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Contents

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COMMUNICATIONS

Liberalising India's Insurance

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Liberalisation of insurance sector is an important step by government of India to streamline the insurance business in the country. The efforts have been made to make them more competitive. This paper evaluates the progress of insurance business, identifies the problems hampering its growth, outlines the efforts made for liberalising India's insurance, and suggests the measures for efficient operation of insurance business in the country.

The new Economic Policies were announced in 1991 by the Government of India with a focus on globalisation, liberalisation and privatisation. Under the new Policy, many economic and financial reforms were initiated. The economic reforms were liberalising licensing policy, abolishing MRTP act, attract of Foreign Direct Investment (FDI), allowing Foreign Equity in Public Sector undertaking (PSUs) etc. The financial reforms were restructuring of Banking Sector, Public Sector, and Commercial Banks allowing in Mutual Fund Investment business, rationalising the Export Import (EXIM) Policy and so on. Under the second phase reforms, Insurance Sector also have been restructured.

Progress of Insurance Sector

Insurance Business was established in the year 1938 under Private Partnership. The Private Partnership life insurance covered only few segments and established 245 branches in all over the country. Due to non-coverage of common people and as a result of nationalisation of financial sector, the Life Insurance Corporation (L.I.C.) and General Insurance Corporation (G.I.C.) were established. The L.I.C was setup in 1956 as a result of the amalgamation of 245 insurance companies and it is governed by the Insurance Act of 1956. The G.I.C formed in January 1, 1973 as a government company (holding company) with four subsidiaries, viz., (1) The National Insurance Company Ltd., Calcutta (2) New India Assurance Company Ltd., Bombay (3) Oriental Fire & General Insurance Company Ltd., New Delhi and (4) United India Fire & General Insurance Company Ltd., Madras.

To mitigate the non-coverage of insurance problem on April 1, 1993, the Government of India appointed the M.L. Malhotra committee to make the reform of the Insurance sector. The committee was to assess the strengths and

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weaknesses of the insurance industry and make recommendations for changes in its structure, functioning and the general policy framework keeping in mind the reforms under way in other parts of the Financial Sector and the economy. The committee submitted report on 1 April 1994. The committee has identified the following deficiencies of the Insurance Sector.

- the lack of competition has engendered complacency in the insurance industry, which is reflected among other things, insufficient responsiveness to customer needs.
- high premium cost.
- accessible lapsation of life policies.
- instability of marketing new works.
- over staffing.
- growth of restrictive staff practice.
- serious lags in software technology.
- finally the monopoly of LIC & GICs.

The committee suggested following reasons for private and foreign participation in insurance sector.

- competition would result in better customer service and help improve the range, quality and price of insurance products.
- though the nationalised insurance industry has built-up large volumes of business, overall insurance penetration is still quite low. Therefore entry of new players would speed up life and general insurance.
- there is growing competition in the non-insurance financial sector, including commercial banks, mutual funds, merchant banks, leasing companies and other non-banking financial institutions, there is little reason for keeping insurance as a state monopoly.
- out of 50 year services, the existing insurance companies are financially strong and have created extensive infrastructures in terms of professional talent and marketing and service networks. Therefore they are in a position to face competition.

The Insurance Regularity Authority Bill 1998

The salient features of the bill are:

- the bill aims at removing the monopoly status of the LIC and GIC in its respective business.
- the bill provides for opening up of the insurance sector and allowing foreign equity upto 26 percent.
- the bill also provides for an additional 14 percent equity for Non-resident Indians (NRIs).
- the bill proposed that the Indian partner in an insurance Joint venture.
- the bill categorically states that no insurance other than an Indian insurance company can start an insurance business in India.

- the bill proposed to setup a 10 member's statutory body of IRA and vested with the sole power.
- the bill ensures the safeguard of flow of premium collected by the Indian companies outside the country.
- the IRA would determine the time, manner and other conditions of investments of assets to be held by an insurer.
- the bill also empowers the IRA to review, modify, withdraw, suspend or cancel the licence given to private companies. The bill gives it the power to protect the interest of policyholders in areas like settlement of claims and assignment and nomination of policies.
- the bill also proposes that the government can issue direction to IRA and supersede the authority.

The Joint Venture agreements duly finalised to establish insurance business in India are presented in Table 1.

