“Impact of Privatization Policy and FDI on Life Insurance Corporation Vis-à-vis Insurance Regulatory Authority of India”

By

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ABSTRACT

Insurance business in India had taken step first in open competitive market then to nationalization. For almost four decades LIC has been the sole player with virtual monopoly in the Life Insurance Sector, it was in 1990,s government of India ventured into policy of liberalization and privatization and once again the insurance sector is back to privatize and liberalized market. Hence today most of the private players are giving competition to the public sector company, As private players entered in the market the market is booming in insurance sector with various products for attracting the attention of customer consequently by the year 2000-2001 , 12 players entered the life insurance sector .which will effect the performance of life insurance corporation .Thus the LIC had never faced any competition and at the same time had monopoly in the market, now has to compete with the private players,. It is therefore important to study the performance of Life Insurance Corporation after the entry of the private players and after adapting liberalize policy by the government therefore it becomes imperative to evaluate the performance of life insurance Corporation of India.

The entry of private players in the market after adapting privatization by the government had effected in the performance of the life insurance sector, which is the key sector in the financial system

Hence there is primary need to evaluate the performance of LIC and to study the need of privatization in Life Insurance Sector at the same time to study impact of private entrants in Insurance Sector, especially with regard to performance of life Insurance Corporation of India

The broader objective of this study is to evaluate the role of privatization on the performance of LIC. Following are the specific objectives of this study;

1. To evaluate the performance of LIC
2. To study the need of privatization in Life Insurance Sector
3. To study impact of private entrants in Insurance Sector, Specially with regard to performance of life Insurance Corporation of India

The suggestion and criticism for the improvement in the research are welcome.

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Mr.Sukhvinder Singh Dari

Place: Pune

IMPORTANT ABBREVIATIONS RELATING TO PRIVATIZATIONS AND INSURANCE INDUSTRY

CRM	Customer Relationship Management
EHTP	Electronic Hardware Technology Parks
EOU	Export Oriented Units
EPZ	Export Processing Zones
ESIC	Employers State Insurance Corporation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIC	General Insurance Corporation
HDFC	Housing Development Finance Corporation Limited.
ICICI	Industrial Credit and Investment Corporation of India
IRDA	Insurance Regulatory Authority of India
I T	Information Technology
JV	Joint Venture
LIC	Life insurance Corporation of India
NBFC, s	Non Banking Financial Institutions
NRI	Non Resident Indians
OCB	Overseas Corporate Bodies
PSU, S	Public Sector Units
RBI	Reserve Bank of India
ROC	Registrar of Company
SEZ	Special Economic Zones
SSI	Small Scale Sector
STP	Software Technology Parks
UPA	United Progressive Alliance
USA	United States of America
WAN	Wide Area Network

CHAPTER – ONE

INTRODUCTION

The word "***Fear***" has only four alphabets like love but both of them have very different meaning. Whatever man does for the love of their families always starts with the background of fear. Generally so many times we have been asking ourselves that, what will happen if we were not there, but we keep on asking rather than doing something for it. Time is precious, it never stops for any one and we are living in the world of uncertainty; the uncertainty of job, the uncertainty of money, the uncertainty of property and like this the story goes continuous for the whole life of a man.[1]

Man faces many risks in his life, to his life and property throughout his life, losses certainly occurs to him. The law of insurance saves him from losses. It predicts the losses in advance before they occur. An insurance system is a developed and well organized system of redistribution of the costs of losses by collecting premium payment from every participant in that system.

Insurance is the man's constant search for security and finding out ways and means of ameliorating the hardships arising out of calamities. Here the persons exposed to similar risk contribute some amount periodically and those who actually face the loss are indemnified out of these fund. Insurance, essentially, is an arrangement where the losses experienced by a few are extended over several who are exposed to similar risks.[2]

A thriving insurance sector is of vital importance to every modern economy.

- Firstly, because it encourages the habit of saving.
- Secondly, because it provides a safety net to rural and urban enterprises and productive individuals. And perhaps most importantly it generates long- term

[1] Bala Murugan "*Globalization and its impact on Insurance Industry in India*", Deep &Deep Publication Pvt Ltd, 2004, P.45.

[2] Bodla B.S, Garg M.C, Singh K.P, "*Insurance Fundamentals, Environment and Procedures*", Deep &Deep Publication Pvt Ltd, 2003, P.3.

invisible funds for infrastructure building. The nature of the insurance business is such that the cash inflow of insurance companies is constant while the payout is deferred and contingency related.

This characteristic feature of their business makes insurance companies the biggest investors in long-gestation infrastructure development projects in all developed and aspiring nations. This is the most compelling reason why private sector (and foreign) companies, which will spread the insurance habit in the societal and consumer interest are urgently required in this vital sector of the economy. Opening up of insurance to private sector including foreign participation has resulted into various opportunities and challenges in India.

LIFE INSURANCE

In England, even before the mortality table were available, mutual life assurance was prevalent in the 17th century commencing with short term insurance and all these mutual offices disappeared with the passing of the bubble Act 1720[3]. Hence the business of insurance is not new.

Life insurance in the modern form was first set up in India through a British company called oriental life insurance company in 1818 followed by the Bombay assurance company in 1823 and the madras equitable life insurance society in 1829. All of these companies operates in India but did not insure the lives of Indians. They were insuring the lives of Europeans living in India. Some of the companies that started later did provide insurance for Indians. But, they were treated as "substandard". Therefore, an Indians lives had to pay an ad hoc extra premium of 20% or more. The first company to sell policies to Indians with "fair value" was the "Bombay mutual life assurance society" started in1871.

The first general insurance company Teiton Insurance Company lid, 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 Bombay in 1907.

[3] Murthy KSN, Sarma KV, "*Modern Insurance Law*", Forth Edition, Lexis Nexis Butterworths, 2002, P.7.

Section 2(11), Insurance Act, 1938: Defines Life Insurance Business "***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) and the happening of any contingency dependent on human life and any contract which is subject to payment of premiums for a term dependent on human life and shall be deemed to include:

(a) The granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance;

(b) The granting of annuities upon human life; and

(c) The granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons."[4]

By 1938, the insurance market in India was bazzing with 176 companies (both life and non- life). However, the industry was plagued by fraud, hence; a comprehensive set of regulations was put in place to stem this problem. By 1956, there were 154 Indian insurance companies, 16 non Indian insurance companies and 75 provident societies that were issuing life insurance policies. Most of these policies were centered in the cities like Bombay, Calcutta, Delhi and Madras. In 1956, the then Finance Minister S.D Deshmukh announced nationalization of the Life Insurance Business.

The reasons for the nationalization of the insurance industry are rather well known and concerned mostly with the unethical practices adopted by some of the players against the interest of the customers. Nationalization had lent the industry solidity, growth and reach which is un – parallel. Moreover, along with these achievements there also grew a feeling of insensitivity to the needs of the market, traditions in adoption of modern practices to upgrade technical skills coupled with a sense of lethorrgy, which probably led to a feeling amongst the public that the insurance industry was not fully responsive to customer needs. If I want to justify the nationalization of life insurance business the need was

[4] Section 2(11), Insurance Act, 1938

- For security of policy holders,
- Use of life insurance funds for nations development,
- To avoid competition,
- To save dividend paid to shareholders of insurance companies,
- To avoid policies which are undesirable by the management of some insurance companies.
- To spread the insurance business into the neglected or the rural areas.

Hence the then government under the finance minister Shri S. D Deshmukh announced nationalization of life insurance business on the 19th January 1956. Even then the companies continued to exit as separate entities and the ownership continued to exit with respective shareholders. But after passing the bill in parliament by life insurance corporation Act 1956, all the assets and liabilities pertaining to the life assurance business in India of all registered Indian insurers, were to be transferred to and vested in Life Insurance Corporation of India (LIC). Finally in 1972, the general insurance business was also nationalized by setting up Government Corporation called the general insurance corporation with four subsidiaries companies for carrying on the general insurance business. It was after nationalization life insurance business in India enjoyed the dominant position in the economy.

- Firstly - on the social point of view,
- Secondly - as a major collective saving institution in India, it started helping for the development of the country.

At the same time the nationalized insurance companies were expected not to confine themselves to the present activities but would cover new field in due course. The new standard of behavior in their dealing with their customers the policy holders and developing a new insurance jurisprudence have been set up by the judiciary in India. Courts in India, time and again imposed on the two corporations as part of their duties to act in consonance with the principles laid down in the directive principle of the constitution.[5] It was also observed by the court that “the business activities of the Life Insurance Corporation (LIC) are not of purely commercial nature. Life Insurance Corporation (LIC) is a statutory corporation being an ‘authority ‘or an instrumentality of the state within Article 12 of the constitution, the contract of the life insurance entered into

[5] Asha Goel v/s LIC, AIR 1986, Bom 412.

by the life insurance corporation are for the welfare and benefit of the society as it is the primary goal of the Life Insurance Corporation (LIC) to promote the welfare of the people.[6] Hence a writ under Article 226 can lie against the LIC for enforcement of its liability though contractual.

In similar judgment of the court in which court has consistently emphasized that it is the duty of the party in possession of document which would be helpful in doing justice in the cause to produce it and such party should not be permitted to take shelter behind the obstruct doctrine of burden of proof. This duty is greater in the case of instrumentalities of the state. The obligation on the part of the state or the instrumentalities to act fairly can never be over emphasized.[7] In a series of cases the judgment reiterated their strong disapproval of state undertaking like the ESIC (Employees State Insurance Act), LIC, GIC etc raising technical pleas to defeat honest claims of victims of accidents by legally permissible but marginally unjust contention including narrow limitation.[8]

ERA OF PRIVATIZATION

The liberalization of the Indian insurance sector has been the subject of much heated debate for some years. The policy makers on one hand wanted competition, development and growth of insurance sector, which is extremely essential for channeling the investments in to the infrastructure sector. At the other end the policy makers had also the fear that the insurance premium, which are substantial, would seep out of the country; and thus in the nation's interest, they want to have a cautious approach of opening for foreign participation in this sector.

After a long discussion, conferences and fraction among some political parties, IRDA brought consensus among factions of different political parties. Though some changes and some restrictive clauses as regards to the foreign participation were included the IRDA has opened the doors for the private entry into insurance.

[6] Asha goel v/s LIC, AIR 1986, Bom 412.
[7] National Insurance Co v/s Jugal kishore, AIR 1988.
[8] Rajasthan State v/s Jhansi bhai, 1987, ACJ 496, and Assam Wool Export Ltd v/s Export Credit Guarantee Corporation of India Ltd, AIR, 1988, Cal 1.

The insurance sector is open to participation by private insurance entities and recommendation of the Malhotra Committee. This does not mean that the public sector entities do not continue their activities in the insurance sector. After this privatization both public and private sector entities play their roles simultaneously. In this context, financial growth process of insurance, more competitive environment and rapid expansion in insurance sector is expected to emerge with new private participants. The nature and scope of the insurance sector is in fact changing with the passing of the IRDA Act 1999.

THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT, 1999

IRDA Act of 1999 was set out as follows.

To provide for the establishment of an authority, to protect the interest of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matter connected therewith or incidental thereto and further to amend the Insurance Act 1938,The life insurance corporation Act 1956 and The General Insurance Business(Nationalization)Act 1975.[9]

OBJECTIVES OF IRDA

IRDA has various objectives:

Firstly, to protect the interest of policy holder as well as to give fair treatment.

Secondly, to bring out the growth in insurance sector for the benefit of the common man, and to provide long term funds for accelerating growth of the economy.

Thirdly, to ensure speedy settlement of genuine claims to prevent insurance fraud and other malpractices and put in place effective grievance redressal machinery.

Fourthly, to promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.

Fifthly, to take action where such standards are inadequate or ineffectively enforced, and

[9] www.irdaindia.org, accessed on 9/1/2009 at 1 pm.

Sixthly, to bring about optimum amount of self regulation in day to day working of the industry consistent with the requirement of prudential regulations.[10]

The life insurance industry was nationalized under the life insurance corporation Act of India. In some ways, the LIC has become very successful. Despite being a monopoly, it has some 60- 70 million policy holders given that the Indian middle class is around 250-300 million. At the same time the level of customers satisfaction is high for the LIC[11] (finding of the Malhotra committee) market penetration in the rural sector has grown substancially,around 48% of the customers of the LIC are from rural and semi –urban areas. This probably would not have happened had the charter of the LIC not specifically set out the goal of serving the rural areas.

But the era of globalization of the Indian economy that started in the early 1990's began to have its impact on the monopolistic structure of the Indian insurance industry. The liberalization of insurance market was among the objectives of the Uruguay round negotiations conducted under the auspices General Agreement on Trade and Tariff (GATT). However Life Insurance Corporation (LIC) was put on its toes when in 1993; the government of India appointed a committee headed by R.N Malhotra to examine the reform required in the insurance sector. After the decision of government to accept the recommendation of the committee on reform in the insurance sector and to constitute an interim Insurance Regulatory Authority, by an executive order in January 2, 1996, to look into the modifications, the regulatory framework of the insurance sector, has resulted in the establishment of a statutory body, for regulating the players and in broadening the sector by admission of new players from the private sector.

In India today, the gross domestic product of the country is predominantly derived from the service sector is an interregnal part as more than 42% of the country's current GDP is being generated by the services sector, obviously necessary steps are required to be taken to sustain this process of growth and towards this end a co – ordinate approach is necessary and insurance being a service industry, could prima facie Act as an engine of growth.[12]

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[10] www.irdaindia.org,acccessed on 92/1/2009 at 1 pm.

[11] Findings of Malhotra Committee report accessed on 19/1/2009, at 2 pm..

[12] Sen, Subir, "*An Empirical Analysis of the Indian Live Insurance Industries*", Institute for Social and Economical Change, Bangalore. A Paper Presented at the annual conference of the Indian Econometric Society held at Gurunanak Dev University, Amritsar, Jan. (2006) P. 5-7.

RATIONALE / NEED OF THE STUDY

Insurance business in India had taken step first in open competitive market then to nationalization. For almost four decades LIC has been the sole player with virtual monopoly in the Life Insurance Sector, it was in 1990,s government of India ventured into policy of liberalization and privatization and once again the insurance sector is back to privatize and liberalized market. Hence today most of the private players are giving competition to the public sector company, As private players entered in the market the market is booming in insurance sector with various products for attracting the attention of customer consequently by the year 2000-2001, 12 players entered the life insurance sector .which will effect the performance of Life Insurance Corporation. Thus the Life Insurance Corporation (LIC) had never faced any competition and at the same time had monopoly in the market, now has to compete with the private players. It is therefore important to study the performance of Life Insurance Corporation after the entry of the private players and after adapting liberalize policy by the government therefore it becomes imperative to evaluate the performance of life insurance Corporation of India..

The entry of private players in the market after adapting privatization by the government had effected in the performance of the life insurance sector, which is the key sector in the financial system

Hence there is primary need to evaluate the performance of Life Insurance Corporation (LIC) and to study the need of privatization in Life Insurance Sector at the same time to study impact of private entrants in Insurance Sector, especially with regard to performance of life Insurance Corporation of India

PURPOSE / OBJECT OF THE STUDY

The broader objective of this study is to evaluate the role of privatization on the performance and regulations of Life Insurance Corporation (LIC).

Following are the specific objectives of this study;

1. To evaluate the performance of LIC.

2. To study the need of privatization in Life Insurance Sector.

3. To study impact of private entrants in Insurance Sector, Specially with regard to performance of life Insurance Corporation of India.

RESEARCH QUESTION

What is the impact of privatization on Life Insurance Corporation?

What are the legal compliances provided by IRDA on the private insurance companies and LIC?

What is impact on the performance of LIC after privatization?

LITERATURE REVIEW

This research examines the significant studies carried out by the researchers on the Life Insurance business. Some of the relevant studies relating to Life Insurance conducted in India and abroad are reviewed as under:

Hampton John, in his book "*Financial Decision Making: Concepts, Problems and Cases"* In the study looked at the life insurance purchasing behaviour of young newly married couples. The relationship between two dependent variables, amount of life insurance purchased and type of-life insurance purchased, was tested against a number of explanatory variables. The independent variables like socio-economic variables, demographic variables, psychographic variables and other explanatory factors, some of which have not be investigated before, are examined by means of multiple classifications analysis. Six independent variables were statistically significant in explaining the amount of life insurance purchased: education of husband, current household income, expected household income (10 years), net worth of household, husband's insurance before marriage and wife's insurance before marriage. The purchase of a larger than average amount of life insurance was found to be much more likely in households where: (1) the husband did not attend college, (2) current and expected household incomes were in the low and high ranges, (3) net worth was greater, (4) the husband had purchased no life insurance before marriage, and (5) the wife had purchased term insurance before marriage. Three of the independent variables were found to be statistically significant in explaining the type of life insurance purchased: net worth, wife's insurance portfolio before marriage and influence of insurance agent. The purchase of term insurance was found to be much more likely in households

where : (1) net worth was greater, (2) his wife purchased term insurance before marriage, and (3) the insurance agent did not influence the decision. This suggests that the wife and the insurance agent are playing an influential role in the type of insurance purchased by young married households.[13]

Bala M.in his book." *Globalization and its impact on Insurance Industry in India"* studied the influence of the business cycle on the life insurance industry. The purpose of his study was to analyze empirically the impact of cyclical fluctuations on new purchases of ordinary group, and industrial life insurance during the post-war recessions experienced in the economy between - October 1945 and February 1961. The empirical evidence indicates that new purchases of ordinary life insurance have not been affected severely by the business cycle. This can be partially explained by the fact that large amount of new ordinary purchases is attributable to the upper income groups who are relatively immune to the cycle. Personal income and general consumption expenditures have also tended to remain relatively stable during the downswing of a cycle which would permit the continuance of new purchases during the contraction phase of cycle. The empirical data suggest that the business cycle has had little influence on new purchases of group insurance. New purchases of group insurance have exhibited a strong upward trend which has tended to counteract the dampening impact of the cycle. Finally, many group benefits are a result of collective bargaining, which may require increased benefits at some future period. It is possible that the economy may be experiencing a cyclical downturn, yet the increased group benefits may still be purchased because of the collective' bargaining contract. Finally, the data indicate that new purchases of industrial insurance declined relatively during the downswings of cycle III and IV as unemployment during these two cycles was more severe than the earlier cycles and by the fact that there was a structural shift away from industrial insurance which was still continuing during the contraction phases of cycle III and IV.[14]

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[13] Hampton John, J.2008.*Financial Decision Making: Concepts, Problems and Cases*. New Delhi:PHI.P.433

[14] Bala M.2004.*Globalization and its impact on Insurance Industry in India*. Deep & Deep Publication Pvt Ltd.P.45.

Fortune (1973) applied the expected utility hypothesis of choice under uncertainty, developed by Daniel Bernoulli and popularized by Friedman and Savage, to the explanation of the optimal amount of life insurance for a rational individual. The empirical implications of the expected utility hypothesis for the demand for life insurance are then tested by multiple regression analysis using data for the decade of the 1960s. The theoretical model developed implies that three key cyclical variables should explain cyclical variations in the quantity of life insurance demanded: the rate of discount, the amount of non-property income (i.e. wages and salaries) expected to be received over the period of analysis and the amount of non-human wealth held at the time the decision to purchase insurance is made. The empirical result confirms the importance of these variables and is consistent with the behavior according to the expected utility hypothesis. The results suggest confirmation of the theory: the only unambiguous implication of the theory—a negative non-human wealth effect is supported, and the index of consumer sentiment is statistically significant with the same sign as the human wealth effect. Wage and salary income (or human wealth) has a positive impact on the quantity of net insurance demanded, the impact of the real rate of discount is also positive. The non-human wealth, human wealth and real interest rate elasticity's are all around 3.0, indicating a high degree of sensitivity of the demand for net insurance to changes in these variables[15].

Goldsmith (1983) in the paper developed and investigated the relation between a wife's human capital accumulation and household purchases of life insurance on the husband. The degree to which households substitute the wife's human capital (education) for life insurance on the husband was empirically investigated using data on buyers and non-buyers of insurance in 1980. The tobit estimating technique was utilized to eliminate the problem of selectivity bias. Households with a more educated wife, ceteris paribus, were found to have a lower likelihood of purchasing term insurance on the husband. Additionally factors that reduce uncertainty associated with the marketability of the wife's human capital appear to enhance the substitutions of her human capital for life insurance and reduce likelihood of a purchase. The results also provide support for the hypothesis that households substitute accumulated, marketable, non-human capital assets for life insurance.

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[15] Fortune, Peter " *A Theory of Optimal Life Insurance Development and Test*", The Journal of Finance, Vol.28, No.3, June, (1973), P.587-600.

Current household income, existing coverage, current non-term insurance purchases, household characteristics and the decision-making environment were all found to have significant influences on the decision to purchase term insurance on the husband. The stock of human capital embodied in the wife is opt to vary over her life cycle. Health, education and on-the-job training enhance the stock, while depreciation and obsolescence reduce human capital. As a result, the level of life insurance coverage desired by the household is expected to vary over time. Unfortunately, the existing structure of the insurance relation prevents households from altering their insurance holdings along a complete continuum. The level of coverage can be increased to the desired level by purchasing an additional policy. However, once a long-term contract is approved, the coverage level can only be reduced by terminating premium payments and hence, coverage. This institutional constraint, limited downward adjustment flexibility, may account for the lower likelihood to purchase term life insurance on the husband among households with better-educated wife.[16]

Burnett and Palmer in the study examined various demographic and psychographic characteristics in terms of how well they relate to differing levels of life insurance ownership. Life insurance ownership was measured through three different dependent measures. The data were analyzed through multiple classification analysis. The results suggest that belief in the traditional work ethic, fatalism, socialization preference, religion salience and assertiveness were the most important predictor variables. Education, number of children and income were the best demographic predictors. The findings of this study have several implications. The non-significance of the 'Life Insurance salience' variable suggests that the purchase of life insurance is not a matter of believing or not believing in life insurance. Rather life insurance appears to be a product associated with specific needs and personality traits. The study results pertaining to the most significant predictor variables suggest that people who own greater than average amounts of life insurance are individuals who are self-sufficient and believe that they are in control of their own well-being. These individuals also have a lesser belief in the traditional work ethic, are less assertive, prefer quieter activities, and have a relatively lower interest in religion. Other

[16] Goldsmith, Art, "*Household Life Cycle Protection : Human Capital Versus Life Insurance*", The Journal of Risk and Insurance, Vol.50, September, No.3, (1983) P.473-86.

significant variables also provide important insights concerning life insurance ownership. Owners of large amounts of life insurance are better educated, have larger families, have higher incomes, are not opinion leader, are geographically stable, are greater risk takers', are not price conscious, are not information seekers, are low self-esteem, are not brand loyal and believe in community involvement but they do not rely heavily on the government.[17]

Bickelhaupt and Ran (1986) in the article identify and summaries research on international risk and insurance. The research is classified according -to purpose, methodology and perspective. In addition, international insurance studies are subdivided into fifteen different types. As to purpose and methodology, five major combinations of these types are selected for further discussion: (1) descriptive-qualitative, (2) descriptive-quantitative, (3) normative, (4) economic risk theory constructions, and (5) quantitative models. As to perspective, relevant references are classified as examples of one country, cross-country and global research. The current state of research is analyzed and suggestions for future studies are presented. A strong recommendation is made for international insurance research groups to provide more studies emphasizing theoretical, quantitative, cross-country and global approaches. Descriptive-qualitative research will continue, producing general studies most often journalistic in nature. However, new articles should now advance the development of theories of international risk and insurance. Sound theoretical and conceptual studies are necessary, which may provide guidelines for better international insurance practices. The availability of more empirical data should permit an increase in research which is primarily analytical and which is more cross-country and global in viewpoint. Research by international research-groups is strongly recommended.[18]

Rao (1989) in his article titled 'Life Insurance Business in India: Analysis of Performance' analyzed the growth of Life Insurance Business in terms of new business and coverage area. Life insurance business has shown a steady progress in relation to a range of macro-economic aggregates. The numerical values of various indicators point to a vast scope for improvement. Growth has been due to the organizational changes that have taken

[17] Burnett,J.John and Palmer,A.Bruce "*Examining Life Insurance Ownership Through Demographic and Psychographic Characteristics*" The Journal of Risk and Insurance Vol 51,September , No 3, 1984, P.453-67.

[18] Bickelhauupt, L. David and Ran Bar Niv "*Research in International Risk and Insurance: Summary, Synthesis and Prospects*", The Journal of Risk and Insurance, Vol 53 No 1 March, 1986, P. 240-56.

place with the decentralization of functioning of divisional offices and decentralization of policy servicing of branch offices. There is also increase in rural business and group insurance business since mid-1970's. The analysis of Zonal business reveals that business is greater in the more urbanized Zones. In spite of all this life business continues to be low in terms of coverage and contribution to national income and savings. There is large potential for future development of life business in India. Considering the trend towards liberalization, LIC should aim for more autonomy and restructuring programmers. LIC can equip itself to compete in a global world with other private insurers.[19]

Simon (1989) stressed on the need for training of agents which was necessary for healthy growth of LIC and agents. He opined that training at STC's and IFSERT along with induction training by development officers and refresher training at branch offices could help in professionalizing the agency force of LIC. However, he suggested for continuous performance appraisal of agents and linking training with rewards such as certificates of appreciation, newsletter announcements, honoring in special functions, etc. to bring about a positive change increase productivity and excellence in organization. In an interview on reorganization of LIC Prof. Ishwar Daya (1992) expressed his satisfaction on the implementation of the reorganization scheme by LIC. However, he reorganized the presently customers were demanding better and far more superior services. He opined that changes in the behavioral patterns of LIC's customers, the attitudinal changes and the shift in customer expectations in the recent past would have to permeate the whole organization if it wanted to become customer driven. He further suggested review of the reorganization scheme for further improvements.[20]

Browne and Kim in the study found that the service sector of the world economy has grown substantially since World War II. The worldwide insurance industry has had average annual growth rate of over 10 percent since 1950. During the mid-1980s, the international life insurance grew at an average annual rate greater than 25 percent. This study identifies factors that lead to variations in the demand for life insurance across countries. Important factors are found to be dependency ratio, national income, government spending on social security, inflation, religion and price of insurance of these variables, two variables income

[19] Rao G. V., "*Playing It Safe*", IRDA Journal, Vol.1, Nov., No. 12, (2003) P. 14-15.

