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INSURANCE SECTOR REFORMS IN INDIA

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ABSTRACT

The insurance business grew at a faster pace in 1940's and 1950's more so after independence. The Indian companies strengthened their hold on this business. But, there were a number of insurers, who declared insolvency. Life Insurance Industry was nationalized in 1956 with the merger of 250 private Life Insurance Companies, and the Life Insurance Corporation (LIC) of India was formed. The non-life insurance business, however, continued to thrive in the private sector till 1972. For the first time liberalization measures in insurance sector to be undertaken by the Government were announced by the then Finance Minister, Government of India, Dr. ManMohan Singh in his Central Budget (1993-94) speech.

The word insurance instils a sense of security in the minds of people. Insurance is a part of financial system that takes care of the financial consequences of certain specific contingencies both in the case of individuals and corporate bodies. In insurance terminology, such contingencies are called risks and they cause losses when they take place. Insurance neither prevents risks nor alters the probability of its occurrence, but reduce the extent of financial loss by transferring risks from the individual to a group.

Insurance is a risk transfer mechanism by which an organization can exchange its uncertainty for certainty. The uncertainty experienced would include whether a loss will occur, when it will take place, how severe it will be and how many there might be in a specified time period. This uncertainty makes it very difficult to budget and so the organization seeks ways of controlling the financial effect of the risk. It is of immense value not only to industries but also to individuals.

Insurance is a service that is provided by insurance companies to mitigate the extent of financial loss that can happen in future risks. Insurance services occupy a significant place in Indian economy. The basic ingredients for best quality of service can be categorized as Responsiveness, Assurance, Reliability, Empathy towards customers, personal care etc., and Tangibility.

Most of the services in reality are a combination of products and services having both tangible and intangible aspects. There are only a few, purely tangible or purely intangible services. The financial services in general and insurance services in particular are perfect example for pure intangible services. The financial services occupy a very important and sizeable part of intangible services. With ever increasing demand for quality service in financial sector the role of employees and professionals has seen radical changes.

Insurance in India – A retrospective:

Insurance in India has progressed through several evolutionary phases in more than one and half century old history. The origin of the Indian Insurance Industry can be traced way back to the pre-independence era, in fact to 1818, when it was conceived as a means to provide for the British widows. Interestingly in those days a higher premium was charged for Indian lives, as Indian lives were considered more risky for coverage as compared to British lives. The first Indian Life Company, Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge the same premium for both Indian and non-Indian lives. The Oriental Insurance Company was established in 1880. The first general insurance company in India – Tital Insurance Company Limited was established in 1850. Till the end of the nineteenth century, insurance business was almost entirely in the hands of overseas companies.

Insurance regulation in India came much later. The origin of Insurance regulation can be traced to the Life Insurance Company Act of 1912. Several frauds during 1920's and 1930's sullied the reputations of Insurance business in India. The country felt the need of a comprehensive legislation on insurance. This was introduced through the Insurance Act of 1938, which provided strict state control and supervision over the operations of insurance companies. At that point of time, there were 176 insurance companies in India.

The insurance business grew at a faster pace in 1940's and 1950's more so after independence. The Indian companies strengthened their hold on this business. But, there were a number of insurers, who declared insolvency. Life Insurance Industry was nationalized in 1956 with the merger of 250 private Life Insurance Companies, and the Life Insurance Corporation (LIC) of India was formed. The non-life insurance business, however, continued to thrive in the private sector till 1972. In that year non-life business was nationalized and the General Insurance Corporation (GIC) was formed by merging 106 private Insurance Companies. The GIC, in turn, had four subsidiary companies.

It was expected that the nationalized insurance companies would enhance the spread of insurance to the hitherto neglected areas of the country, besides improving security of assets and quality of service to customers and also aiding, in mobilizing saving for the economic growth of the country. It was also felt that the growth of insurance business would be faster and the consumers would have access of insurance coverage of world class standard. Although the nationalized insurers contributed to the development and spread of insurance, there continued to be a wide gap in terms of the market potential which the country offered.

