or registered outside India, either by itself or through its subsidiaries or nominees, at any time, holds more than twenty-six per cent of the capital of such Co-operative Society;

(d) whose sole purpose is to carry on life insurance business or general insurance business in India:

(9) "Insurer" means-

(a) any individual or unincorporated body of individuals or body corporate incorporated under the law of any country other than India, carrying on insurance business not being a person specified in sub-clause (c) of this clause which-

(i) carries on that business in India, or

(ii) has his or its principal place of business or is domiciled in India, or

(iii) with the object of obtaining insurance business, employs a representative, or maintains a place of business, in India;

(b) any body corporate [not being a person specified in sub-clause (c) of this clause] carrying on the business of insurance, which is a body corporate incorporated under any law for the time being in force in India; or stands to any such body corporate in the relation of a subsidiary company within the meaning of the Indian Companies Act, 1913 (7 of 1913), as defined by sub-section (2) of section 2 of that Act, and

(c) any person who in India has a standing contract with underwriters who are members of the Society of Lloyd's whereby such person is authorised within the terms of such contract to issue protection notes, cover notes, or other documents granting insurance cover to others on behalf of the underwriters.

but does not include a principal agent' chief agent, special agent' or an insurance agent or a provident society as defined in Part III;

(10) "insurance agent" means an insurance agent licensed under Sec. 42 who receives agrees to receive payment by way of commission or other remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance;

(10A)"investment company" means a company whose principal business is the acquisition of shares, stocks debentures or other securities;

(10B)"intermediary or insurance intermediary" shall have the meaning assigned to it in clause (f) of sub-section 2 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)

(11) "life insurance business" means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any

(12) "Manager" and "officer" have the meanings assigned to those expressions in clauses

and (11), respectively of Section 2 of the Indian Companies Act, 1913 (7 of 1913);

(13) "Managing agent" means a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the company, and under the control and

direction of the directors except to the extent, if any, otherwise provided for in the agreement, and includes any person, firm or company occupying such position by whatever name called.

Explanation.—If a person occupying the position of managing agent calls himself manager or managing director, he shall nevertheless be regarded as managing agent for the purposes of Sec. 32 of this Act;

(13A)"marine insurance business" means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights and other interests which may be legally insured, in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit, by land or water, or both, and whether or not including warehouse risks or similar risks in addition or as incidental to such transit, and includes any other risks customarily included among the risks insured against in marine insurance policies;

(13B)"miscellaneous insurance business" means the business of effecting contracts of insurance which is not principally or wholly of any kind or kinds included in clause (6A), (11) and (13A);

(14) "prescribed" means prescribed by rules made under this Act; and

(15) "principal agent" means a person who, not being a salaried employee of an insurer, in consideration of any commission,—

(i) performs any administrative and organising functions for the insurer; and

(ii) procures general insurance business whether wholly or in part by employing or causing to be employed insurance agents on behalf of the

(16) "private company" and "public company" have the meanings respectively assigned to them in Clauses (13) and (13-A) of Sec. 2 of the Indian Companies Act, 1913 (7 of 1913);

(17) "special agent" means a person who, not being a salaried employee of an insurer, in consideration of any commission, procures life insurance business for the insurer whether wholly or in part by employing or causing to be employed insurance agents on behalf of the insurer, but does not include a chief agent.

Interpretation of certain words and expressions

2A. Words and expression used and not defined in this Act but defined in the Life Insurance Corporation Act, 1956 (31 of 1956), the General Insurance Business (Nationalisation) Act, 1972 (57 or 1972), and the Insurance Regulatory and Development Authority Act, 1999 shall have the meanings respectively assigned to them in those Acts.

Appointment of Authority of Insurance.

2B. [(1) If at any time, the Authority is superseded under sub-section (1) of section19 of the Insurance Regulatory and Development Authority Act, 1999, the Central Government may, by notification in the Official Gazette, appoint a person to be the Controller of Insurance till such time the Authority is reconstituted under sub-section (3) of section 19 of that Act

(2) In making any appointment under this section, the Central Government shall have due regard to the following considerations,

namely, whether the person to be appointed has had experience in industrial, commercial or insurance matter and whether such person has actuarial qualifications.

RE-INSURANCE

Re-insurance with Indian reinsurers

101A. (1) Every insurer shall re insure with Indian re-insurers such percentage of the sum assured on each policy as may be specified by the Authority with the previous approval of the Central Government under sub-section (2).

(2) For the purposes of sub-section (1), the Authority may, by notification in the official Gazette,—

(a) specify the percentage of the sum assured on each policy to be reinsured and different percentages may be specified for different classes of insurance:

Provided that no percentage so specified shall exceed thirty per cent of the sum assured on such policy; and

(b) also specify the proportions in which the said percentage shall be allocated among the Indian re-insurers.

(3) Notwithstanding anything contained in sub-section (1), an insurer carrying on fire-insurance business in India may, in lieu of re-insuring the percentage specified under sub-section (2) of the sum assured on each policy in respect of such business, re-insure with Indian re-insurers such amount out of the first surplus in respect of that business as he thinks fit, so however that the aggregate amount of the premiums payable by him on such re-insurance in any year is not less than the

said percentage of the premium income (without taking into account premiums on re-insurance ceded or accepted) in respect of such business during that year

Explanation- For the purposes of this-section, the year 1961 shall be deemed to mean the period from the 1st April to the 31st December of that year.

(4) A notification under subsection (2) may also specify the terms and conditions in respect of any business of re-insurance required to be transacted under this section and such terms and conditions shall be binding on Indian re-insurers and other insurers.

(5) No notification under sub-section (2) shall be issued except after consultation with the Advisory Committee constituted under Section 101B.

(6) Every notification issued under this section shall be laid before each House of Parliament, as soon as may be, after it is made.

