

3. COLOSSAL INSURANCE SECTOR OF INDIA

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ABSTRACT

Insurance sector has its roots in the Indian economy since 1818 when the first insurance company Oriental Life insurance was established at Calcutta [now Kolkata]. Even the reference can be found in the form of marine adventure trade loans and carrier's contracts. Industry started taking shape during the British reining. Since then the insurance industry has undergone the various reforms/changes. Enactment of Insurance Act 1938, nationalization of Life insurance sector in the year 1956, General insurance Sector in the year 1972 and again with the recommendation of Malhotra Committee Report insurance sector re-opened for private players in the year 1999. Setup of IRDAI to regulate and develop Insurance Industry and to secure financial stability of the insurance sector was an added incentive too. Various efforts by the IRDAI and the Government of India such as digital channels for marketing, launching of various social scheme such as PMFBY, PMSBY, PMJBY, RSBY for increasing the penetration of insurance segment specially in rural and social sector of India. Still getting insured is the priority for the entrepreneur and professionals only. Hence it is need of an hour to think about the reasons for low penetration of insurance and the ways to foster incessant growth!

Keywords: digital channels, penetration, PMFBY, PMSBY, PMJBY, RSBY

INTRODUCTION

Indian insurance sector has a history of nearly 200 years. Study of Indian insurance sector can be segmented into following three stages:

- Before nationalisation (1947) [Pre-independence period]
- Nationalisation era (1947-1999)
- Opening up of the insurance sector for the private players in the year 1999-

2000 till date.

The first insurance company named "Oriental Life Assurance Company" was started in Calcutta (now called Kolkata) mainly by the Europeans which made the starting point of the Indian Insurance history. This company was transformed into "New Oriental" in the year 1934 and was in operation till 1870. In the year 1870 "Bombay Mutual life Assurance society" was establish and in the year 1871 "Indian Life Assurance company was established which was having its head Office at Meerut [Uttar Pradesh State].

In the period 1900-1912 several foreign insurance companies entered on Indian land and started their operations. Up to the period of 1939 all insurance companies

operating in India was not having stringent rules, regulations regarding the investment, accounting, rating of the product etc. It was transitional period in the Indian insurance history as that was the period of freedom movements against the British rule.

The scientific growth of the Indian insurance sector was started in the year 1939 when Indian Insurance Act 1938 was implemented to regularise the insurance business in India.

In the post independence era the need for nationalisation of insurance sector was felt during the first 5 year planning to mobilise the savings and directed it towards the economic growth for welfare of the people.

Decision was implemented by nationalising Life Insurance Corporation of India in the year 1956 and nationalisation of the General Insurance Sector in the year 1972 through General Insurance Business [nationalisation] Act [GIBNA] 1972. The picture of the insurance sector after nationalisation was somewhat as under:

LIFE SECTOR	GENERAL INSURANCE	OTHER COMPONENTS OF MARKET
<ul style="list-style-type: none"> • LIC OF INDIA • Operating all over India through division and branches. 	<ul style="list-style-type: none"> • GENERAL INSURANCE CORPORATION • NEW INDIA ASSURANCE • UNITED INDIA INSURANCE COMPANY • NATIONAL INSURANCE COMPANY • ORIENTAL INSURANCE COMPANY 	<ul style="list-style-type: none"> • AGENTS • INSURANCE INSTITUTE OF INDIA • OMBUDSMAN • ACTUARIES • SURVEYORS • TAC

Both the Life and General insurance sector were operating through the network of the Divisional offices and the Branch Offices across the country. Marketing structure of all life as well as general Insurance companies was same as they were having the Development officers recruited for the marketing of the insurance products through their agency network. Employment opportunities were enhanced as the part time/full time agents were engaged in procuring business for the companies. The main source of the selling of insurance was:

- Agents
- Direct selling

Life Insurance Corporation of India has deep rooted as it was only life insurance Company dealing the life insurance portfolio. It has strengthened its marketing network through well trained agency force with attractive commission structure, advertising and selling. Products were drafted and designed as per the prevailing trends and it tries to capture

the urban as well as the rural market. Company got the success in such a way that it imprints on the minds of Indian citizens that insurance means LIC!

