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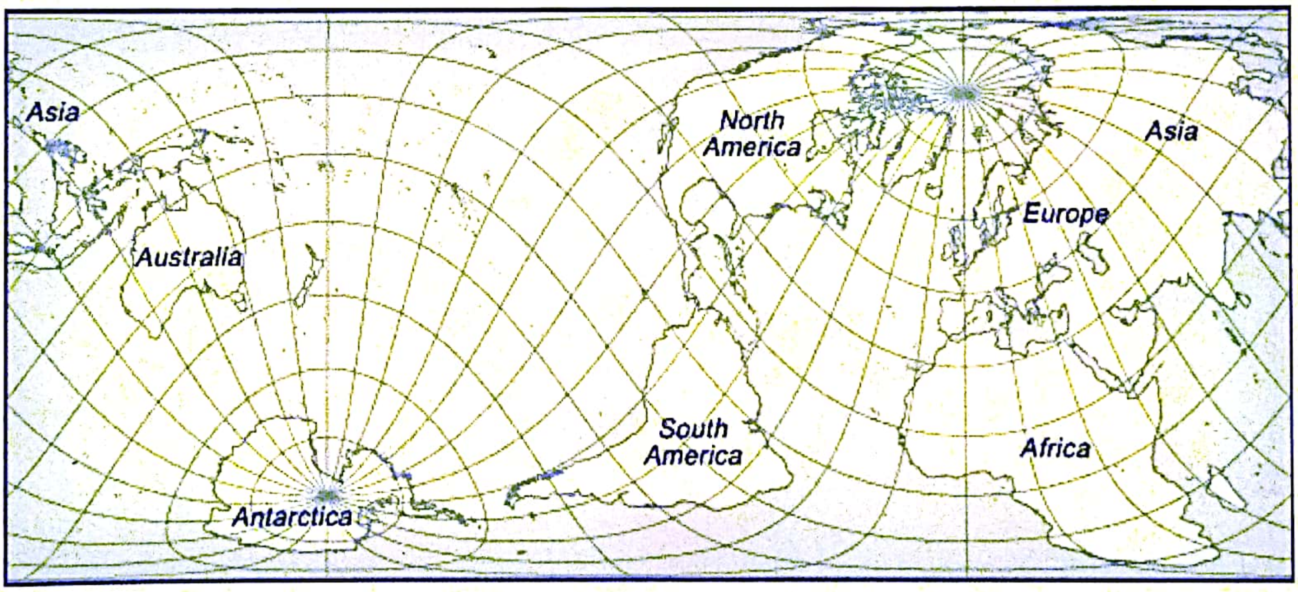

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DEVELOPMENT OF INSURANCE IN INDIA- A STUDY

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ABSTRACT

Insurance in India started without any regulations in the nineteenth century. It was a typical story of a colonial era: a few British insurance companies dominating the market serving mostly large urban centers. After the independence, the Life Insurance Companies were nationalized in 1956, and then the general insurance business was nationalized in 1972. Only in 1999 private insurance companies were allowed back into the business of insurance with a maximum of 26 per cent of foreign holding. The entry of the State Bank of India with its proposal of bank assurance brings a new dynamics in the game.

Private insurers have improved the market share of 8 % in life and 15 % in non life within the span of two years. If this trend would continue the Public insurer sector life sinks. In this context, this paper covers Milestones of Insurance Regulations in the 20th century, Insurance Regulatory and Development Authority (IRDA),New entry of private joint venture companies and paid up capital, Market share within the private players, development of insurance business, Global Scenario, Lessons from China and India's Insurance Prospects have been presented.

1. INTRODUCTION

Life insurance in the modern form was first set up in India through a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance company in 1823 and the Madras Equitable Life insurance Society in 1829. The first company that had policies that could be bought by Indians with "fair value" was the Bombay Mutual Life Assurance Society started in 1871[1]. The first General Insurance Company (GIC), Triton Insurance Company Ltd., was established in 1850. It was owned and operated by the British. The first indigenous general insurance company was the Indian Mercantile Insurance Company Limited set up in 1907. By 1938, the insurance market in India was buzzing with 176 companies (both life and non-life).