(7) For the removal of doubts, it is hereby declared that nothing in subsection (1) shall be construed as preventing an insurer from reinsuring with any Indian re-insurer or other insurer the entire sum assured on any policy or any portion thereof in excess of the percentage specified under sub-section (2).

(8) In this section,

i. "policy" means a policy issued or renewed on or after the 1st day of April, 1961, in Respect of general insurance business transacted in India and does not include a re-insurance policy; and

ii. 'Indian re-insurer" means an insurer specified in sub-clause (b) of Clause (9) of Section 2 who carries on exclusively re-insurance business and is approved in this behalf by the Central Government.

Advisory Committee

101B. (1) The Authority with the previous approval of the Central Government shall, for the purposes of Section 101A, constitute an Advisory Committee consisting of not more than five persons having special Knowledge and experience of the business of insurance.

(2) The term of office of, and the allowance payable to, members of the Advisory Committee, the procedure to be followed by, and the quorum necessary for the transaction of business of, the Committee and the manner of filling casual vacancies therein shall be such as may be determined by the regulations made by the Authority.

Examination of re-insurance treaties

101C. The Authority may, at any time

(a) call upon an insurer to submit for his examination at the principal place of business of the insurer in India all re-insurance treaties and other re-insurance contracts entered into by the insurer;

(b) examine any officer of the insurer on oath in relation to any such document as is referred to in C1ause (a) above; or

(c) by notice in writing, require any insurer to supply him with copies of any of the documents referred to in Clause (a), certified by a principal officer of the insurer.

Appendix -II

UNDERWRITING EXPERIENCE AND PROFITS-

PUBLIC SECTOR NON-LIFE INSURERS (RS.LAKH)

Particulars	NEW INDIA							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	491428	475177	434265	389511	363495	351641	306823	267148
INCURRED CLAIMS (NET)	417748	364361	363201	290498	271358	269951	255518	227974
	85.01%	76.68%	83.64%	74.58%	74.65%	76.77%	83.30%	85.34%
COMMISSION, EXPENSES OF MANAGEMENT	147834	154348	168317	154644	156498	108400	85762	74997
	30.08%	32.48%	38.76%	39.70%	43.05%	30.83%	29.20%	28.07%
INCREASE IN RESERVE FOR UNEXPIRED RISK	10285	21666	22166	12794	4549	21900	20935	9502
	2.09%	4.56%	5.10%	4.31%	1.25%	6.23%	6.80%	3.56%
UNDERWRITING PROFIT/LOSS	(84439)	(65198)	(119419)	(68425)	(68910)	(48608)	(55392)	(45325)
	-17.55%	-14.38%	-28.98%	-17.57%	-18.96%	-13.82%	-19.30%	-16.97%
GROSS INVESTMENT INCOME	234619	225507	208294	149253	126679	88100	85716	79585
OTHER INCOME LESS OTHER OUTGO	1966	1084	(3318)	(1040)	7021	(8200)	(9606)	(5394)
PROFIT BEFORE TAX	152146	161393	85557	79788	64790	31292	20718	28866
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	12033	15398	13919	39565	5768	5702	6620	6500
NET PROFIT AFTER TAX	**140113**	**145995**	**71638**	**40223**	**59022**	**25590**	**14098**	**22366**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PUBLIC SECTOR NON-LIFE INSURERS (RS. LAKH)

Particulars	ORIENTAL							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	287868	287973	250047	221802	203304	189842	181850	172535
INCURRED CLAIMS (NET)	260222	235886	206474	190838	158765	146655	182792	150206
	90.40%	81.91%	82.57%	86.04%	78.09%	77.25%	100.50%	87.06%
COMMISSION, EXPENSES OF MANAGEMENT	95496	85385	95416	82618	84769	64000	58596	45781
	33.17%	29.65%	38.16%	37.25%	41.70%	33.71%	32.20%	26.53%
INCREASE IN RESERVE FOR UNEXPIRED RISK	244	18897	14463	9485	6058	4265	(222)	4148
	0.08%	6.56%	5.78%	4.28%	2.98%	2.25%	-0.10%	2.40%
UNDERWRITING PROFIT/LOSS	(68095)	(52194)	(66306)	(61139)	(46288)	(25077)	(59316)	(27600)
	-23.67%	-19.40%	-28.15%	-27.56%	-22.77%	-13.21%	-32.60%	-16.00%
GROSS INVESTMENT INCOME	114315	116010	111751	108219	94313	48200	43762	39571
OTHER INCOME LESS OTHER OUTGO	(1986)	(853)	(12026)	91	(2595)	(5600)	(7956)	(4511)
PROFIT BEFORE TAX	44235	62964	33419	47171	45430	17523	(23510)	7460
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	43305	13237	5027	14118	13786	11190	63	42
NET PROFIT AFTER TAX	**930**	**49727**	**28392**	**33053**	**31644**	**6333**	**(23573)**	**7418**

Note : Figure in bracket represents negative value

Particulars	NATIONAL							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	318798	285536	268300	283216	250865	213088	181312	180455
INCURRED CLAIMS (NET)	283884	239422	283033	226350	210990	161966	172493	146163
	89.05%	83.85%	105.49%	79.92%	84.10%	76.01%	95.14%	81.00%
COMMISSION, EXPENSES OF MANAGEMENT	110159	91952	102316	93769	80474	64785	55458	49097
	34.55%	32.20%	38.14%	33.11%	32.08%	30.40%	30.59%	27.21%
INCREASE IN RESERVE FOR UNEXPIRED RISK	16945	8780	(8017)	16802	12084	16492	(387)	9984
	5.32%	3.07%	-2.99%	5.93%	4.82%	7.74%	-0.21%	5.53%
UNDERWRITING PROFIT/LOSS	(92190)	(54617)	(109032)	(53705)	(52683)	(30155)	(46252)	(24789)
	-30.54%	-19.73%	-41.89%	-18.96%	-21.00%	-14.15%	-25.51%	-13.74%
GROSS INVESTMENT INCOME	118092	105480	100976	68517	66268	48587	43978	40329
OTHER INCOME LESS OTHER OUTGO	(8696)	(5280)	2092	(690)	(6285)	(4489)	(7121)	(4451)
PROFIT BEFORE TAX	17206	45583	(5964)	14122	7300	13943	(9395)	11089
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	863	3455	4661	1009	178	451	(350)	830
NET PROFIT AFTER TAX	**16343**	**42128**	**(10625)**	**13113**	**7122**	**13492**	**(9045)**	**10259**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PUBLIC SECTOR NON-LIFE INSURERS (RS. LAKH)