[20] Simond J.J, "*HRD for our Agency Force*", Yogakshema, (September-Oct.) (1989) P.13-16.

and inflation are statistically significant. The income variable is positively correlated with life insurance. As income increases, life insurance becomes relatively more affordable. The inflation variable is negatively related to life insurance and has a dampening effect on the amount of insurance purchased in a country. These findings suggest that economic development and economic stability greatly increase life insurance consumption.[21]

Shotick and Showers (1994) augment the empirical literature on insurance demand by examining the impact of selected economic and social factors on the purchase of insurance. To account for the fact that not every household purchases insurance, a Tobit procedure is used to estimate marginal impacts on purchasers, as well as the changes in the probability of purchasing insurance. Demand effects are dominated by the marginal impacts from existing purchasers of insurance. Although income and number of earners are both positively related to the demand for insurance, the marginal effect from an increase in income is greater for single earner households than for multi-earner households. Also, as either family size or age increases, the marginal increase in insurance expenditure diminishes. As the composition of U.S. households evolves, change in household's characteristics will effect the demand for insurance. Specific changes will, in many cases, impact various types of insurance differently. Although the total insurance demand model provides insight into the overall demand of households, dis-aggregated demand models must also be examined in the future, as they have in the past. Understanding how insurance consumers decide upon the different! types of insurance is important for policy-making in both the private and public sectors with the issue of socialized insurance, governments must be aware of different effects on the types of insurance from socio-economic factors. A better understanding of the factors that affect total insurance, as well as individual's insurance demand, can provide valuable insights for both the public and private sectors concerning future insurance needs and alternatives.[22]

Gandolji and Miners (1996) in their article deals with husbands and wives separately and examines the differences that exist between them relative to life insurance coverage. In addition, the impact of household production function variables on life insurance is

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[21]Browne and Kim "*Life Insurance as RH Investment – A critical study*", Decision, July 1983 P.169 -70

[22] Shotick and Showers, "*Management of Indian Financial Institution"*, Himalaya Publishing House, New Delhi, (1991), P. 600 – 601.

investigated and differences in their effect for husbands and wives are highlighted. No other study examines wives' life insurance, coverage, the effect of household production variables on wives and husbands and wives in the same families. The results indicate that there are meaningful differences between husbands and wives in their demand for life insurance functions. Many of the differences in amounts of coverage seem attributable to the wife's labour force participation and the increase in the number of women in the labour force has accounted for much of the increase in wives' life insurance over the last few decades. However, there is evidence that in addition to insuring money income, contributions to household production also influence the purchase of life insurance. Home ownership, which usually entails more household's production, is strongly positive for both husbands and wives. The amount of the effect is three times as great for husbands and for wives, but the effort of the income variable was four times as great for husbands as for wives. In addition, the dependent years per child variables are significant in explaining individual life insurance of wives but not of husbands.[23]

Bernstein (1999) in his paper discussed the total factor productivity growth in the Canadian Life Insurance industry for the period 1979-89. Since services are two-thirds of Canada's gross domestic product, careful undertaking of output and input measurement for services yield a clearer picture of Canada's productivity performance and thereby, its competitive position. The proportion of GDP contributed by the manufacturing sector during the last three decades has been about 19.0 percent while the service sector has continued to grow, reaching 67.0 percent by 1992. Throughout this period, the insurance industry has kept pace with the service sector as a whole. Insurance accounts for about 0.70 percent of GDP. The GDP contribution of Life insurers from 1981 to 1992 increased from 0.30 to 0.42 percent.[24]

Hua (2000) in his article takes into account the liquidation values and liquidity of estate assets and the ability of life insurance death benefits to by pass the probate process. To bit regression based on the model are run using the US survey of Consumer Finances

[23] Gandoliji, Anna Sachko and Miners, Lawrence "*Gender Based Differences in Life Insurance Ownership*", The Journal of Risk and Insurance, Vol.63, December, No.4, Symposium on Catastrophic Risk, (1996), P.683-93

[24] Bernstein I Jeffery "*Total Factor Productivity Growth in the Canadian Life Insurance Industry*" Canadian Journal of Economics Vol 32, April 1999, P. 500-17.

1989 data set. The results showed that demographic and personal characteristics seem to be less important than financial and wealth variables in explaining the life insurance holding of a retired single. This is so because life insurance is a financial asset. Second, this article establishes a death-contingent claim model of a individual who allocates his or her resources into consumable and bequeathal wealth. The model attempts to capture the relation between the holding of life insurance and other assets. The regressions show that net liquid conventional asset holding in the opposite direction (keeping net worth and annuity wealth constant) has a negative effect on life insurance holding, i.e. it decreases life insurance holding. Third, an increase in annuity wealth (keeping net worth and net liquid conventional asset holding constant) increases life insurance holding, supporting Bernheim's (1991) conclusion that life insurance is used to counteract the forced savings in annuity wealth due to excessive social security taxes. Fourth, it is likely that an increase in net worth (due to an increase in non-liquid conventional asset holding, other things the same) raises life insurance holding. The regression results are consistent with these implications. This article conjectures that Bernheim's conclusion that life insurance is an inferior good might be a result of the lack of an accurate estimate for the pure term component of life insurance policies and the omission of net liquid conventional asset holding in his regressions. Finally charitable bequest motives proxies by past charitable donation have a positive effect on life insurance holding.[25]

Gupta and chuganee in their article "LIC learns to tango" emphasized on the various steps to be taken by LIC in order to compete with the new players up the monopoly of the giant has been challenged with this .LIC is to face world class competition at last. Several major steps are to be taken to rise to the occasion in the areas of products, services, information technology etc. LIC is gearing to attain new heights through involvement of all its vast workforce there is excess of manpower in the corporation but the management is not going to be any down sizing the surplus is going to be utilized in rising business volumes through scale upgration.[26]

[25] Hua, Arthur, "*Liquidity, Estate Liquidation, Charitable Motives, and Life Insurance Demand by retired Singles*" The Journal of Risk and Insurance, Vol. 67, No.1, (2000) P.123-41.

[26] Gupta,Aarti and Chuganee,Bhakti 2002."LIC learns to Tango"Insurance Chonicle Business India . June – July .source www.icfaipress.org.

Mr. N. kannan in his article explained that since 1991 the insurance industry has gone through many sea changes .The competition LIC started facing from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. The entry of the private players and the increased use of the new distribution are in the limelight today. The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.[27]

Tapen Sinha, 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 the 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 Signaling a change in the insurance industry structure. We examine what might happen in the future when the domestic private insurance companies are allowed to compete with some foreign participation. Because of the time dependence of insurance contracts, it is highly unlikely that these erstwhile monopolies are going to disappear.

Jayakar says that new products innovation, distribution and better use of technology and helping the new breed of private life insurers take market share away from the monopolistic of yesterday. Earlier it used to be the government owned insurance companies that had on edge over any other company. With the privatization of insurance sector and with the entrance of many players, the world of insurance may have a cut throat competition with the private sector gaining on ever increasing edge over the public sector.[28]

Dhunna and kumar in their article titled, "liberalization of insurance sector "Social implications emphasized that IRDA has to create an environment where insurers,

[27] Tapen Sinha,CRIS Discussion Paper Series – 2002 Professor, School of Business University of Nottingham, UK

[28] Jayakar Roshni 2003,covering lives :business today, June 8.pp.68

consumers and other groups can co exit and operate for the promotion of the insurance. The success of the insurance reforms depends on the transparency in the work environment and an effective regulatory authority, so as to prevent liquidation, speculative trading and restrictive business practices.[29]

Rangachary, chairman IRDA participated in the forth global conference of Actuaries during the course of discussion, several issues were raised and a need to bring in risk based capital the emphasis on fair value accounting system for insurers was felt .The IRDA chairman also expressed the need to develop the health and the pension sectors of importance of life insurance.[30]

Tara pore in his article titled "malice of Indian financial system "emphasized that financial crises the world over have revealed that work working in financial system and their poor supervision, contributed to macro- instability. Along with the stronger supervision, discipline of the market also needs to be re – emphasized with rapid technological changes, the leader in innovation would claim the best business. The financial system would need to be guided by there requirements viz transparency, rigorous norms and appropriate incentives.[31]

Banerjee in the article "Branch image in the 1990,s inculcating the public relation culture opined that the public relations activities should not be confined to a few persons meant exclusively for that purpose but should be exercised by all right from sub-staff to the branch manager and also by agent and development officers in the branch office. He stressed smiling, courteous and efficient service with the policy holders to meet the rising consumer aspirations. He suggested the need for free flow of information from LIC branches to divisional, Zonal and central offices.[32]

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[29] Dhunna Mukesh and Rajan A Kumar 2002,"liberalization of insurance sector: social imliocations"Indian management studies journal vol 6,pp 117
[30] Rangachary N 2002 4th global conference of Actuaries 14-15 Feb New Delhi.
[31] Tara pore S.S 2000"Malice of Indian financial system: need for reform" Economic and political weekly pp 2821-26.
[32] Banerjee A.K 1992 "Branch image in the 90,s the PR culture
'The insurance times pp 17-18.

Mishra "productivity management in LIC found that there were enough market potentialities for the insurance people in India. He highlighted the prevailing competition among agents. He viewed that may insurance policies in the past could not continue for the tenure because of lack of services to the policy holders. He suggested opening of new branches, training if LIC agent at periodical intervals, arranging regular meetings of agents with pace setter agent, new classification of agents as leaders, challengers, followers to put the morale of agents at higher level.[33]

Singh in the article titled "caveat emptor" stressed on the role of the tariff regulatory committee. The insurance regulatory has received a wake up call, at last, following the entry of foreign players into the country. The private insurers blame the tariff committee of being biased and favoring the public sector insurance companies. The regulatory have led to barring of few companies from participating in the insurance sector. It is to be seen whether the tariff advisory committee will prove to be a boon or a bane for the Indian insurance industry.[34]

Rao emphasized that a role of life insurance industry in the context of the national investment. The life insurance corporation of India at the end of march 2003 dominates the investment scene with 99.2% to total life funds whereas the rest of the 12 life players in the private sector contributed 0.8% of the life funds representing the impact of liberalization of the insurance sector .The industry has raised its investment in government and other approved securities from about 53%in 2001-02 to about 64% in 2002 – 03. In the approved and other market securities it has dropped from about 34%to about 22 %.This shifts may have an impact on the investment returns for the year 2003-04. In the case of pension and annuity business there is a significant drop in 2002-03 of the invested fund.[35]

Sinha (2000) in his paper titled 'Privatization of Insurance Market in India' concluded that one sure sign is emerging in the insurance business is the convergence of the different parts of the financial sector. The IRDA has taken a slowly-slowly approach. It has been very cautious in granting licenses. Too many regulations kill the incentive for the

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[33] Mishra MN 1985 "Productivity Management in LIC "The insurance Times vol 5 pp 10.
[34] Singh Gina 2001,"Cavet Emptor ", Insurance Chronicles, Business world April, source www.icfaipress.org.
[35] Rao G V 2003 "Playing it safe IRDA journal, vol.1, nov, no 12, pp 14-15.

newcomers while two related regulations may induce failure and fraud that led to nationalization in the first place.[36]

Ayyar (2001) in the article examines the various issues of significance to LIC and to policy-holders on the entry of new players into the industry. New entrants in this area have technical collaboration with companies having headquarters in countries like the USA, UK, Australia, etc. They will bring in new insurance products and administrative procedures. This will be like opening of all windows and allowing the wind to blow in from all directions. Thus, it is expected that the life insurance business in India will benefit and grow on sound lines. Competition will be in the form of new products from other insurers. If the LIC agents are not fully conversant with the new products of other competing insurers, they will lose out in trace and miss the bus. The way to ensure that such a situation would not develop is to train agents on what is happen around and help them to convert the emerging challenges opportunities. Moreover, LIC is gearing itself up to attain new heights through involvement of its entire vast workforce. LIC marketing its products more aggressively and identifying the markets, which it plans to tap with specially trained agent Agency training should emphasize the principle that the interne of the consumer and not what the agent earns should be super Corporate agents may eventually be allowed. legislation is anvil for brokers to be appointed. New distribution channels insurance products are being tried. Banks have been roped in a are authorized to sell insurance.[37]

Gupta\and Chuganee (2001) in their article role of the Tariff Regulatory Committee. The insurance regulatory has received a wake up call, at last, following the foreign players into the country. The private insurers blame the Tariff Committee of being biased and favoring the public sector insurance companies. The regulatory have led to barring of foreign companies from participating in the insurance sector. It is to I seen whether the Tariff Advisory Committee will prove to be boom or a bane for the Indian insurance industry.[38]

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[36] Sinha, Tapan, "*Privatization of Insurance Market in India / From the British Raj to Monopoly Raj to Swaraj* ", The University of Nottingham (2000).

[37] Ayyar M, "*Data mining The Secret Weapon – Technology and the Indian Insurer*"' IRDA Journal, July VOL 11 8 July P. 36 – 39.

[38] Gupta, Aarti and Chuganee, Bhakti, "*LIC Learns to Tango*", Insurance Chronicle, Business India, June-July, (2001), P.455-457. Source: www.icfaipress.org.

Rao (2002) is of the opinion that a regulator is not a role the Kumar (2002) emphasized on the investment management in the light of asset liability match, interest rate risk, and mitigation measures and derivatives instruments by the life insurers. Life insurance is a long term business and for determining the premium the expected interest rate over the term of the policy is one of the key inputs. Bonus rates are decided on the basis of surplus determined by actuarial valuations which is done every year. Investment income, which depends also upon the return on fixed interest investments, is a significant contributor for surplus. Decline in rates of returns obtainable from time to time revision of rates of returns offered by the insurers. A life insurer puts money in government bonds and government guaranteed bonds which carry almost no default risk and consequently have lower expected returns in comparison to riskier investments. This is done because security of the funds is among the life insurer's foremost concerns.[39]

In an article titled, "LIC faces stiff challenges" published in the national newspaper 'The Hindu' in 2002, S.B. Mathur, Chairman of LIC, emphasized on the theory and stiff competition from new entrants in the life insurance sector. 12 new players had entered Indian Life insurance sector and posed a challenge to the growth of the world's biggest insurance corporation LIC of India. They all had sound background and high brand equity. According to Mathur, the new players might not be very ethical in all respects. Competitors would concentrate on those areas which were not covered by us and development officers must work carefully to ensure that the people are not weaned away from LIC. LIC was setting apart Rs. 55 crores to be utilized for giving Laptops to its 19000 DO's countrywide.

Beck and Webb (2003) in their article 'Determinants of Life Insurance Consumption Across Countries' emphasized on the importance of life insurance companies as part of the financial sector to the individuals and the economy as a whole. Life Insurance provides individuals and the economy as a whole with a number of important financial services. In the face of increasing urbanization, mobility of the population and formalization of

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Rao, D. Tripathi, "*Life Insurance Business in India*" Economic and Political Weekly, Mumbai, Vol.34, No.31-35, July 31, (1999) P. 2174.

economic relationships between individuals, families and communities. Life insurance has taken increasing importance as way for individuals and families to manage income risk. Also life insurance products encourage long-term savings and the re-investment of substantial saving, they have become effective as instrument for encouraging substantial amounts of savings in many countries around the world. Leveraging their role as financial intermediaries, life insurance have become a key source) for long term finance.[40]

Kundu (2003) in an article titled 'What's next in India's Insurance Market' discussed the changes in various issues of insurance industry after the entry of new players. Despite its terming one billion population India still has a low insurance penetration of 1.95 percent, 51st in the world. Despite the fact that India boasts a saving rate of around 25%, less than 5 percent is spent on insurance. With the entry of competition, the rules of the game are set to change. The market is already beginning to witness a wide array of products from players whose number is set to grow. The profile of the Indian consumer is also evolving. Today, people are increasingly looking not just at products but at integrated financial solutions that can offer stability of returns along with total protection. In today's highly competitive financial services environment, Technology will play an increasing role in aiding design and administering of products as well in efforts to build life long customer relationships.[41]

Kumar (2003) in his article titled, 'Development of Insurance in India' had emphasized on the various issues relating to insurance business in India like liberalization, privatization, regulator's issues and future possibilities, etc. A thriving insurance sector is of vital importance to every modern economy. It encourages the savings habit, provides safety to rural and urban enterprises and productive individuals. It generates long company biggest investors in long-gestation infrastructure develop project in all developed and aspiring nations. This is the compelling reason why private sector (and foreign) company which will spread the insurance habit in the several consumer interest are urgently required in this vital sector economy. Potential private entrants therefore expect to score the areas of customer service, speed and flexibility. This will mean better products and choice for the

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[40] Bech Thorsten and Ian Webb "*Determinants if Life Insurance Consumption across countries*" source; www: ideas.repec.org, 2003.

[41] Kundu, Sumit, "*What's Next in India's Insurance Market?*", Knowledge Digest Com., (2003) May12.

customer. Witnessed in other countries where liberalization took place recent years, nationalized players will continue to hold the market share positions, but there will be enough business for entrants to be profitable.[42]

Parekh (2003) in the article deals with corporate governance in the Indian insurance industry. The last two years have made sea change in this area at the same time Samuel (2003) traces the evolution of the insurance market in India. The paper deals with the theoretical aspects, historical perspectives of insurance in India, the business and investments of life and non-life insurance and an assessment of insurance penetration in India in comparison with world standards. This article also discusses the role of insurance in financial savings of the households sector and regulation of insurance in India. Though the performance of the public sector insurance companies—LIC and GIC was quite satisfactory, the Indian insurance business, both life and non-life, left much to be desired as compared to International standards. There is low penetration and general lack of efficiency. The per capita premiums are very low when compared to the standards of both industrialized countries and other emerging markets. With the entry of private players into the insurance business, it is expected that competition would increase and overall functioning of the insurance sector would improve. The liberalization process initiated in the insurance sector is expected to bring about better integration of the financial markets and promote financial development of the country.[43]

Mathur (2003) has the opinion that joint efforts need to be made by all insurance operators for the market to extend the coverage to millions of insurable people who need and can afford life insurance. LIC, since nationalization, has performed exceedingly well and contributed immensely to the process of economic development through its multi-dimensional activities. As just one example, the share of life insurance funds in household financial savings has gone up from 7 percent in 1993-94 to 12.1 percent in 1999-2000. In terms of GDP, insurance funds were 1.5 percent in 1999-2000. LIC today services over 12 crore policies which is a record for any life insurance company in the world. It settled over 86.55 lakh claims including survival benefits payments and maturity claims during the

[42] Kumar, Rajan, "*Life Insurance for the Rural Poor*", The Insurance Times. Vol.7 No.7, (1987) P. 7-8.

[43] Parekh, Ashwin, "*Reporting for Value*", IRDA Journal May, Vol.1, No.6, (2003) P. 4-5.

year. There is no other life insurance company in the world that settles such a large number of claims. During 2000 the Indian insurance industry as a whole witnessed an inflation adjusted growth of 16.6 percent as against 6.6 percent of the global growth rate. Time relevant, customer need-based, products are to be developed in the background of cost and intrinsic return. At present, there are 58 products being sold by LIC. However, some of the product has been re-structured on the basis of competitive needs and emerging market demand. The growth rate of first premium income in respect of individual pension plans during the year 2001-02 was 355.15 percent and the growth rate in respect of policies was 120.09 percent. Yet, the pension market in India mostly remains untapped and this is probably the most potential segment of the life insurance market in India. For low income people, low premium risk cover will be desirable. For this segment group insurance policies like Jan Shree Bima Yozana have been launched by LIC which will be attractive and useful. There is also a need for promoting a different distribution channel for expanding the rural insurance market. We need to have a very structured approach to capture various market segments in rural and urban areas invested funds.[44]

Shah (2003) believes that simply selling insurance products through banking channels and vice versa does not symbolize a good baneassurance strategy and is bound to fail sooner or later. A baneassurance strategy can succeed only if it provides a cost-effective way to build distribution capacity, especially for new market entrants, it provides a shift from total dependence on tied-agency for existing insurers, it helps to penetrate new market segments across channels abroad and it increases quality of business. By successfully mining their customer databases, leveraging their reputation and distribution systems to make opportunities and utilizing sales techniques and products tailored to the middle market, banks can easily provide and convert a huge number of insurance leads into sales and achieve outstanding sales productivity for higher than traditional distribution channels alone—more than enough to make baneassurance a viable alternative. Bancassurers need to have a comprehensive understanding of themselves and the bancassurers feel that 'baneassurance' is their corporate strategy.[45]

[44] Mathur, S.B., "*Life Insurance Corporation*", Business World, Vol.23, Nos.23-26, November, Kolkata, (2003), P.51.

[45] Shah, Rumeer, "*What Makes Bancassurance Happen*", IRDA Journal, Vol.1, No.9, Aug., (2003) P. 18-19.

In contrast successful bancassurers actively develop a strategy based on differentiation, niche selection and cost leadership. A recent SCOT'S Technical newsletter has made interesting observations about the success of bancassurance around the world and particularly in Asian countries. The most crucial factor is undoubtedly the legal and fiscal environment of the country. National regulations play a major role which was illustrated in Italy by the Amato Law authorizing banks to invest in insurance companies. A low penetration rate in life insurance, encouraging foreign insurers to invest in bancasurance can also have an important impact. In fact these insures often choose alliances with local banks which have well established networks and are customer-oriented in terms of their proximity. Since both banks and insurance companies have their individuals, it would be a good idea to pool their resources.

Watson (2004) is of the opinion that India is under insured and there is a challenge for the industry and regulators to increase market penetration. Indian Life insurance market displays many essential characteristics of an emerging vibrant and dynamic market—a relatively high level of awareness of life insurance, a growing pool of technical expertise and regulations that are not too onerous. Life reinsures are playing an important role in the growth and dynamism of the Indian market. Re insurers have been closely involved with all new companies in developing business plans, products and underwriting standards and providing reinsurance support. New individual-protection products in markets such as the US and the UK are heavily re-insured, whereas reinsurance is relatively under utilized by life insurers in Asian Markets. A study by Swiss suggests that reinsurance cessions in Japan, the second largest life insurance market in the world, are just one percent. China and India have cession rates that are estimated to be less than half of that, and in southeast Asia the rate is still a low at five percent. In India, the life insurance market has grown at over 20 percent annually in real terms in the last five years and the business of new entrants has grown at well over 50 percent in the last two years. Notwithstanding the rapid growth in life insurance premiums in the past few years, life reinsurance premium has been relatively small. Retention levels are high compared to the average size of policies and quota share treaties are rare.[46]

[46] Watson Graham, "*Life Reinsurance – A Perspective*", IRDA Journal Vol.2, March No. 4, (2004) P.26-27.

Khansili (May 2004) in the article deals with the innovation in product design and pricing by the LIC. Innovation in the life insurance market is generally attributed to initiatives taken by private companies. Today the Indian Life Insurance market is vibrant. Private life insurance companies have joint venture partners from the countries operating in the US, UK, Germany, Canada, Australia, France and South Africa and naturally, the practices of the life insurance market of these countries are reflected in the products being made available in our country by these private life insurance companies. This is reflected in all the products, be it individual life products, pension products, different riders, group products, unit linked products universal life products or health products/riders. Not long ago, it had introduced a novel product for women, Jeevan Bharti revering congenital diseases. Recently, it has brought out a new product named Jeevan Saral which is considered unique product not only in India but in most developed countries also. The maturity value depends on the entry age and terms but death risk coverage is the same irrespective of age. This reflects a change in the product pricing concepts of LIC and an interest in introducing something new in the face of competition.[47]

Ahuja (2004) is of the opinion that the insurance regulator in India, the IRDA, is entrusted not only with regulating the Indian insurance market but also developing it. The IRDA imposed social obligations take the form of covering certain minimum number of individuals in certain well identified sections of the society by both life and non-life insurers in each year of their operations. The rural obligations are in terms of certain minimum percentage of total policies written by life insurance companies and the obligations are in terms of percentage of total gross premium collected. The impact of rural and social obligations on extending insurance to the intended people has been positive. However, certain aspects with respect to these obligations are already becoming quite clear. One is that social and rural obligations need to be supplemented by other provisions with the view to guide the development of rural and social business in the country. Sensing this, the IRDA has already come out with a concept paper on micro-insurance in which it has spelt out its thinking on what these supplementary provisions could be. For example, putting a floor on the minimum level of benefit that must be provided under micro-insurance, defining a role of micro-insurance agent and so forth. Another important

[47] Khansili, Dinesh Chandra, , "*A New Way of Thinking – Innovation in Product Design and Pricing by the LIC*", IRDA Journal, Vol. 11, No.6, May, (2004) P.25-26.

recommendation of the insurance reforms committee was on using organizations, such as, mahila mandals, panchayats, etc. in extending insurance especially in the rural areas. This is already being achieved by the IRDA's rural an Social obligations and this trend will get a further boost once a set of regulations for micro-insurance are in place. As far as rural and social obligations are concerned we are very much in the realm of experimentation where the scope for learning by doing is considerable.[48]

Ravishanker (2004) in his article argues that the changing business environment where returns are critical, insurance companies should consider several options while investing their funds. It is a fact that many insurance companies have diversified investment and hedging options, but their persistent demand for more opportunities continue to exist, such as for international investment and properties. There is need to focus on regulatory norms for investment in line with the business needs. For example, the life insurance companies need to focus on investment objectives based on the policy period and commitment ranging between five and 25 years whenever the investment objective is for a longer period, it is essential that one considers the asset allocation principle. The regulatory guidelines need to be fine-tuned to this reality rather than having artificial limits on different asset classes. Hence insurance companies must be allowed the flexibility to allocate funds across the asset classes based on the business needs. The role of the regulator has to be to only caution the insurance companies by prescribing capital adequacy norms and refrain from specifying the limits for several asset classes. Besides, there is a need to introduce a number of quality initiatives in the investment processes of insurance companies. The traditional approach of passive investment styles must be replaced with the dynamic approaches of measuring, monitoring and managing investments for optimizing the return and minimizing the risk.[49]

Sen (2004) analyzed the Indian Life insurance industry after the privatization of the insurance market. The entry of privately owned firms forming joint ventures with foreign heavy weights in Life Insurance provisioning was expected to raise both price competition and service competition. As debates increase regarding the dominance of LIC to persist

[48] Ahuja Rajeev,"*Even Development – Reaching Rural Areas and the Socially Weak*", IRDA Journal, Vol III, 2004, P.28 – 29.