Table 1: *Private joint venture companies*

Sl. No	Indian Company	Foreign Company
1.	DCM SRIRAM	Royal & Sons Alliance (Britain)
2.	HDFC	Standard life (Britain)
3.	Bombay Burma Trading	General Expedient (Scotland, Britain)
4.	Kotak, Mahindra	Chab Insurance (America)
5.	Arific Finance	Aliej Holding (Germany)
6.	Twentieth Century Finance	Sundae Life Insurance (Switzerland)
7.	C.K. Birla group	Bue reach Insurance (Switzerland)
8.	ICICI	Prudential (Britain)
9.	Hindustan Times	Commercial Union (Britain)
10.	Dabur	Liberty mutual (Britain)
11.	Sanmar group	G.E.O. (Australia)
12.	ITC	Eagle Star (Britain)
13.	Peerless	Guardian Royal Insurance (Britain)
14.	Sundaram Finance	Winter Insurance (Switzerland)
15.	M.A. Chidambaram group	Metafile (Britain)
16.	Run Baxi	Sigma Corporation (Britain)
17.	S.K. Mode group	Royal and Grand General (Australia)

Source: Andhara Bhoomi, 11th December 1998, pp. 4.

Critiques of the Bill

Opposition to the IRA Bill 1998 emanates from the opening of the insurance business to competition and the entry of foreign players in the insurance sector. It is pointed out that in 1990, U.S. Congressional committee report, "Failed promises" drew concern as it exposed the malpractice and, indeed, misadventures of insurance companies in America. Between 1970 and 1990, more than

420 insurance ventures collapsed, 370 of the seeking insolvency. Over a comparable period (1975-1992). The Sigma-Swiss report exposed vast deviations from standard good faith practices. It is not a question of size. The largest American insurance corporate — prudential, metropolitan and first executive were in trouble over fines, many companies entered in to the black list. Further the opponents of the IRA Bill argue that if foreign companies are allowed they will capture the lion's share of the market potential because of their enormous financial clout. Hence, competition will become meaningless.

- Foreign companies will not provide social insurance.
- They will skim the prime area of operation for profit.
- They neglect the social sector.
- They will not provide subsidized insurance coverage, as LIC and GIC are doing now.
- The Insurance is also a sick industry in developing countries and every year witness scores of insolvencies.
- The most of the foreign companies are not conserving premium income the way of LIC and GIC.
- Customer satisfaction is the last priority in their agenda.
- Further the opponents of the IRA Bill are afraid of the breach of contracts, vague definement of premium and speculative investment.

In India, it is the insurance business which decide what risk they would cover and operate on the principle of take it or leave it. Being a highly specialised field the common man is not fully aware of the general functioning of the insurance business, the product features and the service delivery. It can be observed that the low risk clients are forced to subsidise the high-risk clients and in our country insurance does not accord better deal to low-risk clients. Further the customers are forced to bear the burden of the huge pay rolls of insurance companies. As regards the usefulness of the insurance sector to the economy, it is clear that the existing players in the insurance sector will not be able to support the development demand of the economy in the next millennium.

Pre-cautionary measures for implementing the IRA bill/suggestions

At present, 92 per cent of the insurable population is outside the ambit of LIC. A study shows that about 84 per cent of the middle-class, educated and employed remains outside of non-life insurance. This vast potential can be utilised only by tie-ups, collaborations and Joint ventures in the insurance sector. The following precaution measures are required to allow private, foreign venture in the insurance sector.

- Apex statutory body should set up with sole power to control private, foreign Joint Venture (Like SEBI) including registration, terms and conditions and to review, modify, withdraw, suspend and cancel the licenses given to private parties. The main objective of the apex body is to protect common middle class people's premium and their insurable lives.

- Premium value should be low and maturity period should be short.
- The newly Joint Ventures minimum capital should be of Rs. 100 crore.
- As regards the limitation on promoter's equity should be 40 percent of the total capital.
- As regarding life insurers business in rural areas, it is necessary for ensuring level playi:ıg fields for existing and new companies and is also eminently feasible.
- Conducting of awareness camps in rural areas frequently and acquaint them full particulars of insurance and types of insurance, educate them on what are the life and non-life protection.
- Restrict the foreign companies to utilise or re-invest the profit money in India only.
- Policies should attract the entire population of India, as compared to other countries they were providing insurance to "chick to heavy machine tools".
- Finally, Employment opportunities are created to Indian citizens only.

Conclusion

Primarily, insurance provides protection against uncertainties of life, business and trade. An efficient and responsive insurance industry is essential for enhançing the sense of security in the community at large and facilitating economic activity. Insurer must aim at covering all sections of the population and different business activities, and provide insurance cover to meet the varying needs of individuals, groups and industries at reasonable cost. As the country moves up the technology scale and the economy becomes increasingly sophisticated, the insurance industry must have the imagination, innovativeness, expertise, technology as well as the whiplash of competition to respond constructively, promptly and fairly to the changing and complex demands of its clientele and create employment opportunities in India.