Particulars	UNITED							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	288066	252953	222585	217266	215136	209241	204507	188438
INCURRED CLAIMS (NET)	250628	214206	204277	199853	184217	190544	178047	177693
	87.00%	84.68%	91.78%	91.99%	85.63%	91.06%	87.06%	94.30%
COMMISSION, EXPENSES OF MANAGEMENT	104916	96222	104063	91081	83413	60308	64542	46636
	36.42%	38.04%	46.75%	41.92%	38.77%	28.82%	31.56%	24.75%
INCREASE IN RESERVE FOR UNEXPIRED RISK	17857	15629	3152	1001	1473	(1695)	7226	6233
	6.20%	6.18%	1.42%	0.46%	0.68%	-0.81%	3.53%	3.31%
UNDERWRITING PROFIT/LOSS	(85335)	(73104)	(88907)	(74669)	(53967)	(39916)	(45308)	(42124)
	-31.58%	-30.80%	-40.52%	-34.37%	-25.09%	-66.19%	-70.20%	-22.35%
GROSS INVESTMENT INCOME	157725	131426	140042	107029	94560	67100	62431	48564
OTHER INCOME LESS OTHER OUTGO	(6576)	(6288)	(5860)	(530)	(1254)	(5766)	(1454)	(5623)
PROFIT BEFORE TAX	65814	52034	45274	31830	39339	21417	15669	817
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	2651	(852)	2751	1059	1295	4317	330	(1042)
NET PROFIT AFTER TAX	**63162**	**52886**	**42523**	**30771**	**38044**	**17101**	**15339**	**(225)**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PRIVATE SECTOR NON-LIFE INSURERS (RS. LAKH)

	ALL COMPANIES							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	715871	467316	284226	178202	106603	56145	18333	44
CLAIMS INCURRED (NET)	424555	250289	154822	91173	54336	29225	4224	2
	59.31%	53.56%	54.47%	51.16%	50.97%	52.05%	23.04%	4.55%
COMMISSION, EXPENSES OF MANAGEMENT	223254	128337	77740	48687	29617	19765	12725	2492
	31.19%	27.46%	27.35%	27.32%	27.78%	35.20%	69.41%	5663.64%
INCREASE IN RESERVE FOR UNEXPIRED RISK	127951	99333	56651	38092	29023	16987	14140	
	17.87%	21.26%	19.93%	21.38%	27.23%	30.26%	77.13%	
UNDERWRITING PROFIT/LOSS	(59890)	(10642)	(4987)	250	(6373)	(9832)	(12756)	(2534)
	-10.19%	-2.89%	-2.19%	0.14%	-5.98%	-17.51%	-69.58%	-5759.09%
GROSS INVESTMENT INCOME	74205	41504	26947	18442	15432	11694	6747	1458
OTHER INCOME LESS OTHER OUTGO	1204	975	123	(682)	(494)	54	(730)	(170)
PROFIT BEFORE TAX	15519	31837	22085	18010	8565	1916	(6739)	(1281)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	11136	8863	6645	5820	1861	1241	(564)	95
NET PROFIT AFTER TAX	**4383**	**22974**	**15438**	**12190**	**6704**	**675**	**(6176)**	**(1376)**

Note : Figure in bracket represents negative value

	ROYAL SUNDARAM							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	53306	38955	29689	20162	15630	10917	3675	19
CLAIMS INCURRED (NET)	29815	20374	16166	11371	8961	5860	1163	2
	55.93%	52.30%	54.45%	56.40%	57.33%	53.68%	31.65%	10.53%
COMMISSION, EXPENSES OF MANAGEMENT	19060	13543	9862	6759	5238	4188	3586	1485
	35.75%	34.77%	33.22%	33.52%	33.51%	38.36%	97.58%	7815.79%
INCREASE IN RESERVE FOR UNEXPIRED RISK	8723	5597	4745	2834	2407	3226	2367	
	16.36%	14.37%	15.98%	14.06%	15.40%	29.55%	64.41%	
UNDERWRITING PROFIT/LOSS	(4291)	(559)	(1084)	(802)	(976)	(2357)	(3441)	(1475)
	-9.62%	-1.67%	-4.35%	-3.98%	-6.24%	-21.59%	-93.63%	-7763.16%
GROSS INVESTMENT INCOME	4802	3287	2109	1345	1790	1908	1011	402
OTHER INCOME LESS OTHER OUTGO	-34	(11)	(10)	(8)	(12)	(10)	(22)	
PROFIT BEFORE TAX	477	2718	1015	535	802	(459)	(2452)	(1088)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	6	600	151	34				
NET PROFIT AFTER TAX	**471**	**2119**	**864**	**501**	**802**	**(459)**	**(2453)**	**(1088)**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PRIVATE SECTOR NON-LIFE INSURERS (RS. LAKH)