[49] Ravishankar, D., "*Where to Sow, How to Reap – Investment Options for Insurance Companies*", IRDA Journal, Vol.3, Dec., No. 1, (2004) P. 18-20.

and that of struggle among privately owned firms to continue to gain market share, concentration indices are constructed on the basis of theoretical underpinnings to see whether or not there is any change in the competitive structure of the life insurance market. Using regression model, the relation between different concentration indices with premium and policy figures have been analyzed to obtain the most appropriate measure of concentration. The study concludes that there is a hint of movement towards a more competitive regime but there is a good level of competition among the private companies to capture the market share.[50]

Forte (2(105) conducted a study on Rural insurance market. Accordingly to the findings of the study, the more educated have higher earnings capabilities and are potential insurance customers. The usual scenario seems to be where the chief wage earner insures himself, thus protecting his family and his wife in the beneficiary. Majority of the respondents were able to name the types of policy but could not recall the actual name of the policy. Most had purchased the money back policies and penetration of whole life policies was very low. Policies with a sum assured of less than Rs. 50,000 accounted for the most policies taken. A significant number also opted for a higher value policy of upto Rs. One lakh. There was a great deal of similarity between the policy actually purchased by the respondents and the policy recommended by the agent at the time of purchase, suggesting that a great influence is exercised by the agents in the selection of insurance products. Policy-holders were generally satisfied with the overall insurance process, the premium payment process and their dealings with the agent. This may also suggest that consumer's expectations are not very high. It is found that insurance companies have to create awareness about security and savings involved in insurance and develop the felt need among these potential customers. Some people wrongly believe that life insurance offers better return on savings, as they may not be aware of correct rate of interest offered by banks and post office. In case of private institutions (private banks and the NBFCs), the perception of security is generally low[51].

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[50] Sen, Subir, "*An Empirical Analysis of the Indian Live Insurance Industries* ", Institute for Social and Economical Change, Bangloar. A Paper Presented at the annual conference of the Indian Econometric Society held at Gurunanak Dev University, Amritsar, Jan. (2006) P. 5-7.

[51] Forte "*Study on Rural Insurance Market*", Bima Vidya, management Development Centre, LIC of India, January-March, (2005), P.39-46.

Aggarwal (2005) in the article deals with the insurance status in India for the poor. Insurance is more concentrated in relatively financially stable urban areas, but the requirement for a cushion to absorb risks in greater among rural and urban poor. Even after the opening of insurance to private players in India, its penetration is very low compared to that in developed nations. Therefore for the development of the economy, insurance penetration in India should grew, but that growth will be possible only when suitable products become available. The poor and needy find insurance a risky proposition with their uncertain and irregular incomes and with their limited ability to read about its benefits. The male literacy rate in India in the year 2000 was 68.4 percent and the female literacy rate was only 45.4 percent. Thus, access is not sufficient in rural areas in India. Health insurance, whether social or private whether formal or informal, is extremely limited in India. Although a number of private insurance companies have entered the field, no significant change in health insurance has been observed either in the availability of new health insurance products or in the volume of business. Agriculture in India is the industry on which most poor in villages depend, and therefore provisions, produce and reforms must be designed after considering these segments the population seriously.[52]

RESEARCH METHODOLOGY

The study is related to the performance of Life Insurance Corporation of India .The study will cover 15 years up,s and down's in life insurance sector that is from 1993 to 2008. This study will be based on secondary data which will be collected from relevant annual report of IRDA, various magazines like LIC plus, insurance times and number of other websites.

LIMITATION

The study is related to the performance of Life Insurance Corporation of India. The study will cover 15 years up, s and down's in life insurance sector that is from 1993 to 2009. This study will be based on secondary data which will be collected from relevant annual report of IRDA, various magazines like LIC plus, Insurance Times and number of other websites.

[52] Aggarwal Preeti,"*A Note on the Insurance Status in India for Poor*", Alliance of Business Research, 2005 P. 35 – 45.

ORGANIZATION OF THE STUDY

The study has been organized into VII chapters including this chapter which is Introductory in nature and explains overview of insurance sector.

CHAPTER II

This chapter will be related to regulations in India with regard to insurance laws especially to life insurance, also other rules and regulations after privatization.

CHAPTER III

This chapter is an attempt to throw light on the policies of the Government of India towards FDI. The chapter lists out the options as well as the corresponding procedures prescribed by the Government for the foreign entity to invest in India and also deals with the advantages and drawbacks of FDI in Life Insurance industry.

CHAPTER IV

This chapter will deal with privatization in insurance sector and rules of IRDA, its license and procedure.

CHAPTER V

Chapter V will evaluate the performance of Life Insurance Corporation (LIC) after privatization.

CHAPTER VI

Will show the effect of the entry of private players on the performance of Life Insurance Corporation (LIC) and also the legal compliances on the private players.

CHAPTER VII

This chapter will present Summary and Conclusion of the study.

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CHAPTER TWO

PRIVATISATION OF INSURANCE

Public enterprises in any country cannot perform all the economic and business activities efficiently. Even in a socialist country, public enterprises in all the fields cannot discharge their full responsibilities. Complete nationalization will lead to serfdom and anarchism. Now we are living in competitive world, public enterprises will have to compete with the private enterprises. If any public enterprise is found sick or weak it may be replaced by private enterprise with efficiency and productivity. Liberalization of the Insurance sector commenced with the setting up of the Insurance Reforms Committee by the Government of India in 1993. Among other things, the Committee recommended that private insurers be allowed to co-exist along with the government companies like Life Insurance and General Insurance Corporation of India. The move towards allowing private sector into insurance is motivated by prospective gains in efficiency, customer service and general awareness of insurance operations in the country. It will also ensure a greater mobilization of funds required for the development of infrastructure.

Over the past decade India has been undertaking a program of economic reform, and at the same time the economy has been growing at a high rate. As part of the reform program, and in line with prevailing economic thinking, India has been privatizing its large, ungainly public sector. One assumption underlying this program is the dogma that public sector enterprises are deemed to inefficiency, and that competitive market forces can be relied on to make firms more efficient once they are privatized.

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, this persuaded the government of India to take steps to open the sector. Since the early fifties or thereafter, it was not uncommon for the developing countries to resort to central planning of a substantial part of the economy, as a tool to speed up the growth process therein. In the initial stages in most of them, the government, in one form or the other, intervened through strict controls to foster development in all sectors, including insurance. After its initial success, the flaws and drawbacks of centralized planning and interventionist strategy surfaced, and over a period of time, there was a swing in policy towards liberalization. This unshared in an era of reform in all sectors in most countries of the world, India includes, with the main objective of accelerating the pace of development.

Insurance has always been a politically sensitive subject in India. Within less than 10 years of independence, the Indian government nationalized private insurance companies in 1956 to bring this vital sector under government control to raise much needed development funds.[53]

Since then, state-owned insurance companies have grown into monoliths, lumbering and often inefficient but the only alternative. They have been criticized for their huge bureaucracies, but still have millions of policy holders as there is no alternative. Any attempt to even suggest letting private players into this vital sector has met with resistance and agitation from the powerful insurance employees unions. The then Narasimha Rao government (1991-96) which unleashed liberal changes in India's rigid economic structure could not handle this political hot potato. Ironically, it is the then coalition government in power which has declared its intention of opening up insurance to the private sector. Ironical because this government is at the mercy of support from the left groups which have been the most vociferous opponents of any such move. No policy initiatives have yet been announced, but the then government has already clarified it will not privatize the existing insurance companies. But while the decision has been welcomed by the big companies who were planning to make a foray into this lucrative business, the move has been criticized by trade unions and even some left supporters of the government.[54]

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[53] Bhatia B.S, Puri "*Insurance Sector in India in Post – Liberalization Period*", Global Competitiveness and Productivity"2005, P.240-56.

[54] Pewter, Fortune "A *Theory of Optimal Life Insurance Development bad* Test", The Journal of Finance Vol 28 No3, June 1973 P.587 – 600.

In some ways it was inevitable-all segments of the financial sector had been opened to private players and it was only a matter of time before insurance followed. The bigger private players claim that opening up insurance will give policy holders better products and service; the opponents of privatization argue that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment. Many international players are eyeing the vast potential of the Indian market and are already making plans to come in. It was clear that the FDI in insurance will not be more than 26 %. But, with the change of time today Manmohan Singh (UPA) Government had escalated the FDI limit to 49%.

NEED FOR PRIVATIZATION

Need for privatization of insurance may be judged from the following grounds. A large number of public enterprises and their size and variety have given complex problems. Some of them are on account of procedural defects and too much rigidity in their operation. But many problems are inherent due to the basic principles of the public enterprises. They lack flexibility effectiveness and efficiency of private enterprises. Over the last decade, the experiences of public enterprises particularly of departmental undertakings have been very discouraging. The controls over performance and routine operations have been too rigid or too fearful to yield higher productivity. The functioning of Government companies has been better than those of other forms of public enterprises but they could not override the private enterprises. It was considered that the public corporations could perform better than the other public enterprises but many public enterprises did not comply the expectations. The Government is having a nationalized insurance institution which serves both the governance and social welfare of the people.

Privatization! Do we need it or not? Few other questions can kick start a heated debate as this. What is seen now is that India is slowly engulfed by an enthusiasm to privatize anything and everything. Even while the left parties in India staunchly oppose the "privatize all" move, the proponents present it as a panacea to problems of the poor, incompetent services and loss making performances of public sector units.

The IRDA was authorized to allow companies incorporated in India to transact life insurance business, provided the foreign shareholder did not exceed 49 %. There are 13 private life insurance companies are doing their insurance business in India. There are 12

private companies are operating in general insurance market. Competition between private insurance sector and public insurance sector is healthy to the holders of policy because where there is a competition; there should be a good service and sound business to the insured. In the year 2000 the market share of LIC's business was about 92 % but in the year 2005 the share has come down to 78 %, because of the competitors.[55] So the public sector companies are going to face stiff competition in future. In order to compete with private sectors the LIC and the GIC should introduce new innovative products in the insurance market.

TABLE NO: 3 NAME OF THE INSURANCE COMPANY AND THE SHARE HOLDING PATTEN

Name of the Insurance Company	Shareholding
Agricultural Insurance Co	*Bank and Public Ins Co*
Bajaj Allianz General Insurance Co. Ltd.	*Privately Held*
Cholamandalam MS General Insurance Co. Ltd.	*Privately Held*
Export Credit Guarantee Company	*Public Sector*
HDFC Chubb General Insurance Co. Ltd.	*Privately Held*
ICICI Lombard General Insurance Co. Ltd.	*Privately Held*
IFFCO-Tokio General Insurance Co. Ltd.	*Privately Held*
National Insurance Co. Ltd.	*Public Sector*
New India Assurance Co. Ltd.	*Public Sector*
Oriental Insurance Co. Ltd.	*Public Sector*
Reliance General Insurance Co. Ltd.	*Privately Held*
Royal Sundaram Alliance General Insurance Co. Ltd.	*Privately Held*

[55] Hampton John, J., "*Financial Decision Making: Concepts, Problems and Cases*", PHI, New Delhi. (2008),P.433

Tata AIG General Insurance Co. Ltd.	*Privately Held*
United India Insurance Co. Ltd.	*Public Sector*

Source- www.irdaindia.org accessed on 01 February 2009 at 10 am

There are a total of 13 life insurance companies operating in India, of which one is a Public Sector Undertaking and the balance 12 are Private Sector Enterprises.

List of Companies are indicated below:-

TABLE NO: 4 NAME OF THE LIFE INSURANCE COMPANY AND THE SHARE HOLDING PATTEN

Name of the company	Nature of Holding
Allianz Bajaj Life Insurance Co	*Private*
Aviva Life Insurance	*Private*
Birla Sun Life Insurance Co	*Private*
HDFC Standard Life Insurance Co	*Private*
ICICI Prudential Life Insurance Co	*Private*
ING Vysya Life Insurance Co.	*Private*
Life Insurance Corporation of India	*Public*
Max New York Life Insurance Co.	*Private*
MetLife Insurance Co.	*Private*
Om Kotak Mahindra Life Insurance	*Private*
Reliance insurance	*Private*
SBI Life Insurance Co	*Private*
TATA- AIG Life Insurance Company	*Private*

Source- www.irdaindia.org accessed on 01 February 2009 at 10 am

LIFE INSURANCE COMPANIES OPERATING IN INDIA

Sr no	Public sector	Private sector
1	LIC	Bajaj Allianz
2		Birla Sun life
3		HDFC Standard
4		ICICI Prudential
5		ING Vysya
6		Max New York
7		MetLife India
8		Kotek Mahindra
9		SBI Life
10		TATA AIG
11		AMP Sanmer
12		Aviva
13		Sahara India
14		Shriram Life

Leading Life Insurance Companies in India 2007

Company	Gross Written Premium Rs in Million
LIC (Public)	709,019.0
ICICI Prudential	23,638.2
Bajaj Allianz	10,016.2
Birla Sun life	9,154.7
HDFC Standard	6,866.3
SBI Life	6,011.8
TATA AIG	4,970.4
Kotek Mahindra	4,661.6
Max New York	4,134.3

ING Vysya	3,388.6

Source- www.irdaindia.org accessed on 01 February 2009 at 10 am

It was found that from the above table the LIC of India stood at top position in the market; however it has lost its market share from 92 % in 2000 to 78 % in 2007. The ICICI Prudential is number one in India among the private companies.

Indian insurance industries both in the life and non life sectors need to be experimented with the low cost insurance models. This is essential for a country where 27 % of the populations still live below the poverty line. In order to cover all kind of people and compete with the private rivals, the PSU's have to introduce new multiple distribution channels and post product services should be strengthened.[56]

Unlike in the manufacturing sector during the license raj, a government license is not a guaranteed ticket for success in insurance and a task of establishing a strong competitive presence by private insurers is not easy. The new players are also aware that their entry is not going to be all that smooth and they have to take enormous pains to carve out a market share for themselves. Any insurance company, venturing newly into business, has, therefore, to be patient and prepared to sustain some start-up losses for the first few years. The new entrances are entering a different market and hence, even though they have new products already, they cannot offer them in India as they are. It is necessary for them to tailor them to local conditions and customer needs, which is again a matter of time. Moreover; the existing insurers enjoy a strong brand presence, well spread distribution networks and significant local knowledge and contacts parameters which can be matched by new players only over a period of time. The latter will target market niches because most lack the local relationships necessary for successful retail operations. Public and Private firms can coexist in liberalized markets and this can help enlarge the market. This is a matter of patience for the new companies which are just setting down, and it will not be until 2010 for the life side, and 2009 for the non life business that competition will really hot up.[57] Since some start up losses are inevitable, obviously, only those companies which have a strong financial base, and are perhaps engaged already in more than one line of business, would find it possible to step into this area. Similarly, despite their experience

[56] Mathur, S.B., "*Strategies of LIC*", IRDA Journal, December, Vol.11, No.1, (2003) P.29-3

[57] Khansili, Dinesh Chandra, , "*A New Way of Thinking – Innovation in Product Design and Pricing by the LIC*", IRDA Journal, Vol. 11, No.6, May, (2004) P.25-26.

and strength in other countries or other industries, it will still take some time for the new insurance companies to build up the high quality infrastructure capable of providing superior services .This is not just a matter of new technology and the hardware to sustain it; it is equally a question building up a network of offices and branches as also of identifying recruiting, and in some cases, training and retraining competent staff, especially on the marketing side. The existing companies took more than 25 years to set up their infrastructure. New players will naturally need time to match it. Another handicap for the new players relates to not having an easy access to reliable data for establishing right prices. Insurance is priced on a cost plus basis, where the cost is the expected claims payment, for which information of the actual claims paid in the past, has to be available to them are the board claims.

GLOBAL SCENARIO

Reform have a global context and one cannot ignore the international compulsions and pressures as also the experience in many countries in which liberalization in the financial markets produced several benefits. Rapid developments in telecommunications and information technology have made world financial markets highly dynamic and increasingly integrated. Like other financial services, insurance companies also no longer operate within given national boundaries. With that as a background, no country even those that follower an isolationist policy for decades could remain outside the process of globalization. Naturally, the integration of the Indian insurance industry more closely with the world economy became inevitable. Numerous governments developed and developing countries redefined the role of the state, and privatization in the insurance sector has been part of policies pursued by them. Thus, since 1996, Japan has been liberalizing its insurance sector and china too in the course of the last 10years, 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.[58]

As India has signed the General Agreement on Tariff and trade (GATT) and has become a member of the World Trade Organization (WTO), whether it is essential to open up the borders for foreign insurance companies has no longer remained an issue or a matter of choice. Structural changes were introduced so that the insurance industry could attain its full growth potential and be in a position to integrate with, compete in, and benefit from, the world economy.[59]

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 it interviewed, also commissioned an agency to make an independent assessment of the prevailing public opinion about the strengths and weaknesses in the working of the two organizations and drew some conclusion.[60]

INDIAN POSITION AFTER NATIONALIZATION

After nationalization, the government of India did bring about or at least attempted some qualitative improvement 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 funding of infrastructure creation, fulfillment of social obligations, and recently, 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. In 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

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[58] Triplett E. Jock and Bosworth P. Barry, "*Prince, Output and Productivity of Insurance: Conceptual Issues* ", Brookings Institute, Washington D.C. , U.S.A., SSHRC Conference on Index Number Theory and The Measurement of Prices and Productivity (2004).

[59] Rangachari, N., "*Fourth Global Conference of Actuaries*", Feb.14-15, New Delhi (2008) P.87.

[60] Dhunna, Mukesh "*Liberalization of Insurance Sector: Social Implication,*" Indian Management Study Journal Vol 6, 2007 P.109-117

recent origin, they are still to best full force and so the quality of work still leaves tremendous scope for improvement. Even in a difficult field like re-insurance, the general insurance sector under government control has acquired a good standing in the international market.[61] All this strength have put the public sector units in opposition 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.

BENEFIT OF NATIONALIZATION

1. Distribution: Distribution will be a key determinant of success for all insurance companies regardless of age or ownership. The nationalized insurers currently have a large reach and presence. New entrants cannot-and does not-expect to supplant or duplicate such a network. Building a distribution network is expensive and time consuming. This will restrict new entrants to penetrate in the market easily.

2. Variety of Product: The product policies of Nationalized Insurance Companies are varied and focus the need of Indian customer. Thus even in small village there is a nationalized policyholder. New entrant cannot at the initial stage expect the penetration and variety of product as the small amount of policies will increase their carrying cost.

3. Trust and Faith: Being government owned subsidiary and existent since 1956, people of India have real faith and are confident in parting their valuable savings with Nationalized Insurance Companies.

4. Large Work force of Agents: Being in operation from 1956, Nationalized Insurance companies have large and scattered human resource, which is very important for targeting huge mass. The same will not be possible for the new private entrants in the initial years, and if so they will lack in experience and patience, which is foremost quality of an agent.

[61] Karat, Kamal Nayan, "*Nationalization of LIC*", Economic & Political Weekly, 21(47), Nov.22, (2007),P2045 - 53

Despite of the above benefit there are many other areas in insurance sector where with planned strategy the new entrants can penetrate themselves in the market.

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 and public sector units are being given empowered to make independent decision, they should be more free to decide their own growth path. It should also be possible for them to prove their potential strength by exploiting the tremendous opportunity such as substantial potential for growth; exploring untapped niche areas and forming limited joint ventures with suitable partners. Easy access to developments in the more advanced markets provides 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 entrants would necessarily take time to secure a foothold in the market was in itself 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 incursion into their territory. If they do not move fast enough, a valuable opportunity will have been lost.

The new entrants would be best served by micro-level pronged strategies.

1. They can introduce innovative products offering a right mix of flexibility/risk/return depending which will suit the appetite of the customers.

2. They can target specific niches, which are poorly served or are not served at all.

3. Being the agrarian economy again there are immense opportunities for the new entrants to provide the liability and risks associated in this sector like weather insurance, rainfall insurance, cyclone insurance, crop insurance etc.

4. The financial sector is aggressively targeting retail investors. Housing finance, auto finance, credit cards and consumer loans all offer an opportunity for insurance

companies to introduce new products like creditor insurance etc. Similarly, organized sector sales of TVs, refrigerators, washing machines and audio systems. Only a negligible portion of these purchases is insured. Potential buyers for most of this insurance lie in the middle class. This may be huge market for new private entrants.

5. The lack of a comprehensive social security system combined with a willingness to save in India will lead to a large demand for pension products. However, current penetration is poor. Making pension products into attractive saving instruments would require only simple innovations already prevalent in other markets. For example, their returns might be tied to index-linked funds or a specific basket of equities. Buyers could be allowed to switch funds before the annuities begin and to invest different amounts at different times.[62]

6. Health insurance is another segment with great potential because existing Indian products are insufficient. By the end of the GIC's Mediclaim scheme covered only 2.5 million people. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earnings through disability.

DISMANTING RESTRICTIVE BARRIERS

It is common knowledge that the restrictive barriers to growth were inevitably put up when the industry operated in a public sector mould. Promoting growth demands vision, but restrictions are easier to evolve and administer, and are therefore, strongly favored by bureareaucrats and politicians. In fact, more and more controls are often considered as the solution to any problem that crops up. As a result, the interventionist policy followed for more than 4 decades, unfortunately, degenerated into a system of rigid controls causing certain inefficiencies and burdened the country with a heavy cost. It is, therefore, essential that drivers of economic growth should hereafter shift from government control to competitive forces.[63] It is in this context that the government decided to have a

[62] Tanted Nitin "*Growth and survival strategy for Indian Insurance companies in the era of emerging global competition*", ICFAI, Faculty, Accessed on 07 /01/2009 at 11.45 am.

[63] Dayal, Ishwar "*Reorganization of LIC – A Rewarding Experience*", , Yogakshema, 2006,17– 18.

close look at that industry and the policy connected with it, and to consider if and what reform we are needed. The examination was entrusted to the Malhotra committee on reforms in the insurance sector, which submitted its report in January 1994. The question which the committee addressed it self to be as follows:

If competition is an allowed in the banking and non-banking sector, should life and general insurance remain state monopoly? If part of government's shareholding in selected public sector enterprises is being offered from the public, should a similar policy be adopted for the insurance industry? If so, how far should disinvestment go in order to make the insurance companies operationally autonomous, efficient and competitive?

The committee recommendation for setting up of any insurance regulatory authority in the form of a statuary autonomous board was seen as a sure signal of deregulation and was, therefore oppose tooth and nail by the employees and some ideologues. Monopolies are bad in themselves, more so when they are government monopolies, because they fail to realize in time that there needed to change the way they participated in the marketing to remain viable when new competitors emerged. At the time of the nationalization of the insurance business, it could not have been unknown that the creation of state monopolies would lead to lack of competition. Yet, at that point of time, it was believed that control over the huge fund and there utilization was absolutely necessary to ensure that state priorities for investments were observed. This thought overruled any considerations to enterprise, efficiency, choice etc.

Public sector companies have not been accustomed to competition and the challenges thrown up by it. They are now learning to live with the fact of larger number of players operating in the market. They must quickly discard there rigid and outmoded structures and procedures which impede fast decision making and overstaffing. This then results in high cost of services, the lack of a marketing approach and the inability to respond promptly to environmental changes. However, such a change is not necessary in a controlled regime and hence the need for disengagement of the government from there day to day working.