TABLE 1

MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

Year	Significant Regulatory Events
1912	The Indian Life Insurance Company Act
1938	The insurance Act: Comprehensive Act 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 Malhotra Committee
1994	Recommendations of Malhotra Committee
1995	Setting up of Mukherjee Committee
1996	Setting up of Insurance Regulatory Authority (IRA)
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 board and flexibility in investment norms aimed at channeling 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 NRIs, OCBs, and FIIs.
1999	The Standing committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26 %. The IRA bill is renamed as Insurance Regulatory and Development Authority (IRDA) Bill.
1999	Cabinet clears IRDA bill
2000	President gives Assent to the IRDA Bill.

Source: All research papers

In 1956, the then finance minister, S.D.Deshmukh, announced nationalization of the life insurance business. The GIC 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[2]. Milestones of Insurance Regulations in India are presented in Table 1.

2. DETAILS OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY BILL (IRDA)

On July 14, 2000, the Chairman of the IRDA, Mr. N. Rangachari, set forth a set of regulations in an extraordinary issue of the Indian Gazette that details the regulation.

1. The bill aims at removing the monopoly status of LIC and GIC in its respective business.
2. The bill provides for opening up of the insurance sector and allowing foreign equity up to 26 %.
3. The bill also provides for an additional 14 per cent equity for Non-Resident Indians (NRIs)
4. The bill allows foreign companies to enter the industry with collaboration with the domestic companies.
5. The bill allows the private companies with paid up capital Rs.100 crore.
6. The bill states that no company should deal in both Life and General Insurances through single entry and State Level Life Insurance Company should be allowed to operate in the respective state only.
7. The Bill provides greater freedom to operate to all insurance companies.
8. The bill categorically states that no insurance, other than an Indian insurance company, can start an insurance business in India.
9. The bill ensures the safeguard of flow of premium collected by the private insurance companies and protects the interests of the policy holders in areas like settlement of claims and assignment and nomination of policies.
10. The bill encourages setting up of unit linked pension plans.
11. The bill encourages computerization operation and updating technology.
12. For GICs, the government should take over the holding of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.
13. The bill empowers a 10 member statutory body of IRA to be set up and vested with the sole power.
14. The IRA responses to determine the time, manner and other conditions of investments of assets to be held by an insurer.
15. The bill also empowers the IRA to review, modify, withdraw, suspend or cancel the license given to private companies.
16. The bill also proposes that the government can issue direction to IRA and supersedes the authority.
17. The bill stipulates that the "Appointed Actuary" has to be a Fellow of the Actuarial Society of India. Given that, there has been a dearth of actuaries in India with the qualification of a Fellow of the Actuarial Society of India, this becomes a requirement of tall order. As a result, some companies have not been able to attract a qualified Appointed Actuary. The IRDA is also in the process of replacing the Actuarial Society of India by a newly formed institution to be called the Charted Institute of Indian Actuaries (modeled after the institution of Actuaries of London).Appointed Actuary has to be an internal company employee, but he /she may be an external consultant if the company happens to be a non-life insurance company.
18. The Appointed Actuary is responsible for reporting to the IRDA a detailed account of the company.
19. Insurance Agents should have at least a high school diploma with training of 100 hours from a recognized institution.
20. The IRDA has set up strict guidelines on asset and liability management of the insurance companies along with solvency margin requirements.
21. Finally, the bill forces all insurers to provide coverage for the rural sector, in respect of a life insurer, a) Five per cent in the first financial year; b) seven per cent in the second year; c) ten per cent in the third year; d) twelve per cent in the fourth year; e) fifteen per cent in the fifth year (of total policies written direct in that year) and, similarly, in respect of a general insurer, a) two per cent in the first financial year; b) three per cent in the second financial year; c) five percent thereafter (of total gross premium income written direct in that year).

