THE INDIAN INSURANCE INDUSTRY- CHALLENGES AND OPPORTUNITIES

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Abstract: The present study is related to the changing scenario of the Indian Insurance industry. The insurance industry has gone through drastic changes over the years. Many private sector insurance companies have entered the industry. The study is related to current market scenario of life and non-life insurance related sectors. An effort has been made to study the problems and expectation of the consumers from insurer and government. Valuable suggestions have been given to overcome the problems of the insurance sector.

KEY WORDS: Life Insurance, Non Life Insurance, Privatisation, Performance, Future prospects

INTRODUCTION:

A man is not alone in this world, related to him are innumerable expectations of his dependent parents, wife, kids and other members of his family. Along with that, their daily expenses, medical expenses, education of kids, their marriages and so on are related to the sole earning member of the family. So a man does not die alone, along with him; die the comforts of his dependent parents, several aspirations of his wife, numerous dreams of his children and many other things, which cannot be counted or valued. Similarly, welfare of the family is also related to the safety of the property, house, shop etc.

The Constitution of India provides for the fundamental right to life and property. Life is definitely protected by law but in case of loss of life, law does not provide for adequate compensation to the deceased or his dependents. The same goes for loss of property or assets. Even if the government promises compensation in some particular cases, it is too late and too little. There is no other organization that provides compensation in case of loss of this kind.

In the face of rapid industrialization, haphazard traffic on roads, incurable diseases like HIV, large-scale natural calamities, increasing extremism (terrorism), disintegrating joint families and communities, danger to life and property has increased manifold.
Here an instrument is required that can make well the loss (financially) or adequately compensate for the loss of that beloved individual by taking care of his dependent parents, children’s education, marriages etc. or replacing the lost property or asset. The only answer to all these problems lies in insurance.

In today’s highly developed, sophisticated and modernized society, simple concept of insurance is not enough. Every individual, family and society has different needs and expectations. There are numerous specific requirements of different professions and businesses. So everybody needs insurance cover ‘made to his order’. Again different variants of insurance covers are required to fulfill different needs.

**Meaning of insurance:**

According to Maclean, Insurance is “a method of spreading over a large number of persons a possible financial loss too serious to be conveniently borne by an individual.” Its basic function is to transfer the risk of financial loss of some possible calamity to the life or property of the individual to others willing to undertake the risk.

Insurance “is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed.” It is thus a scientific device for minimising and even mitigating the financial burden of those who suffer losses.

For carrying on the business of insurance it is necessary that certain principles must be followed in its practice. There should be the presence of ‘real’ risk to the insured. The threat of loss may be to his person or property and that person should not have any inducement to put his person or property to injury or loss.

The peril to which the item of insurance is exposed should be beyond the control of the insurant. He should not have any incentive to increase the hazard or the chance of loss to the item or object of insurance. If it is not so, it will not remain insurable.

The risk should be of fortuitous or accidental nature. Foreseen losses, like depreciation, can be easily calculated and individually predicted and hence better provided for by means other than insurance. They are not insurable.

The cost of insurance and of its continued existence should not be greater than the amount of loss sustained. Too hazardous risks are normally avoided by insurers. Lest the cost of insurance may be prohibitive, it is necessary that the amount of probable loss should be reasonably big enough to necessitate insurance. Very small losses are invariably excluded from the purview of insurance. This reduces the processing cost of insurance, and keeps insurance within the reach of public. Through research and experience in underwriting, the insurers have been able to cut down their cost and the rates of premium.
Types of Insurance:

Insurance can be classified into the following parts

(a) The Marine Insurance: The subject matter is ship, cargo, freight and life of human travelling

(b) The Fire Insurance: The subject matter is Goods, Godown and other belongings etc

(c) The Life Insurance: The subject matter is human life

(d) Motor Insurance: The subject matter is Motor vehicles

(e) Health Insurance: Here insurance is done for human health and medical bills of treatment.

(f) Crop Insurance and Burglary Insurance, etc: The subject matter is crops of farmers or items which can be stolen.

Insurance Sector Reforms:

Having looked at the introduction of insurance, it is necessary to look at the efforts made by government to make the industry more dynamic and customer friendly. To begin with, the Malhotra committee was set up with the objective of suggesting changes that would achieve the much required dynamism.

The Malhotra Committee Report:

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. In 1994, the committee submitted the report and gave the various recommendations, which were implemented by government. It paved the way for liberalizing insurance industry in India.