POSITIVE EFFECT OF COMPETITION

The opening up of markets fuels competition, the stimulating effects of which are now well documented. Insurance is a fast changing field and its full potential can be better exploited in a free market where dynamism and innovation is encouraged. This is possible when there is a judicious mix of regulation and healthy interplay of the market forces. The under developed insurance market in India offers an enormous opportunity for growth if conditions are made favorable for the same. For this to happen there had to be a large enough number of players so that none of them could individually or in combination with others, dominate the market. Accordingly, the market was opened and currently there are 20 new players in the two sectors of insurance. Even with the entry of a limited number of players, the pressure from the market to improve performance and service is felt. Encouraging and building up meaningful competition is expected to encourage insurers to seek out new market potential more energetically. It will also widen the financial base in the economy and will provide an addition stimulus to capital formation and more efficient use of capital. For instance, in developed markets, like the USA, insurance companies contribution to funds injected in capital markets, government bonds, and securities is in the region of 16 % as again just 1 % in developing countries.[64] Competition has provided improved opportunities to the customer for better products, with more reasonable and affordable pricing. The customer is also getting quicker service. As a result of the enhanced saving rate, larger long term funds for infrastructure development will be available. Moreover; an open regime will substitute a dynamic market for the efficient, protected one.

Thus, in insurance, the demand for privatization is not necessarily in response only to a lack of profitability. In fact, Indian insurance firms have been making modest profits and have contributed to the government bonds. It is the efficiently argument, in addition to that of improving public budgets, that is advanced to pled the case for privatization. The possibility of these gains has been corroborated in other countries that liberalized the insurance sector. Thus China, Malaysia and Singapore have witnessed a rapid growth in premium volumes, an enhancement in the domestic savings rate, advancement in information and communication technology, and improvement in services.[65]

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[64] Tripathy, Nalini Prava and Pal Prabir, "*Indian Insurance Industries – The Paradigm Shift*", Insurance Theory and Practice, New Delhi, (2005) P.29.

[65] Mathur, S.B, "*LIC Faces Stiff Challenges*", The Hindu, Nov. 15. (2007),P.87.

Privatization is neither a panacea for all the ills in a system, nor is it the end objective. It is only an enabling environment and a first step in bringing about the desired change. Therefore, it is questionable whether privatization will immediately enhance efficiently and company profitability. The experience of a number of developing countries shows that some of the benefits may not arise in the short run. A lower level of profitability may be accepted by private insurers in the initial period for various reasons. For example, increased competition may put pressure on premium rates and profits. Greater competition and increased advertising may also enhance the public's claims consciousness and lead to more claims, thereby actually causing some losses. Or again, in view of the sudden spurt in demand for them, the requirements of higher skilled staff may not be immediately met, and therefore, the expected higher efficiency gains may not be immediately obtained. The higher compensation demanded by them may cause a further strain on their expenses.

BENEFITS OF GLOBALISATION

In this age of global integration, no country can operate in isolation because in every economic, social and political activity, there is considerable interdependence between countries. A greater integration of the market with the rest of the world is accelerated by the breakdown of geographical barriers to the movement of capital across countries. Each country, therefore, operating in the international market, has to follow international norm and behaviour. Essentially; globalization brings benefits to all participating countries. The host country becomes a recipient of large foreign investments and foreign investors secure access to new and developing markets. Several benefits then flow in either direction in terms of expanding markets, improved products and services, new marketing and production technologies, and newer concepts of management.

So, far, our participation in global market in virtually all sectors of the financial services sector has virtually all sectors of the margin and our insurance institutions in particular have been relatively insulated from world market. Now, due to the advantages of opening up that could accrue to India, business has operated beyond the national boundaries. In the main, globalization will secure for India's larger inflows of foreign capital needed to sustain our GDP growth. In addition, new entrants with a

professional approach and state of the art technology will revolutionize the market by bringing about tremendous improvement in service. Moreover; global competitors will help in building expertise with their best global practices.

BENEFITS OF PRIVATIZATION

1. Creation of jobs

New insurance companies are expected to help in expanding the employment resulting in more employment opportunities. Greater the market expands, higher the opportunity for new employment.

2. New and Innovative business

Privatization leads to the development of new and innovative products in the field of Life & General insurance. Entry of foreign players with their professional approach and innovative temperament will accelerate the trend of introducing tailor-made, need-based business.

3. Greater management skill

Entry of global insurance giants with much more risk management skills and greater risk absorbing capacity will ensure introduction of products having deeper and wider insurance converge. New entrants will like to focus on their new area and thus opting to offer products with new coverage.

4. Greater operation of freedom

Investment managers in private sector enjoy greater operational freedom than their counterparts in the public sector and consequently the private companies can expect to obtain a better yield on investments than Life insurance & General Insurance Corporations.

5. Customer needs and service

This impetus of liberalization will see the industry transforming approach towards its customer. Unfortunately in recent past there has been much lip talks on this than any actual

improvement coming up from public sector insurers. Relieved from bureaucratic shackles, industry could become more sensitive towards customer-needs and service.

6. Expansion of Insurance Market

Greater the expansion of insurance market, higher the opportunity for so many other sector of the economy to grow. This can provide a sustained market for a variety of businesses like, market for hardware and software products, training institutes and professional services such as legal, consultancy, financial, intermediary and large pool of long term resources for financing infrastructure development.

7. Social Security

The new era of liberalized insurance sector will ensure over all economic growth of the country and bring more and more people under the coverage of insurance. This will ensure extending the benefits of social security to large sections of our population. The left trade unions have expressed some reservation and apprehensions in allowing private entry on the following grounds.

1. The private companies would concentrate mainly on the urban segment.
2. Without adequate regulation the funds may not reached the public for their benefit.

Although there may be some grain of truth in the fear and apprehensions aired by left trade unions and the employees of Life Insurance & General Insurance Corporations, the benefits to the nation would certainly outweigh them. Thus it is clear that the action of our present Government in passing the Privatization Bill is on the whole a step in the right direction and also in the best interest of the country. The Government which has considered the opposition to this in-depth has also given solemn assurances to safeguard the interest of the employees of Life Insurance & General Insurance Corporations which, of course is one of the public sector institutions.

DEMERITS OF PRIVATIZATION

Merits or advantages of taking a company from state-owned to a private company are that it will force the company to operate efficiently without state subsidies. If it does not do so, it will go out of business. It will be forced to compete with other companies and will have to reduce costs.

The big demerit or disadvantage is that the company will no longer operate in the public interest. While a state-owned company primarily serves the citizens of the state, the primary goal of a privately operated company is to make profit. It may make these profits at the expense of its customers without serving them properly. For example, it may choose the market which is most profitable to operate in and leave less wealthy customers without a service.

THE ABILITY TO COMPETE

This is a new business environment for both the public as well as the private sector. It is new to the public sector in the sense that competition is new to them, although they are very well-acquainted with insurance, For the private sector, it is new in the sense that they have not dealt in insurance, although they are very well accustomed to managing other business. Some aspects of operating in an open environment will be learned only by experience, which will enable new companies to adjust to the pace challenges and prices of new market. For the private companies, especially with partners from overseas, Knowledge of local condition and practices is absolutely essential and even foreign companies which, if the IRDA Rules permitted, have the ability to invest a 100 % of their capital, would still like to have an Indian partner.[66] They could start off with certain advantages such as an established brand image, global strength, and vast untapped potential. They are also likely to have access to new distribution channels, and expertise in different /new product areas. Their competitive strength will increase with the adoption of the latest technology and also enjoy substantial labour cost advantages. However, they will have to build up their own local strength in due course.

[66] Krishnamurthy, R., "*Blueprint for Success - Bringing Bancassurance to India*", IRDA Journal, Vol.I, No.9, August, (2007) P.20-23.

Some of the intending entrants, who were active in India prior to nationalization, may assume that they know the Indian market well. This can be only partially true since conditions in the last few decades have changed enormously. They cannot, therefore, bank on their earlier familiarity with the Indian market. In the case of joint ventures, the foreign partner has to ensure that they send to India the highest-rated marketing and management staff. Some USA and Canadian life insurers tried to conduct overseas operations from their corporate headquarters without assigning their most qualified insurance executives. These companies relied instead on less experienced junior executives in other countries which proved to be a formula of failure for many.[67]

The new companies have to be equally careful in recruiting staff from the open market. And, where they have lured away handpicked staff from the public sector, mainly in senior levels, efforts are afoot to wean them away from the government culture. They face a difficult task because they are required to both ensure returns and reduce expenses. They have also to be more flexible and provide new products in an environment of economic instability. They will have to tackle problems in several other areas too to acquire competitive strength. These areas relate to selection of partners, selection of lines of business, size of concerns and size of business, chain of command and procedures, intermediaries, the adoption of the latest and innovative technologies, computerization, and IT. Cost control is a matter of great relevance for both private as well as public sector units and here, the new companies have an edge over the public units. Immediately after nationalization, the nationalized units launched on a programme of branch expansion, without, perhaps, much consideration for the economics of the same. These need their cost very high. The new entrants are more careful and systematic in opening their branch office. Hence they are likely to be more cost effective. Since the nationalized companies cannot easily close down branches that are already in existence and have been for years, there is an exercise going on to re-examine the necessity of continuing with the branches that are economically not viable at present or in the future. Surprisingly, at least some of such branches are closed and their business is entrusted to other suitably located branch offices.

THE CHALLENGES

[67] Bernstein I Jeffery "*Total Factor Productivity Growth in the Canadian Life Insurance Industry*" Canadian Journal of Economics Vol 32, April 1999, P. 500-17.

Liberalization, globalization, economic slowdown, falling interest rates, uncertainties of the international situation and heightened customer expectations are posing challenges before the industry. In the coming few years, the industry will have to tackle a variety of challenges. They include the following – bringing about a vast improvement in the quality of service; broadening the range of products; capturing a large enough chunk of the market; making their operations cost – effective; competing on the basis of their inherent strength; designing products to suit the Indian market; reaching the break – even point in as short a period as possible; and improving geographical and market reach. One of the challenges is going to be balancing the growth in business on the one hand and risk management on the other. The concept of insurance potential has two dimensions. One dimension is the 'extension' of coverage in terms of the 'number' of prospects, the other dimension relates to the 'intensity' of coverage, i.e, in terms of the 'amount' of insurance cover in view of paying capacity and need for insurance. Intensity of coverage will be largely determined but the pattern of distribution of income in the society, level of employment in the country, area –wise concentration of people in the middle to high income range, level of insurance awareness, etc.

Individuals in countries with a high GDP per capita have high amount of insurance per head, defined as the 'density of insurance'. However, a given rate of increase in the GDP may result in varying degrees of increase of insurance per point is defined as the penetration of insurance. As seen above, the challenges are many; but the time is short. Competition has already set in and could make the existing players lose some share of the market if they do not act fast enough to change their strategy along the above strength that would sustain them in a competitive environment. Simultaneously, they will also attempt to minimize the weakness by adopting a suitable strategy of motivation and reward.

One significant advantage for the early entrants or movers could be in terms of retention of the customer base, since customers will find it difficult to switch over to another company after the initial purchase of a policy. For the later entrants; therefore, the challenges will be to tap the vast unexplored, but less easily accessible market. The chances are that the early entrants will have already captured the business that was easy to reach.

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CHAPTER THREE

REGULATION AND INSURANCE LAWS

Insurance in India started without any regulation in the Nineteenth Century. It was a typical stories of a colonial era a few British insurance companies dominating the market serving mostly large urban centers. After the independence, it took a dramatic turn. Insurance was nationalized. First, the life insurance companies were nationalized in 1956, and then the general insurance business was nationalized in 1972. Nationalization of Life Insurance business costs special responsibility to the LIC.[68]Only in 1999 Private insurance companies have been allowed back into the business of insurance with a maximum of 26 % of foreign holding, And now the UPA Government under Prime Minister Dr. Manmohan Singh had raised the foreign holding from 26 % to 49 %.The foreign joint venture partners have consistently been asking for raising the ceiling beyond

[68] LIC V/S Parvatavardhini, AIR 1956, Mad 357. & New India Assurance V/S Solochana, 1962, Assam.

the level 26%, Finally the government under the leadership of Dr. Manmohan Singh had raised the foreign holding to 49 %.[69]

It is not enough for the government merely to make policy announcements about the need for change in the insurance sector, and then expect it to take place automatically or on its own violation and in due course of time. In case of insurance, because of the heavy opposition from vested interests, the government had to be almost aggressive in pushing ahead with change, which required it to take an active lead in

- Laying down clear and transparent policies;
- Safeguarding various interests;
- Ensuring the adequate spread of insurance cover;
- Improved services;
- Mobilizing large resources;
- Ensuring capital adequacy;
- Taxing policies;
- Social responsibilities;
- Setting up regulatory machinery;
- Changing the law whenever required

Fortunately, substantial action has already taken in all these respect; though much more remains to be done as soon as possible. All the above plays a pivotal role for developing the insurance industry. Hence right from the beginning we have seen various laws, committees and reforms in insurance sector.

INSURANCE REGULATIONS

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. All of these companies operated in India but did not insure the lives of Indians. They were there insuring the lives of European living in India. Some of the companies that started later did provide insurance for Indians. But, they were treated as "substandard” and therefore had to pay an extra premium of 20 % or more. The first company that had policies that could be bought by Indians with "fair value" was the Bombay Mutual Life

[69] The Times of India12 January 2009.

Assurance Society starting in 1871. The first general insurance company, 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 Bombay in 1907.

By 1938, the insurance market in India was buzzing with 176 companies (both life and non-life). However, the industry was plagued by fraud. Hence, a comprehensive set of regulations was put in place to stem this problem. On formation of the LIC the provision of the insurance Act 1938 apply to life insurance business only as modified by *section 43* of the LIC Act, 1946. These provisions apply to regulate the working of the LIC and one of various effects.[70] By 1956, there were 154 Indian insurance companies, 16 non-Indian insurance companies and 75 provident societies that were issuing life insurance policies.[71] Most of these policies were centered in the cities (especially around big cities like Bombay, Calcutta, Delhi and Madras). In 1956, the then Finance Minister S. D. Deshmukh announced nationalization of the life insurance business.

WHY REGULATIONS

Any sector, which touches the life of the common man, needs regulation, particularly so when inequalities and disparities of different types obtain or likely to occur on account of the action or inaction on the part of the economic agents involved. For example, there can arise inequalities of opportunity; inequalities of income; wealth; regional imbalances; inter-sectoral imbalances; inequalities in social infrastructure, etc. This becomes particularly relevant in developing countries when they launch on a liberalization programme. As the market in such countries are not well developed, they cannot be relied upon for ensuring that in the process of deregulation, public monopolies are not replaced by private monopolies.

Regulation of insurance acquires significance in sensitive areas life financial transactions, where chances of mismanagement, deception, fraud etc, are more possible. If such malpractices do occur, the loser is the common man does not understand the

[70] Srinivasan M N, "*Principles of Insurance Law*", Eighth Edition, General Editor – J Ranganath Misra, Publication – Wadhwa and Company, 2006 P.45.

[71] Bodla B.S, Garg M.C, Singh K.P, "*Insurance Fundamentals, Enviornment and Procedures*", Deep &Deep Publication Pvt Ltd, 2003, P.14.

intricacies of the transactions and can be misled. Hence, social supervision, that is, government supervision, becomes essential. This is true for all the sectors in the financial services viz banking, stock market, and insurance. In common with other financial services, insurers are repositories of public trust, and accept money from the insured in return for a promise of payment at some future date or on the occurrence of some particular event. An insurance company can fulfill this commitment only if it has adequate professional capability, is financially soundly managed, holds adequate reserves to meet the requirement of fund switch reference to the nature of term of liabilities, and invests its huge funds carefully. This need explains the paradox that even while on the one hand, countries with a very stiff restrictive regime are trying to dismantle some of the redundant controls, and on the other hand, countries with less interventionist policy are attempting an increased level of regulation. Collaboration with foreign companies which are globally experienced and are large in size are no guarantee that all such companies will behave well. Reckless rate wars, undercutting, unhealthy links with industrial houses and a disregard for prudential norms are not totally unknown in other markets. Hence, there is a need to regulate them strictly. Accordingly, they are subjected to close regulation by the state in all countries, with the objective of ensuring that their business is run fairly, is conducted by competent persons, and protect the legitimate interest of the insuring public.

It is not as if regulation becomes necessary only when there are private players in the field. There are an operation which requires professional regulation even in the nationalized sector, particularly in areas relating to expenses, customs service, and claim settlement resolution of disputes, reasonableness to tariffs and prevention of restrictive trade practices. The Malhotra Committee also felt that the insurance regulatory apparatus should be activated even in the present set up of the insurance sector and recommended the establishment of a strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of the SEBI. The experience of the banking sector and the capital markets, where regulatory mechanisms have been set up and regulation has been enforced with some firmness, has been good. Thus the banking sector has a board for financial supervision, since November 1994, and the stock markets are overseen by the SEBI. Insurance has seen the emergence of the IRDA, which has become functional since the beginning of the year 2000. With the private sector's entry into the insurance business, a regulatory system became even more necessary in the insurance

industry where large monetary stakes are involved and for which there are parallels in other part of the world. The Malhotra Committee also observed that while regulation over the other financial sectors has been strengthened, the regulation of insurance industry was organized in a peculiar manner under which the industry itself was also its regulator. This reddened the concept of regulation itself ineffective regulation over the insurance business would become all the more urgent if the sector were to be liberalized.

Regulation is often opposed on the ground that regulations render the market less competitive, less efficient and inhibit entrepreneurship. Regulations are also perceived to be inflexible, expensive and administered as in a command and control fashion. It is argued that the resolution of these issues by an open market will obviate the need for any legislation. On the other side, there is a forceful school that insists that such regulations are needed because the private sector incentives will never be adequate. It is too costly and virtually impossible for individuals to monitor large institutions, and the government can do so more efficiently with various instruments at its command. Without regulation, the individual would be unable to differentiate between honest, unscrupulous or shaky insurers.

There are alternatives, but the most effective is the rule of law. The government has the authority to impose penalties for breach of contract and mechanisms for determining when that has occurred. Regulation is a preventive approach that attempts to set boundaries for behavior beyond which there would be an implicit or explicit breach of contract. Such a breach would have to be handled by the courts or by arbitration, or by a similar law – dispensing agency.

The conclusion is that Bishop was right, concerning the efficient distribution of economic loss, when he said that courts do not have enough information to make this appears to be true also of the insurance factors, and judges are aware of this. Consequently, there is reason to believe that judicial perception of insurance has influenced significantly the rules of liability developed by the works. The influence of insurance and insurers is seen most clearly in parliament, in the form of persuasion, and in the courts in the conduct of litigation. In each case the influence has been mostly to moderate or restrict liability.[72]

OBJECTIVES OF REGULATIONS

[72] Malcolm Clarke, "*Clarendon Law Series Policies and Perceptions of Insurance Law in Twenty First Century",* Publication Oxford University Press, Edition April 2007 P. 333.

Regulation in insurance are a general set of principles covering minimal requirements for best practices in the areas of licensing, prudential regulations and requirements; supervisory powers, managing asset quality and loss provisioning and most importantly, enhancing corporate governance in insurance organizations – all unexpectationable in principle. However, there is no universally accepted model of regulation and different countries have different arrangements. There can be shades of control by the regulator – regulation can be strict or it may be liberal; supervision can be strict or it may be more intrusive or less; a large area of activities may be more intrusive or less; a large area of activities may be brought under the purview of the regulatory authority or it would be limited. The exact set up will depend on the economic and political philosophy of the country concerned. The objectives before a regulator also change from country to country, depending on its accepted political philosophy and its history in relation to a given industry (according to Malhotra Committee). There is however, no globally accepted model of regulation. Each country has its own laws and regulatory arrangements depending upon its experience, administrative capabilities and socio economic and political preferences. These vary from tight regulations controlling virtually every aspect of insurance business to liberal off site supervision. All regulatory arrangements try to create system whereby alarm signals are triggered in good time in respect of insurance institutions drifting towards mismanagement and insolvency. So that timely correctives can be applied.

One of the most important aspects of regulation is that while the role of regulation cannot be overemphasized, one has to bear in mind that regulation is a means and not an end unto itself. Its ultimate aim should be to facilitate the development of a healthy insurance market and to protect the genuine interest of consumers. The Malhotra Committee pointed out that these two objectives are not mutually exclusive and both should receive due consideration. The health of the companies can be improved by introducing competition into the market, while protection of consumer interest can be ensured by guarding against unfair and unbridled competition.

The regulator has to be alert about these possibilities and must have a system to produce alarm signals in advance to be followed by timely precautionary action to deal with them. In the main, the regulator has to ensure capital adequacy of the insurers in order for them to be able to cover the risk of advance events, assets failure, and liability underestimation to

write new business at adequate premium rates. Imposing capital requirements can be a simpler mechanism than waiting to see if claims can be settled.

MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

Year Significant Regulatory Event

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 (interim) Insurance Regulatory Authority (IRA) Recommendation of the IRDA.

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 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 NRI's and FII's1999 The Standing Committee headed by Murali Deora decides that foreign equity in Private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill

1999 Cabinet clears IRDA Bill.

2000 President Gives Assent to the IRDA Bill.

April, 2000 – the IRDA actually came in to being with effect from April 19, 2000, vide a government notification.

May 1, 2002 – Sweeping changes in all India fire tariff were introduced.

June 14, 2000 – Insurance Regulatory and Development Authority (licensing of insurance agents) Regulations, 2000 issued.

June 14 2000- General Insurance - Reinsurance Regulations, 2000.

June 14 2000 – Insurance Regulatory and Development Authority (obligation of insurers to rural and social sector) Regulations Notification, 2000.

July, 2000- IRDA announced guidelines for entry of private insurance companies.

October – December, 2000 – the IRDA began issuing license to private companies .Originally expected in January – March, 2001 insurance schemes from private insurers became available to the public from December 2000, and addition products have been entering the market since then.

July, 2002 – the bill to delink the four subsidiaries from the GIC passed. After the assent of the president of India, the bill was converted into the general insurance business amendment Act 2002, by which the companies now stand delinked

October 2002 – guidelines for licensing and rules of operation of direct and reinsurance brokers announced.

January, 2003 – first set of licenses to insurance brokers issued.

March 20, 2003 – drastic changes in remuneration pattern of direct insurance brokers issued.[73]

Since UPA government has taken power time and again there was a demand to raise the FDI but with the opposition within the UPA government FDI cannot be raised. But, in 2009 government had raised FDI to 49 % now it is the time to see that what will be the effect of the raise in the foreign holding on the life insurance corporation.[74]

There was a demand again and again to raise the foreign holding in insurance sector hence the union cabinet had given approval to the insurance (amendment) Bill, 2008 for amendment to Insurance Act 1938, General Insurance business (nationalization act 1972 and IRDA Act 1999 at the same time they had also given approval to the life insurance corporation (Amendment Bill) 2008 in Lok sabha on the basis of the recommendations.

The amendment will remove archaic and redundant provisions in the legislations incorporate certain provisions to provide IRDA with flexibility to discharge its functions effectively and efficiently

[73] Tapan Sinha, "privatization of the insurance market in India: from the British raj to monopoly raj to swara", tapen@nottingham.ac.uk CRIS paper series 2005 Accessed on 10 /01/2009, at 11.03 am.

[74] The Times of India 4th January 2009.

Raising FDI cap in the insurance sector from the existing 26 % to 49 % is a welcome initiative as it would encourage several foreign insurance companies to enter the Indian Insurance market and contribute to strengthening of the insurance sector. Raising the FDI limit to 49 % may increase the total FDI in the life insurance industry by almost 2.5 times from the current levels of approximately RS 2500 crore.[75] The increased in FDI will add to the foreign inflow into the Indian economy giving boast and will enable the Insurance Industry to grow and reach out to the length and breadth of the country. It is the opinion of UPA government that Increase in FDI would also help the insurance sector to further expand, launch innovative, distribution channels, upgrade technology, enhance the current product portfolio and bringing in global best practices.

REFORM IN INSURANCE INDUSTRY

Although Indian markets were privatized and opened up to foreign companies in a number of sectors in 1991, insurance remained out of bounds on both counts. The government wanted to proceed with caution. With pressure from the opposition, the government (at the time, dominated by the Congress Party) decided to set up a committee headed by Mr. R. N. Malhotra (the then Governor of the Reserve Bank of India).

MALHOTRA COMMITTEE

Liberalization of the Indian insurance market was recommended in a report released in 1994 by the Malhotra Committee, indicating that the market should be opened to private-sector competition, and ultimately, foreign private-sector competition. It also investigated the level of satisfaction of the customers of the LIC. Curiously, the level of customer satisfaction seemed to be high. The union of the LIC made political capital out of this finding.[76]

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[75] Kayakers, Roshni, "Covering Lives: Business Today", June8, (2008) P.68.

[76] wwwmaoism.org, Accessed on .11th January 2009, at 2 p m.

The following are the purposes of the committee.[77]

(a) To suggest the structure of the Insurance Industry, to assess the strengths and weaknesses of insurance companies in terms of the objectives of creating an efficient and viable insurance industry, to have a wide coverage of insurance services, to have a variety of insurance products with a high quality service, and to develop an effective instrument for mobilization of financial resources for development.

(b) To make recommendations for changing the structure of the insurance industry, for changing the general policy framework etc.

(c) To take specific suggestions regarding LIC and GIC with a view to improve the functioning of LIC and GIC.

(d) To make recommendations on regulation and supervision of the insurance sector in India.

(e) To make recommendations on the role and functioning of surveyors, intermediaries like agents etc. in the insurance sector.

(f) To make recommendations on any other matter which are relevant for development of the insurance industry in India?

- The committee made a number of important and far-reaching recommendations.[78]

(a) The LIC should be selective in the recruitment of LIC agents. Train these people after the identification of training needs.

(b) The committee suggested that the Federation of Insurance Institute, Mumbai should start new courses and diploma courses for intermediaries of the insurance sector.

(c) The LIC should use an MBA specialized in Marketing (a similar suggestion for the GIC subsidiaries).

(d) It suggested that settlement of claims were to be done within a specific time frame without delay.

