International Journal of Commerce and Management Research
ISSN: 2455-1627, Impact Factor: RJIF 5.22
www.managejournal.com
Volume 2; Issue 11; November 2016; Page No. 66-68

Problems of insurance industry in India

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Abstract

Though the insurance business in India has come a long way since the nationalization, the progress of insurance sector has not been satisfactory considering the global standards and the Indian economic potential. Low insurance density as well as insurance penetration has been a matter of serious concern with respect to insurance sector in India. The Insurance Industry of a country holds the prominent important place in context of mass welfare as well as the matters of policy considerations at the various levels of planned economic development. The present paper seeks to examine the serious problems confronting the insurance sector in India and chart out the alternative strategies to be adopted for fulfillment of the unmet needs of the insurance in India.

Keywords: insurance sector, social welfare, premium, insurance density, insurance penetration

Introduction

Insurance is a social device in which a group of individuals (insured) transfers risk to another party (insurer) in order to combine loss experience, which permits statistical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk. A contract of insurance is a contract by which one party in consideration of the price paid to him proportionate to the risk provides security to the other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events.

Thus, insurance is a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk.

Objectives of insurance/ Functions of insurance

1. To provide certainty of payment or reimbursement against an uncertain loss or risk.
2. To facilitate sharing of risk among those who are exposed to the risk.
3. To avoid/prevent or minimize the loss of the society.
4. To promote saving in the society.
5. To promote economic progress and efficiency.

Insurance industry in India

Historical Perspective

Insurance in India can be traced back to the Vedas. Yogakshema, the name of Life Insurance Corporation of India's corporate headquarter, is derived from the Rig Veda. The term suggests that a form of "community insurance" was prevalent around1000 BC and was practiced by the Aryans. The business of life insurance in India in its existing form started with the Oriental Life Insurance Company established in Calcuttain the year 1818catering the needs of Europeans followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society transacting business in the Madras Presidency in 1829.The first general insurance company, Triton Insurance Company Limited, was established in 1850. The first Indian life insurance society, the Bombay Mutual Life Assurance Society started its business in 1870. This was the first company that did not discriminated in charging equal premium on both Indians and foreigners. In 1907, the Indian Mercantile Insurance Ltd. was set up. This was the first company to transact all classes of general insurance business.

This era, however, was dominated by foreign insurance companies which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1912 Indian Life Assurance Companies Act was passed to regulate the life insurance. The act made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary.

In 1938, all insurance companies were brought under regulation when a new Insurance Act was passed. It covered both life and non-life insurance companies. It clearly defined what would come under life and non-life insurance business. This piece of legislation lost significance after the life insurance business was nationalised in 1956 and LIC was established, and non-life insurance business was nationalised in 1972 with establishment of GIC. When the market was opened again to private participation in 1999 in line with the Malhotra Committee recommendations, the earlier Insurance Act of 1938 was reinstated as the backbone of the current legislation of insurance companies, as the IRDA Act of 1999 was superimposed on the 1938 Insurance Act.

The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.
As in May 2012, there were 24 life insurance companies, 27 non-life insurance companies and one re-insurance company operating in the Indian insurance sector.

Problems of insurance industry in India
The Insurance Industry of a country holds the prominent important place in context of mass welfare as well as the matters of policy considerations at the various levels of planned economic development.Unlike other Sectors, Insurance sector also carries a social responsibility towards the society. For a country aspiring to join the league of "Super Power Nations" in the near future, the future of a great majority of its own people is unsecured.The measure of insurance penetration and density reflects the level of development of insurance sector in a country. Since opening up of Indian insurance sector for private participation, India has reported increase in both insurance penetration and density. But, the increase has been almost entirely contributed by the life insurance sector. However, the insurance penetration, which surged consistently till 2009, slipped for the first time in 2010 on account of slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy. Theinsurance penetration measured as ratio of premium (in US Dollars) to GDP (in US Dollars), was 5.10 % in year 2010 against a world average of 6.90%. In life insurance business it is 4.40% against a world average of 4.00% which may be a matter of some relief but when we look at the non-life business, it is 0.70% against a world average of 2.90% which is a matter of serious concern. The insurance density which is measured as ratio of premium (in US Dollar) to total population was 64.40 USD as against a world average of 627.30 USD. In life insurance business it is 55.7 USD and in non-life insurance business it is 8.7 USD against a world average of 364.3 USD and 263.0 USD respectively. One can infer from the above data that despite the opening of insurance business to private players the performance of the insurance sector has not been satisfactory. The life insurers registered a negative growth rate of 9.53% in the year 2010 whereas for 2009-10 the growth rate was positive at 4.52%.
The following tables below show the comparative figures for insurance density and insurance penetration for the years 2001 and 2010. The last decade was the era of unprecedented growth with economy growing around 6 to 9 per cent except for the year 2001 and 2002. The insurance sector has not been able to exploit this opportunity to the fullest.