Privatization Of Insurance Industry:

Despite the loud protests by public sector insurance employees against liberalization of the insurance sector, there is a definite upside to the entry of private insurance players, say experts. There are tremendous growth opportunities for the insurance sector in India. In the US, the total annual premiums gathered by the insurance industries as a percentage of GDP is an estimated 9%, where as it is only 2% in India. Economists estimate that the elasticity of insurance premiums to GDP is large, with coefficients as high as 3 or 4.

Besides India has a competitive edge in the area of skilled labour. Professional expertise in technical, financial and legal subjects is widely available and the insurance sector can tap this expertise with good results.
The most important benefits emerging from privatization is the availability of long-term funds for infrastructure projects and provisions of better services to consumers.

Resistance to foreign capital in the financial sector is bad. It is believed that this investment is not in tangible assets; it can flow out as easily as it flows in. On the contrary, the insurance sector both in the life business and general business has long gestations. Foreign insurers, it is likely, would be prepared to provide undertakings that not a dollar would be repatriated in any form-capital or dividend-for a period of 7 to 9 years.

As far as the fear of loss of jobs are concerned, one simple statistic will suffice to show that the number of people working in the UK with a population 1/17 the size of India. If one looks at the emerging markets the prospects are even better- in South Korea, the number of full time employees is doubled over a ten year period while Thailand added 50% more jobs in four years.

Cross country experience shows that nowhere in the world has the entry of foreign insurance firms come anywhere near threatening the position of domestic countries. CII has stated in a note to the government that the fear of foreign insurance companies dominating the insurance business is baseless as in other Asian countries. Foreign general insurer penetration was limited to 10% Malaysia, 2.9% in Taiwan, 17.44% in Indonesia, 5.5% in Philippines and 0.6% in S. Korea.

**REVIEW OF LITERATURE:**

The Indian insurance industry is changing rapidly. It is no longer the dull industry with a government monopoly and outdated practices. It is an upcoming industry after its privatization in 1999. This has brought revolutionary changes in (i) the business management of the insurers, viz; innovation in products, their publicity and marketing; (ii) the way consumers perceive insurance and (iii) the awareness level of the general public about insurance.

As a result of all this and more, there has been huge interest in this field among writers and researchers alike. Several books and research papers have been written on various aspects of this industry. Newspapers and magazines regularly have columns on this booming industry. But it is not possible to mention here all the works on the subject that have been studied in the process. However, a brief description of some of the important studies made after 1990 that are related to the Indian Insurance Industry has been mentioned hereunder.

**D. C. Srivastava and Shashank Srivastava** in their research paper ‘Growth of General Insurance Industry in India’ (1993) attempt to review the growth of general insurance in India in historical perspective, critically evaluate its performance, review claim experience and project the growth potential over a period of time. The paper also examines the pre-requisite conditions for conducting insurance business and its distinguishing features as compared to life business.
A.P. Pradhan in his paper ‘Investment Management of Non-Life Insurance Companies’ (1994) described the importance of building up an optimum investment portfolio as a tool to improve the financial strength of insurance companies, as with the globalisation and deregulation of insurance sector, there will be need to improve efficiency and profitability of investment portfolio.

In the paper ‘Pricing of Insurance Products in Liberalised Economies: Lessons for India’ (1998) R. D. Samarth examined the issue of pricing of insurance products in liberalised economies and lessons which can be learnt for Indian insurance industry. The paper traced out the role of price factor in the development of financial structure of general insurance business right from early days and pointed out that the concept of adequate price for marine insurance has been evident from ancient times.

Dileep Mavalankar and Ramesh Bhatt in their paper ‘Health Insurance in India: Opportunities, Challenges and Concerns’ (2000) examined present status, opportunities and challenges in health insurance segment of general insurance in India. The paper has discussed the role of regulator in the development of health insurance. The experience of U.S.A. and Germany in health insurance has also been examined.

Rahul Singh studies the challenges before reinsurers in the global market in his paper, ‘Reinsurance- Global Environment and Indian Challenges’, (2003). He suggests changes India can and should make to face the new challenges.

R.Vaidyanathan in his research article, ‘Financial Convergence and Regulation’, (2003) discusses the legislative framework for the working of various industries like banking, insurance, pensions, derivatives etc. and presents existing problems in the new financial architecture.


Santosh Dhar and Upinder Dhar in their article ‘Insurance Industry in India- An Insight’, (2004) emphasize the importance of custom-built products and solving customer specific issues and requirements to face the competition.

Tapen Sinha, in his paper, ‘An Analysis of the Evolution of Insurance in India’, (2005) examines the regulatory regime that existed before independence. This paper discusses the importance of rural sector and possible impact of privatization on it.