	BAJAJ ALLIANZ							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	175255	103976	69869	47929	28641	18076	8406	
CLAIMS INCURRED (NET)	94570	55563	40999	22633	15061	10667	1274	
	53.96%	53.44%	58.68%	47.22%	52.59%	59.01%	15.16%	
COMMISSION, EXPENSES OF MANAGEMENT	50072	26676	15341	10718	7892	5118	2433	
	28.57%	25.66%	21.96%	22.36%	27.55%	28.31%	28.94%	
INCREASE IN RESERVE FOR UNEXPIRED RISK	33711	20123	11232	10837	5577	2666	7424	
	19.24%	19.35%	16.08%	22.61%	19.47%	14.75%	88.32%	
UNDERWRITING PROFIT/LOSS	(3098)	1615	2297	3741	111	(375)	(2725)	
	-2.19%	1.93%	3.92%	7.81%	0.39%	-2.07%	-32.42%	
GROSS INVESTMENT INCOME	18648	8890	5204	3888	3060	2073	1429	
OTHER INCOME LESS OTHER OUTGO	1240	1198	682	67	7	12	(30)	(127)
PROFIT BEFORE TAX	16790	11703	8183	7696	3178	1710	(1326)	(127)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	6228	4166	3026	2987	1008	750	(365)	
NET PROFIT AFTER TAX	**10562**	**7537**	**5157**	**4709**	**2170**	**960**	**(961)**	**(127)**

Note : Figure in bracket represents negative value

	TATA AIG							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	52801	41582	33677	25977	18864	12668	3607	
CLAIMS INCURRED (NET)	24695	20711	16015	12549	8458	6006	1020	
	46.77%	49.81%	47.56%	48.31%	44.84%	47.41%	28.28%	
COMMISSION, EXPENSES OF MANAGEMENT	23047	18122	12593	10006	7039	4723	3930	520
	43.65%	43.58%	37.39%	38.52%	37.31%	37.28%	108.95%	
INCREASE IN RESERVE FOR UNEXPIRED RISK	7417	3418	5121	3217	4502	4380	2340	
	14.05%	8.22%	15.20%	12.39%	23.87%	34.58%	64.87%	
UNDERWRITING PROFIT/LOSS	(2357)	(669)	(52)	205	(1135)	(2441)	(3683)	(520)
	-5.19%	-1.75%	-0.18%	0.79%	-6.02%	-19.27%	-102.11%	
GROSS INVESTMENT INCOME	5035	3797	3012	2576	2109	1560	1219	182
OTHER INCOME LESS OTHER OUTGO	14	177	(273)	(341)	(248)	(411)	(294)	
PROFIT BEFORE TAX	2692	3305	2687	2440	726	(1292)	(2758)	(358)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	1075	1148	1326	1216	(804)			
NET PROFIT AFTER TAX	**1617**	**2157**	**1361**	**1224**	**1530**	**(1292)**	**(2758)**	**(358)**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PRIVATE SECTOR NON-LIFE INSURERS (RS. LAKH)

	RELIANCE							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	133745	50431	5554	6196	3454	1927	235	
CLAIMS INCURRED (NET)	75068	17318	3444	3836	2374	1917	160	
	56.13%	34.34%	62.01%	61.91%	68.73%	99.48%	68.09%	
COMMISSION, EXPENSES OF MANAGEMENT	48341	10169	1350	1464	798	(193)	637	367
	36.14%	20.16%	24.31%	23.63%	23.10%	-10.02%	271.06%	
INCREASE IN RESERVE FOR UNEXPIRED RISK	37741	26006	157	1393	822	995	115	
	28.22%	51.57%	2.82%	22.49%	23.80%	51.63%	48.94%	
UNDERWRITING PROFIT/LOSS	(27406)	(3062)	603	(497)	(540)	(792)	(677)	(420)
	-28.55%	-12.53%	11.17%	-8.03%	-15.63%	-41.10%	-288.09%	
GROSS INVESTMENT INCOME	10411	3195	1503	1399	1624	2347	1449	508
OTHER INCOME LESS OTHER OUTGO	711	91	(1)	(181)	(35)	(21)	(35)	(43)
PROFIT BEFORE TAX	(16284)	224	2107	721	1049	1534	737	45
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	271	61	671	138	149	101	60	
NET PROFIT AFTER TAX	**(16555)**	**163**	**1436**	**583**	**900**	**1433**	**677**	**45**

Note : Figure in bracket represents negative value

	IFFCO-TOKIO							
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01
NET PREMIUM	73775	58057	47830	23476	13334	7003	1313	25
CLAIMS INCURRED (NET)	50474	39859	24407	11923	7285	2850	428	
	68.42%	68.66%	51.03%	50.79%	54.63%	40.70%	32.60%	
COMMISSION, EXPENSES OF MANAGEMENT	19711	16287	11250	5193	2820	1420	828	120
	26.72%	28.05%	23.52%	22.12%	21.15%	20.28%	63.06%	480.00%
INCREASE IN RESERVE FOR UNEXPIRED RISK	9808	3297	13232	5939	3311	3053	939	
	13.29%	5.68%	27.67%	25.30%	24.83%	43.60%	71.52%	
UNDERWRITING PROFIT/LOSS	(6219)	(1387)	(1059)	421	(82)	(320)	(882)	(119)
	-9.72%	-2.53%	-3.06%	1.79%	0.61%	-4.57%	-67.17%	-476.00%
GROSS INVESTMENT INCOME	7354	5708	3583	1881	1502	1278	1070	366
OTHER INCOME LESS OTHER OUTGO	50	(76)	(115)	62		(21)	(17)	
PROFIT BEFORE TAX	1186	4246	2410	2364	1420	937	171	247
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	470	1533	948	892	462	301	6	95
NET PROFIT AFTER TAX	**716**	**2713**	**1462**	**1472**	**958**	**636**	**167**	**152**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PRIVATE SECTOR NON-LIFE INSURERS (RS. LAKH)

