ISSN 2278-8808
An International Peer Reviewed
SJIF 2013 = 4.194
SCHOLARLY RESEARCH JOURNAL
FOR INTERDISCIPLINARY STUDIES

THE CHANGING FACE OF INDIAN INSURANCE SECTOR

Prabhjeet kaur

Abstract

The insurance industry is an integral part of the financial system. An effective financial system ensures liquidity and transparency in price discovery. The main function of insurances is to spread these losses over a large number of people through cooperative efforts. Currently India is a US $ 41 billion insurance industry. Insurance industry has gone a major sea change since its inception. This paper will give an overview about the changing dimensions of insurance sector in India. Effort will be made to bring out changing organization structure and marketing strategies adopted by insurance industry in the present dynamic scenario.

Introduction:

The insurance industry is an integral part of the financial system. An effective financial system ensures liquidity and transparency in price discovery. It is one of the methods of handling risks because it protects man from uncertainty and risks in personal and business life. The main function of insurances is to spread these losses over a large number of people through cooperative efforts.

The role of the insurance companies as financial intermediaries is also considered significant in making these markets efficient by providing liquidity and credit. This in turn helps in lowering down the cost of capital and providing risk-free opportunities to all participants in the market.

In India, insurance has a deep rooted history. Insurance in Various forms has been mentioned in the writing of Manu (Manusmriti) Yagravalkya and Kautilya (Arthashastra).The fundamental basis of the historical reference to insurance in these ancient texts is the same: Pooling of resources that can be re-distributed in the times of Calamities such as Fire, Floods, epidemics and famine. The early references to insurance in these texts have reference to marine trade loans and carriers.

Insurance industry has gone a major sea change since its inception and the present form of insurance was started from 1818 when **'Oriental life Insurance company'** was stated by Anita Bhavsar in Kolkata to cater to the needs of European community.

In India in 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. In the beginning of the twentieth century many insurance companies were founded. In the year 1912 the life insurance companies Act and the provident funds Act were passed to regulate the insurance business. The Act of 1912 made it necessary that the premium – rate tables and periodical valuation of companies should be certified by an actuary. The oldest existing insurance company in India is the National Insurance Company Ltd. Which was started in 1906 and it is still in business.

The Govt. of India issued an ordinance on 19th January 1956 nationalizing the life insurance sector and Life Insurance Corporation came into existence in the same year.

Industry Structure

Currently India is a US $ 41 billion industry. In India only two million people (0.2% of the total population of 1 billion) are covered under mediclaim whereas in developed countries like USA about 75% of the total population are covered under some insurance scheme. ECGC, ESIC and AIC provide insurance services for niche markets. So their scope is limited but enjoys some special powers.

The general insurance business in India, can trace its roots to the Triton Insurance Company Ltd, the first general insurance company established in the year 1850 in Kolkata by the British.

Some of the important milestones in the general insurance business in India are 1907 – The Indian mercantile Insurance Ltd set up the first company to transact all classes of general insurance business.

1957 – General Insurance councils a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

1968 – The Insurance Act amended to regulate investment and set minimum solvency margins and the tariff Advisory committee set up.

1972 – The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from 1st Jan 1973. 107 insurers amalgamated and grouped into four companies. They were the National Insurance Company Ltd, the New India Assurance Company Ltd, The Oriental Insurance Company Ltd and The United India Insurance Company Ltd. GIC incorporated as a company.

ACTS:

The Insurance sector has gone through a full circle of phases from being unregulated to completely regulated and then currently being partly deregulated it is governed by number of acts. The insurance Act of 1938 was the first legislation governing all forms of insurance and provide strict state control over insurance business.

LIC was completely nationalized on January 19th 1956, through the LIC Act. All 245 insurance companies operating in the country were merged into one entity **The Life Insurance Corporation Of India.** All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance and United India Insurance.

Till 1999 there were no private insurance companies in India count. Then introduced the insurance regulatory and development authority Act in 1999 thereby deregulating the insurance sector and allowing private companies to enter in this industry. Foreign investment was also allowed. In 2006 the actuaries Act was passed by parliament to give the profession statutory status on par with chartered Accountants, Notaries, Cost & work Accountants, Advocates, Architects and company secretaries. A minimum capital of US $ 80 million (Rupees 400 crores) is required by legislation to set up an insurance business authority.

CHANGES

The year 1999 was a landmark year for the insurance sector. It saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of Govt. monopoly and the passage of the insurance regulatory and development authority (IRDA) bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with same limits on direct foreign ownership.

The existing rule says that a foreign partner can hold to 26% equity in an insurance company a proposal to increase.

Though the existing rule says that a foreign partner can hold 26% equity in an insurance company a proposal to increase this limit to 49% is pending with the government. Since the opening up of the insurance sector in 1991 foreign investments of Rs. 8.7 Billion have poured into the Indian market and 21 private companies have been granted licenses.

Innovative products, smart marketing and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the innovative products on offer.

At present the growth of life insurance industry is an impressive 36% with premium income from new business. The report, “Indian Insurance Industry: New avenues for growth 2012”, finds that the market share of the state behemoth, LIC, has achieved 21.87% growth in business at Rs.197.86 billion by selling 2.4 Billion new policies in 2004-05, but this was still enough to arrest the fall in its market share, as private players grew by 129% to mop up Rs.55.57 Billion in 2004-05 from Rs.24.29 Billion in 2003-04.