(e) The committee has several recommendations on product pricing, vigilance, systems and procedures, improving customer service and use of technology.

(f) It also made a number of recommendations to alter the existing structure of the LIC and the GIC.

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[77] www.irdaindia.org, "*Malhotra Committee Report*", accessed on 19/1/2009, at 2 pm.

[78] www.irdaindia.org, "*Malhotra Committee Report*", accessed on 19/1/2009, at 2 pm.

(g) The committee insisted that the insurance companies should pay special attention to the rural insurance business.

(h) In the case of liberalization of the insurance sector the committee made several recommendations, including entry to new players and the minimum capital level requirements for such new players should be Rs. 100 crores. However, a lower capital requirement could be considered for a Co-operative sectors' entry in the insurance business.

(I) The committee suggested some norms relating to promoters equity and equity capital by foreign companies, etc.

On the recommendations of the Malhotra Committee, government has set up an interim insurance regulatory apparatus essential for proper monitoring and control of the Insurance Industry. The IRDA is headed by a chairman who is also the controller of insurance and chairman. The other members of the IRA, not exceeding 7 in number of whom not more than 3 shall serve full time, shall be nominated by the government.[79]

MUKHERJEE COMMITTEE

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. A recommendation of the Mukherjee Committee was 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 (probably on the advice of some of the potential entrants) that it could affect the prospects of a developing insurance company.[80]

VARIOUS DUTIES OF THE REGULATOR

A regulatory authority has to shoulder heavy responsibilities and has to perform a difficult role. On the one side of the coin, it has to guard against malpractices and

[79] Razdan Dheeraj, "Insurance *peinciples, Applications and Practices",* Publication Cyber Tech Edition 2009 P.34.

[80] www.irdaindia.org, *"Mukherjee committee report",* accessed on 20/1/2009, at 1 pm.

at the same time, it has to impose restrictions in a manner by which the normal working, the progress has to monitor the flow of information and adherence to legal and accounting standards and should feel confident that the companies under its supervision are performing sufficiently well. While monitoring the new players, it has to ascertain that they have probity, adequate professional capability and financial solvency. Other important aspects would be an emphasis on premium control, fair premium rates, approved policy wordings, control of investments and continuing audit and intervention, equitable allocation of profits between different groups of policy holders, goods return for money and speedy settlement of claims. Failure of insurance companies could arise on account of one or more of the following factors.[81]

1. Inadequate pricing
2. Improper method of reserving
3. Poor/Inappropriate investment strategy
4. Failure to maintain adequate solvency margin
5. Poor underwriting and claims control
6. Uncontrolled growth of the company's business
7. Inadequate control system and efficiency

The regulator has to be alert about these possibilities and must have a system to produce alarm signals in advance to be followed by timely precautionary action to deal with adequacy of insurers in order for them to be able to cover the risk of adverse events, assets failure, liability underestimation, reinsurance failure, excessive expenses and temptation to write new business at adequate premium rates. Imposing capital requirements can be a simpler mechanism than waiting to see if claims can be settled.

PROTEST OF IRDA BILL, 1999

The attempt to introduce the bill evoked protest from some segments of the industry as well as from section of politicians. The reason was its perceived political and ideological implications. It was seen as a signal that if the insurer sector, which was than totally state controlled, was opened up, it would indicate the government's resolve to extend the process to other sectors as well a position not readily accepted by political

[81] www.irdaindia.orga, accessed on 01 February 2009 at 10am.

parties with leftist leanings. The Lok Sabha had passed by voice vote the Insurance Regulatory and Development Authority Bill, 1999, aimed at opening up the insurance sector to private companies amidst walkout by the Left, Samajwadi Party and Rashtriya Janata Dal. The house adopted the bill after rejecting all the Opposition's amendments and accepting the four moved by Finance Minister Yashwant Sinha following pressure from the Congress. Earlier, in his reply, Sinha had informed the members that the government had accepted most of the suggestions made by the Congress.

The IRDA Bill 1999, providing for a maximum foreign equity of 26 per cent, passed the first stage with its passage in the Lok Sabha after the government bowed to Congress pressure and moved four official amendments. A seven-hour discussion marked the adoption of the IRDA Bill. The amendments included one for inserting the social obligation clause and penalty provision for defaulters. The amendment moved by Rupchand Pal (CPI-M) was subjected to division. Some others were withdrawn. The bill seeks to open insurance, presently dominated by the public sector the General Insurance Corporation and the Life Insurance Corporation to the private sector. Responding to a demand from Communist Party-Marxist member Rupchand Pal and others that the private insurance companies provide for 25 per cent of the invisible funds for the social sector, Sinha said, *"We are agreeing to 50 per cent. What percentage are you talking about? Such regulations shall apply uniformly to all the insurance"*. After the six-and-a-half hour debate, only one amendment moved by Pal was subjected to division and all the others were either withdrawn or negative by voice vote. The bill seeks to provide for a maximum of 26 per cent foreign equity in the insurance sector, presently dominated by the public sector GIC and LIC.

The bill provides for:

- The establishment of IRDA as a corporate body to regulate insurance business in the country.
- Establishment of insurance advisory committee with not more than 25 members.
- IRDA to make guidelines and rules for the insurance sector.
- The entry of private companies.
- A cap of 26 per cent for foreign equity, including foreign institutional investors.

- The four amendments adopted stipulate obligations of insurer in respect of rural and unorganized sector and backward classes and penalty for failure to comply with the provisions.
- IRDA to levy fees and other charges and supervise the functioning of the tariff advisory committee.
- Specifying percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.
- Adjudication of disputes between insurers and intermediaries[82].

The IRDA Bill 1999 is another step in the hourglass after the British rulers brought the insurance business under regulation in 1938. In 1956, the Indian government nationalized the life insurance business and created the Life Insurance Corporation of India. Another step came in 1972 when the General Insurance business was nationalized by creating the GIC, resulting in diminishing the role of Controller of Insurance. The newly drafted IRDA Bill 1999 was again introduced by the Vajpayee government on October 28 in the first session of 13th Lok Sabha.

The main two political poles of Indian politics – the Congress Party and the Bharatiya Janata Party (BJP) - are both in favor of the reform. Only the extent of the reform and who-will-bell-the-cat-and-get-the-(dis)credit factor bar them in reaching a consensus for more sweeping reforms. The populist out-of-fashioned socialistic jingoism, masking these parties rightist ideology, is fast losing its appeal to the masses. This will only hasten the reform process.

POWERS AND FUNCTIONS OF IRDA

The IRDA has the duty to regulate, promote and ensure orderly growth of the insurance and reinsurance business. The powers and functions of the IRDA include[83]:

(a) registration/modification/cancellation of registration of insurers;

[82] www.irdaindia.org accessed on 01 February 2009 at 10 am
[83] Section 14 of IRDA Act 1999

(b) to cause compliance of the requirement of capital structure of the companies as also solvency margin, insurance business in rural and social sector, submission of their returns/reports, approval and preparation of the scheme of amalgamation and transfer of insurance business;

(c) To issue of license to insurance intermediaries or agents;

(d) Control over management of insurers;

(e) Search and seizure,

(f) Protection of interest of policy holders,

(g) Promotion and regulation of professional organizations conducting insurance business,

(h) Regulation of investment of funds by insurance companies,

(i) Investigation and inspection of the affairs of the insurers,

(j) Adjudication of disputes between insurers and insurance intermediaries,

(k) Supervising functions of Tariff Advisory Committee,

(l) And to frame regulations to carry out purposes of the Insurance Act, 1938.

Pursuant to its power under the IRDA Act, the IRDA has framed 27 sets of Regulations on various topics like preparation and submission of actuarial reports, obligations of insurers to rural and social sectors, registration of Indian insurance companies, preparation of financial statements and auditor's report of insurance companies, form of annual statements of account and record, insurance brokers, etc. These regulations are important constituents of the Regulatory regime.[84]

TARIFF ADVISORY COMMITTEE

[84] Taxman's "*Insurance Law Manual with IRDA circulars and Notifications*", Edition 2006 Published by Taxman Allied Services Pvt Ltd p 1.9.

The Tariff Advisory Committee ("Advisory Committee") is a body corporate, which controls and regulates the rates, advent ages, terms and conditions offered by insurers in the general insurance business. The Advisory Committee has the authority to require any insurer to supply such information or state events necessary for discharge of its functions. Any insurer failing to comply with such provisions shall be deemed to have contravened the provisions of the Insurance Act. Every insurer is required to make an annual payment of fees to the Advisory Committee of an amount not exceeding in case of reinsurance business in India, one percent of the total premiums in respect of facultative insurance accepted by him in India; and in case of any other insurance business, one percent of the total gross premium written direct by him in India.[85]

INSURANCE ASSOCIATION OF INDIA, COUNCILS AND COMMITTEES

All insurers and provident societies incorporated or domiciled in India are members of the Insurance Association of India ("Insurance Association") and all insurers and provident societies incorporated or domiciled elsewhere than in India are associate members of the Insurance Association. There are two councils of the Insurance Association, namely the Life Insurance Council and the General Insurance Council. The Life Insurance Council, through its Executive Committee, conducts examinations for individuals wising to qualify themselves as insurance agents. It also fixes the limits for actual expenses by which the insurer carrying on life insurance business or any group of insurers can exceed from the prescribed limits under the Insurance Act. Likewise, the General Insurance Council, through its Executive Committee, may fix the limits by which the actual expenses of management incurred by an insurer carrying on general insurance business may exceed the limits as prescribed in the Insurance Act.[86]

OMBUDSMEN

The Ombudsmen are appointed in accordance with the Redressal of Public Grievances Rules, 1998, to resolve all complaints relating to settlement of claims on the part of insurance companies in a cost-effective, efficient and effective manner. Any person who

[85] Sec 64 U Insurance Act 1938.
[86] Section 64 A Insurance Act 1938.

has a grievance against an insurer may make a complaint to an Ombudsman within his jurisdiction, in the manner specified. However, prior to making a complaint, such person should have made a representation to the insurer and either the insurer has rejected the complaint or has not replied to it. Further, the complaint should be made not later than a year from the date of rejection of the complaint by the insurer and should not be any other proceedings pending in any other court, Consumer Forum or arbitrator pending on the same subject matter. The Ombudsmen are also empowered to receive and consider any partial or total repudiation of claims by an insurer, any dispute in regard to the premium paid in terms of the policy, any dispute on the legal construction of the policies in as much such a dispute relates to claims, delay in settlement of claims and the non-issue of any insurance document to customers after receipt of premium. The Ombudsmen act as a counselor and mediator and make recommendations to both par ties in the event that the complaint is settled by agreement between both the parties.[87] However, if the complaint is not settled by agreement, the Ombudsman may pass an award of compensation within three months of the complaint, which shall not be in excess of which is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril, or for an amount not exceeding rupees two million (including exgratia and other expenses), whichever is lower. Ombudsman within his jurisdiction, in the manner specified. However, prior to making a complaint, such person should have made a representation to the insurer and either the insurer has rejected the complaint or has not replied to it. Further, the complaint should be made not later than a year from the date of rejection of the complaint by the insurer and should not be any other proceedings pending in any other court, Consumer Forum or arbitrator pending on the same subject matter. The Ombudsmen are also empowered to receive and consider any partial or total repudiation of claims by an insurer, any dispute in regard to the premium paid in terms of the policy, any dispute on the legal construction of the policies in as much such a dispute relates to claims, delay in settlement of claims and the non-issue of any insurance document to customers after receipt of premium. The Ombudsmen act as a counselor and mediator and make recommendations to both parties in the event that the complaint is settled by agreement between both the parties. However, if the complaint is not settled by agreement, the Ombudsman may pass an award of compensation within three months of the complaint, which shall not be in excess of which

[87] Section 67 of Insurance Act 1938.

is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril, or for an amount not exceeding rupees two million (including ex gratia and other expenses), whichever is lower. Every insurer seeking to carry out the business of insurance in India is required to obtain a certificate of registration from the IRDA prior to commencement of business. The pre-conditions for applying for such registration have been set out under the Act of 1938, the IRDA Act and the various regulations prescribed by the Authority.

INCOME TAX ACT

The tax laws in India have always encouraged people to save through life insurance or other instruments, by proving relief from tax liabilities. The details provided herein are, as on a date when the course was being written. These could change at any time, through budget provisions or otherwise. The agent should keep himself update which the changes. Offices of the insurance companies would normally communicate the effect of such changes for the benefit under a policy.

The amount of income tax payable on the total income, is reduced by a percentage of the aggregate amount paid towards insurance premium contribution to provident fund or approved superannuation fund, national savings certificate etc. The percentage of deduction was flat 20 % of the aggregate subject to limits. Most of the assesses could get the rebate to the extend of RS 15000 some could get more.[88] This position had changed since 2002. The deduction reduces as the income slab goes. The wealth Tax Act exempt life insurance policies totally provided premiums are payable for a period of 10 years or more. If the policy term is less than 10years, proportionate value of the right or interest of the assesses in the policy will be exempted. Hence such policies will have to be included in the net wealth as on the date of valuation.

If the income tax is wrongly deducted by LIC the complainant who was a member of group superannuation fund scheme, if he leave the job with the employer. The LIC offered the amount after deducting income tax at sources. A complaint was filed for refund of the amount along with interest. The record revealed that the income tax was deducted as per the instructions received from the employer. Thus, no deficiency of services on the part

[88] Ravishankar, D., "*Where to Sow, How to Reap – Investment Options for Insurance Companies*", IRDA Journal, Vol.3, Dec., No. 1, (2007) P. 18-20.

of LIC was found cause of action, if any was against the employer. Since the compliant against LIC was not maintainable, it was dismissed.[89]

MARRIED WOMEN'S PROPERTY ACT 1874

Section 6 of M W P Act provides that a policy of insurance effected by any married man on his own life and expressed on the face of it for the benefit of his wife and children shall be deemed to be a trust for the benefit of his wife and children and shall not be subject to the control of the life assured or his creditors of from part of his estate. The implications of this act for life insurance policies.

The rules provide that no policy can be given to any married women for more than the policy of her husband.[90]

LEGISLATIVE DEVELOPMENTS AFTER 1999

The Insurance Amendment Act, 2002 permitted, by way of insertion of S.2 (8A) in the Insurance Act, 1938 insurance co-operative societies, registered under the Co-Operative Societies Act, 1912 or Multi-State Co-Operative Societies Act, 1984 or under any state law relating to co-operative society to carry on any class of insurance business. However, the IRDA has been empowered to exempt an insurance co-operative society from the application of any of the provisions of the principal Act or application of its provisions with exceptions, modifications or adaptations.[91] The Amendment Act provided for insurance intermediaries, including insurance brokers and consultants, and provisions for the payment of commission, brokerage or fee to them, thereby introducing in this country the business practiced the world over in this area. Further, S.49 of the Act has been modified provide shareholders an entitlement of actuarial surplus. By virtue of amendment to S.64 VB, the IRDA has been authorized to prescribe the mode of payment of premium, i.e., through credit cards or through the internet which in turn might result in an increase in insurance business? Moreover, the General Insurance Business (Nationalization) Amendment Act, 2002 made the General Insurance Corporation the only reinsures to carry on exclusively reinsurance business in India. It ceased to carry on general

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[89] Dariyave Singh B Karnawat v/s LIC 2005 2 CPJ 729 Gujarat State Commission
[90] LIC v/s Satendra Kumar Chauhan 2005 2 CPJ 172 UP State Commission
[91] Section 94 a (2) of Insurance Act 1938

insurance business as also to control four subsidiaries. The Central Government was authorized to discharge its functions in respect of these subsidiaries in future.

Thus it must be appreciated that the IRDA and other regulations wasted no times and has seriously set about accomplishing its mission of establishing effective supervision over, and regulation of the insurance business in India. It has so far issued guidelines relating to several aspects of insurance such as the following: appointed actuary; actuarial report and abstract; vency margin of insurance; reinsurance for the non life and the life insurance business; registration of Indian insurance companies; obligations towards rural and social sector; preparation of final statement and auditors report and several others. Whenever and where required, it has also reviewed and revised the same, so as not to obstruct the smooth working of the insurance industry. Then there was demand to raise the FDI to 49% which was also considered by the Act today, the foreign direct investment(FDI) stands 49 % no doubt with the opposition of the other parties and even the agitation of the employees on the life insurance corporation. Now it is high time to see the effect on FDI on Life Insurance Corporation.

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CHAPTER FOUR

Role of FDI in Insurance Business

India has made many great improvements over the last decade in achieving economic growth and poverty reduction. The most significant advancement came in 1991 when India removed governmental obstacles and allowed its doors to open to foreign

investment. Foreign Direct Investment (FDI) has emerged as an eminent source of economic development and employment generation for developing countries (including India) as it contributes in creating a more competitive business environment, enhances enterprise development, human capital formation and international trade integration.

This chapter is an attempt to throw light on the policies of the Government of India towards FDI. The chapter lists out the options as well as the corresponding procedures prescribed by the Government for the foreign entity to invest in India and also deals with the advantages and drawbacks of FDI in Life Insurance industry.

DEFINITION OF FOREIGN DIRECT INVESTMENT

Foreign direct investment can be termed as a long term investment by foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based.[92]A foreign company planning to set up business operations in India has the option of either setting up as an Indian company or as a foreign company, As an Indian Company.

A foreign company can commence operations in India by incorporating a company under the Companies Act, 1956 through Joint Ventures (JV) or Wholly Owned Subsidiaries.

JOINT VENTURES

Foreign Companies can set up their operations in India by incorporating a joint venture Company with an Indian partner and or with the general public and operating either as a listed company or as an unlisted company.

Merits of joint venture for a foreign investor:

[92] Bhasin Niti, "Foreign *Investment in India 1947 – 48 to 2008",* Publication New Century, Edition July 2008, P 54.

1. Established distribution/ marketing set up of the Indian partner.

2. Available financial resource of the Indian partners.

3. Established contacts of the Indian partners, which help in smoothening the process of setting up of operations.

4. A good strategy for first entering a foreign market, especially when the commercial risks and country risks are high.

5. It creates more flexibility for adapting the operation to meet the requirements under different competitive conditions.

6. It incurs lower cost and lower resource commitment for entering foreign markets.

Demerits of joint venture

1. An artificial and uneasy atmosphere is created by trying to combine the resources and the management approaches of two separate companies with different nationalities, backgrounds, experiences, abilities in one enterprise to pursue a common goal, to agree on common means and to work under the same authority, which creates problems in the day-to-day operation and the future planning for the joint venture.
2. There is fear of the leakage of technical secrets since a strong foreign partner could use this technology for its own competitive advantage and perhaps create a future detriment to the parent company.
3. JVs have to share the profit with local partners as well as reinvest the revenues for future expansion purposes.

WHOLLY OWNED SUBSIDIARIES

Foreign companies can also set up wholly owned subsidiary in sectors where 100% foreign direct investment is permitted under the FDI policy. For registration and incorporation of the company, an application has to be filed with Registrar of Companies (ROC) as well as RBI. Once a company has been duly registered and incorporated as an Indian company, it

is subject to Indian laws and regulations as applicable to other domestic Indian companies. Foreign equity in such Indian companies can be up to 100% depending on the requirements of the investor, subject to equity caps in respect of the area of activities under the FDI policy.

MERITS:

1. Maintenance of effective control over its subsidiaries. The control in every business plays an important role. If the subsidiary is 100% then it can maintain the effective control over its subsidiaries.

2. Transaction costs including the cost of negotiating and transferring information and capability to another firm, cost of personnel training, cost of losing the opportunity to having direct sales or getting the full amount of profit and the threat of creating a competitor in markets beyond the purview of the agreement might be avoided..

DEMERITS:

1. Involves highest level of risk and commitment by the foreign investing companies

PROCEDURES PRESCRIBED FOR FDI

FDI in relation to control or ownership of a company in India takes one of two routes: **Procedure under "Automatic Route."**

FDI in sector activities to the extent permitted under automatic route does not require any prior approval either by Government of India or RBI. The investor are only required to notify the Regional office concerned of RBI and file the required documents with that office within 30 days of receipt of inward remittances. The investment should be in accordance with the prescribed guidelines. This procedure is applicable only for fresh investments directly in Indian companies and not for purchase of shares from the existing shareholders.

This route is available to all sectors or activities that do not have a sector cap i.e. where 100% foreign ownership is permitted, or for investments that are within a sector cap and where the Automatic route is allowed.

For New ventures

All items/activities for FDI up to 100% by Non-Resident Indians (NRI)/Overseas Corporate Bodies (OCB) fall under the Automatic Route except those that expressly require a prior Government approval. Investment in Public Sector Units as also for units located in Export Oriented Units (EOU)/Export Processing Zones (EPZ)/Special Economic Zones (SEZ)/Electronic Hardware Technology Parks (EHTP)/ Software Technology Parks (STP) would also qualify for the Automatic Route.

Investment under the Automatic Route is governed by the notified sectoral policy and equity caps and RBI ensures compliance of the same. Any change in sectoral policy/sectoral equity cap is notified in the Department of Industrial Policy & Promotion. But for insurance sector the cap limit is only 49 % of FDI in insurance sector is not the position in India.

LIST OF SECTORS WHERE FDI IS RESTRICTED

Sectors where FDI is not permitted are restricted to Railways, Atomic Energy and Atomic Minerals, Postal Service, Gambling and Betting, Lottery and basic Agriculture or plantations activities or Agriculture (excluding Floriculture, Horticulture, Development of Seeds, Animal Husbandry and Cultivation of Vegetables, Mushrooms etc under controlled conditions and services related to agro and allied sectors) and Plantations (other than Tea plantations) Today, FDI in insurance sector stands at 49 .%[93]

SECTORS WHICH ATTRACT CEILING ON FOREIGN OWNERSHIP

Telecom, Coal and lignite, Mining, Private sector banking, Insurance, Domestic airlines, Petroleum (other than refining), Refining, Investing companies/ Services sector, Atomic minerals, Defense industry sector, Broadcasting, Setting up hardware, facilities such as up linking, HUB, etc., Cable network, Direct-to-Home, Terrestrial Broadcasting FM, Small scale industries (SSI) sector, Satellites, Tea sector, Print Media and ceiling in insurance sector is 49 %.

[93] Bhasin Niti, "Foreign *Investment in India 1947 – 48 to 2008",* Publication New Century, Edition July 2008, P 59.

TAXATION IN INDIA

Foreign nationals working in India are generally taxed only on their Indian income. Income received from sources outside India is not taxable unless it is received in India. The Indian tax laws provide for exemption of tax on certain kinds of income earned for services rendered in India. Further, foreign nationals have the option of being taxed under the tax treaties that India may have signed with their country of residence.

Remuneration for work done in India is taxable irrespective of the place of receipt. Remuneration includes salaries and wages, pensions, fees, commissions, profits in lieu of or in addition to salary, advance salary and perquisites. Taxable payments include all allowances and tax equalization payments unless specifically excluded. The stock options granted by the employer are taxable as capital gains at the time of sale of shares acquired due to exercise of options.

PROPOSAL TO HIKE FDI IN INSURANCE TO 49%

The Finance Minister, while presenting the first Budget of the UPA Government, has proposed to raise the FDI cap in three sectors. Elaborating upon the decision he said, “FDI will continue to be encouraged and actively sought, particularly in areas of infrastructure, high technology and exports. Three sectors of the economy fully meet this description. They are telecommunications, civil aviation and insurance.” The specific proposal for the insurance sector is to raise the FDI cap from 26 percent to 49 percent.

PRIVATE PLAYERS, FOREIGN EQUITY AND PROFITABILITY

The Union Government had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to 26 per cent. Following the opening up of the insurance sector, 12 private sector companies have entered the life insurance business. Apart from the HDFC, which has foreign equity of 18.6%, all the other private companies have foreign equity of 26 per cent. In general insurance 8 private companies have entered, 6 of which have foreign equity of 26 per cent. Among the private players in general insurance, Reliance and Cholamandalam does not have any

foreign equity. The following table gives an aggregate picture of the current scenario of the insurance sector in India.

Type of Business	**Nos. of Public Sector Companies**	**Nos. of Private Sector Companies**	**Total**
Life Insurance	01	16	17
General Insurance	06	11	17
Re insurance	01	0	01
Total	08	27	35

Source- www.irdaindia.org accessed on 01 February 2009 at 10 am

According to the Annual Report of the IRDA, 9 out of the 16 private Companies in life insurance suffered losses in 2002-03. The aggregate loss of the private life insurers amounted to Rs. 38633 lakhs in contrast to theRs.9620 crores surplus (after tax) earned by the LIC. In general insurance, 4 out of the 8 private insurers suffered losses in 2002-03, with the Reliance, accompany with no foreign equity, emerging as the most profitable player. Infact the 6 private players with foreign equity made an aggregate loss of Rs.294 lakhs. On the other hand the public sector insurers in general insurance made aggregate after tax profits of Rs. 62570 lakhs.[94] Not only are the public sector insurance companies more profitable than the private ones, the private insurer which is most profitable (Reliance) is one this has no foreign equity. If profitability is taken to be an important indicator of efficiency, it is clear that the case for further hike in the FDI cap in the insurance sector cannot be made on efficiency grounds.