3.NEW ENTRY OF PRIVATE JOINT VENTURE COMPANIES

Immediately after the passage of the Act, a number of companies announced that they sought foreign partnership. In mid 2000, many companies made public statements that they were already in the process of setting up insurance business with foreign partnership. Not all the partnerships, however, panned out in the end. Hence, the following companies are entitled to do insurance business in India. They are presented in table 2.

TABLE 2
PRIVATE JOINT VENTURE INSURANCE COMPANIES

S.no	Company	Origin		Paid up Capital (Rs.Crore)
		Indian	*Foreign*	
1	ICICI Prudential	ICICI	Prudential (UK)	625
2	Max New York Life	Max	New York life (New York)	305
3	HDFC Standard Life	HDFC	Standard life (UK)	255
4	Allianz Bajaj	Bajaj	Allianz Holding (Germany)	250
5	Birla Sun Life	C K Birla Group	Zurich insurance (Switzerland)	290
6	Tata AIG Life	Tata	American Int.Group (USA)	231
7	OM Kotak Mahindra	Kotak Mahindra	Chubb (USA)	203
8	AVIVA life	Dabur	Allstate (USA)	240
9	ING Vysya Life	Vysya Bank	ING (Netherlands)	200
10	SBI Life	SBI Bank	Cardiff SA(BNP Paribas bank)	175
11	AMP Sanmar	Sanmar Group	Gio (Australia)	160
12	MetLife	MA Chidambaram	Met Life [USA]	120

Source: The Economic Times, 21 March 2004, supplement p.no.3

Table 2 shows that the promoters of private insurance companies have demonstrated their long-term commitment to the Indian market in the best way possible. The total investment in private insurance companies is now over Rs.3,000 crore. Leading the list is ICICI Prudential Life Insurance, the largest private life insurer which had a paid up capital of Rs.625 crore, making it among the handful of private companies in India with a paid-up capital of over Rs.500 crore. Max New York life insurance plans to hike its capital base from Rs.305 crore to Rs.405 crore. This will be expanded to Rs.600 crore by the year 2008. Earlier this month, HDFC Standard Life Insurance has put up their capital Rs.255 crore. Aviva Life, one of the more recent entrants, has increased its paid up capital to Rs.240 crore.

Despite such large investments, none of the new private companies is anticipating breakeven. The promoters know that all the companies will continue to run on losses for the initial five to six years[3]. In this regard, company-wise number of policies and premium collected by insurance companies are presented in table 3.

Table 3 shows that the private insurance joint ventures have collected the premium of Rs.1019.09 crore with the investment of just Rs.3,000 crore in three years of liberalization. The private insurance players have significantly improving their market share when compared to 50 years Old Corporation (i.e.LIC). As per the figures compiled by IRDA, the Life Insurance Industry recorded a total premium underwritten of Rs. 10,707.96 crore for the period under review. Of this, private players contributed to Rs.1, 019.09 crore, accounting for 10 percent. Life Insurance Corporation of India (LIC), the public sector giant, continued to lead with a premium collection of Rs.9,688.87 crore, translating into a market share of 90 per cent. In terms of number of policies and schemes sold, private sector accounted for only 3.77per cent as compared to 96.23 per cent share of LIC[4]. The market share within the private players has been presented through chart 1.

TABLE 3

DEVELOPMENT OF LIFE INSURANCE BUSINESS IN INDIA UP TO MARCH 2003

COMPANIES	NO.OF POLICIES	PREMIUM (Rs.Crore)
L I C	24529946	9688.87
ICICI Prudential	246827	364.9
Birla Sun Life	145000	170
Max New Yark Life	143000	76.8
HDFC Standard Life	142857	132.7
SBI Life	18000	72.8
Tata AIG Life	91500	59.8
Allianz Bajaj	69656	53.8
OM Kotak Mahindra	36836	34
ING Vysya Life	25000	17
AVIVA life	20000	25
AMP Sanmar	16000	8.25
MetLife	8686	4.04
TOTAL	25493308	10707.96

Source: ICICI Prudential Life Insurance, dated 11-12-2003.