S.B.Verma, in his book, ‘Risk Management’, (2005) has addressed the important issue of risk management in various spheres of life. Bank risk management, insurance risk management, finance and credit risk management, capital market risk management and corporate business risk management are the important areas taken up for analysis. He discusses the insurance needs in Project Finance and ways to tackle it.

The book ‘Indian Insurance Environment’ edited by K.B.S.Kumar (2006), discusses various trends witnessed in the new liberalized market of Indian insurance through various articles written on different topics by different authors.

‘Insurance Customer Service’ edited by K.B.S. Kumar (2006), focuses on customer service and customer satisfaction in the Indian insurance industry. It attempts to provide with a better understanding of the customers’ needs and insurers’ obligations along with insights into the combined roles of the banks and the insurance companies.


Sumninder Kaur Bawa in her book, ‘Life Insurance Corporation of India: Impact of Privatization and Performance’, (2007) presents an in depth analysis of LIC’s performance in respect of various indicators since the policy of liberalization was introduced in the country. The productivity analysis of the Corporation has also been carried out using different parameters. The portfolio management of the Corporation has been explained in detail in respect of loans and investments. The book also identifies key determinants of the performance of LIC and makes recommendations for improving it.


After an analysis of all the above mentioned works and a lot of other matter on the subject of insurance, it was concluded that no comprehensive study has been conducted till date, regarding the emerging trends in Insurance Industry in India especially after the doors of the industry were thrust open to private and foreign insurers and hence the existence and importance of this study.
OBJECTIVES OF THE STUDY:
The broad objectives of the study are as under:

(i) To study the current market scenario of life and non-life insurance sectors, from the consumers as well as the insurers’ point of view in India.

(ii) To study the impact of privatization of insurance industry in India.

(iii) To study the performance of public and private insurers (both life and non-life) in India.

(iv) To explore the problems and expectations of consumers of insurance products (both life and non-life).

(v) To make suggestions for improvement in consumer satisfaction and development of Indian insurance industry.

RESEARCH METHODOLOGY:
Specific methodology followed to carry out the research was as follows:

Since the research undertaken was Exploratory in nature, In-Depth Interview approach along with getting the questionnaires filled was used as the method of data collection from various insurers about the current prevailing trends in the market and knowing their sales criteria and challenges faced by them.

A sample was then selected that gave a fair idea of the pattern followed by the consumers. And finally, the data collected was analyzed and interpreted to chalk out the various challenges faced by the insurers and problems faced by policyholders.

Research Instruments:
The research was carried out using the following two approaches:

- Qualitative: Direct In-Depth Interviews were conducted.
- Quantitative: Questionnaires were designed and filled by respondents. Also, the software programs, SPSS (Statistical Package for Social Sciences) and MS-Excel were used for analyzing the data so collected.

Qualitative Analysis:

On the basis of this outline, in-depth interviews were conducted with the various insurers, where answers to all the questions and issues outlined earlier were sought. Group interviews were also conducted to get group insights and responses to such questions.

Responses to these questions were then further analyzed (analysis here means drawing out only the important points from the discussions). This was done by classifying the information obtained in the discussions (with insurers) under different heads (i.e., areas to be studied like consumer awareness, perception of insurance, and satisfaction levels etc.).
Finally, a crux was drawn for each head, by the information presented under it. This crux gave the main view of what the response was, to that particular question. All such take-outs to the various heads presented the final outcome of the analysis, in a crisp manner. This final outcome is the list of key challenges faced by insurers in the changed environment post privatization of the Indian insurance industry.

**Quantitative Analysis:**
Keeping in mind the final outcome required from the study (i.e., consumers’ perspective on insurance industry in India), the research objectives, and the marketing and research questions, a set of exhaustive questions was prepared. The collected answers to all questionnaires were then coded on to software, so that they could be further analyzed using the different research tools, methods and tests.

**Sampling Design:**

(1) **Sources of Data:**

(i) **Primary Data**

It was collected from people in the various cities across India to get a good representation for the entire population of the country. Cities that seem quite urban in demography and outlook and have rural areas in the periphery were selected as sample cities. These were Dehradun and New Delhi in the North, Kolkata and Guwahati in the East, Chennai and Hyderabad in the South, Jaipur and Mumbai in the West and Jabalpur and Bhopal in the Central India.

Primary data was collected through In-Depth Interviews and pre structured Questionnaires (Total 3 in number- No.1 for Insurers and No.2 and No.3 for insureds, former for Life Insurance policyholders and latter for Non-Life Insurance policyholders).