ABOUT FOREIGN PARTNERS

The record of some of the foreign companies who have started operating in India is being questioned abroad. An article published in the Economist (May 4, 2007) on ‘AIG’s Accounting Lessons’ (AIG is Tata’s partner in India) came with the screaming headline

[94] Van, Horne, James, C., “*Financial Management and Policy”*, Pearson Education Asia Delhi (2008) P .87.

which said it all: "*The world's largest insurance company shows how to polish profits statement."*[95] The Prudential Financial Services (ICICI's partner in India) is facing an enquiry by the securities and insurance regulators in the U.S. based upon allegations of having falsified documents and forged signatures and asking their clients to sign blank forms (New York Times, May 31, 2003 and Wall Street Journal, May 31, 2003).[96] This follows a payment of $ 2.6 billion made by prudential to settle a class-action lawsuit attacking abusive life insurance sales practices in 1997 and a $ 65 million dollar fine from state insurance regulators in 1996. It is evident that the questionable activities of these insurance companies are not deterred by state imposed penalties and litigations. The financial health of many of the foreign insurance companies operating in India is also a cause of serious concern. The Economist (April 1, 2004) reports the sorry plight of Standard Life of UK (HDFC's partner in India), which is unable to remain afloat without the possibility of raising money in debt or equity markets. AMP closed its life operations for new business in June 2003.[97] Royal Sun Alliance also shut down their profitable businesses in 2002. A recent report by Mercer Oliver Wyman, a consultancy, found that European life insurance companies are short of capital by a whopping 60 billion euros. The reason for the short fall in capitalization, among other things, is due to European Unions' new regulation on solvency called' Solvency 2' that will be enforced across Europe from 2005 through 2007.

According to the Mercer Oliver Wyman Report the German, Swiss, French and British insurers suffer from severe capital inadequacy, which is a result of undertaking risky investments in equity and debt instruments in the past. Several issues of *Sigma*, a reputed Swiss journal on insurance, have reported that the U.S. and Europe based insurance companies are faced with gloomy growth prospects in the advanced country markets, with several companies experiencing negative growth in the recent past. Moreover, tighter capital adequacy norms and other regulations that are currently being imposed in the advanced countries are forcing these insurance companies to seek less regulated markets in developing countries to undertake their high-risk ventures. Raising the FDI cap in India at this juncture would expose our financial markets to the dubious and speculative activities

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[95] The Economist May 4, 2006.

[96] New York Times, May 31, 2003 and Wall Street Journal, May 31, 2007.[96]

[97] The Economist April 1, 2008.

of the foreign insurance companies at a time when the virtues of regulating such activities are being rediscovered in the advanced countries.

COMPETITION IN THE INSURANCE SECTOR

Even after the liberalization of the insurance sector, the public sector insurance companies have continued to dominate the insurance market, enjoying over 90 per cent of the market share. In fact, the LIC, which is the only public sector life insurer, enjoys over 98 per cent of the market share in Life insurance.[98]

Market Share of Life and non-Life Insurance Sectors

(As % of total premium underwritten by insurers)

Insurance Sector		2004-05	2005-06
Life Insurance	Private Sector	0.54	1.99
	Public sector	99.46	98.01
General Insurance	Private Sector	3.68	8.64
	Public sector	96.32	91.36

Source: IRDA Annual Report, 2004-06

Given the huge market share enjoyed by the public sector companies, the argument, which is often made by advocates of greater liberalization, that the entry of private players would bring down the cost of insurance due to enhanced competition, does not seem to be convincing. The price making capacity of the market leaders in the public sector is likely to remain intact for the time being. The foreign insurance companies do have the reputation of charging less premium compared to the risks involved and promising abnormally high returns, in order to grab greater market share. Such competition, however, although capable of bringing down the 'cost' of insurance for a while, has often led to gigantic frauds and bankruptcies. Moreover, as is the case in other markets, the initial flurry of entries into the

[98] Tarapore, S.S., "*Malice of Indian Financial System - Need for Reform*", Economic and Political Weekly, (2005) P.2821-26.

Indian insurance market would invariably be followed by a phase of mergers and acquisitions that would lead to cartelization, precluding the possibility of competition driving down the costs in the medium run. In the long run, other forms of non-price competition like aggressive advertisement wars are likely to lead to increasing costs, eventually harming the interests of the consumers. These phenomena in the insurance market have been observed in several advanced countries. If the public sector companies start imitating the strategies of the foreign insurance companies in order to defend their market shares, it would be at the cost of undermining their important social objectives, which they have been fulfilling so impeccably till date.

IMPLICATIONS FOR RESOURCE MOBILIZATION

A major role played by the insurance sector is to mobilize national savings and channelise them into investments in different sectors of the economy. However, no significant change seems to have occurred as far as mobilizing savings by the insurance sector is concerned, following the liberalization of the insurance sector in 1999. Data from the RBI show that the trend of the savings in Life Insurance by the households to GDP ratio, while showing a clear upward trend through the 1990s signifying increasing business for the insurance sector, does not show any structural break after 1999. It can be inferred therefore that the foreign capital which flowed in after the opening up of the insurance sector has not been accompanied by any technological innovation in the insurance business, which would have created greater dynamism in savings mobilization.

RATIO OF SAVINGS IN LIFE INSURANCE BY HOUSEHOLD TO GROSS DOMESTIC PRODUCT

Far from expanding the market for the insurance sector, the business activities of the private companies are limited in urban areas, where a fairly good market network of the public sector insurance companies already exists. The glaring evidence for this is the composition of agents operating in the insurance sector. According to the IRDA Annual Report the number of insurance agents in urban and rural India was in 100:76 ratios in the public sector companies, in 2001-02. For the private insurance companies this ratio was

100:1.4. Due to their urban-biased operational activity, the private insurance companies can neither increase the insurance base of the economy.[99]

Significantly, nor lead to substantial employment generation. Given This scenario, further increase in foreign participation is only going to lead to intensified competition for the urban insurance markets, rather than leading to a growth in overall savings. While the proposals for hike in FDI were placed, the arguments advanced were that FDI will continue to be encouraged and actively sought, particularly in areas of infrastructure, high technology and exports. Are these arguments tenable? No. New technology or product is brought into the country. The issue of foreign equity is often linked with induction of new technology and products. The private insurance companies have nothing to offer in this respect. In the insurance sector, there is no technology needed to be brought in from other countries, leave alone high technology. The mortality rates and other principles of insurance are based on the Indian conditions, because the policyholders are from this country. The products of LIC are being renamed by the private insurance companies and are sold as their own products. Hence, foreign expertise is also not involved in this sector. So there is no justification even on this count. It was also argued that competition will expand market and the foreign insurers will bring better products. This has simply not happened. The size of the market has remained by and large the same and from this market the private companies are picking up the creamy sections in the metros seriously eroding the ability of public sector to cross subsidizes its products in the rural areas. Life insurance is all about mobilizing the savings for long term investment in social and infrastructure sectors. It was also argued that opening up of insurance market would enable huge flow of funds into infrastructure. The record of private companies on this is dismal. More than fifty percent of the policies, they sell are unit-linked insurance where the decision on investment of savings element in insurance is taken by the policyholders. In fact as per a press report, ninety five percent of policies sold by Birla Sun Life and over 80 percent of policies sold by ICICI Prudential were unit-linked policies during 2003-04. Under these schemes, nearly 50 percent of the funds are invested in equities thus limiting the fund availability for infrastructural investments. As against this, the LIC has invested Rs. 40, 000 crores as at

[99] Khan, M.Y., "*LIC in the Capital Market: Its Record and Responsibilities*", Eastern Economist, Feb.9, (2007), P.222-29.

31/3/2003 in power generation, road transport, water supply, housing and other social sector activities.[100]

The Law Commission of India released a consultation paper on 16th June 2003 on the revision of the Insurance Act, 1938. The consultation paper proposes a suitable amendment to Section 27 C of Insurance Act allowing insurers especially carrying on general insurance business to invest funds outside India. So, once the law is amended to allow insurers to invest funds abroad, the exports that these private companies would generate, would be the export of savings of the people. Raising the FDI cap also does not seem justifiable as far as channelising savings into investments are concerned. The life insurance sector invested a total of Rs. 31335.89 crores in the infrastructure sector in 2002-03. Out of this the contribution of the LIC was Rs. 30998.16 crores, which was 98.92 per cent of the total investment in infrastructure by the entire life insurance sector. The figures provided by the IRDA Reports further suggest that the share of the public sector life and non-life insurance companies in investment in infrastructure is greater than their market share. Despite the FDI cap being set at 26 %, the investment from the insurance sector to the infrastructure sector was predominantly from the public sector companies. Therefore, the argument that raising the FDI cap in the insurance sector would help in mobilizing resources for infrastructure does not hold. On the other hand, greater foreign control is more likely to lead to a decline in the share of investment of the private insurance companies into the infrastructure sector, given the record of the foreign insurance companies in siphoning resources for speculative financial ventures. It is also worth mentioning that the only insurance company involved in insuring Indian exports is the Export Credit Guarantee Corporation of India, which provides insurance cover to export credit.[101] The ECGC has been inexistence since 1957. It is functioning under the United India Insurance Co. No private player with foreign partnership has ventured into this area. Moreover, the LIC and other public sector units are the only ones to undertake overseas operations, as reported by the Annual Reports of the IRDA. Foreign participation has also not helped in marketing Indian insurance products abroad.

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[100] Kumar, Rajan, "*Life Insurance for the Rural Poor*", The Insurance Times. Vol.7 No.7, (2006) P. 7-8.

[101] Mishra M.N "*Productivity Management in LIC*", 2007, The Insurance Times, Vol 5, No .10.

List of Private Companies in Life Insurance

Name of the Private Life Insurance Company	% of Foreign Equity	Name of the Foreign partner
Allianz Bajaj Life Insurance Co. Ltd	26	Allianz
Birla Sun Life Insurance Co. Ltd.	26	Sun life
HDFC Standard Life Insurance Co. Ltd.	18.60	Standard Life
ICICI Prudential Life Insurance Co.Ltd.	26	Prudential
ING Vysya Life Insurance Co. Ltd.	26	ING
Max New York Life Insurance Co. Ltd.	26	New York Life
MetLife India Insurance Co. Ltd.	25.99	MetLife
Om Kotak Mahindra Life Insurance Co. Ltd.	26	Old Mutual
SBI Life Insurance Co.Ltd.	26	Cardiff
Tata-AIG Life Insurance Co. Ltd.	26	AIG
AMP Sanmar Life Insurance Co. Ltd.	26	Sanmar Life Insurance co
Dabur-CGU Life Insurance Co. Ltd.	26	CGU Life Assurance Company

Source- www.irdaindia.org accessed on 01 February 2009 at 10 am

The union government had finally raised the cap on foreign direct investment to 49 % for private sector insurance players in the country. At present, foreign equity stake in the insurance companies is capped to 49 %. Foreign joint venture partners have consistently was asking for raising the ceiling beyond the level of 26 %. Right from the beginning the IRDA is not opposed to an increase in the FDI ceiling to allow the domestic players to recapitalize to comply with solvency requirements of 150 % prescribed by IRDA.[102] Already the foreign partners have been bringing in capital through indirect means to comply with IRDA guidelines. The favored method is through warehousing of the foreign equity with the domestic joint- venture partners. So, almost all the domestic non life and life insurance now require additional capital for sustaining their respective growth. Life insurance business has been growing at a much faster pace as much as 46 % for the first nine month of the current fiscal. The high average however was largely driven by unit linked policy growth that is treated as capital efficient, since the investment risk were on the policy holders. But private sector players are also beginning to look at the savings linked and pure risk policies for powering their rural forays that tends to be capital intensive.

PRESENT SITUATION

The foreign partners of the private companies have long experience in the insurance field. If they are allowed to augment their share capital they can build up most modern technology oriented insurance services which will be of great help for providing up to-date and state of the art services to the customers. So the urgent need of the situation is to increase the level of FDI in every company in which foreign players are partners. The insurance partner of foreign origin of Indian outfits has established great name and international credibility. The share participation of foreign companies are mostly within 26 % but the Dr Manmohan Singh (UPA)Government have raised the foreign holding to 49 % which is boon to the private players in our country. The foreign companies when they operate in many emerging countries of Asia have 100 % share in respect of foreign investment in their own companies. Life insurance penetration is less than 3 % and 25 % of the insurable population in India has got a life insurance cover of some kind. If we see condition in China the market is developing at more than 25 % per annum and the

[102] Bhargava B.D "*Insurance Theory and Practice*" Pearl Books 2008, P. 227.

potentiality has been increased consumers have become real beneficiaries in the life insurance business of the country. If we talk about Japan 30 % of the all household saving go to life insurance. Whereas in India only 15 % of the household saving go to life insurance.[103] India requires more awareness about the life insurance and more investment has to be made to increase this awareness. A strong capital base would go a long way to increase the level of awareness about life insurance business and enhance the insurance penetration. The industry source also feel today as FDI limit is 49 % this will bring lot of capital and would spur faster growth. This would develop into a large scale insurance business which would maximize the economies of scale and Indian insurance industry would be forced to be reckoned with only if that happens. The life insurance company requires 3 to 5 year for attaining break even a 5 to 6 year for earning profit, since its commencement of business but in India. The life insurance business was suffering due to the lower FDI cap and the time horizon for break even is being lengthened due to lack of capital. More FDI in insurance will increase the potentiality of the life insurance sector and more invisible fund will be available for other sectors such as for infrastructure, bonds and gills. FDI limit in banking sector has been increased to 49 % long time ago. India has allotted foreign institutional investment in various other sectors too FII money is more volatile in nature than FDI. FDI investment is long term in nature and investors bring in capital with firm commitment.

The entry of the State Bank of India with its proposal of bank assurance brings a new dynamics in the game. If we study the collective experience of the other countries or whole Asia who had already deregulated their markets and have allowed foreign companies to participate. If the experience of other countries is any guide, the dominance of the Life Insurance Corporation and the General Insurance Corporation is not going to disappear any time soon.

ARGUMENT AGAINST FDI IN PRESENT SITUATION

As government had raised the F D I, hence it is also important to see its limitations if I talk about the demerits of F D I then it can be seen that as

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[103] Anderson R Dan, Nevin John, *"Determinants of Young Married Life Insurance Purchasing Behaviour: An Empirical Investigation*", The Journal of Risk and Insurance, Vol 42 Sep ,2006,75 – 87.

1. India has no infrastructure till then there is no need of FDI. China is getting 10 times more FDI than India because they have invested in roads and bridges and airports. India need infrastructure to manage incoming F D I. Hence there is a demand for clear policy.
2. India is already getting money from FIIs around $12 billion. At the same time India gets $5 billion, of FDI whereas china gets around $50 billion. In china they don't have the stock exchange of our kind. So the concept of FII is not into existence in china. In India FII is at $12 billion then it means that few Indians have sold their shares to FII, so that free cash gets invested somewhere within India by Indians. The money goes into land, buying stocks and into banks. *The fundamentals of money are that it goes where it gets sound returns*. Therefore, if you keep up our policies it gets money. Hence the big insurance tycoons like Mittal steel, Reliance, TATA, Vedanta and other Indians companies are going to invest Rs 2 lakh crore in the coming years. FDI is not a big issue because Indian is in a position to raise big money and invest in India. The government should see that people get return. The private companies in India functioning in collaboration with foreign companies simply cannot expand their business without injecting further capital. One option was for the Indian promoters to provide the required 74 % for capital expansion in order to attract additional capital from their foreign partners, the foreign partners confined to 26 % of the total was the position till 2008.[104] When lakhs and lakhs of people are losing their savings worldwide due to financial meltdown, why is our government proposing an increase of Foreign Direct Investment in Insurance?

The Current government had contemplated further liberalization of financial sector.

Following are the features against FDI.

LIC has completed 52 years of its purposeful existence. During this LIC's track record has been stupendous. LIC has a world record in claims settlement with a claim settlement ratio of 99.66 %. LIC has registered a surplus of Rs.16, 600 Crores for current year out of which around 830 Crore is Given to Indian government as dividend on its capital and

[104] Shrivastava, R. M., "*Management of Indian Financial Institution"*, Himalaya Publishing House, New Delhi, , (2007)600 – 601.

balance amount is given to policy holders in the form of Bonus.[105] LIC has contributed immensely to the development of the nation by mopping up the savings of the people Death due to Murder and Terrorism are Covered by only LIC and its fact PVT insurance companies Don't Cover that. This assumes a greater importance when you compare LIC's performance with that of private insurers globally. Insurance Industry in USA, Europe and Japan are in serious crises and in stress to raise additional capital to meet their obligation to policy holders. Almost all foreign partners of Indian Private Companies are in great difficulty in their own countries. When this is the disastrous performance of these private companies, government of India had attempted to increase FDI limits to help them to have greater access to the savings of Indian people. The performance of LIC has shown to the world that only a strong public sector Insurance can give much needed security to the policy holders' monies.

ADVANTAGES AND DISADVANTAGES OF FDI IN INDIA

As there was a demand to raise the foreign direct investment now it is a big question that whether raising of foreign direct investment is a good move or not. There are many people who are against the FDI in the country, specially the persons who belong to the developing country like India. They always decline to take a stand on the hike of FDI. There are sub- plots within the main story, as the insurance industry consider whether or not the FDI cap in the insurance sector will actually be raised. The common man's picture of the fight for FDI was seen solely as a political one where the left is acting spoilsport in raising the FDI cap from the current 26 % to 49 %.The reality, however, is that the industry is as divided as the political parties. Indian corporate chiefs like Deepak Parekh and Rahul Bajaj are keen to dilute their holding in their respective insurance joint ventures. At the same time, they want to maintain their majority stakes. In an exclusive interview with Mr. Bajaj he says that "I do not support FDI beyond 49 % as I want control." Bajaj auto has two insurance joint venture in partnership with Allainz.[106]

Similar was the view of Mr. Parkas he stated that housing development finance corporation is bound to its foreign partners to sell up to 49 %. HDFC has signed such deal

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[105] Kundu, Summit "What's next in India's Insurance Market?"Knowledge Digest .Com, May 12.

[106] Mr. Bajaj

with standard life for the life insurance, venture.[107] India's financial and corporate gains will not let go of more; not now, when life insurance companies are expected to break even in the next couple if year. "I would rather dilute our stake in SBI Life to the general public," says A.K Purwar, chairman of State Bank of India.[108]

It is the smaller players who are eager for a hike in the FDI cap. The current FDI; limit will restrict the growth of private insurance players because a sizeable working capital is required, point out Philips G Scott; group executive director, Aviva.[109] He admits that growth at Aviva could suffer but the position today is boon for the smaller players. Max India managed to take care of the want of capital for its life insurance venture, Max New York Life. It raised Rs 200 crore by divesting 29 % equity in favor of a private equity investor Warburg Pincus group and association, through a preferential equity offering.[110] The fresh infusion of funds will be deployed to meet Max's Investment in the life insurance business, points out of the company's chairman Analjit Singh.[111] Foreign partners are equally keen to increase their share in insurance joint ventures to make current investments worthwhile.

The important statement given by the director and chief executive officer Mr. Frank Koster of ING Vysya Life insurance company he said "we endorse the positive attitude with which the finance minister and the Manmohan Singh Government have taken on the difficult challenges facing the Indian economy. We look forward to bolder measures in the coming months."[112]Mr. Sunil Mehta, country head of AIG says that "Raising the FDI cap will give confidence to foreign investor to do business on a scale that is not restrictive.[113] At the moment, Indian promoters are apprehensive that should FDI be raised, foreign partners will have an upper hand in the tenth year of operation. Their concern follows the insurance Act dictating the dilution of Indian promoter's stake in favor of the general public. This means that while Indian promoters would end up holding 26 % according to IRDA Act, their foreign counterpart could have a higher stake of 49 %.

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[107] Mr. parkas
[108] A.K Purwar, chairman of State Bank of India
[109] Philips G Scott; group executive director, Aviva
52 Warburg Pincus group of Association.
[111] chairman Analjit Singh Max's Investment in the life insurance
[112] Director and Chief executive Officer Mr. frank Koster of ING Vysya Life insurance company
[113] Mr. Sunil Mehta, country head of AIG

ARGUMENT IN FAVOUR OF FDI

As government had raised the FDI to 49 % now there is a lot of benefit of such step taken by the Manmohan Singh government. At the national level the government was not right from the beginning was not apposed to the foreign direct investment. The government recognizes the resource gap and the need to do what needs to be done in terms of development of infrastructure programs. The development of infrastructure, in funding social infrastructure programs. The domestic savings are hovering around 23 % of the GDP. There is a resource gap. But the problem was the FDI requirement which was not automatically met by wishful thinking.

If we see the world scenario almost 80 % of the FDI globally is directed towards developed countries. Out of the remaining 20 %, 70 % goes to china. More than 150 countries are vying for the remaining small amount. If the government feels merely getting FDI will solve economic problems, it's not going to happen. While we need to have FDI, it should not consume all our time and energy. We need to focus on economic problems and the requirement of investment in areas that are fundamental.

If we see the Indian scenario, our attempt is to have public investment, private investment and foreign investment. It is a multipronged strategy. The government's stand is that we want FDI, but we want it in area where it will be beneficial to the country. What the government says is that we must have investment, but in a manner and in areas where you need the capital or technology upgrade. If we try to increase the foreign equity it would only enable there companies to gain control over the Indians people's saving without any tangible benefits for their or country's development. This would pave the way for control by foreign finance capital on the insurance industry and ultimately on the Indian economy.

The Indian government had increase FDI in the insurance sector to 49 %. Previously, only up to 26 % FDI was allowed in the Indian insurance sector under the automatic route subject to obtaining a license from Insurance Regulatory Development Authority (IRDA). According to "Booming Insurance Market in India (2008-2011)", a recent report from Economic Times says, the Indian insurance market, particularly life insurance sector, will get a strong boost from the proposed FDI hike. Increasing limit to 49 % is expected to raise

the FDI in life insurance sector by around 2.5 times from the present level of approx Rs 2,500 Crore.[114]

The senior insurance industry analyst at Economic Times opined, "The proposed increase in FDI will attract more foreign inflow into the Indian economy and strengthen the country's insurance industry. This increase (in FDI) will bring more capital and help the sector in maintaining the growth momentum. The insurance sector has been in strong need of the capital investment, in fact, the requirement has increased dramatically due to recent losses on unit-linked products with weak stock market. Also, being a capital intensive sector, the insurance sector requires huge investments over a prolonged period of time, and therefore, there is constant need for capital infusion that can be met through FDI."[115] Increasing FDI limit will also encourage the insurance sector to come up with more innovative distribution channels, enrich the current product portfolio, upgrade technology, and bring best global practices into the country. Beside this, raising FDI cap would also help insurers to expand their coverage to rural and micro-insurance segments as penetration in rural and remote areas require additional capital infusion.

"Booming Insurance Market in India (2008-2011)" provides an exhaustive research and rational analysis on the Indian insurance market. This study provides an overview on the factors driving the insurance industry, coupled with the forces which are blocking the growth. The report, based on extensive quantitative and qualitative analysis, gives forecast on vital industry parameters, like cars & commercial vehicle registrations, outbound tourists, medical equipment market, lending by financial institutions, IT spending, non-life insurance market, and health insurance premium.

Prior to 1991, the Indian government policies on FDI were stricter as compared to most industrialized economies and the government exercised a high degree of control over industrial activity by regulating and promoting much of the economic activity. The Industrial Policy of 1991 greatly enhanced the business climate in India, led to various trade reforms in Indian economy and provided clarity to foreign businesses looking to

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[114] Varshney, P.N. and D.K. Mittal, "*Indian Financial System*", Sultan Chand and Sons, New Delhi, (2007).

[115] Economics times 2009 10 th march

invest in India. The Government of India has introduced a liberal, transparent and investor-friendly FDI policy and it regularly reviews the policies and guidelines and makes necessary changes towards FDI in order to make foreign investment beneficial both for the Indian economy as well as for foreign investors. The options and the procedures prescribed by the Government of India had enhanced the FDI in India which may ultimately facilitated the growth of economy of India.

Finally it can be said that it is the developed countries which are continuously forcing the developing country to increase the FDI. Though this might be a good signal for raising the FDI by the Manmohan Singh government, it only gives a strong hold to the foreign nations to strengthen their stand. It has been statistically proven that countries which had opened the market or open up their financial sectors at high ratios to attract capitals inflows have experienced increased volatility in their markets. Thus FDI as increased in India now the private players should make sure that they are the majority holders and that our home country has the major control. This can suggestively improve our FDI but still sure that we are in control of our own financial markets.

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CHAPTER FIVE

PERFORMANCE OF LIFE INSURANCE BUSINESS IN INDIA

"The performance figure of LIC gives an indication why LIC is dear to us"[116]

-Shri P.Chidambaram(Former Finance Minister)

The word 'performance' refers to the process or manner of functioning or operating. It refers to the act of performance or doing something successfully, using knowledge as distinguished from merely possessing it. Any recognized accomplishment is termed as a performance. Performance refers to the architecture. Performance has to be evaluated in order to reach the final targets and goals. In order to evaluate the performance, definite goal and objectives have to set- up first. Performance evaluation is a must in order to find out the loopholes in the functioning and working of any activity. It also widens the scope of improvement. Thus performance evaluation is a measure of assignment based on authentic tasks such as activities, exercises or problems. Provides Performance evaluation refers to measuring performance against expectations.

In the era of competition, performance evaluation has become significant in order to survive for a long period of time. It provides a base for checking and controlling the weak areas of the activity and also provides a ground for growth, expansion and diversification.

Today LIC is widely accepted as one of the most attractive financial instruments in an individual's portfolio that provides an assurance of security with attractive returns. Now LIC functions with 2048 fully computerized branches, 101 Divisional offices, 7 Zonal offices and the corporate office. It has crossed the milestone of issuing 1,01,32,955 new policies by 15th October, 2008.[117] LIC invests policyholder's money to various socially oriented sectors. It is only best organization to protect the customer's money and life.

