
Privatization and Growth of Non-Life Insurance Sector in India

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ABSTRACT:

The insurance companies are financial intermediaries as these collect and invest large amount of premiums. They offers great protection to their investors, provides means for accumulating saving channelize these funds to government and other sectors. The General Insurance industry has both social and economic purpose and relevance. It provides security to society and promotes individual welfare and reduces the risk and helps to raise productivity in the economy. While the cash inflows of insurance companies are constant, their payout is deferred and contingency related. But general insurance suffers from under write cycles i.e. wide swings in premiums, profitability and fund availability etc.

KEYWORDS: Non-Life Insurance, De-Tariffed, IRDA

INRTODUCTION:

The Non-life insurance is typically defined as any insurance which is not life insurance. It is also called property, liability and casualty insurance in the U.S. and non-life insurance in the Europe continent. Fire and marine insurance are strictly called property insurance. Motor, theft and machine insurance are called liability insurance and the strict form of liability insurance is called fidelity. Where

by the insurer compensate the loss to the insured when insured is under the liability of third party. The Non-life insurance or General insurance includes property insurance, automobiles insurance, homeowner insurance and other forms of insurance. The insurer provides payments depending on the loss from a particular financial event.

The insurance sector in India has come to full circle over the century from private sector to nationalized industry and then back to open competitive market. In India the insurance business has witnessed many laws, regulation and reforms from time to time. The IRDA Act, 1999, amended section 57 of General Insurance Nationalization Act, 1972, as a result of which the exclusive privilege of carrying on non -life Insurance business in India by the GICI and its subsidiary was ceased, the IRDA was formed to regulate and control the Insurance sector in India.

The privatization of the Insurance Industry in the year 2000 led to establishment of GICI as the Re-insurer and the four public sector non-life insurers were directed to operate as Individual entity. The year 2007 set a mile stone in the history of Indian Insurance as the premium rating regime in India which was prevalent since the last five decades was de-tariffed. The de-

tariffed regime in India is still in infant stage. There has been a significant effect on the market behavior of the insurers under the de-tariffed scenario. At present 33 non-life insurance companies operating in India, of which 6 are under public sector, the four subsidiaries of GICI now performing as individual entity, The Export Guarantee Corporation Ltd. (ECGC), And Agriculture Insurance Company Ltd.

HISTORY:

The history of general insurance dates back to the industrial revolution uprising in the west and high growth of sea trade and business in 17th century. The non-life insurance came to India as a legacy of British occupation. The general insurance service has been available since 1850 when the first Triton insurance company was established in Calcutta. In 1907 “The Indian Mercantile Insurance Ltd.” was establish and it was the first company to

transact all classes of general insurance business. In 1938 British government introduce the Insurance Act 1938 to control the insurance sector. In 1968 the insurance act was amended to regulate investment and minimum solvency margin. With the passing of General Insurance Business Act 1972 general insurance business was nationalized and 107 insurers were amalgamated and grouped into GIC and four subsidiaries companies.

As per Malhotra committee report the Insurance Regulatory and Development Authority (IRDA) act in 1999 was passed by the Indian parliament. The IRDA become the statutory body in April 2000 and has been framing regulations and registering the private sector insurance companies. The insurance sector was opened up for the private sector in August 2000. The history of the existence and working of insurance sector in India can be divided in three phases.

Phase I	1850 to 1972: (About 122 yrs.)	Many (107) private sector companies only. Competitive market.
Phase II	1972 to 2000 (About 28 yrs.)	Nationalization, public sector monopoly; One company with its 4 subsidiaries.
Phase III	2000 to till now	Opened for the entry of private domestic and foreign companies; mixed sector of public and private sector units; oligopoly of public sector unites.

REVIEW OF LITRETURE:

M. Rajiv and Dr. S. M. Abdul Kader (2016) stated that the opening of the

insurance market to private players and a conversion of a monopolistic market to a liberalized had transformed the insurance industry in India. The general insurance industry in India is now facing tremendous competition when many of the private sector companies have entered in the insurance business. The overall performance of public sector companies deteriorated while private sector gradually dominates the sector. Due to privatization of general insurance sector the degree of competition had increased as a result the service standard of different insurance companies improved beyond imagination. They introduce new market strategies, product innovation etc.

Husain Ashraf S and Nitika Kumari (2016) explained that over the last decade Indian insurance industry has experienced exceptional changes and confronted more difficulties. As an aftermath of deregulation and globalization foreign companies entered in an Indian market. The competitive pressures force many insurance companies to change corporate strategies in order to reduce operating cost, while keeping up or improving the quality of their services. Insurance earn their profits underwriting premium from various policies and investing in various securities as prescribed by the regulation body.