	ICICI-LOMBARD						
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
NET PREMIUM	177977	145077	73387	32089	12981	4452	1097
CLAIMS INCURRED (NET)	122832	81384	38925	15476	7005	1776	179
	69.02%	56.10%	53.04%	48.23%	53.96%	39.89%	16.32%
COMMISSION, EXPENSES OF MANAGEMENT	42460	30826	17254	5815	(901)	2473	1311
	23.86%	21.25%	23.51%	18.12%	-6.94%	55.55%	119.51%
INCREASE IN RESERVE FOR UNEXPIRED RISK	21258	38413	20619	10528	5073	1719	955
	11.94%	26.48%	28.10%	32.81%	39.08%	38.61%	87.06%
UNDERWRITING PROFIT/LOSS	(8573)	(5545)	(3411)	270	1804	(1516)	(1348)
	-5.47%	-5.20%	-4.65%	0.84%	13.90%	-34.05%	-122.88%
GROSS INVESTMENT INCOME	22448	13590	8892	5138	2547	1489	569
OTHER INCOME LESS OTHER OUTGO	(852)	(33)	(27)	(21)	(127)	457	(332)
PROFIT BEFORE TAX	13022	8012	5453	5387	4224	430	(1111)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	2735	1176	422	553	1046	89	(265)
NET PROFIT AFTER TAX	**10287**	**6836**	**5031**	**4834**	**3178**	**341**	**(848)**

Note : Figure in bracket represents negative value

	CHOLAMANDALAM					
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
NET PREMIUM	32113	15926	9856	8947	4832	450
CLAIMS INCURRED (NET)	15565	7077	6893	5472	2089	62
	48.47%	44.43%	69.94%	61.16%	43.23%	13.78%
COMMISSION, EXPENSES OF MANAGEMENT	10946	5834	3541	3053	2466	1120
	34.09%	36.63%	35.93%	34.12%	51.03%	248.89%
INCREASE IN RESERVE FOR UNEXPIRED RISK	7227	3198	1016	1843	2449	338
	22.51%	20.08%	10.31%	20.60%	50.68%	75.11%
UNDERWRITING PROFIT/LOSS	(1626)	(183)	(1594)	(1421)	(2172)	(1070)
	-6.53%	-1.43%	-18.04%	-15.88%	-44.95%	-237.78%
GROSS INVESTMENT INCOME	2643	1574	1300	1076	1554	759
OTHER INCOME LESS OTHER OUTGO	37	(12)	44	11	3	
PROFIT BEFORE TAX	1054	1379	(250)	(334)	(615)	(311)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	330	130	62			
NET PROFIT AFTER TAX	**724**	**1249**	**(312)**	**(334)**	**(615)**	**(311)**

Note : Figure in bracket represents negative value

UNDERWRITING EXPERIENCE AND PROFITS - PRIVATE SECTOR NON-LIFE INSURERS (RS. LAKH)

	HDFC ERGO					
	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
NET PREMIUM	16758	13311	14365	13425	8867	652
CLAIMS INCURRED (NET)	11477	8003	7973	7913	3103	87
	68.49%	60.12%	55.50%	58.94%	34.99%	13.34%
COMMISSION, EXPENSES OF MANAGEMENT	6958	6879	6547	5679	4265	916
	41.52%	51.68%	45.58%	42.30%	48.10%	140.49%
INCREASE IN RESERVE FOR UNEXPIRED RISK	1753	(718)	530	1500	4882	610
	10.46%	-5.39%	3.69%	11.17%	55.06%	93.56%
UNDERWRITING PROFIT/LOSS	(3430)	(853)	(685)	(1667)	(3383)	(961)
	-18.53%	-6.77%	-4.77%	-12.42%	-38.15%	-147.39%
GROSS INVESTMENT INCOME	1440	1463	1344	1139	1246	280
OTHER INCOME LESS OTHER OUTGO	313	(359)	(179)	(271)	(82)	48
PROFIT BEFORE TAX	(1677)	250	480	(799)	(2219)	(633)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	23	50	39			
NET PROFIT AFTER TAX	**(1700)**	**200**	**441**	**(799)**	**(2219)**	**(633)**

Note : Figure in bracket represents negative value

	FUTURE GENERALI 2007-08	UNIVERSAL SOMPO 2007-08
NET PREMIUM	184	(43)
CLAIMS INCURRED (NET)	58	0.11
	31.41%	-0.26%
COMMISSION, EXPENSES OF MANAGEMENT	1934	726
	1052.68%	-1705.14%
INCREASE IN RESERVE FOR UNEXPIRED RISK	312	1
	170.04%	-1.74%
UNDERWRITING PROFIT/LOSS	(2121)	(769)
	1647.72%	1776.26%
GROSS INVESTMENT INCOME	542	881
OTHER INCOME LESS OTHER OUTGO	(123)	(151)
PROFIT BEFORE TAX	(1701)	(39)
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	8	(9)
NET PROFIT AFTER TAX	**(1709)**	**(30)**

Note : Figure in bracket represents negative value

Source: IRDA Annual Report

Appendix -III

STATEMENT 46

UNDERWRITING EXPERIENCE AND PROFITS OF PUBLIC SECTOR COMPANIES

(₹ Lakh)