Although the total volume of LIC's business increased in the last fiscals year (2004-2005) compared to the previous one its market share came down from 87.04 to78.07 %.

The 14 private insurers increased their market share from about 13% to about 22 % in

a years time. The figures for the first two months of the fiscal year 2005-06 also speak of the growing share of the private insurers. The share of L I C for this period has further

Came down to 75 % while the private players have grafted over 24 %

The insurance industry is also an integral part of the financial system. For effective functioning of the financial system, it is important that the markets are efficient by ensuring liquidity and transparency in price discovery. The role of the insurance companies as financial intermediaries is also considered significant in making these markets efficient by providing liquidity and credit. This in turn helps in lowering down the cost of capital and providing risk- free opportunities all participants in the market

PRESENT SCENARIO

The liberalization, privatization and globalization policies of the Nation along with the revolution in the field of Information Technology and communication have been advantageous for insurance sector.

(A)Entry of Private players and foreign collaborations.

According to the recommendations of the Malhotra committee the private players were allowed to inter into the insurance market. Today there are almost 22 companies who entered the Indian insurance market, besides the giant Life insurance Corporation of India (LIC)

(B)Marketing Strategies and approaches

The entry of private players and their foreign partners has given domestic players a rough time because the opening up of the sector has not brought in only foreign players but also professional techniques and technologies. The present scene in India is such that everyone is trying to put in the best efforts. One can see strategies being more for survival than growth. But the most important gift of privatization is the introduction of customer – oriented services. Utmost care is being taken to maximise customer satisfaction insurance sector to day opportunities and challenges.

1. Mass Marketing

India is a highly populated country and shall remain in future also. New players may tend to favour the "Creamy" layer of the urban population but in doing so they may miss a large chunk of the insurable population. Today's dominant market leader – The Life Insurance Corporation of India the Lion's share comes from the urban and as well as rural population. In a country of nearly 1 billion people, mass marketing is always a profitable and cast effective option for gaining market share. The rural sector clearly depicts the mass markedly done today.

2- Job opportunities

Since the entry of new players is increasing day by day so the job opportunities have grown manifold. The liberalization of the insurance sector promises several new job opportunities for those who are equipped with degrees in finance. Finance graduate can gain from the opening up of new branches.

3- Inflow of funds

There could be a huge inflow of funds into the country. Given the Industry's huge requirement of start up capital the initial years after opening up are bound to see a strong inflow of capital.

4- Reinsurance

Huge capacity is likely to be created in the area of reinsurance. Apart from pure reinsurance activities which involves insurance protection there will be a revolution in service related fields like training, seminars, workshops, know- how transfer regarding risk assessment and rating risk inspection and devising new policy covers etc.

5- Marketing Strategies

With the entry of more players in the market, there will be significant increase in advertising; brand building and this will benefit whole lot ancillary industries.

A substation shift is likely to take place in the distribution of insurance in India. Many of these charges will echo international trends. As products became simpler and awareness increases, they became off the shelf, commodity products. Sellers move to remote channels such as the telephone or direct mail. In some countries insurance is marketed using the post office distribution channels. At this point buyers seek for low price.

6- Bank assurance

In other Markets, notably Europe this has resulted in bank assurance: Banks entering the insurance business. The Netherlands led with financial services firms providing an entire range of products including bank accounts Motor, Home and life insurance and pensions.

7- Information Technology

In today's highly competitive financial services environment, effective organizations will employ technology in a strategic way so as to achieve a competitive edge. Technology will play an increasing rate in aiding design and administering of products as well as in efforts to build life - long customer relationships.

CHALLANGES

The four major challenges in front of the industry are product innovation, Distribution customer service, and investments. Unit linked personal insurance products might find greater acceptability with rising customer awareness. Flexible product and new technology will play a crucial role in reducing the cost and there fore the price of insurance products. Finding Niche ironless having the right product mix through add-on benefits and riders, effective branding of products and services and product differentiation will be some of the challenges faced by the new companies.

CONCLUSION

Over the past thee yeas 40 companies have expressed interest in entering the sector and many foreign and Indian companies have arranged anticipatory alliances. The threat of new players taking over the market has been overplayed. As is witnessed in other countries where liberalization took place in recent years, we can safely say that nationalized companies will continue to hold strong market share positions, but there will be enough business for entry to be profitable. Opening up the sector will certainly mean new products, better packaging, and improved customer service.

Both new and existing players will have to explore new distribution and marketing channels. Potential buyers for the most insurance lie in the middle class. New insurers must segment the market carefully to arrive at appropriate products and pricing recognizing the potential, in the past three years the nationalized insurers have already begun to target riches like pensions, Women of children.

References:

Dorfman, K. (2004). Introduction to Risk management & Insurance. New Delhi: Pearson.
Khan M.A. (2007). Principles of Insurance. New Delhi: Sultan Chand.
Agarwal O.P. (2007). Banking & Insurance. New Delhi: Himalaya Publications.
Gupta P.K. (2009). Fundamentals of Insurance. New Delhi: Himalaya Publications.