Maraboina Sreedhar Babu(2015) studied that Indian insurance sector has got wide growth of development because huge amount of population. With the population of more than 100 crore, India requires insurance more than any other country. However insurance penetration in country

is only around 3% of our gross domestic product.

N.H. Leepsa and Sabat Kumar Diga (2015) studied that the financial service industry has made significant change after liberalization and globalization. The private and public player in insurance industry in India as insurance companies is mushrooming after liberalization. Further increase in foreign direct investment from 26% to 49% shows that insurance business will grow in India but facing tough competition from rest of the world and specially the Asian countries. It has challenged the hegemony of GIC and its subsidiaries in the non-life insurance sector. Private Player are doing their bit in terms of bargaining in professionalism, technology, range of products and operational efficiency yet it has not reached anywhere near the global standers

OBJECTIVES:

The objectives of the study are:

- To understand the concept of non-life insurance.
- To study the face of nationalization and privatization of non-life insurance business.
- To identify the growth and future expectation of non-life insurance business.

RESEARCH METHODOLOGY:

Research methodology of this paper is descriptive. The data and information is collected from secondary sources like

books, journals, research articles and IRDA reports. The sample size includes all the public and private sector players in the General Insurance industry, the study covers the period of 5 years 2012-13 to 2016-17. Some statistical tools are applied using MS Excel such as average, standard deviation, co-variance and Growth rate.

TYPES OF NON-LIFE INSURANCE:

- Fire
- Marine
- Motor
- Health

Fire Insurance:

Fire insurance is a device to compensate for the loss due to damage or destruction by fire during the given specified period. Thus the fire insurance shifts the burden of fire

losses from their actual victims over to all the member of the society. It is a cooperative device to share the loss. It relieves the insured from the horror of the fire losses to which he is exposed.

Section 2 of the Insurance Act 1938 defines fire insurance as “the business of effecting, otherwise than incidentally to some other class of insurance business, contract of insurance against loss by incidental to fire or other occurrence customarily included among the risk insured against in

fire insurance policies”. The occurrence of fire will result not only in loss of or damage to material property but also other consequential losses such as loss of production causing loss of profit. Some of the insurable properties under fire insurance are building, electrical installation, content of building such as machine plant and equipment, accessories goods, material etc.

Marine insurance:

Marine insurance has been defined as a contract between insurers and insured where by insurer undertake to indemnify the insured in a prescribed manner and to the interest there by agreed, against marine losses incident to marine adventure.

Section 2(13) A of the Insurance Act 1938 defines marine insurance as follows:

“marine insurance business” means the business of effecting contract of insurance upon vessels of any description, including cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land or water or both, or whether or not including warehouse risks, or similar risks, or as incidental to such transit and includes any other risks customarily included among the risk insured against in marine insurance policies.

Types of marine insurance:

- ❖ Hull Insurance
- ❖ Cargo insurance
- ❖ Freight Insurance
- ❖ Liability Insurance

Motor Insurance:

Motor insurance covers the loss of automobiles against damage, theft, accident and other unforeseen danger. Motor insurance got recently a great momentum. In the older times, person, who were injured killed the through negligence of the motorist, could

not get financial redress either to them or their legal hires because no scheme of insurance present at that time. To mitigate the financial hardship caused to the persons, The Motor Vehicles Act 1939, as amended time to time, has made compulsory for the motorist to insure against the risk of liability of third party. Some of insurable properties under motor insurance are private cars, commercial vehicles, motor cycles, scooters and auto cycles etc.

The policies under motor insurance are as follows:

- ❖ Act Liability only.
- ❖ Third party only.
- ❖ Comprehensive policy.

Health Insurance:

Health insurance covers against medical expenses, personal

accident, injuries, critical illness etc. Health insurance covers offered by non-life insurers are mainly hospitalization covers either on reimbursement or cash less basis. Health insurance has been realized as an instrument of the health of the economy. If the people of the country are healthy, they can contribute significantly in the economic development of the country. The health insurance industry would provide protection to social development. The insurance industry should come forward to provide health to the masses like life insurance and property insurance. There is a need of well-designed health insurance product that may protect family savings in case of unexpected medical charges.

PRIATIZATION OF NON-LIFE INSURANCE:

The govt. of India liberalized the insurance sector in March 2000, which lifted the entry restriction for private insurance player. The entry of private players help in spreading and Deeping the operation in the Indian Insurance sector in which turn result in restructuring and revitalizing of public sector companies, Allowing foreign players to enter into Indian market and start their operation in India. Each foreign company needs to have a 26% equity capital to enter into the Indian insurance market. Many foreign

companies have joined their hands with the Indian companies and start their operation in early 2001. Now the bill has passed 2014 to increase the FDI to 49%.