Insurance Scenario after opening up

With the opening up of the insurance sector, new private companies started registering in both life and Non-life sectors. There are 13 new private life insurance companies that have been registered. Similarly, eight, new private Non-life insurers are working in India along with the erstwhile four subsidiaries of GIC. The Life Insurance Corporation of India continues to operate as an insurer registered with IRDA. Similarly, the four non-life insurance companies who were subsidiaries of the GIC have become the national re-insurer and is registered with IRDA as a re-insurance company. In addition to this, an Agriculture Insurance Corporation of India has been registered an insurance company to function in a dedicated manner in the agricultural sector. The Export Credit and Guarantee Corporation, which has been in existence for a long time, has now been registered as an insurer under the IRDA ACT. Opening up of insurance sector has contributed to a rapid growth in the area of insurance.

Economic Liberalization

Economic liberalization refers to all those efforts being taken to bring an end to defective economic policies and plans which creates hurdles in the faster economic development of countries. It is the effort by which self-imposed controls and procedures are eliminated so as to give effect to faster development and efficiency in production.

For the first time liberalization measures in insurance sector to be undertaken by the Government were announced by the then Finance Minister, Government of India, Dr. ManMohan Singh in his Central Budget (1993-94) speech.

Liberalization of Insurance Sector

The following measures were taken up in the liberalization of the insurance sector:

1) Suitable amendment in the regulatory provisions / Acts regulating the insurance business.
2) Removal of hurdles coming in the way development of insurance through effective rules and regulations.
3) Privatization of insurance sector.
4) Steps to create healthy competition between private and public sector insurance companies.
5) Regulation and control of foreign capital so as to ensure regular inflow of capital in this area.
6) Make grounds for collaborative agreements between countries/ insurance companies for establishing new enterprises in India.
7) Extension of the postal insurance schemes in villages and to the poor.

8) Setting up of an insurance (Regulation and Development) Authority to regulate the insurance business.
9) Setting up of efficient mechanism for providing efficient and effective services to policy-holders and finding immediate solutions to their problems.
10) Fixation of suitable criteria for fixing premium and assessment of risks.

Reasons for Liberalization

After nationalization of life insurance and general insurance business the public sector under takings strived better and established their identity. The performances of the Life Insurance Corporations of India and General Insurance Corporation of India were in accordance with the expectations, goals and objectives of the nationalization. These organizations have contributed huge sums of long term funds as low rate of interest for the development activities of other nation. The business multiplied and penetrated to all the corners of the society and covered different classes of risks instilling confidence in the people for investing funds in the business.

It also brought some of the negative aspects into the business. But, the real problems came to light along with the expansion of business, increase in the number of products and staff, attitude of staff, unionism and collective bargaining these have brought in dictating terms improper deployment of funds and many other issues. Because of these problems, the insurance business lost its pace.

The changes in the global scenario, new concepts of international economy and few other factors influenced the insurance business and the Government was forced to think of are reorientation.

Malhotra Committee on Insurance Sector

A Committee was appointed in April, 1993 under the Chairmanship of R.N. Malhotra, former Governor of RBI. In the context of the several initiatives aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy. The terms of reference of the Committee included examination of the present structure of the insurance Industry and to make recommendations keeping in view the structural changes currently underway in other parts of the financial system and in the economy. The Committee was also required to make specific suggestions regarding LIC and GIC which would help to improve their functioning in the changing environment. Recommendations for strengthening and modernising of the insurance regulatory system, and matter relevant for the health and long term development of the insurance sector were also sought from the Committee. The Committee submitted its reports to the then Union Finance Minister, on 7th Jan, 1994.

In its Report, the committee recommended far reaching changes which include the following:

The private sector should be allowed to enter insurance industry. The number of new entrants should be controlled and the minimum paid up capital for a new entrant should be Rs. 100 crore. The promoter’s holding in a private insurance company should not exceed 40% and should, at no time, be less than 26% of the total paid up capital. No person other than the promoter should be allowed to hold more than one percent of the equity. If and when entry of foreign insurance companies is permitted, they should be required to float insurance companies and should preferably enter the market by way of joint ventures with Indian partners. There should be an enabling provision for state level cooperatives to set up co-operative societies not more than one in a state for transacting life insurance business. Such insurers should be subject to regulation by the insurance regulatory authority in the usual manner through an appropriately lower capital requirement may be laid down for them.