PARTICULARS	NEW INDIA		ORIENTAL		NATIONAL		UNITED		TOTAL	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
NET PREMIUM	600263	550031	396253	323510	397765	365363	419016	351041	1813297	1589946
INCURRED CLAIMS (Net)	513245	467187	326018	305719	324536	339367	332924	251505	1496723	1363779
	85.50%	84.94%	82.28%	94.50%	81.59%	92.88%	79.45%	71.65%	82.54%	85.78%
COMMISSION, EXPENSES OF MANAGEMENT	229743	201583	139202	111546	145019	116454	138994	123084	652958	552667
	38.27%	36.65%	35.13%	34.48%	36.46%	31.87%	33.17%	35.06%	36.01%	34.76%
INCREASE IN RESERVE FOR UNEXPIRED RISK	29180	25101	37170	16830	16187	23127	35196	31131	117733	96189
	4.86%	4.56%	9.38%	5.20%	4.07%	6.33%	8.40%	8.87%	6.49%	6.05%
UNDERWRITING PROFIT/LOSS	(171905)	(143840)	(106138)	(110586)	(87976)	(113585)	(88099)	(54679)	(454118)	(422690)
	-30.10%	-27.40%	-29.56%	-36.06%	-23.06%	-33.19%	-22.95%	-17.09%	-26.78%	-28.30%
GROSS INVESTMENT INCOME	214082	167686	116944	99562	134845	103962	168857	108767	634727	479978
OTHER INCOME LESS OTHER OUTGO	-6249	5876	(1983)	2182	(20010)	(3731)	1526	(3797)	(26715)	529
PROFIT BEFORE TAX	35927	29723	8823	(8842)	26859	(13354)	82284	50291	153894	57818
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	4540	(7308)	(13249)	3576	(4373)	(1567)	(11505)	(2686)	(24587)	(7985)
NET PROFIT AFTER TAX	**40467**	**22415**	**(4425)**	**(5266)**	**22486**	**(14921)**	**70779**	**47605**	**129307**	**49833**

Note: Figures in brackets indicates negative values.

Source: IRDA Annual Report

STATEMENT 47

UNDERWRITING EXPERIENCE AND PROFITS OF PRIVATE SECTOR COMPANIES

(₹ Lakhs)

	ROYAL SUNDARAM		BAJAJ ALLIANZ		TATA AIG		RELIANCE		IFFCO TOKIO		ICICI LOMBARD		CHOLAMANDALAM	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
NET PREMIUM	75460	66831	197167	200658	58000	58749	142872	139956	99083	88568	231409	211648	51463	43414
CLAIMS INCURRED (NET)	50907 67.46%	41235 61.70%	138657 70.32%	135992 67.77%	39637 68.34%	35567 60.54%	118569 82.99%	107366 76.71%	73267 73.94%	69502 78.47%	190263 82.22%	168454 79.59%	34434 66.91%	27578 63.52%
COMMISSION, EXPENSES OF MANAGEMENT	26474 35.08%	25161 37.65%	58028 29.43%	62261 31.03%	27244 46.97%	28867 49.14%	44583 31.21%	50989 36.43%	27446 27.70%	23639 26.69%	57619 24.90%	60300 28.49%	17250 33.52%	13595 31.31%
INCREASE IN RESERVE FOR UNEXPIRED RISK	3974 5.27%	7026 10.51%	8747 4.44%	11532 5.75%	(973) -1.68%	0 0.00%	2947 2.06%	1070 0.76%	7040 7.10%	5275 5.96%	12126 5.24%	14282 6.75%	5235 10.17%	4877 11.23%
UNDERWRITING PROFIT/LOSS	(5894) -8.25%	(6591) -11.02%	(8265) -4.39%	(9126) -4.83%	(7908) -13.41%	(5686) -9.68%	(23228) -16.60%	(19468) -14.02%	(8669) -9.42%	(9849) -11.82%	(28600) -13.04%	(31388) -15.90%	(5455) -11.80%	(2636) -6.84%
GROSS INVESTMENT INCOME	9278	7557	23336	21475	9008	7172	15313	14650	11991	10541	47246	36574	5326	3851
OTHER INCOME LESS OTHER OUTGO	18	8	2909	2628	78	(536)	(1140)	(199)	539	(0.36)	(2815)	(5159)	314	(30)
PROFIT BEFORE TAX	3401	973	17980	14977	1178	950	(9055)	(5017)	3861	692	15831	27	185	1185
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	(304)	(407)	(5898)	(5461)	(509)	(526)	4012	(215)	(1323)	(442)	(1438)	2335	51	(486)
NET PROFIT AFTER TAX	**3097**	**566**	**12083**	**9516**	**670**	**424**	**(5043)**	**(5232)**	**2538**	**250**	**14393**	**2362**	**236**	**699**

Note: Figures in brackets indicate negative amounts.

Cont'd... STATEMENT 47

UNDERWRITING EXPERIENCE AND PROFITS OF PRIVATE SECTOR COMPANIES

(₹ Lakh)

	HDFC ERGO		FUTURE GENERALI		UNIVERSAL SOMPO		SHRIRAM		BHARTI AXA		RAHEJA QBE	TOTAL	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2009-10	2008-09
NET PREMIUM	58868	19477	24647	12745	14817	1795	22420	6117	18669	1242	(282)	**994594**	**851199**
CLAIMS INCURRED (NET)	39586	14489	16915	6003	5749	241	9599	1200	8619	289	45	**726249**	**607916**
	67.25%	74.39%	68.63%	47.10%	38.80%	13.42%	42.82%	19.62%	46.17%	23.26%	(16.09%)	**73.02%**	**71.42%**
COMMISSION, EXPENSES OF MANAGEMENT	14535	8717	12548	9142	9029	2843	3461	1869	14564	5333	1195	**313976**	**292715**
	24.69%	44.75%	50.91%	71.73%	60.93%	158.37%	15.44%	30.56%	78.01%	429.48%	(423.36%)	**31.57%**	**34.39%**
INCREASE IN RESERVE FOR UNEXPIRED RISK	18863	1529	5900	6861	7293	1882	8815	4402	10305	1520	49	**90320**	**60256**
	32.04%	7.85%	23.94%	53.83%	49.22%	104.84%	39.32%	71.96%	55.20%	122.38%	(17.32%)	**9.08%**	**7.08%**
UNDERWRITING PROFIT/LOSS	(14116)	(5259)	(10716)	(9260)	(7254)	(3171)	545	(1354)	(14819)	(5899)	(1571)	**(135951)**	**(109687)**
	(18.16%)	(25.03%)	(57.16%)	(157.35%)	(96.41%)	(3647.64%)	4.00%	(12.87%)	(51.15%)	2123.20%	474.56%	**(15.03%)**	**(13.87%)**
GROSS INVESTMENT INCOME	4787	2695	1863	1174	2064	1763	1940	902	909	765	1006	**134067**	**109120**
OTHER INCOME LESS OTHER OUTGO	(117)	42	(118)	(410)	(163)	(11)	(11)	(78)	(317)	(597)	(13)	**(836)**	**(4343)**
PROFIT BEFORE TAX	(9446)	(2521)	(8970)	(8496)	(5353)	(1419)	2474	(529)	(14226)	(5732)	(579)	**(2720)**	**(4910)**
INCOME TAX DEDUCTED AT SOURCE AND PROVISION FOR TAX	16	(53)		(37)	146	(20)	(887)	139	(4)	(44)		**(6136)**	**(5216)**
NET PROFIT AFTER TAX	**(9430)**	**(2575)**	**(8970)**	**(8533)**	**(5207)**	**(1439)**	**1587**	**(390)**	**(14230)**	**(5775)**	**(579)**	**(8856)**	**(10126)**