Chart 1 shows that the ICICI Prudential topped among the private players in terms of premium collection. It recorded a premium of Rs. 364.9 crore and a market share of 25 per cent, followed by Birla SunLife with a premium under- written Rs.170 crore and a market share of 15 percent, HDFC Standard with 132.7 crore and Max New York Life with Rs.76.8 crore with a market share of approximately 15 per cent each. Unlike their counterpart in the life insurance business, private non-life insurance companies have not yet started addressing the retail market. All is set to change in the coming years. Like in the banking sector, non-life insurance companies will soon have no choice but to focus on individual buyers. More details of non-life insurance companies and their premium collected have been presented in Table 4.

In case of private non-life insurance players, table 4 shows that their market share rose to 14.13 per cent, recording a growth of 70.75 per cent on an annual basis, while the market share of public sector stood at 85.87 per cent, registering a marginal growth of 6.34 per cent. The overall market has recorded a growth of 12.32 per cent by the end of January 2004. Among the private non-life insurance players, ICICI Lombard topped the list with a premium collection of Rs.403.62 crore in one year period with a market share of 3.05 per cent and with an annual 131.6 per cent, followed by Bajaj Allianz with a premium of Rs.385.02 crore and 2.91 per cent market share and Tata AIG with 300.49 crore premium and 2.27 per cent market share with an annual growth rate of 62.60 per cent.

Among the public sector players, New India garnered a market share of 24.38 per cent, Rs.3,229.49 crore premium and an annual growth rate of 0.38 per cent, followed by National with a market share of 21.43 per cent, Rs.2,839.11 crore premium and an annual growth rate of 19.88 per cent, United India with a market share of 19.47 per cent (Rs.2,578.83 crore premium) and Oriental with a market share of 18.25 per cent, Rs.2,417.17 crore premium and an annual growth rate of 1.86 per cent. It is significant to note that HDFC Chubb and Cholamondalam have registered annual growth rates of 4030.26 per cent and 1101.20 per cent respectively, whereas New India has registered it as 0.38 per cent. If this trend continues, private insurer would dominate the public sector like New India Insurance Corporation[5].

4.GLOBAL SCENARIO

Based on World Insurance Report 2003 (www.bimaonline.com), the global life insurance market stands at $1,521.2 billion while the non-life insurance market is placed at $922.4 billion. The United States itself accounts for about one-third of the $2443.6 billion global insurance market and Japan stands next with a 20.62% share. And, India takes the 23rd position with US $9.933 billion annual premium collections and a meager 0.41% share. Out of one billion people in India, only 35 million people are covered by insurance.

India's life insurance premium as a percentage of GDP is just 1.77 per cent. Indian insurance market is set to touch $25 billion by 2010, on the assumption of a 7 per cent real annual growth in GDP.