Table 1: Insurance Penetration

	2010			2001		
	Total	**Life**	**Non-life**	**Total**	**Life**	**Non-life**
India	5.10	4.40	0.70	2.71	2.15	0.56
World	6.90	4.00	2.90	7.83	4.68	3.15

Table 2: Insurance Density

	2010			2001		
	Total	**Life**	**Non-life**	**Total**	**Life**	**Non-life**
India	64.4	55.7	8.7	11.5	9.1	2.4
World	627.3	364.3	263.0	393.3	235.0	158.3

Source: IRDA

The Key Areas of Concern
Though the monopoly of the state has come to an end with the creation of IRDA and allowing foreign players to operate in the Indian insurance sector, the dominance of the LIC and other PSUs in the sector cannot be over emphasized. Now the time has come to reconsider and prioritize the target market and exploring new strategies to improve the performance of the insurance sector as well as protection of the millions of people uninsured in India. Insurers will need to focus on the following key areas to achieve these goals.

1. In India, insurance is not bought but sold. Insurance business seems to be an exception where majority of customers do not take the pain to initiate the buying process rather the agents and other intermediaries have to undertake the selling process. People know about insurance, but are not aware about insurance. Except in few cases where insurance is necessary, for example –in motor insurance, often getting someone insured is like getting someone trapped. People don't prefer to buy an insurance policy.

   "Ahanyahani Bhootani
   Gachhantih Pravishanti
   Yamalayana Shesah
   Sthawarmichhanti
   Kimashcharyam Atahparam"

   "What is the most wonderful thing in the world?" The Yaksha asked. Yudhisdthira replied, "The most wonderful thing in the world is that men seeing every day the dead being carried to burial ground still imagine that they are eternal." "Death is a sublime theme of reflection, it is a natural phenomenon."—Exhorts Shri Krishna in The Geeta. The Yaksha Prashna is still relevant today in context of Indian insurance industry. The insurers will have to crack this question in an appropriate and strategic manner. The insurance awareness is the only tool to handle this mammoth problem in the long-run. The various insurance players should join hands to form a team to fight this battle in an efficient and effective way.
2. Though every insured enters into a contract from the very beginning, basically it is the protection offered in the contract that he is really interested into. You ask a person if he has an insurance policy and ask someone if he is having an insurance contract. The difference between these two questions is obvious from the point of view of the insured. The more the technicalities involved into an insurance contract in general and health insurance in particular, as it is in, even if it is quite imperative considering the nature of the insurance business, the more the chances of customer being suspicious about his risk cover. It is often said that life insurance is a contract between two unequals – the mighty institution with legal know-how and all other resources at its command on the one hand, and the lay policyholder/claimant without much understanding of law or necessary resources to take on the insurer, on the other.[7]The contract of utmost good faith must be a contract of utmost good faith. The insurers must insure that the risk is covered appropriately and claims settlement procedures do not prove a horrible experience to the insured or his/her nominees.

   For life insurers, the claim settlement ratio and claims repudiation ratios in case of individual death claims as well as group death claims is presented below in the tables:

Table3: Claims Settlement of Life Insurers in Individual Death Claims

Particulars	Year-wise claims settlement & repudiation ratio(fig. in %)									
	2010-11		2009-10		2008-09		2007-08		2006-2007	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Claims Paid	95.58	91.66	95.23	91.09	94.46	90.89	95.86	91.55	96.35	91.96
Claims Repudiated	2.04	4.06	1.93	3.74	1.99	3.40	1.56	3.30	1.73	2.86

No.=Number of policies. Amt. = Amount of claims.
Source: IRDA

Table 4: Claims Settlement of Life Insurers in Group Death Claims

Particulars	Year-wise claims settlement & repudiation ratio (fig. in %)									
	2010-11		2009-10		2008-09		2007-08		2006-2007	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Claims Paid	96.73	97.25	98.90	97.35	98.62	95.98	97.85	94.57	----	----
Claims Repudiated	0.55	0.94	0.49	1.25	0.53	1.74	0.76	1.64	----	----

No.=Number of policies. Amt. = Amount of claims.
Source: IRDA

Though the claim settlement ratio (measured as ratio of claims settled to total claims) in group death claims settlement is better than individual death claims, the claims repudiated ratio in monetary value when compared to number of policies is a matter of serious concern as it is around two times of the claims repudiated in terms of number of policies. This implies that claims of higher values are more prone to repudiation, especially in case of individual death claims.The insurers will have to undertake strong and effective commitments in this regard to contain this dichotomy. In addition, insurance companies will have to sort out the inherent structural problems regarding settlement of claims. For example, in motor insurance there are large numbers of claims which are spread over a number of courts across the country and which are not getting settled due to legal complexities involved. As a result these insurance companies end up paying large number of interest. The speedy settlement of claims is another problem confronting the insurance industry.

3. The business of insurance is based on the statistics. The availability of reliable and accurate data regarding population parameters is another area of major concern. In modern era of LPG and technological competitiveness a strong data base support is quite essential to carry insurance business especially in a country of extra ordinary diversity—India. For example, health insurance companies find it difficult to get health profile and records of the people. In absence of such records, the determination of premium rates and eligibility as well as product portfolio prove almost an impossible task. The insurance companies will have to strengthen their own database and R&D.
4. With the advent of private players in the field of insurance the competition is undoubtedly going to be stiff. Product innovation and cost reduction will be the key challenges confronting these institutions. Effective fund management and risk assessment are the fundamental necessities to survive in the insurance business. Apart from these, the Indian insurance sector will have to focus strategically on the hitherto neglected “Bottom of the Pyramid” to gain the strong foothold in the Indian insurance market.

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