Note: Figures in brackets indicate negative amounts.

Appendix -IV

REASON FOR SELECTING THE COMPANY
Frequency Table

Is better service the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	73	14.6	14.6	14.6
	2	53	10.6	10.6	25.2
	3	56	11.2	11.2	36.4
	4	24	4.8	4.8	41.2
	5	31	6.2	6.2	47.4
	6	104	20.8	20.8	68.2
	7	61	12.2	12.2	80.4
	8	98	19.6	19.6	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is security the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	.6	.6	.6
	2	9	1.8	1.8	2.4
	3	9	1.8	1.8	4.2
	4	9	1.8	1.8	6.0
	5	45	9.0	9.0	15.0
	6	82	16.4	16.4	31.4
	7	217	43.4	43.4	74.8
	8	126	25.2	25.2	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is convenience the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	158	31.6	31.6	31.6
	2	81	16.2	16.2	47.8
	3	23	4.6	4.6	52.4
	4	46	9.2	9.2	61.6
	5	60	12.0	12.0	73.6
	6	83	16.6	16.6	90.2
	7	23	4.6	4.6	94.8
	8	26	5.2	5.2	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is trust is the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	2.0	2.0	2.0
	2	64	12.8	12.8	14.8
	3	66	13.2	13.2	28.0
	4	88	17.6	17.6	45.6
	5	119	23.8	23.8	69.4
	6	49	9.8	9.8	79.2
	7	63	12.6	12.6	91.8
	8	41	8.2	8.2	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is easy terms and conditions the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	27	5.4	5.4	5.4
	2	63	12.6	12.6	18.0
	3	143	28.6	28.6	46.6
	4	148	29.6	29.6	76.2
	5	71	14.2	14.2	90.4
	6	23	4.6	4.6	95.0
	7	13	2.6	2.6	97.6
	8	12	2.4	2.4	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is less official procedure compared to other sector the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	84	16.8	16.8	16.8
	2	103	20.6	20.6	37.4
	3	120	24.0	24.0	61.4
	4	102	20.4	20.4	81.8
	5	36	7.2	7.2	89.0
	6	33	6.6	6.6	95.6
	7	9	1.8	1.8	97.4
	8	13	2.6	2.6	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is fast settlement of claims the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	28	5.6	5.6	5.6
	2	86	17.2	17.2	22.8
	3	53	10.6	10.6	33.4
	4	42	8.4	8.4	41.8
	5	103	20.6	20.6	62.4
	6	63	12.6	12.6	75.0
	7	60	12.0	12.0	87.0
	8	65	13.0	13.0	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Is pressure of friends/agents the reason for taking policy from the respective company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	115	23.0	23.0	23.0
	2	39	7.8	7.8	30.8
	3	33	6.6	6.6	37.4
	4	43	8.6	8.6	46.0
	5	36	7.2	7.2	53.2
	6	63	12.6	12.6	65.8
	7	57	11.4	11.4	77.2
	8	114	22.8	22.8	100.0
	Total	500	100.0	100.0	

Source: Survey Data.

Appendix - V

QUESTIONNAIRE

A COMPARATIVE STUDYOF PUBLIC AND PRIVATE SECTORS IN GENERAL INSURANCE

PART I

To elicit information on the performance of public and private sector general insurance companies from the policy holders. We request you to kindly answer all the questions (Please tick (√) appropriately)

Name of Branch :

Name :

Sex : Male / Female

No. of dependents :

Family size : ☐ 1-2 ☐ 2-4 ☐ 4-6 ☐ 6-8

Marital status : Married/ Single/Separated/Widow

Age : ☐ below 25 ☐ 25-35 ☐ 35-45 ☐ 45-55 ☐ 55-65

Type of family : Nuclear family [ ]

Joint family [ ]

Occupation :

☐ Govt. employees (Specify Central or State Govt.)

☐ Company Executives / Managers

☐ Self employed (specify) ☐ Daily worker

☐ Business ☐ Any other (please specify)

Annual Income :

☐ Below Rs.25,000 ☐ Rs.25,000 – Rs.50,000

☐ Rs.50, 000- Rs.75,000 ☐ Rs.75,000 – Rs.1, 00,000

☐ Above Rs.1, 00,000

1) From which sector have you taken an Insurance policy :

☐ Public ☐ Private

2) Specify the company from which you have taken the policy:

☐ National Insurance Company Limited ☐ ICICI Lombard

☐ Both

3) Reason for taking policy from the above company : (Rank 1, 2, 3,4,5,6,7,8 etc.)