The questionnaires were designed keeping in mind the objectives of research and included both open and close-ended questions along with the personal details of the respondents. The questionnaire (Questionnaire No.1) meant for insurance companies (i.e., their officers at different levels) in order to get an expert view had questions on their working practices, attitude towards competitors, strategies to face competition, problems they face and their overall experience since privatization. The other two questionnaires were designed specifically catering to the public (policyholders and intenders) so as to get a rational view. One dealt with Life insurance policyholders (Questionnaire No.2) and the other was for Non-life insurance policyholders (Questionnaire No.3). They had questions relating to peoples’ awareness about insurance, their needs and expectations, their satisfaction levels, needs and expectations from the insurance companies, problems they face while dealing with insurers, etc.
The questions dealing with perception of consumers towards insurance and private insurance players were open-ended i.e., the respondents were given freedom to express their views. But when it was required to define a problem within the limits of certain answers (for the purpose of data analysis later) then the close-ended questions were used whereby the respondents were asked to limit their answers to the choices given.

(ii) **Secondary Data**

It was collected from various books, magazines, journals, newspapers, research articles, Government gazetteers, Government publications, Government notifications, websites of concerned Government departments and Ministries, websites of various life and non-life insurance companies. The key observations from these sources have been briefly mentioned in the Review of Literature.

(2) **Sampling Frame:**

People belonging to the working class (in the sample cities and rural areas), as they are key decision makers in their respective households and have vested interest in investments for tax planning, wealth creation or avoiding risk. A sample size of more than 400 was used. Response rate was also good. Sample included both, insured and insurers.

**Hypothesis Testing:**

A Null Hypothesis was formed that, **There is no impact of Privatisation on Insurance Industry on consumer and insurer.**

Consumers and Insurers were separately contacted with the help of the questionnaire. Questions were asked about the effect of privatization on Insurance Industry. t-test was applied separately on the data of consumers and insurers considering the neutral value of 7-point Likert Scale as expected value i.e. 4. But, actual result was much more away from expected neutral value and p-value as disclosed by SPSS was 0.00 in both the cases which is less than 0.05. So, Null Hypothesis stands rejected in both the cases, which means Alternate Hypothesis is accepted. It proves that privatization has affected the Insurance Sector. The reasons explained by them were: Competition in between private and public sector, change in rules by government and regulatory authorities, better products than before and more importance to consumer satisfaction, etc.

Another Hypothesis was framed and tested: **There is no difference in the performance of public and private sector Insurance Companies.**

To analyse the above Hypothesis, profitability of the Insurance companies in public and private sectors were considered. ANOVA technique was applied to see the difference in the profitability position of public insurance companies and private insurance companies.

p-value calculated with the help of SPSS was less than 0.05. It has proven that there is significant difference in the profitability of public and private sector. Null Hypothesis stands
rejected. Profitability of public sector insurance companies is very poor in comparison to private sector insurance companies.

Life Insurance Companies have accepted the challenge. But, other public sector companies in property insurance are not doing good.

Customer satisfaction of public and private insurers was also checked. It was found that satisfaction level of private sector insurance companies was much higher due to the adoption of new techniques, new products and better scientific business practices. Whereas, public sector insurance companies are unable to retain their customers in General Insurance Business. LIC is having strong fundamentals and more confidence of public. So, it is able to retain its position in the market. But, still it has to adopt new methods to face its competitors in private sector.

PROBLEMS AND SOLUTIONS:

(A) Problems And Solutions- Relating To Life Insurance:

The problems in the life insurance industry have been taken up first and some solutions for their effective redressal have been suggested in the following Paragraphs.

LACK OF AWARENESS ABOUT INSURANCE

Life is uncertain and it is not possible to predict exactly the different events that can occur. However, there is always a need to earn income to support self and one’s dependents. Financial planning is required to understand the impact of different events on our lives and on the quality of life for our families. It is like scenario building and understanding what financial requirements we would have at various stages in our lives and hence trying to reduce the financial risks that we are exposed to by proactively taking steps to guard against at least some of these risks. This is where insurance as a tool of protection against life’s contingencies comes into picture.

Solutions:

The onus of increasing awareness about insurance, its importance and benefits and IRDA etc. lies on the insurers now. The private insurers as well as LIC have already started it by advertising through different media. In the process, the customers and prospective customers will also develop a better understanding of the nitty gritty of various insurance products. Various interesting avenues of publicity of insurance should be tried.