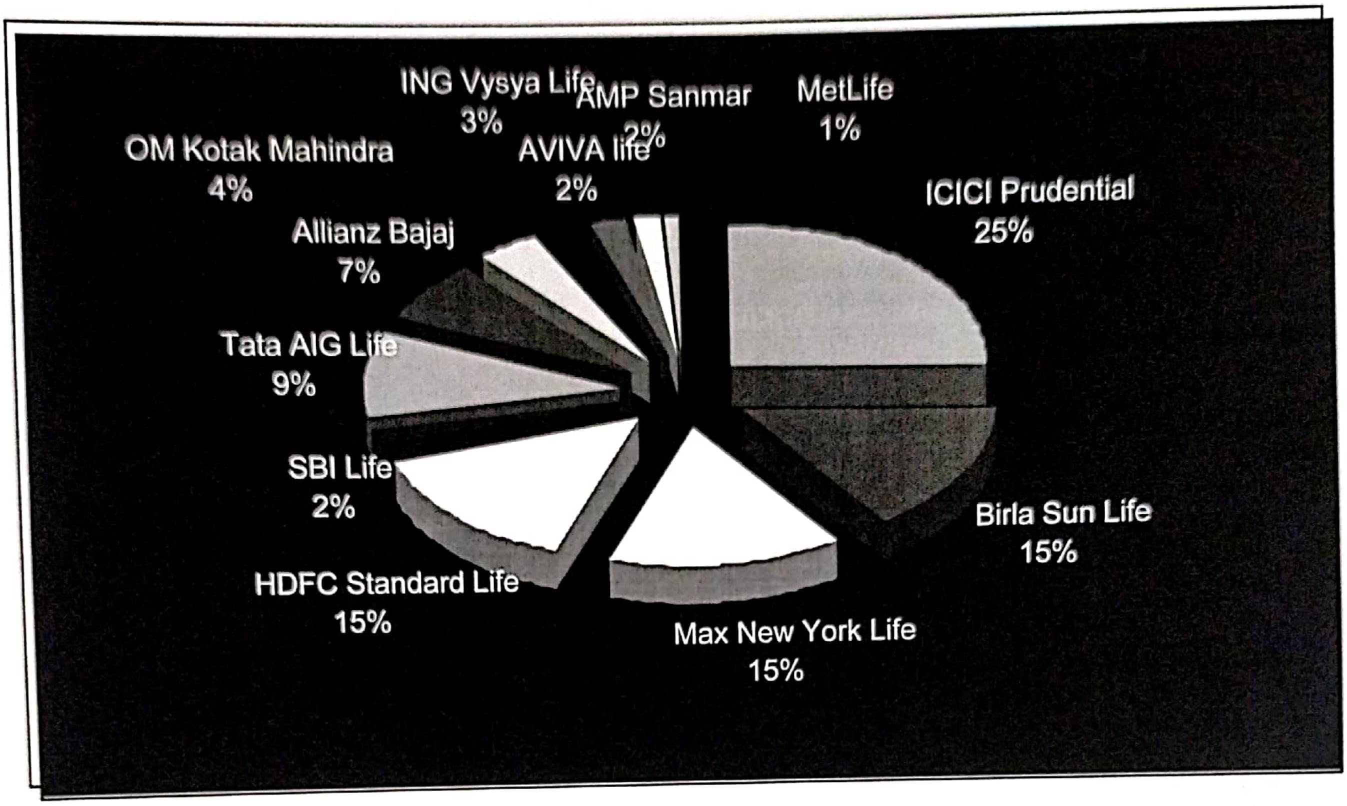

TABLE 4
DEVELOPMENT OF NON- LIFE INSURANCE BUSINESS IN INDIA

S.no	Insurer	Premium April 03 to Jan 04 (Rs.Crore)	Market share Upto Jan 04	Growth over Corresponding Period of previous year
1	Royal Sundaram	211.33	1.60	39.27
2	Tata-AIG	300.49	2.27	62.60
3	Reliance General	145.21	1.10	-12.82
4	IFFCO-Tokio	265.32	2.00	53.08
5	ICICI-Lombard	403.62	3.05	131.60
6	Bajaj Allianz	385.02	2.91	63.85
7	HDFC CHUBB	83.93	0.63	4030.26
8	Cholamondalam	76.45	0.58	1101.20
9	New India	3229.49	24.38	0.38
10	National	2839.11	21.43	19.88
11	United India	2578.83	19.47	3.41
12	Oriental	2417.17	18.25	1.86
13	ECGC	309.74	2.34	26.97
14	PRIVATE TOTAL	1871.40	14.13	70.75
15	PUBLIC TOTAL	11374.34	85.87	6.34
16	GRAND TOTAL	13245.75	100.00	12.32