The primary objective of undertaking the study was to evaluate the performance of Life insurance Corporation of India during a period of 15 years from 1993 – 2008. For almost four decades LIC has been the sole player with virtual monopoly in the Life insurance sector in India. From 2000, many private players entered into the insurance industry posing a tough competition to LIC has been re-organizing itself in order to perform better than the new players. In order to keep its performance consistent, LIC has been formulating new strategies and plans from time to time. No doubt experience generally improves

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117 LIC Year Book 2009.

performance and LIC has experience of almost fifty years. In these fifty years, LIC has positioned itself, centre- stage in the financial landscape of the individual. The variety of instruments available to persons through LIC is very of broad and it took the corporation some years to develop this repertoire of products. LIC has built a local flavour everywhere in India. This is so not withstanding its inability to provide specialized local products. It offers the same products from Kerala to Arunachal. It also maintains its presence in Fiji, Mauririous and United Kingdom. Yet it has tough competitive potential.[118]

As many new players have joined the insurance industry and have started their business, LIC must analyze its performance in order to face the competition. It will be performance and performance alone which will count. Results will judge the fate of the corporation and whether vision and mission statements are getting translated into action from top to bottom will be the deciding issue.

The performance of Life Insurance Corporation has been evaluated on the basis of quantum of business as well as income of the corporation.

Life Insurance Corporation of India was created with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable financial cover at a reasonable cost. The opening of insurance industry allowed 14 private players of leading Indian corporate with other countries, creates stiff competition, and finally trapped the public also to safeguard the realistic and reliable entity in the minds of the common investors forever. Though the marketing hurdles due to invasion of new players as well as regulatory development, LIC occupies number one position in volume of business. LIC continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and moving fast on a new growth trajectory surpassing its own past records. LIC was insured over one crore policies during the current year. It has crossed the milestone of issuing 1,01,32,955 new policies by 15th October, 2008, posting a healthy rate of 16.67 % over the corresponding period of the previous year.[119] From then to now, LIC has crossed many milestones and has set unprecedented performance records in various aspects of Life insurance Business. The table one shows the performance of LIC.

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[118] Institute of Life Insurance, "*Life Insurance Fact Book"* (2008), Mumbai, P.1-25.

[119] Kundu, Sumit, "*What's Next in India's Insurance Market?*", Knowledge Digest Com., (2007)M12.

PERFORMANCE OF LIC FROM 1991-2008

Year	No of policies (Lakhs)	Sum Assured (Rs.in crores)	Annual Premium Receivable (in crore)
1991-92	**92.40**	**32064.00**	**1790**
1992-93	**100.00**	**325957.00**	**2038**
1993-94	**107.25**	**41814.00**	**2508**
1994-95	**108.74**	**55228.00**	**2534**
1995-96	**110.20**	**51816.00**	**2814**
1996-97	**122.68**	**56740.50**	**3345**
1997-98	**133.11**	**63617.69**	**3841**
1998-99	**148.44**	**75316.28**	**4863**
1999-00	**169.77**	**91214.25**	**6008**
2000-01	**196.57**	**124771.60**	**8852**
2001-02	**224.91**	**172572.00**	**16009**
2002-03	**242.91**	**179512.00**	**12505**
2003-04	**246.26**	**199698.00**	**12560**
2004-05	**235.42**	**183121.00**	**11513**
2005-06	**234.15**	**182151.00**	**11498**
2006-07	**235.47**	**181542.00**	**11452**
2007-08	**233.11**	**181554.00**	**11242**

Source 1 www.irdaindia.org
Source 2 www.licindia.com
Source 3 The Hindu survey of industry, 2003, Chennai.

It is inferred from table one that the new business of LIC the registered a phenomenal growth in sum assured during the year 1991-92 and 2007-08. It shows gradual increasing trends from the year 1991-92 to 2007-08. The number of policy is only 92.4 lakhs in the year 1991-92 and in the year 2004-05 LIC issued 235.42 lakhs policies. There is an increase in the insurance policy of LIC from 1991 – 92 to 2004-05 recorded 254.78 % there is more than two fold increase in insurance policy.

COLLECTION OF PREMIUM THROUGH ITS WIDE AREA NETWORK

Having been one of the very first and largest users of information technology in terms of hardware and in house developed software, LIC of India has adopted its existing technologies and also new emerging technologies to meet the changing needs. The premium receivable is being collected by the LIC through the agential force and across the countries. In this agential force is not effective for collection of premium because they are doing their business for commission. After liberalization, the insurance industry passed the way for LIC to attain evergreen growth the WAN (wide area network) connection network with 2035 Branch offices across the country. A tremendous growth in the premium receivable amounted to 643.18 % from 1991 to 2008.[120]

CLAIMS SETTLEMENT

The LIC strive to settle all maturity claims well in time preferably on or before the due date, on receipt of all requirements from the policyholders and also strive to settle all death claims, which do not require investigation, with in 30 days, LIC will pay interest for the delayed period as prescribed by the IRDA. The success of LIC is not only as a state owned monopoly since 1956, but also it illustrates the effectiveness of claims disposal management on the death of policy holders and maturity of the policies. Table two shows the claims settlement of maturity and death claims from 1994-2008.

Table 2

Claims settlement by LIC

Year	No of policies (Lakhs)	Sum Assured (Rs in crores)

[120] Passer, Manmohan & Bali, "*Technological Change and Productivity*", Management of Productivity in Indian Industries, (2006)P.339 – 50.

1994-95	**40.24**	**4076.07**
1995-96	**41.67**	**4532.22**
1996-97	**49.49**	**5691.49**
1997-98	**56.52**	**6677.04**
1998-99	**59.83**	**7583.18**
1999-00	**66.42**	**9211.30**
2000-01	**75.86**	**11637.98**
2001-02	**87.67**	**14519.25**
2002-03	**96.91**	**17061.75**
2003-04	**103.53**	**19607.20**
2004-05	**114.91**	**23560.66**
2005-06	**115.54**	**24584.44**
2007-08	**116.11**	**25544.21**

Source www.irdaindia.com

It is inferred from table two that the claims settled in terms of number of policies have increased continuously from 40.24 lakhs in 1994-95 to 116.11 lakhs in 2007-08. There is on their fold increase in number of policies settled increased from 1994-95 to 2007-08.

OUTSTANDING CLAIMS

The claims which has become due but not paid by the corporation are known as outstanding claims. Table three shows the outstanding claims of the corporation over a period of fifteen years.

Table three

Claims outstanding during the period from 1994 – 2008

Year	No of Policies	Sum Assured

	(Lakhs)	(Rs in crores)
1994-95	**1.44**	**226.23**
1995-96	**1.67**	**288.70**
1996-97	**1.60**	**319.59**
1997-98	**1.59**	**315.62**
1998-99	**1.83**	**348.22**
1999-00	**1.60**	**403.17**
2000-01	**1.29**	**432.01**
2001-02	**0.61**	**273.34**
2002-03	**0.23**	**191.55**
2003-04	**0.16**	**173.91**
2004-05	**0.14**	**176.86**
2005-06	**0.13**	**174.45**
2007-08	**0.11**	**175.58**

Source www irdaindia.org

It is inferred from table that the claims outstanding in terms of numbers of policies during the period from 1994-95 to 2007-08 shows a fluctuating trend. The number of policies, claims outstanding during the period varied between 0.14 lakhs and 1.83 lakhs. Claims outstanding in terms of sum assured have increased from 1994-95 to 1996-97 and in the year 1997-98 there is declined. This shows a fluctuating trend and finally, stood at 173.91 crores. This shows that the claims settlement operations of LIC are well and good.

TOTAL INVESTMENT BY LIC

The investments of LIC are in two ways viz investment on securities and another on development project of the economy. The corporation also helps to boost the industrial growth in the country. The corporation's assistance to state level finance corporation and all India finance corporation like IDBI, IFCI, ICICI Bank etc. By way of subscription to bonds/debentures issued by such investment in the corporate sector in the form of long/medium term loans to companies /corporatations. Table four shows the book value of total investment.

Table four

Total investment

Year	Book value of total Investment (Rs in crore)	Book value of socially oriented investment in Cr
1957	381.90	@
1969-70	1514.26	513.21
1979-80	5747.51	2472.29
1989-90	21958.80	16368.38
1999-00	146364.00	117888.00
2001-02	216883.00	173370.00
2002-03	265044.00	213477.00
2003-04	343129.00	256105.00
2004-05	41874.00	298748.00

Source LIC Dairy 2008

It is inferred from table 4 that the book value of total investment in the year 1969-70 was Rs 1514026 Cr and in the year 2003-04 Rs 343129 Cr. This shows a tremendous increase in the book value of total investment. The corporation invests the money in socially oriented group from the above table there was an increasing trend from the year 1969-70 to 2004-05 amounted to Rs 513.21Crores and Rs 256105 Crores respectively. There is nearly 500 times increased the book value of socially oriented investment from 1969 – 2005.

LIC'S SOCIALLY ORIENTED INVESTMENTS

Life insurance Corporation touches life enriching the nations by providing financial assistance to projects associated with power, water supply, transport, housing development, infrastructure development and industrial growth. LIC invests policy holder's money to various socially oriented sectors. LIC is investing from 31/03/1977

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The corporation supports the government of India in its attempt to improve welfare schemes for the benefits of the public. This has been considered one of the primary considerations for its investments. The LIC's socially oriented investments. It is inferred

from that investments in central government securities have increased from Rs 981 Cr in 1997 to Rs 1,66939 Cr in 2004.[121] Thus the allocation of LIC in government securities has grown more than 170 times. Investments on the state government and other Government guaranteed marketable securities have gone up significantly from Rs 715 crore in 1977 to 37,402 crore in 2007. Investments in the electricity sector are 25 times up, from Rs 733 Crore to Rs 14805 Crore. The allocation for the housing sector has increased from Rs 618 crore to 711 crores. Investments in state Road Transport Corporation have moved up from 180 Crore in 1987 to Rs 1373 Crore in 2004. On the other hand, investments on industrial estates, Co –operatives, etc have gone up only slightly.[122]

CURRENT SCENARIO

India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry.[123] Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice.

Consumers 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. Computerization of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies

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

[121] Singh, S.P., "*Investment Patent of LIC in India*", Sanhita Bhavan, Agra (2007)P.30.

[122] Ahuja Rajeev,"*Even Development – Reaching Rural Areas and the Socially Weak*", IRDA Journal, Vol III, 2004, P.28 – 29.

[123] Forte "*Study on Rural Insurance Market*", Bima Vidya, management Development Centre, LIC of India, January-March, (2005), P.39-46.

use of other sources is imperative. At present the distribution channels that are available in the market are listed below.

Direct selling

Corporate agents

Group selling

Brokers and cooperative societies

Bancassurance

Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money back policies, which is not considered very appropriate for long-term protection and savings. There is lots of saving and investment plans in the market. However, there are still some key new products yet to be introduced - e.g. health products.

The rural consumer is now exhibiting an increasing propensity for insurance products. A research conducted exhibited that the rural consumers are willing to role out anything between Rs 3,500 and Rs 2,900 as premium each year.[124] In the insurance the awareness level for life insurance is the highest in rural India, but the consumers are also aware about motor, accidents and cattle insurance. In a study conducted by MART the results showed that nearly one third said that they had purchased some kind of insurance with the maximum penetration skewed in favor of life insurance. The study also pointed out the private companies have huge task to play in creating awareness and credibility among the rural populace. The perceived benefits of buying a life policy range from security of income bulk return in future, daughter's marriage, children's education and good return on savings, in that order, the study adds.

[124] Anderson R Dan, Nevin John, *"Determinants of Young Married Life Insurance Purchasing Behaviour: An Empirical Investigation*", The Journal of Risk and Insurance, Vol 42 Sep 2007 P.375-87.

PROBLEMS OF LIC

The following are the important problems faced by LIC after liberalizations

- Though the invention and implementation of new schemes are wide by the LIC, the total volume of insurance is only 2 % out of GDP during the year 2000.[125]
- The major cost of LIC is human resource development cost which incurred through 134 centers of its network.[126]
- Since inception of LIC the collection of insurance premium through office counters, its outmoded one and it is one of the major problem to the policyholders.
- The corporation should develop customer relationship management, because most of the policyholders are not aware about their policy.
- In some branches insurance documents are not issued to customers after receipt of premium.
- Delay in settlement of claims is one of the major problems.

Today LIC is widely accepted one of the most attractive financial instruments in an individual's port folio that provides an assurance of security with attractive returns. By and large, life insurance is civilization's partial solutions of financial uncertainties caused by untimely death. The state owned monopoly had achieved the tremendous growth before and after liberalization. LIC is the only best organization to protect the customer's money and life.

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CHAPTER SIX

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[125] Ras Gupta, D.D, "*Indian Insurance Industries – Transition and Prospects*", Journal of Insurance and Risk Management, Vol.1, Issues 01. Oct. (2007) P. 100.

[126] Pathak, Harbans, "*Concept of Productivity in Public Personal Administration*", Management of Productivity in Indian Industries, (2007)P111 -20.

EFFECT OF PRIVATIZATION ON LIC

INSURANCE MARKET- PRESENT:

The insurance sector was opened up for private participation many years ago. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe.

There are now 29 insurance companies operating in the Indian market – Fourteen private life insurers, nine private non-life insurers and six public sector companies. With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a de tariffed scenario.

There is pressure from both within the country and outside on the Government to increase the foreign direct investment (FDI) limit from the current 26 % to 49 %, which would help JV partners to bring in funds for expansion.

There are opportunities in the pensions sector where regulations are being framed. Less than 10 % of Indians above the age of 60 receive pensions.[127] The IRDA has issued the first license for a standalone health company in the country as many more players wait to enter. The health insurance sector has tremendous growth potential, and as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society.

[127] Aggarwal Preeti,"*A Note on the Insurance Status in India for Poor*", Alliance of Business Research, 2005 P. 35 – 45.

STATE INSURERS CONTINUE TO DOMINATE

There may be room for many more players in a large underinsured market like India with a population of over one billion. But the reality is that the intense competition in the last five years has made it difficult for new entrants to keep pace with the leaders and thereby failing to make any impact in the market.

Also as the private sector controls over 26.18 % of the life insurance market and over 26.53% of the non-life market, the public sector companies still call the shots.[128]

The country's largest life insurer, Life Insurance Corporation of India (LIC), had a share of 74.82 % in new business premium income in November 2007.[129]

Similarly, the four public-sector non-life insurers – New India Assurance, National Insurance, Oriental Insurance and United India Insurance – had a combined market share of 73.47 % as of October 2005. ICICI Prudential Life Insurance Company continues to lead the private sector with a 7.26 % market share in terms of fresh premium, whereas ICICI Lombard General Insurance Company is the leader among the private non-life players with an 8.11% market share. ICICI Lombard has focused on growing the market for general insurance products and increasing penetration within existing customers through product innovation and distribution.[130]

REACHING OUT TO CUSTOMERS

No doubt, the customer profile in the insurance industry is changing with the introduction of large number of divergent intermediaries such as brokers, corporate agents, and bancassurance.

The industry now deals with customers who know what they want and when, and are more demanding in terms of better service and speedier responses. With the industry all set to

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[128] Bhaskar, Banerjee "*Life Insurance as RH Investment – A critical study*", Decision, July 2006 P.169-70

[129] Fortune, Peter "A *Theory of Optimal Life Insurance Development and Test*", The Journal of Finance, Vol.28, No.3, June, (2007) P.587-600.

[130] Rao, D. Tripathi, "*Life Insurance Business in India*" Economic and Political Weekly, Mumbai, Vol.34, No.31-35, July 31, (1999) P. 2174.

move to a detariffed regime by 2007, there will be considerable improvement in customer service levels, product innovation and newer standards of underwriting.[131]

INTENSE COMPETITION

In a de-tariffed environment, competition will manifest itself in prices, products, underwriting criteria, innovative sales methods and creditworthiness. Insurance companies will vie with each other to capture market share through better pricing and client segmentation.

The battle has so far been fought in the big urban cities, but in the next few years, increased competition will drive insurers to rural and semi-urban markets.

GLOBAL STANDARDS

While the world is eyeing India for growth and expansion, Indian companies are becoming increasingly world class. Take the case of LIC, which has set its sight on becoming a major global player following an Rs 280-crore investment from the Indian government.[132] The company now operates in Mauritius, Fiji, the UK, Sri Lanka, and Nepal and will soon start operations in Saudi Arabia. It also plans to venture into the African and Asia-Pacific regions in 2006.

The year 2005 was a testing phase for the general insurance industry with a series of catastrophes hitting the Indian sub-continent.

However, with robust reinsurance programmes in place, insurers have successfully managed to tide over the crisis without any adverse impact on their balance sheets.

With life insurance premiums being just 2.5 % of GDP and general insurance premiums being 0.65 % of GDP, the opportunities in the Indian market place is immense. The next

[131] Goldsmith, Art, "*Household Life Cycle Protection: Human Capital Versus Life Insurance*", The Journal of Risk and Insurance, Vol.50, September, No.3, (2006)P.473-86.
[132] Mark J. Browne; Kihong Kim, "*An International Analysis of Life Insurance Demand*", The Journal of Risk and Insurance, Vol.60, No.4, (2007) P.616-34.

five years will be challenging but those that can build scale and market share will survive and prosper[133].

INSURANCE TODAY

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

With the setup of Insurance Regulatory Development Authority (IRDA) the reforms started in the Insurance sector. It has became necessary as if we compare our Insurance penetration and per capita premium we are much behind then the rest of the world.

With the expected increase in per capita income to 6 % for the next 10 year and with the improvement in the awareness levels the demand for insurance is expected to grow. As per an independent consultancy company, Monitor Group has estimated a growth form Rs. 218 Billion to Rs. 1003 Billion by 2008.[134] The estimations seems achievable as the performance of 13 life Insurance players in India for the year 2002-2003 (up to October, based on the first year premium) is Rs. 66.683 million being LIC the biggest contributor with Rs. 59,187 million. As of now LIC has 2050 branches in 7 zones with strong team of 5,60,000 agents.[135]

IMPACT OF GLOBALISATION

While nationalized insurance companies have done a commendable job in extending the volume of the business, opening up insurance sector to private players was a necessity in the context of globalization of financial sector. If traditional infrastructural and semipublic goods industries such as banking, airlines, telecom, power etc, have significant private

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[133] Khan, M.Y. and Preeti Singh, "*Life Insurance Corporation and Corporate Control of India*", Indian Economic Journal, Vol. 29, No.2, Oct-Dec, (2007)P56.S

[134] Deka, G.C Dams "*Techniques of Increasing Productivity Service Sector*" Management of Productivity in Indian Industries, 2008, P.395-400.

[135] Tripathy, Nalini Prava and Pal Prabir, "LIC – *The Leader on the Blackfoot*", Insurance Theory and Practice, New Delhi, (2005) P.43.

sector presence, continuing a state of monopoly in provision of insurance was indefensible and therefore, the globalization of insurance has been done as discussed earlier. Its impact has to be seen in the form of creating various opportunities and challenges.

The introduction of private players in the industry has added colours to the dull industry. The initiatives taken by the private players are very competitive and have given immense competition to the monopoly of the market LIC. Since the advent of the private players in the market the industry has seen new and innovative steps taken by the players in the sector. The new players have improved the service quality of the insurance. As a result LIC down the years have seen the declining in its career. The market share was distributed among the private players. Though LIC still holds 75 % of the insurance sector the upcoming nature of these private players is enough to give more competition to LIC in the near future. LIC market share has decreased from 95 %(2002-03) to 81 % (2004-05). The following company holds the rest of the market share of the insurance industry.[136]

TABLE – 1

IMPACT OF GLOBALISATION

NAME OF THE PLAYER MARKET SHARE	(%)
LIC	82.3
ICICI PRUDENTIAL	5.63
BIRLA SUN LIFE	2.56
BAJA ALLIANZ	2.03

[136] Bech Thorsten and Ian Webb "*Determinants if Life Insurance Consumption across countries*" source; www: ideas.repec.org, 2003.

SBI LIFE	1.80
HDFC STANDARD	1.36
TATA AIG	1.29
MAX NEW YORK	0.90
AVIVA	0.79
OM KOTAK MAHINDRA	0.51
ING VYASA	0.37
AMP SANMAR	0.26
METLIFE	0.21

In a tough battle to expand market shares the private sector life insurance industry consisting of 14 life insurance companies at 26 % have lost 3 % of market share to the state owned Life Insurance Corporation (LIC) in the domestic life insurance industry in 2006-07. According to the figures released by Insurance Regulatory & Development Authority, the total premium of these 14 companies have shot up by 90 % to Rs 19,471.83 crore in 2006-07 from Rs 10, 252 crore.[137]

LIC with a total premium mobilization of Rs 55,934 crore has been able to retain a market share of 74.26 % during the reporting period. In total the life insurance industry in first year premium has grown by 110 % to Rs75,406 crore during 2006-07. The 2006-07 performance has thrown a few surprises in the ranking among the private sector life

[137] Madhok, K.L., "*Role of Insurance in Economic Growth of the Country*", The Insurance Times, Vol.7, No.3, (2007) P.11-15.

insurance companies. New entrants like Reliance Life and SBI Life had shown a huge growth of over 381 % and 210 % respectively during the year. Reliance Life which has become one of the top five companies ended the year with a premium of Rs 930 crore during the year.[138]

Though ICICI Prudential Life Insurance remained as the No 1 private sector life insurance company during the year. Bajaj Allianz overtook ICICI Prudential in terms of monthly market share in March, for the first time ever. Bajaj's market share among private players in non-single premium for March stood at 29.1% vs. ICICI Prudential's 23.8 %. Bajaj gained 4.6 percentage point market share among private sector players for 2007.

Among other private players, SBI Life and Reliance Life continued to do well, each gaining 4 % market share in 2007. SBI Life's growth was driven by increasing contribution from ULIP premiums. Another notable development of the 2006-07 performance has been the expansion of retail markets by the life insurance companies. Bajaj Alliannz Life insurance has added 20 lakh policies while ICICI Prudential has expanded over 19 lakh policies during the year.

With the largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.

Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense.

A well-developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and at the same time strengthens

[138] Mishra, M.N., “*How Profitable is LIC Investment*”, Eastern Economist, Vol.62, (2006),P.312-13.

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the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country.

Insurance is a federal subject in India. There are two legislations that govern the sector- The Insurance Act- 1938 and the IRDA Act- 1999. The insurance sector in India has become a full circle from being an open competitive market to nationalization 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.

In a tough battle to expand market shares the private sector life insurance industry consisting 14 life insurance companies at 26 % have lost 3 % of market share to the state owned Life Insurance Corporation (LIC) in the domestic life insurance industry in 2006-07. According to the figures released by Insurance Regulatory & Development Authority the total premium of these 14 companies have shot up by 90 % to Rs 19,471.83 crore in 2006-07 from Rs 10, 252 crore.[139]

OPPORTUNITES

- A state monopoly has little incentive to innovative or offers a wide range of products. It can be seen by a lack of certain products from LIC's portfolio and lack of extensive risk categorization in several GIC products such as health insurance. More competition in this business will spur firms to offer several new products and more complex and extensive risk categorization.

- It would also result in better customer services and help improve the variety and price of insurance products.

[139] Rao G. V., *"Playing It Safe"*, IRDA Journal, Vol.1, Nov., No. 12, (2003) P. 14-15.

- The entry of new players would speed up the spread of both life and general insurance. Spread of insurance will be measured in terms of insurance penetration and measure of density.

- With the entry of private players, it is expected that insurance business roughly 400 billion rupees per year now, more than 20 per cent per year even leaving aside the relatively under developed sectors of health insurance, pen More importantly, it will also ensure a great mobilization of funds that can be utilized for purpose of infrastructure development that was a factor considered for globalization of insurance.

- More importantly, it will also ensure a great mobilization of funds that can be utilized for purpose of infrastructure development that was a factor considered for globalization of insurance.

- With allowing of holding of equity shares by foreign company either itself or through its subsidiary company or nominee not exceeding 49 % of paid up capital of Indian partners will be operated resulting into supplementing domestic savings and increasing economic progress of nation.

- It has been estimated that insurance sector growth more than 3 times the growth of economy in India. So business or domestic firms will attempt to invest in insurance sector. Moreover, growth of insurance business in India is 13 times the growth insurance in developed countries. So it is natural, that foreign companies would be fostering a very strong desire to invest something in Indian insurance business.

- Most important not the least tremendous employment opportunities will be created in the field of insurance which is burning problem of the present day today issues.

CHALLENGES BEFORE THE INDUSTRY

New age companies have started their business as discussed earlier. Some of these companies have been able to float 3 or 4 products only and some have targeted to achieve the level of 8 or 10 products.[140] At present, these companies are not in a position to pose

[140]Rao G. V., *"Playing It Safe"*, IRDA Journal, Vol.1, Nov., No. 12, (2003) P. 14-15.

any challenge to LIC and all other four companies operating in general insurance sector, but if we see the quality and standards of the products which they issued, they can certainly be a challenge in future. Because the challenge in the entire environment caused by globalization and liberalization the industry is facing the following challenges.

- The existing insurer, LIC and GIC, have created a large group of dissatisfied customers due to the poor quality of service. Hence there will be shift of large number of customers from LIC and GIC to the private insurers.

- LIC may face problem of surrender of a large number of policies, as new insurers will woo them by offer of innovative products at lower prices.

- The corporate clients under group schemes and salary savings schemes may shift their loyalty from LIC to the private insurers.

- There is a likelihood of exit of young dynamic managers from LIC to the private insurer, as they will get higher package of remuneration.