General insurance sector also grown well during this period but much more focused on statutory insurance needs such as motor insurance. This segment till today is the largest segment of the general insurance sector. General Insurance Corporation being the holding company for all four Public Sector Undertakings and operating as reinsurer. Pricing of the products, terms and conditions of the products were controlled by the Tariff Advisory Committee set up at that time.

Monopoly of these public sector insurance companies was established regarding pricing and customer service in the field of insurance.

In 1993 Malhotra Committee was set up headed by Reserve Bank of India (RBI) Governor R N Malhotra, which was recommended for opening of insurance sector for private players as the committee was of the opinion that opening of insurance sector will be resulting into competition among various private and public sector insurance companies and will result into better customer services, capital addition through Foreign Direct Investment and increase in solvency margin of insurance companies.

After a strong opposition from the opposite party and various employees unions from public sector undertakings the decision of Malhotra Committee was implemented and finally the insurance sector was opened up for the private players in the year 1999-2000.

Insurance regulatory body called Insurance Regulatory and Development Authority of India was set up on the lines of Security and Exchange Board of India [SEBI] which is having the following missions:

- To protect the interest of the policyholders
- Speedy and orderly growth of Insurance sector
- To set, promote, monitor and enforce high standard of integrity, financial soundness, fair dealing and competence of those it regulates.

The immediate effects of the said decision on the insurance industry were:

- Progressively the Tariff Advisory Committee regime was abolished.
- Market Agreements between General Insurers were scrapped.
- Four Public Sector insurance companies were delinked from General Insurance Corporation of India.
- General Insurance Corporation of India was made separate reinsurance company and renamed as "GIC Re".
- Public sector companies geared them up to face the competition and adopted Information Technology, computerisation, development of software for system support and MIS to improve customer service.
- Premium rates were cut down drastically and the customer become "King" of the market with the end of monopoly of insurance companies and availability of various options at a click of a button !

The decision of allowing private players has definitely widened the insurance sector of

India and has allowed the employment opportunities. With increase in the competition, product research and development has taken place and existing and new products aggressively marketed. Percentage of Foreign Direct Investment increases and new capital infused in the insurance sector which increases the size of the industry.

Even after 17 years of opening of insurance sector for private players Life Insurance Corporation of India outshines private players and remains dominant player in the Life insurance segment. Private and Public sector General Insurers are having 48.01% and 51.99% market share respectively and the picture of the insurance industry is somewhat as under:

IRDAI	GIC Re	LIFE INSURANCE SECTOR	GENERAL INSURANCE	OTHER COMPONENTS
<ul style="list-style-type: none"> Controlling Regulatory Body 	<ul style="list-style-type: none"> National Reinsurer 	<ul style="list-style-type: none"> PSU 1 PRIVATE 23 TOTAL 24 	<ul style="list-style-type: none"> PSU 4 SPECIALISED PSU 2 PRIVATE 17 STANDALONE HEALTH 6 TOTAL 29 	<ul style="list-style-type: none"> TPA SURVEYOR AGENTS BROKERS INSURANCE INSTITUTE OMBUDSMAN ACTUARIES WEB AGGREGATORS BANCASSURANCE CSC

Following are the factors which boost the insurance sector of India:

AGRICULTURAL SECTOR

Agricultural is a backbone of Indian economy and with the pace of time it is growing sector with implementation of technology, investment in agricultural infrastructure, irrigation facilities, warehousing, cold storage facilities etc. Few years back in Indian insurance scenario Agricultural Insurance Company was looking after the insurance needs of the farmers such as crops insurance, Horticultural, sericulture etc. In fact the Agricultural Insurance Company was incorporated under the Companies Act 1956 in the year 2002 to take care of the Agricultural Insurance. Today Private as well as other public sector companies do actively participating in the Agricultural insurance and underwrite good scale of business. Various schemes launched by the Government such as Pradhan Mantri Fasal Bima Yojana [PMFBY] has definitely increased the agricultural insurance penetration.

INDUSTRIAL SECTOR

Growth of Industries- Agricultural industries, manufacturing industries, export, automobile, energy, telecom, service, Information Technology needs insurance to support their various business activities and hence showing increased insurance penetration in Engineering, Liability, Property and Group Mediclaim Insurance segments. Growing competition among various operating insurance companies has resulted into availability of best insurance products, prices and services.