☐ Better service ☐ Security

☐ Convenience ☐ Trust

☐ Easy terms & conditions ☐ Less official procedure compared to other sector

☐ Fast settlement of claims ☐ Pressure of Friends/Agents

☐ Any other (please specify)

4) What are the factors normally you taken into consideration in selecting an Insurance Company for a policy :

☐ Safety ☐ Convenience

☐ Terms & conditions ☐ Trust

☐ Persuasion of agents ☐ Service

☐ Financial position of the company ☐ Influence of advertisements

☐ No. of years of establishment ☐ Company Name

5) Have you shifted companies, if yes, how :

☐ Public to Private ☐ Private to Public

☐ Private to Private ☐ Public to Public

☐ Not Applicable

6) The reason for shifting :

☐ Better service ☐ Security

☐ Convenience ☐ Easy terms & conditions

☐ Less official procedure compared to other sector

☐ Fast settlement of claims ☐ Trust

☐ Persuasion of agents

7) Have you shifted policy from any other Public sector company to National Insurance or Private sector company to ICICI Lombard:

☐ Yes ☐ No

If ***Yes***, from where :

Public Sector:

☐ Oriental to National ☐ United India to National

☐ New India Assurance to National

Private Sector:

☐ Bajaj Allianz ☐ TataAIG

☐ Cholamandalam ☐ IFFCO_TOKIO

☐ Reliance ☐ Royal Sundaram

☐ HDFC Chubb ☐ Any other (please specify)

8) Type of policy taken :-

☐ Mediclaim Policy ☐ Motor Accident Insurance

☐ Overseas Travel ☐ Personal Accident Insurance

☐ Fire Insurance Policy ☐ Home Insurance

☐ Vehicle Insurance ☐ Any other (please specify)

9) Reason for taking policy :-

☐ Provide security ☐ Persuasion of agent

☐ Availability of scheme/policy ☐ The financial problem at the time of needs

10) For how much amount did you take the policy :-

☐ Rs.5, 000 – Rs.10, 000 ☐ Rs.10,000 –Rs. 20, 000

☐ Rs.20, 000 – Rs.30, 000 ☐ Rs.30, 000 - Rs.40,000

☐ Rs.40,000 –Rs.50,000 ☐ Rs.50, 000 – Rs.1 lakh

☐ Above 1 lakh (please specify) ☐ Any other (please specify)

11) Have you made any claims under your policy : -

☐ Yes ☐ No

12) If claims have been made from both the sectors, which sector has been more efficient :-

☐ Public ☐ Private ☐ Not Applicable

13) Make a comparison of the time taken for settlement :-

☐ Less than two weeks ☐ Less than 1 month

☐ 1-2 months ☐ Above 2 months

14) Did you get the full amount claimed by you : -

☐ Yes ☐ No

If answer is No, how much did you get :-

☐ Partially ☐ Half ☐ One forth ☐ Three forth

15) How do you know about the policy :-

☐ Agents ☐ Friends ☐ Relatives ☐ Media

☐ If any other (please specify)

16) How long have you been subscribing the specified policy:-

☐ 1 year ☐ 2 years ☐ 3 years ☐ 4 years or more

17) Do you know details of the policy :-

☐ All details ☐ Something ☐ Nothing

18) Whether the company provides all details about the policy before taking it

☐ Yes ☐ No

19) Do you rely on the agent's advice:-

☐ Fully ☐ Partially ☐ No

20) Have you ever discontinued the policy earlier :-

☐ Yes ☐ No

If answer is ***yes,*** please rank the reasons (1, 2, 3, 4,5,etc.) :-

☐ Delay in the settlement of claims ☐ High premium

☐ Benefits provided by the policy is low ☐ Poor service

☐ Others (please specify)

21) And why did you renew :-

☐ To help Friends/Relatives ☐ Persuasion of agents

☐ Pressure of Company ☐ Persuasion of Colleagues

22) Do you feel at least sometimes the decision to take policy from the present Company is wrong : - ☐ Yes ☐ No

If yes, please state the reasons

☐ Poor service ☐ Lack of proper information

☐ Behavior of Staff is poor

☐ Waste more time in the office for procedures

23) What is the overall rate of satisfaction of your company :-

☐ Poor ☐ Average ☐ Good ☐ Very good ☐ Excellent

24) Do you think that opening up of the insurance sector to private participants made a lot of difference to public sector companies :-

☐ Yes ☐ No

If yes, please rank what are the important benefits

☐ Competitive products ☐ Faster settlement of claims

☐ Innovative products ☐ Better services

☐ Reduce time consuming because of computerization

☐ Introduce new methods of taking policy

25) Do you have any suggestions to improve the working of the company:

☐ Yes ☐ No

If yes, please specify :-

26) Are you satisfied with premium rates given by the insurance company in case of specified policy :-

☐ Satisfied ☐ Not satisfied ☐ No Opinion

27) Are you satisfied with discount rates given by the insurance company in case of specified policy :-

☐ Satisfied ☐ Not satisfied

☐ Average ☐ No Opinion

28) Are you satisfied with the services rendered during the renewal of the policy :-

☐ Satisfied ☐ Not satisfied

☐ Average ☐ No Opinion

29) Opinion about rendering services by staff of your insurance company:-

☐ Good ☐ Improving ☐ Bad

30) Opinion about the usefulness of the plan of policy which you have taken :-

☐ Useful ☐ Not useful

☐ Not sure ☐ Not bad

31) Do you think public sector insurance companies offer more varieties of products than private sector? ☐ Yes ☐ No

If yes, please specify the reasons:-

32) Will you welcome more private sector insurance companies?

☐ Yes ☐ No ☐ No Opinion

33) Would you like to shift your purchase of policies from present insurance sector to other sector or again make same choice ?

☐ Yes ☐ No

34) Do you think emerging private sector insurance companies will harm to public sector companies

☐ Yes ☐ No ☐ Neutral

35) General Comments/ Suggestions

(Thank You for Spending Your Valuable Time)

…..ഇരു…..

Index

F

G

H

I

J

K