After privatization of this industry in India in the year 2000, the next important step taken in the general insurance industry was the removal of tariffs on non-life insurance products with effect from January 1, 2007. The introduction of the free price regime

has provided an impetus to the non-life sector. Before the introduction of de-tariffication almost 70% of the business of the non-life sector was driven by various tariffs prescribed by Tariff Advisory Committee (TAC). The TAC was established under the Insurance Act 1938, to control and regulate the rate, terms, condition, of general insurance business. TAC has been playing a significant role to specify the tariffs for the product offered by the various insurers in India. Withdrawal of the administered price mechanism from January 1, 2007 has led insurers to design new and innovative suitable products to sustain in the competitive market. The public sector insurance companies enjoyed the monopoly status as a result they lacked flexibility and were not much concerned with profitability. This resulted in erosion of under write skills and income of public sector insurance companies.

Currently 24 life insurance and 33 non-life insurance companies are operating in private sector, however overall private insurance companies have 3 times more products than the public sector insurance companies.

Out of 33 non-life insurance companies, 5 private sector insurers are registered to underwrite policies exclusively in Health, Personal Accident and Travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for Crop Insurance. Insurance penetration of India i.e. Premium collected by Indian insurers is 3.96 % of GDP in FY 2013-14. Per capita premium underwritten i.e. insurance density in India during FY 2013-14 is US\$ 53.2. Insurance penetration reached 3.4% in FY 16 and is expected to cross 4% in FY 17. In union budget 2017, government increased the coverage from 30 per cent to 40 per cent under Pradhan Mantri Fasal Bima Yojna.

NON-LIFE INSURANCE BUSINESS PERFORMANCE OF PUBLIC SECTOR:

Items/Year	2012-13	2013-14	2014-15	2015-16	2016-17	Avg.	Std.	C.V	G.R
Premium Underwritten (Rs. in Crores)	30560.74	35022.12	42549.48	47691	60218.36	4328.34	10361.9	23.98	19%
New Policies Issued (in Lakhs)	528.41	689.68	677.82	671.32	852.62	683.97	102.83	15.03	14%
Number of Offices	5281	6190	8207	8331	8518	7322	1330.65	18.17	13%
Incurred Claim	89.22	79.56	31567.75	38104.27	49043.19	34318.9	8563.49	24.95	18%
Number of Grievances	12721	20164	15860	17808	19053	17121.2	2623.53	15.32	14%
Grievances Resolved During the Year	11110	19057	16105	17718	19060	16610	2957.13	17.8	18%
Grievance Resolved (in %)	87.33	94.51	101.54	99.49	100.04	96.58	5.19	5.38	4%

Note: Specialized and Standalone Health Insurers are not included.

Non-Life Insurance Business Performance of Private Sector:

Items/ Year	2012-13	2013-14	2014-15	2015-16	2016-17	Avg.	S.D.	C.V.	G.R
Premium Underwritten (in Crores)	22315.03	27950.69	35090.09	39694.08	53804.96	35770.97	10800.91	30.19	25%
New Policies Issued (in Lakhs)	329.3	380.56	504.97	549.44	624.45	477.74	108.52	22.71	18%
Number of Offices	1394	1466	2200*	2389*	1964	1882.6	393.98	20.93	12%
Current Claim	88.22	84.79	19430.46	21771.81	25771.04	19881.93	3762.65	18.92	15%
Number of Grievances	82790	60358	44828	41802	33051	52565.8	17497.32	33.28	- 20%
Grievances Resolved During the Year	82741	60230	43318	42493	33229	52402.2	17493.11	33.38	- 20%
Grievance Resolved (in %)	99.94	99.79	96.63	101.65	100.54	99.71	1.67	1.68	0

Note: Specialized and Standalone Health Insurers are not included.

*Including specialized insurance and ECGC.

ANALYSIS OF DATA

The results of the study for the premium underwritten, new policies issued etc. show that the average of public sector players are better in all aspects except grievances resolved. The results of the study revealed that the S.D and C.V. the public sector has been performing better in premium underwritten, new policies issued and no. of grievances but in other aspects no. of offices, no. of grievances resolved private sector is performing better than private sector. In Growth rate private

sector players are growing faster than public sector players.

GROWTH AND FUTURE EXPECTATION:

The coming years will assume a significant position in the history of Indian insurance industry. It denotes completion of two decade of open market ending of oligopoly and entry of private sector insurance companies; and a regime of a new development oriented regulatory authority- IRDA.

At present general insurance sector have 30+ players already and some more large international ones are expected to enter shortly. Companies today are coming up with new ideas and strategies to stand out and they are offering the existing and prospective customer.