Government sponsored programmes such as “Make In India”, Micro Units

Development and Refinance Agency [MUDRA] Yojana to create the sustainable entrepreneurial culture will be further boosting the industrial health of the economy.

POPULATION OF THE COUNTRY

India has a 2nd largest population of the world i.e. 1.21 billion and do have world's largest youth population i.e. nearly 65% of population is 35 years or under. Young population of any country is proven to be assets of that country if well educated, trained and planned.

Young population engaged in various productive activities such as research and development, innovation, manufacturing, service sector, agricultural sector raise the graph of the economic development upwards which results into increase in the insurance demands as well, do consider insurance as necessity along with their banking and financial planning and trying to secure their various financial responsibilities with the help of the health insurance, property insurance and liability insurance. The Middle aged group do plan for their pension and retirement related insurance coverages.

GOVERNMENT POLICIES

Opening up of insurance sector for private players in year 1999-2000 allowing 26% Foreign Direct Investment which further increases to 49% in the month of March 2015, Insurance Laws [amendment] Bill 2015 was passed. Increase in Foreign Direct Investment limit encourages foreign participation, encourages global insurers to invest in the Indian Segment, which will be intensifying the competition and results into better customer services and innovative range of insurance products offered.

Apart from increase in Foreign Direct Investment limits to increase the insurance penetration the Government has launched various low premium insurance schemes linked to the bank account and to provide minimum life, medical and accidental protection cover to the public at large. To name few schemes are Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Rashtriya Swasthya Bima Yojana.

These types of schemes are resulted into increase in insurance penetration to urban as well as rural population and increases insurance awareness.

SERVICE SECTOR

Service sectors of India such as banking, finance are also been linked as distribution channel on insurance. Today bank assurance is one of the major distribution channels for insurance distribution which is having existing cliental base. Therefore, financing of any project by banks or other financial institute is being directly linked with insurance.

Apart from all above and many other contributing factor for positive growth of insurance business over two centuries insurance penetration in India is almost 3% to

5% which is very low comparing to other developing nations of the world and also only 30% of Indian population is covered against insurance.

As far as the health insurance is concerned, the penetration is still very low among the Indian population. The first health scheme was introduced in 1950 i.e. employee state insurance scheme followed by central Government Health Insurance scheme in the year 1954. First private health insurance products launched by public sector non-life insurance company are known as “Medicclaim”. Various health insurance schemes were then launched at the state level to name few-“Yeshasvini” in karnataka state [2003], Aarogyasri in Andhra Pradesh (2007), Rajiv Gandhi Jeevandayee Arogya Yojana [RGJAY]–Maharashtra etc.

Considering the all above contributory factors, major pillars of the India economy which are showing the good results insurance sector being the service sector having low penetration indicates a large untapped market.

Insurance awareness before independence was almost negative and after independence era, it takes time for stabilizing economy with five year planning system. Major areas of concern such as health, education, agricultural development might be the prime concern to secure the basic amenities to all countrymen at that time. With the monopoly of public sector companies operating in the market, insurance penetration growth has not been taken place in true sense with limited options available for buyers or it may be an oligopoly. Marketing channels were limited to only Development Officers and agents.

Even the increase use of technology, introduction of various channels for marketing insurance products insurance penetration is not up to the mark. Some of conspicuous reasons for the same are:

- Human capital development in the insurance industry
- Insurance awareness among public at large
- Availability of Customized products
- After sale services by the insurance intermediaries
- Customer Relationship Management [CRM]

HUMAN CAPITAL DEVELOPMENT IN THE INSURANCE INDUSTRY

Human resource employed is always the main pillar of every industry and insurance industry is not an option to this. Insurance is an highly service and information driven industry where human resource is employed to carry out various functions such as evaluating , analysing and underwriting the Risk, settlement of claims, handling customers, actuaries, surveyors, Third party Administrators, agents who all are playing vital role in the growth of the industry.

According to the industry criterion, it was believed that all the human resource employed should be excellent for the growth of the industry and to tap the untapped market.