Well-trained workforce equipped with the Insurance Information System, the Internet and all sorts of knowledge about the availability of products (also, the need of new products, if any), the requirement and financial level of the insuring public etc. may result in higher understanding and awareness among people about the necessity of insurance in one’s life.
LOW PENETRATION OF INSURANCE IN RURAL AREAS

The fact that there is ample scope of bringing more individuals into the net of insurance is undeniable, but only if the right type of products & services are made available to the consumers. A major obstacle in the way of an unlimited expansion of insurance coverage is the low penetration of insurance among the huge population in rural areas of the country. It is the section, which needs insurance the most but is also the one that can least afford it.

Solutions:

There is a paramount need to provide basic insurance knowledge and education to the rural population thereby creating rural insurance market that would boost the entire rural economic environment. For this, campaigns on insurance awareness can be conducted using visual media, film stars

NEGLECT OF POPULATION BELOW POVERTY LINE

People working in the organized sector get pension after retirement. People employed in the unorganized sector getting high income can make arrangements for a regular income after retirement. Here’s where pension products of life insurers come into picture. But people employed in the unorganized sector and getting very low income i.e. the people below poverty line are the ones who suffer the most in old age because they don’t have any other option. During this study, it was discovered that none of the people below poverty line had any kind of insurance; they don’t even intend to buy insurance any time soon in future. Their standard response was inability to pay the premium.

Solutions:

First and foremost, products need to be designed such that there are different products available for different needs. It should not be limited to only the downscaling of existing formal insurance products. Premium payments are timed to match income flows, and payment cycles are matched with financial flows of the household.

Secondly products should be flexible to sustain the demand of micro insurance. There should be several options for paying premiums by different ways & at different times. Insurance accounts can also be linked with savings account for automatic withdrawals of premiums. Continuous coverage on their policies should be provided so that they are free to choose frequency and size of premiums.

Thirdly, specific needs of poor people; especially women, need to be realized. Certain additional services like educational loans, legal support, business development services, financial education etc. may also be provided to widows.
UNSATISFACTORY LEVEL OF CUSTOMER SERVICE

Improved customer service, quick response to needs of consumers and easy access are the key elements for good customer retentions if continued on a regular basis. According to Johri (2000), a dissatisfied customer shares his experience with at least 11 persons, each of whom in turn conveys it to another 5 persons. Most of the customers switch their insurance business because of indifferent attitude of the service provider.

As the insurance needs of an individual change over time, all the available options should be explained to him, before a policy decision. All the concerned **documents should be in simple language**. After sales service is an important factor according to the majority of policyholders. Slow and unsatisfactory claim settlement, inadequate grievance redressal mechanism and high lapsation rates are also part of customer service. These are described in the following Paragraphs. Solutions suggested thereupon will lead to improvement in customer service.

PROBLEMS IN SETTLEMENT OF CLAIMS

Most of the respondents have faced problems in claim settlement at one point of time or the other. They feel frustrated with the endless documentation and procedural delay. Even the language used in policy forms is found to be confusing and difficult by the majority.

**Solutions:**

An effective way to resolve grievances relating to claims is to set a time frame for each type of service in claims and to enforce it strictly. There should be penal provisions on the insurer/intermediary if such time limits are not adhered to.

A list of claim documents required for various types of claims under the policy should be mentioned in the policy itself.

In case of rejection of a claim also, a clear message is to be sent conveying the reasons for rejection. The letter should also refer to the grievance redressal mechanism and the next legal options available to the customer such as Ombudsman, Consumer Forum, etc.

EXCLUSION OF IMPAIRED LIVES

Creative workforce of a country is the lifeblood of its economy and progress. The young workforce of the country has a long growth path ahead and it needs to be healthy and active for utilizing its potential in the long run.

But stressful and sedentary lifestyle has invited several diseases at a younger age. Diabetes is the most common among them.
Solutions:

All the insurers can form a common forum for coordinating research on impaired lives with academic bodies. This will bring uniformity in the decisions regarding insurance of impaired lives among all the insurers and further spread their individual risk on to a larger pool.

HIGH LAPSATION RATES

High lapsation rate is a factor, which defeats the purpose of insurance this shows that the way insurance is most of the times marketed in India is not right. A friend or a relative, who is an insurance agent, forces (emotionally blackmails) the prospect to buy an insurance policy and this poorly understood insurance product is a burden for the policyholder and so he may not pay the next premium and the policy will lapse. Further, people are only concerned about their tax deductions in a particular year and often take a policy only for this purpose and forget it later.

Solutions:

Insurer should give a clear instruction o its agent that cover only those lives ,who are capable of paying premium in long run. They should not give fake or unclear information to sell their policy.