- LIC has overstaffing and with the introduction of full computerization, a large number of the employees will be surplus. However they cannot be retrenched. Hence the operating costs of LIC will not be reduced. This will be a disadvantage in the competitive market, as the new insurers will operate with lean office and high technology to reduce the operating costs.

- GIC and its four subsidiary companies are going to face more challenges, because their management expenses are very high due to surplus staff. They can’t reduce their number due to service rules.

- Management of claims will put strain on the financial resources, GIC and its subsidiaries since it is not up the mark.

- LIC has more than to 60 products and GIC has more than 180 products in their kitty, which are outdated in the present context as they are not suitable to the changing needs of

the customers. Not only that they are not competent enough to compete with the new products offered by foreign companies in the market.[141]

- Reaching the consumer expectations on par with foreign companies such as better yield and much improved quality of service particularly in the area of settlement of claims, issue of new policies, transfer of the policies and revival of policies in the liberalized market is very difficult to LIC and GIC.

- Intense competition from new insurers in winning the consumers by multi-distribution channels, which will include agents, brokers, corporate intermediaries, bank branches, affinity groups and direct marketing through telesales and interest.

- The market very soon will be flooded by a large number of products by fairly large number of insurers operating in the Indian market. Even with limited range of products offered by LIC and GIC, the consumers are confused in the market. Their confusion will further increase in the face for large number of products in the market. The existing level of awareness of the consumers for insurance products is very low. It is so because only 62 % of the Indian population is literate and less than 10 % educated. Even the educated consumers are ignorant about the various products of the insurance.

- The insurers will have to face an acute problem of the redressal of the consumers, grievances for deficiency in products and services.

- Increasing awareness will bring number of legal cases filled by the consumers against insurers is likely to increase substantially in future.

- Major challenges in canalizing the growth of insurance sector are product innovation, distribution network, investment management, customer service and education.

ESSENTIALS TO MEET THE CHALLENGES

Indian insurance industry needs the following to meet the global challenges

[141] San D.K., "*The Growth Oriented Marketing Policy of LIC*", The Insurance Times, Vol.8, No. 9, (2007),P.14-15.

- Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability.

- Selection of right type of distribution channel mix along with prudent and efficient FOS [Fleet on Street] management.

- An efficient CRM system, which would eventually create sustainable competitive advantages and build a long-lasting relationship

- Insurers must follow best investment practices and must have a strong asset management company to maximize returns.

- Insurers should increase the customer base in semi urban and rural areas, which offer a huge potential.

- Promoting health insurance and using e-broking to increase the business.

Thus, in the last on basis of above the discussion, it can be concluded that need for private sector entry is justifiable on the basis of enhancing the efficiency of operation, achieving greater density and insurance coverage in the country and for greater mobilization of long-term savings for long gestation infrastructure projects. In the wake of such competition it is essential for the government monopolies (LIC and GIC) that they quickly up grade their technology, restructure themselves on more efficient lines and operate as broad run enterprise. New players should not be treated as rivalries to government companies, but they can supplement in achieving the objective of growth of insurance business in India.

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CONCLUSION

The Indian insurance industry is as old as it is in any other part of the world. The insurance sector in India has come to a full circle from being an open competitive market to nationalization and back to a liberalized and highly competitive market again. The decade of 1920,s and 1930,s witnessed rapid growth of life insurance in India. Insurance Act, 1938 was introduced in the country to exercise effective control over the insurance business. After independence, Life Insurance Corporation of India was formed on September 1, 1956 with a capital contribution of Rs.5 crore by the government of India. Since nationalization, the life insurance in India has been synonymous with the state – owned LIC. It has played a dominant role in the economic development of the country in two ways.

First, as a life insurer, it has served to pool and distribute life-risks associated with the millions of earners. Life insurance has thus served the purpose of providing economic and social security umbrella to the millions of households, specially to rural poor and senior citizens.

Second, as a major saving institution, LIC has been a dominant financial intermediary, channeling funds to productive sectors of the economy; mostly financing government sponsored planned development programs.

The growth of LIC and its efforts to diversify, the life insurance business in India remained far below that in developed countries. During the phase of globalization of the Indian economy in the early 1990,s opening up of the Indian insurance sector to both domestic private and foreign companies has been the part of the financial sector reform. However, LIC was put on its toes when in 1993.the government of India appointed a committee headed by shri R N Malhotra to examine the reform required in the insurance sector. On the basis of the recommendation of Malhotra Committee, Insurance Regulatory and Development Authority Act was introduced in 1999 to vest in the Insurance Regulatory and Development Authority power to control the insurance sector.

FINDINGS

In order to evaluate the performance of LIC, four major aspects are analyzed.

Firstly, the overall performance of LIC has been evaluated for the period of 15 years from 1993-2008 then the analysis of productivity of LIC and its portfolio management for 15 years has been analyzed. The impact of privatization on the performance of LIC for the years 2001 to 2008 has also been examined. The summary of the findings of the study are discussed as fallows.

1. Evaluation of overall performance of LIC.
2. Productivity of LIC.
3. Investment portfolio of LIC.
4. Impact of privatization on the performance of LIC.

EVALUATION OF OVERALL PERFORMANCE OF LIC.

Performance of any business refers to the successes and failure of the undertaking in achieving the targets and objectives.

1. New business is a pointer towards the spread of message of insurance among those people who have never availed of the benefits of Life insurance as well as the existing policy holders. The percentage growth of the annual premium, number of policies and sum assured year after year are significant criteria for evaluating the

performance of the corporation. The premium income of the corporation has shown tremendous growth during the period of study. In 1993-1994, the annual premium was Rs. 2507.73 crore which kept on increasing every year and reached Rs.12540.82 crore in 2003-04. The compound growth rate of annual premium of LIC for entire period of study is 22.18 percent which is observed to be highly significant at 0.1 percent level. There has been steady increase in the number of policies from 1993-2004, from 10725633 policies to 26456320 policies. The compound growth rate of the number of policies for the entire period of study has been 51.35 percent which is non significant due to fluctuations. In case of sum assured, the performance of the corporation has been quite satisfactory for all the years of study except for two years from 1995-96 and 2003-03, when there is fall in the amount of sum assured. The sum assured has rapidly grown from Rs 41813.83 crore in 1993-94 to 198707.12 crore in 2003-04. The overall annual compound growth rate for the 15 years has been 18.19 percent which is highly significant at 0.1 percent level. In order to evaluate the overall performance of the Corporation, it is important to analyze the business performance under individual insurance outside India. In terms of annual premium, there are many fluctuations in the performance of LIC. In 1993-94, annual premium was Rs. 12.13 crore which increased to Rs. 23.27 crore in 2003-04. The compound growth rate of annual premium of new business out of India for the entire period of study is 2.69 percent which is observed to be non-significant. In case of number of policies the offshore performance of LIC has been pretty well in the initial years of the study period, but the compound growth rate of number of policies is negative 3.22 percent which is non-significant. Similarly, the overall growth rate of sum assured for the entire period is only 2.02 percent which is also non-significant.

2. The performance of new business of rural market has been analysed in terms of number of policies and sum assured. The results reveal that there has been steady growth in the new business of rural market of LIC. The rural new business is examined for two sub-periods i.e. 1993-94 to 1999-2000 forms the first sub-period and 2000-01 to 2003-04 constitutes the second sub-period. This has been done due to the change in the definition of rural areas after the formation of IRDA. The

compound growth rate of number of policies of new rural business for the entire period is -0.77 percent which is non-significant. Similarly, the compound growth rate of sum assured for the entire period of study is -2,18 percent which is also non-significant. The performance of the rural market of LIC can be judged with the analysis of its contribution to the total market. This can be determined by calculating the share of rural market to the total number of policies as its share to the total sum assured. In case of number of policies, the share of policies was 45.3 percent in 1993-94 which increased to 57.5 percent in 1999-2000.

3. Similarly, in case of sum assured, in 1993-94, the share was 39.9 percent and in 1999-2000 it reached to 48.7 percent. After the entry of private players, the contribution of rural market has drastically decreased.

4. In order to evaluate the performance of LIC, the total business under individual insurance in terms of number of policies, total premium and total sum assured were considered and their growth rates were also calculated for the study period. The premium income increased from Rs. 8758.19 crore in 1993-94 to Rs. 5-1969,77 crore in 2003-04, but the growth has been quite fluctuating. The compound growth rate of premium income of individual business in force was 21.11 percent which was observed to be highly significant at 0.1 percent level. In case of total number of policies, the individual insurance business has increased rapidly from 608 lac policies in 1993-94 to 1539.21 lac policies in 2003-04. The compound growth rate of number of policies of individual business in force was 9.86 percent and was highly significant at 0.1 percent level. The sum assured, was Rs. 207061 crore in 1993-94 and Rs. 11,13,735 crore in 2003-04. The compound growth rate of individual sum assured was 28.40 percent which is significant at 1 percent level.

5. The performance of LIC is mediocre in the international market in case of premium income. In 1993-94, the premium income was Rs. 46.19 crore which kept on increasing every year and in 2003-04, it increased to Rs. 131.42 crore. The compound growth rate of premium income of business in force out of India has been 8.88 percent which is observed to be highly significant at 0.1 percent level. There has been increase in the number of policies from 0.73 lac in 1993-94 to 0.93 lacs in 2003-04. The compound

growth rate is 1.93 percent which is significant at 0.1 percent level. Similarly, the amount of offshore sum assured has increased from Rs. 1018 crore in 1993-94 to Rs. 2174 crore in 2003-04. The compound growth rate of sum assured of offshore business in force for the entire study period was 6.07 percent which was significant at 1 percent level. Thus, LIC has done pretty well in the international market except 2000-01 as there has been poor performance in that year.

6. The performance of LIC in group insurance has also been analyzed for the study period. Group insurance refers to the policy taken on the lives of the employees of a business concern. The new business of group insurance in terms of number of schemes, number of members and total annuity per annum has been studied. In case of number of schemes, new business has increased from 273 new schemes in 1993-94 to 344 schemes in 2003-04. The compound growth rate of number of schemes for the entire period was 1.29 percent which was non-significant. The number of members increased from 31,695 in 1993-94 to 1,72,000 in 2003-04. The compound growth rate of number of members was 12.35 percent which was observed to be significant at 5 percent level. New business in terms of total annuity per annum increased from Rs. 18.17 crore in 1993-94 to Rs. 2140.90 crore in 2003-04. The compound growth rate of total annuity for the entire period was 24.86 percent which was highly significant at 0.1 percent level under.

Thus, the overall performance of LIC has been quite satisfactory before the privatization of the insurance industry. However, various indicators show a downfall in its performance especially after 2000-01. Now LIC has to adopt new strategies and plans to maintain its position in the insurance market.

II. PRODUCTIVITY OF LIC

Productivity is at the heart of a firm's performance in a competitive market. Productivity cannot be determined by looking at the firm as a whole. It stems from many discrete activities a firm performs. These activities can contribute to a firm's relative productivity and create a basis for advantage. Increasing productivity reduces the costs of output which enables the producers to supply the goods and services at lower prices to the customers. The productivity reflects the return to resources employed, i.e. how well

resource utilisation has taken place in a given system. It is a combination of effectiveness and efficiency.

Productivity growth has been very slow in the service sector such as banks, insurance, railways, hospitals and other public utility service. In particular, productivity of LIC may be measured in terms of the following indicators:

1. New business per branch.
2. New business per agent.
3. Number of policies per branch.
4. Number of policies per agent.
5. Premium income per branch.
6. Premium income per agent.
7. Ratio of expenses of management to premium income.
8. Complaints per thousand mean numbers of policies in force.
9. Percentage of outstanding claims to total claims payable.
10. Membership of various Agents Clubs.

1. New business under individual insurance refers to the sum assured underwritten during the current financial year. Productivity of the branches can be measured by calculating sum assured per branch, i.e. dividing the total sum assured in a year by the total number of branches in that year. The results tell the efficiency and effectiveness of various branches of the LIC during various years. The total number of branches in 2004-05 was 2008 and in 2006-07, the number increased to 2048. The average business done by the branches during different years showed a steady growth. In 2004-05, new business per branch was Rs. 20.82 crore whereas in 2006-07, it increased to Rs. 89.28 crore. The major's downfall in the productivity of the branches occurred in the year 2002-03, when all the private insurers got operational in the insurance industry and gave toughs competition to the giant LIC. The compound growth rate of new business per branch for the period of the study I was 16.75 percent which is highly significant at 0.1; percent level. Thus, by comparing the new business of, every branch in that year, LIC can take strategic? Decisions as to which branches need to be paid more attention.

2. Agents of the insurance companies play an important, role in procuring new business every year. Productivity of the agents can be measured by dividing the total sum assured in a year by the total number of active agents in; that year, i.e. average business per active agent. The analysis reveals that as the number of active agents increased every year, the average business per agent also increased. As the economic reforms were 1 undertaken in the year 1991-92, there had been a general improvement in the economy. These reforms resulted into a consistent growth of the productivity of agents. From 1993-94 to.2005-06, the average business done by each agent increased from Rs. 7.97 lac to Rs. 17.77 lac. There was a huge setback to the I performance of the agents in 2002-03. The overall growth rate of average business per agent was 10.69 percent, which is observed to be highly significant at 0.1 ercent level.

3. The performance of the branches can be judged from the : number of policies sold by them during a particular year. Thus, the productivity of the branches in a particular year is measured by dividing the total number of policies in a year by the total number of branches in that year. This indicates the average business done by each branch in different years. The analysis reveals that the performance of various branches during the study period was on a progressive path. In 1993-94, the number of policies per branch was 5341 which increased to 11,698 in 2004-05. The compound growth rate of number of policies per branch over the study period was 9.55 percent which is significant at 0.1 percent level.

4. The productivity also depends upon the performance of agents which is measured by calculating the average business done .by each agent in terms of number of policies in a particular year. The results show that the number of policies per agent increased steadily from 20 policies in 1993-94 to 30 policies in 2001-02, but after this the productivity kept on declining and reached to 23 policies per agent in 2004-05. This indicates the need to train the agents on the part of LIC to handle the problems linked with the rapid changes in the market scenario. The overall compound growth rate as 2.44 percent which is observed to be significant at lipercent level.

5. The productivity of branches is also measured in terms of premium income received by all the branches during a particular year. In 1993-94, the premium income per

branch was Rs. 1.24 crore which increased to Rs. 6.12 crore in 2003-04. The huge increase in the productivity of branches happened in the year 2001-02. The compound growth, rate of premium income per branch for the entire study period was 22 percent which was significant at 0.1 percent level.

6. The performance of agents is highly linked with the premium they collect as they are paid commission on the basis of the premium they collected in a particular year. So the productivity of agents is calculated by dividing premium income in a particular year by the number of agents in that year. The analysis shows that the performance of the agents has been improving every year, especially from 1993-94 to the year 2001-02. But after this year, it kept on decreasing in the subsequent years. The overall growth rate of premium income per agent has been 14.41 percent which was significant at 0.l percent level.

Thus as far the productivity of the LIC is concerned, it has been increasing since 1993 till 2001 but started falling after the privatization, i.e. after 200l.

III. Investment Portfolio of LIC

Investment is a commitment of money that is expected to generate additional money in future. Every investment entails some amount of risk. The objective of Portfolio Management is thus minimisation of risk and maximisation of return. Portfolio which is the combination of securities, help the investors in spreading the risk over many securities. As the saying goes "***Don't put all your eggs in the same basket***."

The Life Insurance Corporation of India has been a nation builder since its formation in 1956. The LIC collects large amount of funds from the public and deploys the savings to the best advantage of the policy-holders, the community at large and industrial development. In order to evaluate the investment portfolio of LIC, the analysis has been made on the basis of the following variables:

1. Sector-wise break-up of investments in India.
2. Loans advanced for various development activities.
3. Assets representing funds.

1. The total investment of funds is made in mainly three sectors of the economy. These sectors are: Private Sector, Public Sector and Co-operative Sector. The analysis of

investments has been made sector-wise for the study period, i.e. 1993-94 to 2004-05. The book value of the investments of the Corporation was Rs. 44161.55 crore in 1993-94 and increased to Rs. 385639 crore in 2006-07. The compound growth rate of total investment over the study period was 22.06 percent which was significant at 0.1 percent level. Among the three sectors, major investments have been made in the public sector by the LIC, and then come the private sector and the least share in the co-operative sector. In 1993-94, the amount invested in the public sector was Rs. 36,246.48 crore whereas in 2006-07, the amount increased to Rs. 3,15,838.34 crore which is a huge increase in the investment in this sector. The compound growth rate of investments in public sector was 22.20 percent which was significant at 0.1 percent level. Private sector investment like public sector also showed an increasing trend of amount invested. Investments made in this sector in 1993-94 were Rs. 6199.01 crore which went on increasing every year and in 2004-05, it became Rs. 68,412.35 crore. The compound growth rate was 23.70 percent which was highly significant at 0.1 percent level. Similarly, in cooperative sector, there has been constant increase in the amount of investments every year. In 1993-94, only Rs. 1716.06 crore were invested out of Rs. 44161.55 crore whereas the amount of investment increased to Rs. 2155.98 crore out of Rs. 342219.89 crore in 2003-04. But in 2004-05, LIC made less amount of investment, i.e., only Rs. 1388.30 crore as compared to the previous Year.

The compound growth rate of investments in cooperative sector was 0.25 percent which was non significant.

2. Loans; continued to constitute one of the major avenues of investment for the Corporation's funds. Loans are advanced for various development activities every year. Comparison of various years has been made regarding the amount of loans advanced to various developmental activities like Electricity, Housing, Water Supply and Sewerage, Transport and Industrial Development. Results reveal that the total amount of loan advanced for various developmental activities showed increasing trend. During 1993-94 to 1998-99. After, the entry of private players in insurance sector, the loan amount started decreasing. The compound growth rate of the total amount of loan advanced for

the entire period was 8.95 percent which was significant at one percent level. Considering the percentage share of each development activity to total loan amount, housing held the major share of the loans advanced throughout during 1993-94 to 2000-01 except in the year 1994-95. The second major share went to electricity, followed by industrial development and water supply and sewerage. The least share was that of transport during 1993-2000. There has been a drastic change in the percentage share of amount of loan advancement to various activities from 200 onwards. The compound growth rate for electricity loans was -1.99 percent which was non-significant. The compound growth rate for housing loans for the entire study period was 1.41 percent which was non significant whereas the compound growth rate of water supply and sewerage loans was 27.05 percent which was significant at 0.1 percent level. The compound growth rates of transport and industrial development loan was 8.88 percent and 6.84 percent respectively which were observed to be non-significant. Thus, after new investment regulations 2002, the amount of loan advanced to housing, electricity and transport decreased significantly. Whereas the loan amount advanced to water supply and sewerage has increased substantially.

3. The investments of the Corporation funds are governed by ***section 27A*** of the Insurance Act, 1938. Subsequent guidelines were issued thereafter by the Government of India and IRDA by way of regulations. The analysis has also been done in order to see the investment pattern of LIC as per IRDA regulations. Thus, controlled funds are divided into four prescribed categories of investment, i.e.

(1) Government securities or other approved investments,

(2) Infrastructure and social investments,

(3) Investments in corporate sector, and

(4) Other than approved investments.

The percentage of amount of investments in each category has been calculated for the period 1993-94 to 2002-03. As per the regulations approved by IRDA, there must be minimum 50 percent investment in government securities or other approved investments. The analysis reveals that during 1993-94 to 2002-03, there has been more than 50 percent investment of the Corporation in this category. The compound growth rate of the amount

of investments in government securities and other approved investments over the period of study was 1.04 percent which was observed to be significant at 0.1 percent level. According *IRDA guidelines*, the investment in infrastructure and social sector should not be less than 15 percent of total investments. It has been found that LIC has failed on this front. The compound growth rate was negative, i.e. 5.45 percent which was significant at 0.1 percent level. There is a requirement up to 20 percent investments to be governed by exposure prudential norms. Analysis reveals-that required amount of investment in this sector prescribed by IRDA have been made. The compound growth rate over the period was 2.77 percent which was significant at one percent level. Not more than 15 percent of the controlled funds are to be invested in other than approved investment. The investments of the Corporation in this category have been less than 15 percent throughout the study period. The compound growth rate was negative, i.e. -1.78 percent but significant at 0.1 percent level.

Thus, there is a need to invest more controlled funds in infrastructure and social sector as it leads to the growth of economy and generation of employment opportunities.

IV. IMPACT OF PRIVATIZATION ON THE PERFORMANCE OF LIC

After the formation of IRDA, private players started entering the life insurance industry in India. At present, there are 13 private life insurers. Every life insurance company, private as well as public, offers variety of products catering to the need and demand of the customers. Among all the players, LIC has the largest agency force of 13, 42,199 agents, ICICI Prudential has 46,818 agents and Allianz Bajaj comes at the third position having 36,342 agents. The analysis of the impact of private players on LIC covers a period of 2001-02 to 2005-06. The impact of privatization on the performance of LIC has been evaluated on the basis of the following parameters:

1. Total premium income.
2. Market share of all the insurers in total premiums.
3. Number of policies.
4. Market share of all the insurers in terms of policies.
5. Growth rate of premium and number of policies.

1. The total premium income relates to the first year premium income which includes individual single premium, individual non-single premium, group single premium and group non-single premium. The premium income of private players was Rs. 27,253 lac in 2001-02 and increased to Rs. 45694.47 lac in 2005-06 showing healthy growth of premium. Whereas premium income of LIC was Rs. 1958877.25 lac in 2001-02 and decreased to Rs. 1597676.15 lac in 2002-03. However, in 2005-06, it increased to Rs. 1978593.20 lac.
2. The results show that market share of LIC has been decreasing regularly with the entry of private players. The market share in terms of total premium of LIC has decreased from 98.63 percent in 2001-02 to 78.07 percent in 2005-06. This indicates that the private players are doing quite well and thus affecting the performance of LIC.

3. In case of number of policies, the pattern-of figures quite resembles that of total premium income. In this case also the performance of LIC has deteriorated and those of private players have improved tremendously. Results show that in 2002-03, the new business in terms of number of policies of LIC was only 24529946 lacs and in 2005-056, it decreased to 24027392 lacs. Whereas in case of private players, the number of policies increased from 836621 lacs in 2002-03 to 2233075 lacs in 2004-05. This indicates that with every successive year, private players are gaining the trust of the public and have been quite successful in snatching the business away from LIC.

4. The market share in terms of number of policies of all the private players has risen from 3.29 percent in 2002-03 to 8.50 percent in 2005-06. Contrary to this the market share of LIC has been decreasing year by year. The market share of LIC was 96.71 percent in 2002-03, which decreased to 91.50 percent in 2005-06. Also in 2005-06, there was an entry of thirteenth private player (Sahara Life) to the insurance business which further resulted in increase in competition.

5. The growth rates of premium as well as number of policies have been calculated for all the players in insurance market to make comparison of performance and to study the effect of the entry of private players on the performance of LIC. The results

show that individually, each and every private company has shown a large growth of total premium in one year over the other. MetLife Insurance Company showed the highest growth rate (1504.5 percent) in total premium income in 2002-03, AMP Sanmar had the highest growth rate of 2177 percent in 2003-04 and Allianz Bajaj had the highest growth of premium (378.57 percent) in 2004-05. The growth of LIC was -18.44 percent in 2002-03 which improved to 21.83 percent in 2004-05 whereas the total growth of all the private insurers in 2002-03 was 251.50 percent but decreased to 153 percent in 2003-04. However, in 2004-05, it again increased to 224.98 percent which is a healthy growth rate.

In terms of number of policies, private players recorded a growth of 98.27 percent in 2003-04 and 134.61 percent in 2004-05, whereas LIC recorded a growth of 9.9 percent in 2003-04 and a negative growth of (-)10.90 percent in 2004-05. SBI Life recorded the highest growth of 395.95 percent in 2003-04 and MetLife showed the highest growth of 85.81 percent in terms of number of policies in 2004-05.

Thus, the performance of LIC in terms of growth of new business, business in force in India, new business under group insurance and other performance measures can be termed as satisfactory. Significant improvement has taken place in the settlement of claims especially after the introduction of private players in the business. The analysis of productivity growth also reflected improvement in different dimensions. However, the market share of LIC has decreased after the entry of private players, which indicates that LIC has to change its strategies to meet the challenges. Even when LIC is better placed in terms of the confidence of the buyers but more emphasis has to be laid on marketing so that private players are not able to make a dent in its market and lure away the prospective buyers.

SUGGESTIONS

- LIC is required to organize the training and development programmes for the promotion of human resources.
- The agents of the LIC should be given training through professional marketing practices to sell the policies sucessessfully to compete the private insurance players.

- LIC should have to facilitate to pay premium through Remittance throughout the days (24) hours.
- The periodical monitory on the functional role of corporate agent s is inevitable to affect the relationship not only with earlier but also with the investors.
- LIC should have to organize the free customer service camps at least twice in a month not only at its own premises but also at the working area of corporate agent.
- LIC should have to introduce special incentives scheme along with sum assured for advance payment of premiums.
- Some policy has premium payment option VIZ, by quarterly, half yearly and yearly.
- The affected parties have the freedom to approach the consumer courts appointed under the consumer protection act 1986.unfortunately the average time taken by these courts now is three to five years, no better than normal courts. Hence, an alternative forum needs to be created. the central government ,by a notification under the insurance ACT 1938,framed the redressal of public grievances Rules,1998. These rules provide for the appointment of an ombudsman from amongst those with experiences in judicial, civil or administrative service, or the insurance industry.

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