Today's insurance industry is lacking the skilled and trained staff. Career in insurance field does not seem to be alluring and turbocharged to the younger generation of the country. Various universities and colleges across the country are not offering the insurance as a separate stream but only as an optional subject to their curriculum. No introduction to the insurance subject till higher secondary education like preliminary introduction to banking and accounts of course few institutions do offer post graduate diploma and like courses at the higher education level. To give an example Association of British Insurers [ABI] is having Personal Finance Education Group with the goal to educate the 4 years to 19 years age group about the financial education and similar programme has been rolled out by the German Insurance Association so that they may become insurance professional where the people of the country treat the insurance professionals with respect.

Initiative should be taken in this direction to foster the insurance sector so that introduction of the insurance subject can be done at the primary level and won't be a new subject to the younger population of India and may be chosen as a career option.

INSURANCE AWARENESS

Various initiatives/efforts were taken by the social reformers in pre-independence and post independence period in the country for the insurance awareness by forming the insurance societies. In 1891 a company called "Hindu Mutual" [Bengal] were providing honorary services through their directors, clerks and secretary for insurance awareness.

Indian insurance history is replete with the stories of social reformers who all strived hard for the insurance awareness in the country. Lack of awareness of insurance in the people who need it most is the main reason for the low penetration of insurance. Various initiatives taken by the government to provide the insurance protection to BPL families sometimes do not reached to the target group of people due to lack of awareness about such schemes.

Awareness can be spread with the joint efforts of the insurers, agents, societies for the welfare of the people and through various government agencies. As IRDAI has made it mandatory for each insurer operating in the market to certain percentage of the rural business, opening of Micro offices in each corner of the country and also through Corporate Social Responsibilities activities [CSR].

Insurer should take efforts vide various seminars at school, colleges, universities campus, educational camps, effective advertisements in the local languages, road shows and through the effective use of media. Government can escalate the message relating the insurance scheme through the Gram Pradhan and the local leaders to the grass root level to achieve the successful implementation of the schemes.

As correctly said by the business legend Shri Ratan Tata,

"Business need to go beyond the interest of their companies to the communities they serve"

AVAILABILITY OF CUSTOMIZED PRODUCTS

Insurance market all over the world is ever growing and changing with the product development, marketing strategies, risk management technologies, risk improvement measurements and so on.

Instead of finding the customer for product the time has arisen to find the product for the customer. With the changing scenario customizing the product according to the need of the customer is the need of an hour. Over the period the trend of the industry is to market the product developed for the common use of the customer but with the customer driven market the insurer should switch over towards the “tailor made” products to suit the need of the demanding buyers. And the industry will focus on the customer delight than the customer satisfaction.

AFTER SALE SERVICES BY THE INSURANCE INTERMEDIARIES

As mentioned earlier insurance is a service oriented industry and the services have to be provided during sale and also after the sale. Selling insurance is selling a “promise to Pay” in case the insured event will happen and hence it is selling an intangible product. This again will be possible with the trained intermediaries who will be in position to handle the after sale queries, situations with the customer and customer can be rest assured that they are dealing with the such organisation which will stand by them during their difficult time and the intangible sale of insurance do take the tangible form .

CUSTOMER RELATIONSHIP MANAGEMENT

With the increase competition among the insurers and availability of the range of products maintaining the customer loyalty become difficult. When the features of the product offered are almost the same the comparison factor remains is only pricing of the product as whole. Factor of service only arises in case of claim under the policy and hence not all the customer comes across the same. In case of general insurance products where the contract of insurance will be for the period of one year switching to another insurer do not matter. Hence the insurance service providers should think beyond the satisfactory customer services and move towards the CRM i.e. customer relationship management which composed of marketing automation and sales automation.

Insurance sector of Asia is the emerging sector and India and China being keenly watched by the leading insurance service providers. Indian insurance sector is no doubt the huge untapped market and having lot of potential to grow. The dream of “digital India” is coming true and connecting almost 60-70% rural population with the main stream of economy. Every programme of the Government is oriented towards achieving economic and social growth of the country and increasing the insurance penetration cannot be left behind.

To conclude with the words of Lala Lajpat Rai-

“Insurance companies fulfil a highly useful economic function in modern society; though they do not produce wealth, they are one of the chief factors in conserving surplus wealth making it available in emergency and, above all, in cultivating habits of thrift and economy without which no community can be prosperous...”

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