NO PROPER GRIEVANCE REDRESSAL MECHANISM

IRDA regulations require the insurers to have a proper grievance redressal mechanism but no particular mechanism has been mentioned and there is no penalty for its non-compliance, so this regulation is a mere good intention of the regulator.

Solutions:

There should be Amendments to the regulations so as to make the redressal of complaints a top priority task. Customer complaints should be addressed properly.

(B) Problems And Solutions- Relating To Non-Life Insurance:

Life insurance industry is not the only one facing problems. Non life insurance industry is also grappling with similar problems of high lapsation rates, neglect of rural population, dissatisfactory consumer service, inefficient claim settlement, lack of proper grievance redressal mechanism etc. but there are problems which are specific to non-life industry. These have been discussed in the following Paragraphs.
LOW PENETRATION

The non-life insurance industry has barely achieved 20% penetration even for mandatory covers like liability motor-vehicle covers, not to speak of insurance products like householder policy, travel insurance or simple health insurance covers. It calls for liberalization and inclusion of more channels for increasing sale and penetration of insurance.

Solutions:

There should be liberalized selling of simple non-life insurance products that have till now achieved low penetration levels. That means more channels should be made available to the general public for buying simple, easy to understand covers.

INADEQUATE AGRICULTURE INSURANCE

It can play a vital role in providing financial strength and stability to farming community. It includes insurance of seed, cattle, horticulture, plantation, forestry, sericulture, agriculture, poultry, viniculture and all such activities, which are allied to agriculture. As insurers are interested largely in urban areas, so penetration of agriculture insurance is insignificant.

Very few respondents in rural areas actually thought about taking crop or cattle insurance (only 3%) and the basic reason is their inability to pay the premium. There have been several crop-failure related suicides in the recent past. There were several reports of suicides by farmers in Maharashtra, Orissa and other states during several cropping seasons in past years. It was also estimated that a stagnating fertilizer industry and lower pesticide use by farmers had resulted in crop loss of a whopping Rs.140000 crore in 2007.

Solutions:

The insurers need to develop policies suitable for rural people especially farmers. These policies should be flexible regarding premium payment frequency, premium amount, features desired by farmers, their payouts etc. another important requirement is increasing awareness of benefits of insurance among rural population.

The government should ensure that all crop loans are covered. The government has recently taken some action in this direction and asked bankers advancing crop loans to necessarily insure these crops for which the loan is being disbursed. The respective bank branches disbursing the loans will act as the arms of Agriculture Insurance Corporation (AIC) that will offer the covers to farmers.

Coffee insurance, Mango insurance etc. are being developed and implemented in the agriculture sector. National Agriculture Insurance Scheme (NAIS) launched in 1999-2000, covers all farmers who take loans from commercial banks, cooperative banks as well from rural banks. The scheme operates on the basis of area approach. As a decision on an alternative crop insurance scheme that is acceptable to the farmers as well as viable
to the insurer is pending, the NAIS will be continued in its present form for Kharif and Rabi 2008-09. The Finance Minister has proposed to provide Rs.644 crore for the scheme in the Union budget 2008-09. This shows government’s concern for this issue.

LOW PENETRATION OF HEALTH INSURANCE

Nowadays, only old age is not synonymous with disease; change in lifestyle, high level of competition, and stress, environmental pollution etc. have resulted in various health related problems as early as the mid 30s. Thus health care is one of the major concerns of a family. Health care is not only expensive, but also time consuming and physically demanding for a family. Therefore access to affordable health service & medical care assumes great importance. Following are main problems relating to health insurance.

i. Increasing health care costs.
ii. high financial burden on poor eroding their incomes.
iii. increasing burden of new diseases and health risks and
iv. neglect of preventive and primary care and public health functions due to lack of funding of government health care.

Solutions:

(i) It is required that consumer awareness about the products is increased by various mechanisms.
(ii) Insurance products have to be more people friendly.
(iii) Health insurance should be made mandatory like a driving license. Employers should do the needful for providing health insurance. They may deduct the premium from the salary.
(iv) The scope and the quantum of the rebate now given for Mediclaim policies should be enhanced. Extending tax rebate to the policies taken for children as has already been done for spouse and parents, will act as a great incentive while going for health insurance.
(v) Claims should be dealt with in a just and expeditious manner.
(vi) The insurance companies must cover all the risks related to health. The companies may charge additional premium for certain conditions. But there should not be any exclusion like sexually transmitted diseases, AIDS, delivery and maternity conditions, diabetes etc.