Source: The Economic times, 21 March 2004, supplement P.no.2

5. LESSONS FROM CHINA

China is the most populous country in the world (at 1.2 billions); India is a second (just over a billion). Both have followed the path of deregulation and privatization – china started it in 1979 and India in 1991. Comparisons of this process are described in Sinha and Sinha (1997). In this section, I will concentrate only on the insurance industry in two countries. 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. However, premium per capita is not all that dissimilar: $13.7 per person in China and $8.5 in India in 1999. As a per cent of GDP, insurance is 1.93 % in India and 1.63% in China (All data from sigma 2000).

There are many differences in the way China and India have handled deregulation. First, in China, the China Insurance Regulatory Commission (CIRC) was set up in November, 1998, well after the first Insurance Law promulgated in 1995. In India, the IRDA was launched first with the authority to issue licenses. It took almost a year before it issued licenses for the first set of private insurance companies. Second, 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. Third, foreign insurer can only own 25 % of the total value of the market. In India, the limit is set at 26 % besides allowing 14 % from NRIs. Fourth, in India, the licenses are national. A company with a license can operate from any part of the country. In China, on the other hand, foreign companies are restricted to operation in two metropolitan areas: namely Shanghai and Guangzhou. Fifth, the IRDA is a *law-implementing* body. It can only interpret the laws that have been passed by the Indian parliament. Similarly, it seems that the CIRS has also been a *law- making* body; it is setting up rules as it sees fit[6].

6.INDIA'S INSURANCE: PROSPECTS:

A number of trends are already emerging to gaze into the future of the insurance industry in India.

6.1 Convergence

N.Rangachari, the former Chairman of IRDA, said that India is not yet ready for the convergence of all financial sectors under one supervisory authority as suggested by the banking division of the finance ministry. The Reserve Bank of India (RBI) has erected a firewall between banks and insurance companies to protect investors' interests. With the insurance sector transforming from total regulation to being opened up after 35 years, fears have been expressed on how it would move. However, the convergence is already happening on the ground in a "curious way" as 10 out of 12 insurance proposals received for license by the IRDA have come in from companies who are in the pure or applied finance sector[7]. It may appear curious, but clearly the companies who want to enter the insurance sector see some kind of a synergy between their existing business and insurance.

6.2 Life insurance

The traditional life insurance business for the LIC has been a little more than a saving policy. Term life (where the insurance company pays a predetermined amount if the policy holder dies within a given time but it pays nothing if the policy holder does not die) has accounted for less than 2% of the insurance premium of the LIC (Mitra and Nayak, 2001). For the new life insurance companies, term life policies would be the main line of business. According to IRDA reports, Rs.$5 billion market of life insurance in India (figure for 2003) will become a $ 23 billion market by 2008 . The estimates envisage that the LIC will have some 70-80 % of the market, whereas the new companies will share some 20-30%. The bright prognostics for the LIC come from several key observations: (1) the LIC has a vast distribution network in the rural and semi- urban areas. This would be hard to duplicate; (2) the LIC has had a real annual growth rate of 8% over the last decade. This is much larger than industrial growth.

The general insurance business is expected to grow from $1.8 billion (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 new corners 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 insurance it is not expensive to switch insures, however the lack of good data would hamper the new comers.

6.3 Motor Insurance

In the early days, chasing corporate was the easiest way to build premium volumes for insurance companies. But, if it were not for the high growth motor insurance business, the non-life insurance industry may have actually shrunk during the current financial year as competition pushed rates to the bottom in other Lines of business. Despite all the cribbing by state–owned insurers about how third - party claims are killing them; motor insurance continues to be their saviour. The share of motor insurance in the portfolio of non – life insurers is close to 40 per cent. Last fiscal ('02 - '03), the total motor insurance premium earned by insurance companies was around Rs.5, 000 crore. The bad news is that third - party liability insurance is a loss-making business. With over 3.5 lakh accidents annually resulting in over 85,000 fatalities, the accident to vehicle ratio in India is the highest in the world at 31.8 per cent. But the good news is that the comprehensive insurance business continues to be profitable.