Government policy to insure those people who are uninsured till now has gradually pushed insurance penetration in India. Government is giving many initiatives to increase the insurance market.

With the several changes in regulatory framework the future for non-life insurance is looking bright as it will lead to further changes in the way industry conducts its business and deals with its customers. And also after demonetization demand for insurance product may rise as people preference shift from formal investment products.

SOME INITIATIVES TO IMPROVE THE INSURANCE SECTOR

The union budget 2017-18 has made provision for paying huge subsidies in the premium of Pradhan Mantri Fasal Bima Yojna (PMFBY) at present number of beneficiaries are 20% which will increase to 50% in next two years. In 2017-18 budget as a part of PMFBY Rs. 9000 Crore has been allocated for crop insurance.

Government of India launches a pension scheme of Pradhan Mantri Vaya Vandana,

it will provide guaranteed 8% annual return to all senior citizens above 60 years of age for 10 years policy tenure.

The public listing of five governments owned insurance companies has approved by union cabinet and will reduce the government stake to 75% from 100%. It can bring higher transparency and accountability.

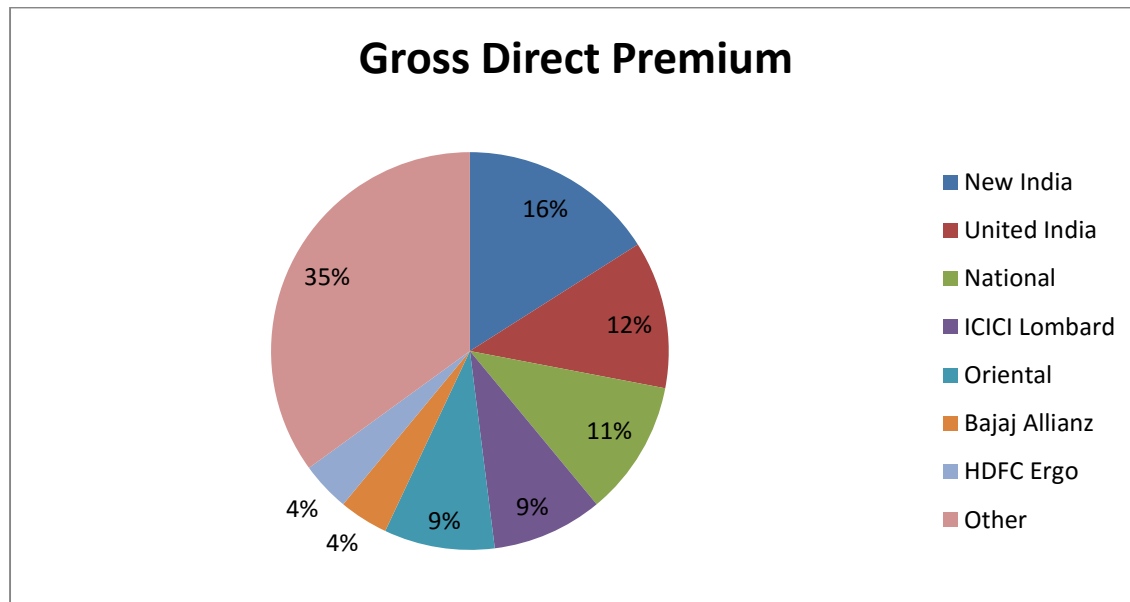
GENERAL INSURANCE INDUSTRY RECORD 32% GROWTH (2016-17)

General insurance industry is likely to grow by 32% in which private sector saw growth of 35.72% in last financial year 2016-17 due to aided demand for crop insurance and increase in motor sales.

The premium of financial year 2015-16 is 96376 crore which is increased to 1.27 lakh crore during the FY 2016-17. In last financial year private sector saw a growth of 35.72%, HDFC Ergo saw premium growth of 72.81% to Rs. 5840 crore. IFFCO Tokio saw 49% growth in income to Rs 5485 crore.

Increase demand for crop insurance and motor insurance helped the industry to report this growth; said Warendra Sinha MD and CEO IFFCO Tokio general insurance. Public sector insurance companies grew 29%, aided by growth in New India insurance, United India and oriental insurance. National insurance saw the lowest growth among state owned companies as the company was focused on improving its solvency margin.

Share of companies in general insurance sector



CONCLUSION:

The result shows that public sector companies are holding major part of the market. Whereas private sector players are growing faster and increasing competition for the public sector players in terms of professionalism, range of products, technology and operational efficiency. There will be a huge opportunities for the insurance players for the growth of their business as well as though competition from foreign insurance players as government increases the FDI from 26% to 49%. With several changes in framework the future for non-life insurance business is looking bright. The government of India gives many initiatives for the growth and development of non-life insurance sector.

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