FALSE CLAIMS IN HEALTH INSURANCE

According to a survey by MediAssist, a leading Third Party Administrator (TPA), in September 2007, the healthcare insurance industry is suffering losses of up to Rs.600 crore annually because of false claims. The total premium collection for medical insurance firms in the country is Rs.4000 crore, while total claims amount to be Rs.4300 crore in a year. About 10-15% of total claims could be categorized as false claims.
Solutions:

Hospitals should work in coordination with TPAs to eliminate false claims, while TPAs should invest in infrastructure to improve verification and entitlement. TPAs should also blacklist hospitals that overcharge or over-diagnose.

PERENNIAL LOSSES OF MOTOR INSURANCE INDUSTRY

At an all India level, the main reason for buying auto insurance as quoted by respondents is legal requirement (35% respondents). The other reason attached with buying auto insurance is financial support (25.5%)

Motor Insurance Industry is always making losses. Unlimited third party liability is the biggest problem of motor insurance industry and this makes it unviable as a whole. In addition to these, the older companies are saddled with large numbers of outstanding Third Party claims, which are pending decisions of courts for three to seven years or even more. There is lack of effort in settling claims through conciliatory proceedings and compromise solutions.

Solutions

(a) In India the insurers should take the following steps:

(i) support road safety aspects;
(ii) support research into safety on the roads and fund such projects on a regular basis;
(iii) share data with Tariff Advisory Committee (TAC) in the prescribed format; and
(iv) finance crash testing of vehicles.

FUTURE PROSPECTS OF INSURANCE INDUSTRY IN INDIA:

Since changes are taking place at a fast pace, keeping abreast of the developments from time to time is vital. The success of any business may be determined on the basis of factors such as human capital, technology and speed. The future business strategy for insurance industry would revolve around the product variety, service, new delivery channels and professionalism. Other areas like claims settlement, reinsurance, product innovations, distribution and prevention of fraud require a high degree of competence and professional approach combined with creativity and imagination, apart from managerial skills. The list of problems and their possible suggestions discussed above cannot be said to be conclusive but it is surely comprehensive. Whatever the developments, the future and the has been observed over the years that insurance penetration (premium as percentage of GDP) and per capita income have a strong non-linear relationship. The insurance density has increased from Re.One and eight annas (Rs.1.50) in 1938 to Rs.370.80 in 1999 and further to Rs.1613.22 in 2006. Still our country is at an early stage of development. The insurance penetration and insurance density are very low as compared to developed countries and many developing countries too.
But the growth statistics of the Indian insurance industry reveal that it is growing by leaps and bounds. Progress achieved in life insurance in a span of seven years after privatization, is much more than the progress made in the entire history of LIC between 1956 and 1999. High savings rates, robust economic growth, rapidly increasing per capita income and rising awareness about the necessity of insurance make us believe that there will be sustained rapid insurance business growth in the coming years also. The present environment is very suitable to the insurers and as such, they should exploit this opportunity and make insurance attractive enough, so that it turns out to be a good long term investment option too.

Premium growth in respect of non-life insurers in 2006-07 was 15.4% inspite of the decrease in rates on certain products due to detariffication. As the insurance market adjusts to an open pricing structure, strong growth is expected from 2009 onwards. first one or two years, premium growth is expected to gain momentum towards the end of this decade. Total detariffication will bring real benefits to both Indian consumers and the insurance industry over the medium term.

It is obvious from the present conditions that India is undergoing several social, economic, political, industrial and administrative changes. This will further result in emergence of new types of risks. Thus newer products will be required to be introduced to cover such risks. Existing products will be made more attractive by adding new features, additional benefits (riders) etc. as per the changing demands of the consumers. The frequency of introducing new policies will be directly proportional to the speed of setting up distribution network by the private insurers. They will have to explore areas hitherto untouched to survive in the long run

Future growth of the insurance business in India will not only be quantitative but also in terms of quality and range of products offered. Long term policies with very low savings element will be preferred by consumers seeking risk protection. This will adversely affect overall premium income of insurers but this is the key to increasing insurance penetration. The responsibility now lies with the insurers to fulfill this objective along with their profit motives. The consumers will like such policies where the savings portion is returned from time to time but risk protection continues for the entire period of the contract

New insurance products will not be confined to the traditional areas. Products providing insurance to impaired/disabled lives will be in huge demand. Trade and finance are the areas that require new products. Export credit insurance covers will be a huge growth area. Insurance cover against business interruption is a product that holds immense potential and will definitely be increasingly demanded by consumers in near future.

It is very likely that, very soon the non-life insurance companies will be free to design and launch their own products. Life insurers already have this flexibility. Non-life insurers will then have the freedom to change the features of their products also. But IRDA will have to introduce safeguards to curb mis-selling of non- life policies. In near future, the
policies sold by non-life insurers will have standard wordings so that customers are able to compare similar products of different companies.