6.4 The Health Factor

For the first time in decades, state—owned insurance companies are making the transition from an indemnity policy to a managed healthcare system, with third – party administrators providing the link between Insurance companies and hospitals . Unfortunately, for the policy holder, the transition is not a smooth one, with insurance companies , health care providers and TPAs accusing each another of being inefficient . The friction between the various players is hurting policy holders and slowing down growth of the business. However, things are changing for the better. Insurers are bringing out new products in health- care that will take care of the ` pre-existing diseases' clause– the major cause for friction between companies and their customers. Secondly, the Insurance Regulatory and Development Authority has cracked the whip and warned the third-party administrators that they need to get their act together. The huge potential for health insurance in India would mean that companies have no choice but to improve service, failing which they will run the risk of losing their business to new players. The size of the health insurance market in India even after including overseas mediclaim is just around Rs.1,200 crore , which is close to 10 percent of total premium. Even if two per cent of the country` s population bought mediclaim for an average some insured of Rs. 4,000 crore.This would make it the second largest business in the country after motor insurance. Realizing the potential, private insurers have already started offering mediclaim policies.

6.5 Householder insurance

After motor and health care, the highest potential for growth is in the householder segment. This general insurance product is likely to take off with IRDA considering a proposal to allow insurers to freely price fire and burglary insurance policies for householders. So for household, insurance has barely managed to scrape one percent share of the total non-life insurance premium in the country, although claims have been favorable. Insurers say if they are free to structure products, they can come out with first – loss covers, where claims can be settled up to a pre–determined level. This means they would not have to insist on the insured declaring the value of each and every house–hold item – a requirement that makes documentation cumbersome. Householder's cover, which is a package of policy, is available from all state–owned companies that offer a package of burglary and fire insurance risks. With the increase in housing loans, fire insurance of residential properties has risen. Individuals are also likely to be more inclined towards buying house holder insurance because of the propensity to buy on credit. Lenders and financiers always insist that burrowers should insure their assets to ensure that their interests are protected.

6.6 Bancassurance

Another reason why retail sales of general insurance have so far failed to take off is the lack of reach. Insurance branches were traditionally concentrated in downtown business districts. For agents, the low level of commission involved in retail business did not make it worth their while to reach out individuals. Now, this gap may be bridged by banks, which are almost as ubiquitous as the corner grocer store. With the boom in retail finance, banks are already selling life insurance covers in a big way. Most banks get their customers to buy a credit shield cover for credit card outstandings. Life insurance companies have already started utilizing banks as a key distribution channel, but bancassurance is still at a nascent stage as far as the non-life industry is concerned. Although several insurance companies have entered into tie-ups with banks for selling Insurance, they are yet to start selling fire insurance cover to their housing loan burrowers but they are largely under group Covers and there are no consultative sales yet.

6.7 Industry Restructuring

Overall, the state – owned companies are competing with private players on the price platform to retain corporate clients. The main reason why PSU non-life insurers have not responded well to private competition is because of the fact that they are in the midst of a restructuring exercise. As a first step, the companies have introduced a voluntary retirement scheme to trim close to 10 percent of their manpower. The VRS exercise is expected to be completed this month, following which their will be a review of business processes and computerization. Information technology is expected to speed up the documentation process and claims processing. It would also put insurance companies in a position to do volume business with their present infrastructure. Like in the case of sector banks , a resurgent state-owned non-life industry is expected to come up after the initial turmoil. The public sector companies, which still control over 85 percent of the business in the non-life sector, are in the midst of a restructuring exercise. The biggest strength that they have is their net worth , which gives them the capacity to under write large risks on their own books, unlike private insurers who have to depend almost entirely on re insurers when it comes to corporate risks.

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