There is urgent need to activate insurance regulatory apparatus even in the present set up of nationalized insurance sector. For this purpose and as an interim measure, the office of the controller of insurance should be restored its, full function under the insurance Act and it should be set up as a separate office as a matter of high priority. Steps should be initiated for the establishment of a strong and effective insurance regulatory authority in the form of statutory autonomous board on the lines of SEBI. The insurance regulatory authority should have are independent source of financing its establishment and activities. For this purpose, it should be permitted to levy a charge of say 0.50% of the yearly Indian premium income of the insurance industry. Nationalized insurance companies are in a position to face competition. It is essential that they quickly upgrade their technology, reorganize themselves on more efficient lines and are enabled to operate as truly board-run enterprises.

GIC should cease to be the holding company of the four subsidiary companies viz, New India Assurance Company, United India Insurance Company, National Insurance Company and Oriental Insurance Company. There should there after function as independent companies on their own. GIC would function exclusively as a reinsurance company and at the Indian reinsurance under the insurance Act. GIC’s capital should be raised to Rs. 200 crore, 50% of which should be held by the Government and the remaining by the public at large reserving a suitable portion for GIC employees. To fully delink the subsidiary companies from GIC, Government should acquire the latter’s total holding in each of them. The capital of each company should be raised to Rs. 100 crore, with Government holding 50% there of and the remainder being held by the public at large. A suitable proportion should be reserved for employees of the respective companies. Marketing of insurance to the relatively weaker sections of society including working women who earn income of their own, has to be talked more effectively, for this purpose, covers should be imaginatively designed and vigorously marketed.

It would be inadvisable to abolish the tariff regime in general insurance at is stage. But the personal lines of cover should be taken off and tariff regime at the earliest. The area under tariff should be progressively reduced to promote competitions and improve underwriting skills in general insurance market agreements should be discontinued. Tariff Advisory Committee (TAC) should be delinked from GIC and should function as a separate statutory body under such supervision of the insurance regulatory authority as may be necessary with out becoming a part there of TAC needs immediate restructuring. It should be chaired by the Head of the insurance regulatory authority or by another officer of the authority its membership should be broad based and besides representatives of the insurance industry, it should have professionals such as economist, accountants, actuaries, and engineers. TAC should be interact more purposefully and regularly with insurance users. It should undergo a meaning full computerization to collect, collate, and analyze the vast data requirements and to provide the necessary decision support system.

Insurance Regulatory and Development Authority

Introduction of IRDA Act

The Insurance Regulatory and Development Authority Act, 1999 is the product of the fresh Bill submitted to the Parliament in December 1999. The Insurance Regulatory bill, 1998 was not passed by the Parliament because of its dissolution. The said Bill was submitted to Standing Committee of the Parliament which discussed the Bill in full length. The other insurance institutions, insurers and parties interested in insurance have by far participated in the deliberations and discussions of the provisions of the Regulatory Authority. The Standing Committee provided some changes, suggestions and other interested parties have suggested some amendments to the then regulatory system. By incorporating the changes and suggestions received, a fresh Bill was submitted to the Parliament, which passed the Bill and the IRDA Act came into existence.

The Insurance Regulatory and Development Authority (IRDA) Act, 1999

The Act has amended the existing Insurance Act 1938, Life Insurance Act, 1956, and General Insurance Business Act, 1972. The schedules contain the amendments made to the Insurance Act, 1938 and Life Insurance Act, 1956 and General Insurance Business Act, 1972. It is a tool to check the accounting and reporting system of insurers. The Act has made it mandatory to present systematic formats for submitting the accounts. The Act has permitted the Authority or the representatives of the Authority to inspect the insurer's offices or sites or discuss with the staff or the groups of the insured to assess the requirements of the insurance business. The Authority is authorized to recommend new laws required to meet the needs of the insurance business. It has the power to make regulations in the field of the licensing of insurers, agents, intermediaries, capital, investments and securities, etc.

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