**Rural area is a huge market that needs to be explored.** It is very likely that the government and insurers will launch various schemes specifically meant for rural areas. One such scheme meant for rural households is *Aam Aadmi Bima Yojana*. It was launched on October 2, 2007 and in the first year of the Yojana, it is going to cover one crore landless households by September 30, 2008. Its target is to cover another one crore poor families in the second year. Under this scheme, all rural households will be provided life and disability insurance cover. On death due to accident, the family would get Rs.75000. In case of partial disability due to accident the insurance cover would be Rs.37500. The premium to be charged under the scheme is Rs.200 per annum per member, of which 50% will be contributed by the Central government and remaining by state governments. 13 states had agreed to implement the scheme by November 2007.

Health insurance and motor insurance are turning out to be the fastest growing businesses in non-life insurance. Increase in income levels and better roads will lead to an increase in motor business, which accounted for just 35% in 2001. This rose to 41.2% in 2006-07. It is expected that this will go up to 57% in next five years. By 2011, health insurance and motor insurance will account for 75% of the non-life industry.

Mediclaim is certainly not the sole answer to the healthcare needs of more than 110 crore people of this country. Considering the kind of pressure there is on the public health care distribution system and the general shortage of resources being available with the government; private health care and in turn the private insurance companies have large business potential. But the number of policies issued in the health insurance will always be limited if the number of quality hospitals (where policyholders can be treated) is insufficient. Thus, the growth of healthcare infrastructure will depend, to some extent, on the performance of the health insurance sector and vice versa.

**It is expected that IRDA will soon allow general insurers to launch long-term motor insurance policies with 2-3 year tenure to start with.** It is beneficial for policyholders, as price of policies will be reduced. This will result in lesser chances of policy lapsing. For insurers, it will reduce the cost of acquisition of customer (in printing and issuing of the policy).

It is very likely that the **four general insurance companies will be merged together in future** in order to face the major competition that is coming in from global insurance companies in the country. The merged entity will enjoy higher underwriting and risk retention capacity, increase in reinsurance premium, reduction in reinsurance outflow, healthy solvency margins, setting right the asset liability mismatch, reduction in cost and such other benefits of size.
The Internet will take some more time to be widely used in India. But to start with, marketing of some simple products with auto underwriting like automobile insurance can be taken up right now. In case of life insurance, term assurance for standard lives with simplified underwriting is a possibility.

Looking at the rapid developments in insurance industry, it is most likely that the NGOs working in rural areas will soon be thoroughly involved in rural sector cooperatives arena. They have the trust of the local/public and this can make a difference. Milk cooperative or some local cooperative selling insurance is not a distant dream. It would be a new dawn in Indian insurance distribution.

The insurance sector now promises several new jobs opportunities for those employed in the finance sector and equipped with degrees in finance. There will be further increase in demand for marketing specialists, finance experts, human resource professionals, engineers from diverse streams like the petrochemical and power sectors, systems professionals, statisticians and even medical professionals. Apart from this, there will be high demand for professionals in the streams like underwriting and claims management and actuarial sciences.

Since the Actuarial valuation has now been specified as a mandatory requirement for health insurance by IRDA, general insurance companies that did not directly employ actuaries earlier, will now be looking for actuaries too.

The Indian insurance industry is an industry brimming with opportunities and immense potential just waiting to be explored. But in the world of ever increasing competition, every insurer has to put its best foot forward. Today’s consumer is no longer gullible or unaware of the world around him. The entire world is like one entity today. Economic changes in one country affect another country. So the insurers have to stay abreast of the latest developments, bring in the best international practices and set the highest benchmarks in service. Then only can they dream of staying in this business and keeping their consumers happy. All this and much more needs to be done to fulfill our dream of universal insurance coverage for our country and having ‘insurance penetration’ and ‘insurance density comparable with the developed nations of the world.

The opening of the market to private participation was a bold experiment and was necessitated by the public perception of a necessity to have a free availability of choice to customers. Hopes were entertained that the opening up of the market will deepen the insurance penetration, bring about a rationalization of premium structure, end cross subsidization, provide covers which were lacking in the market and provide the necessary
resources for infrastructure development. The functioning of the old public insurers gave enough hopes to nurture and encourage these thoughts. Some of the hopes have been achieved and the new companies have also supported this philosophy by their current actions though their effect on the market will be felt only in the years to come. One thing that can be confidently said is that the future sure looks promising.

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