Impact of Economic Liberalization on the Insurance Sector in India

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ABSTRACT

Insurance is playing a greater role in the development of the economy as well as in increasing per capita income of the nation by providing various employment opportunities and by investing in various development plans. Since its beginning, it has passed through many complications, problems to attain its present status, as insurance custom among the general public during the independence decade was quite rare. After the acceptance and adaptation of liberalization in the year 1991, there was a remarkable improvement in the Indian Insurance Sector. The Indian insurance industry has geared up in all respects and it has also been forced to face a lot of healthy competition from many national as well as international private insurance players.

Keywords

Insurance Sector, Economic Liberalization, Private Insurance Sector, International Insurance Sector.

Introduction

The global insurance industry is facing myriad challenges coming from a wide range of resources. The Indian insurance industry had been in great trouble due to different types of problems which had been responsible for the poor growth of the sector. One very important reason behind this strange paradox is the poor understanding of concept of insurance in India.

The concept of insurance was wide spread even during ancient times. There are references of the insurance in the Vedas for e.g., "yogakshema", the name of the life insurance corporation of India's corporate headquarter comes from the Rig-Veda. There has been some description in Hammurabi's code & manusmriti, which shows that there was such a system which had many features of insurance.

Marine insurance was the earliest and very first form of insurance under which traders provided such loans which were to be repaid with interest when the goods arrived safely and if the borrower was robbed of his goods then the supplier would cancel the loan. In such a manner a system was planned whereby the financial loss unbearable to an individual could be spread over the group traders in the form of extra sum (a premium) over the usual interest. But insurance as a commercial business in the modern sense first emerged in the U.K. at the end of the 16th century. In India general insurance was introduced 1st time by the Britishers around the year 1700.

In this article, the discussion is about the different development issues related to the insurance industry in India as an effect of Economic Liberalization.

Research Methodology

The system of collecting data for research projects is known as Research methodology. Research methodology is an approach to solve research problems in a systematic manner. So for proper and effective research a researcher should posses' knowledge about both the research methods and research methodology. A researcher should know how to compute the mean & mode, how to develop certain indices and tests and how to apply particular research methods.

Methods of Data Collection

The process of collecting information for the research purpose is known as data collection. Every type of research requires data that needs to be collected from various sources.

Primary data are those data which are collected by a researcher directly from a respondent.

Secondary data refers to the data that is collected in the past but can be utilized in the present research work.

There are various methods of collecting secondary data; such as company records, internet, print media, census and other government records. To collect information for the research study I have choose secondary data collection method.

Review of Literature

Mr. N.Kannan (2008) stated that there is a revolutionary change in the technology that has revolutionized the entire insurance sector. As the competition is increasing day by day in the insurance sector, services have become a key issue and now customers are also getting sophisticated and tech savvy. To meet the need of hour and to manage such sophisticated customers insurance companies are providing a variety of services as well as applying different set of rules and treatment strategies for different customer segments. To ensure that the customers are receiving personalized information, many organizations are incorporating knowledge database - repositories of content that typically include a search engine and let the customers to locate the whole information related to their queries of request for services. Customers can hereby use the knowledge database to manage their products or the company information and invoices, claim recording and histories of the service inquiry.

P.K. Gupta (2011) along with stabilizing the financial circumstances of private individual companies and the state insurance companies are also contributing to the development of a well - functioning capital market with their huge amount of assets. These assets are in the form of premium which the insurance companies collect from the large public and then set them aside as provisions for the payment of future claims and mean while invest them in the capital market. In the modern era insurance companies are working as a financial intermediary and contribute a lot to bringing together savers and borrowers. Now it has become an important long-term institutional investor.

P.K. Gupta (2011) in modern economic and financial system the insurance sector plays three main roles. First it provides a mechanism to the individuals, corporations and other organizations to some of the non-entrepreneurial risks which they face. Secondly insurance helps in mobilizing long term savings and investment of those savings profitably in the capital market. In the last it also supports state social insurance programmes in the area of pension, disability and health care financing. Thus they are playing very crucial role in the country's economic system. The benefit of the risk transfer facilities provided by the insurance companies can be revealed in terms of capital. As, if there are no insurance markets then industrial commercial and trading enterprises would have to hold more precautionary capital to run their enterprise.

Concept of Insurance

Every person in this world wants revenues, safety, progress, pleasure and happiness. The future is uncertain nobody knows what is going to happen. Therefore, everyone tries his best to overcome the possible risks, difficulties, hurdles and problems about himself and his family members. So to minimize the reverse economic impact of concept of insurance has been originated.

Insurance is the form of risk management. The need is to manage uncertainty due to the risk with the human life and his assets. Risks like - robbery, accidents, earthquake, fire, flood, theft, uncertain death etc. Insurance is a promise to compensate such risks either fully or partially. It is a contract in writing between two parties whereby one party called 'Insurer' undertakes in exchange for a fixed sum of money called 'Premium' to pay the other party called the 'Insured' a fixed amount of money on the happening of certain risks. Under the plan of insurance, a large number of people associate themselves by sharing risks attached to individuals therefore it is a collective bearing of risk.

Meaning of Economic Liberalization

Economic Liberalization refers to all those efforts which remove all the barriers which create hurdles in the faster development of trade or industries. It is a step taken to change the existing economic policies, plans, rules & regulations and becoming less strict. Economic Liberalization is basically the deregulation of trade practices and amendments of government policies and rules related to tariffs and other measures which aimed at opening up a market or industry to full competition beyond the limits of global world.

It encourages and facilitates global participation and marketing by the use of new technology and improved knowledge.

Evolution of the Insurance Sector in India

First time Oriental insurance company was set in India in 1818 in Calcutta. But unfortunately this company failed in 1834. Then in 1870 Bombay mutual life assurance society became the first Indian insurer. The growth in the insurance business forced the government to regulate them. Thus first time insurance business was regulated by passing the Indian life insurance companies act in 1912 and was again amended in 1938.In result, there was the monopoly of public sector in the insurance business in India. On 19th January 1956 the government of India issued an ordinance rationalizing the life insurance sector and Life Insurance Corporation came into existence. Thus there was the monopoly of the public sector till the late 90s when the insurance sector was reopened to the private sector.

Reforms in the Insurance Sector in India

Setting up of the Malhotra committee

The committee was set up in the April 1993 to recommend measures for the deregulation in the insurance sector. This committee submitted its report in January 1994 to the government. On the basis of report submitted by the committee the government paid attention on the below mentioned matters:

1. Privatization of the insurance sector in India.
2. Participation of foreign companies in the insurance sector.
3. Greater autonomy of operations on all Indian insurance companies.
4. A separate authority should be setup to regulate the insurance sector.
5. An interest should be paid on the delay of payment beyond 30 days by the LIC.
6. All working should be computerized.

Passing of the Insurance Regulation and Development Act

This came into existence in December 1999.

Amendments in other Related Acts

1. Changes in the LIC act in which monopoly power has been withdrawn.
2. Changes in the general insurance (nationalized) act.
3. Amendment in the LIC act in which the power related to the control and regulation which was exercised by LIC were transferred to the new IRDA act.

Impact of Economic Liberalization

Positive impact:

i. Increase in the employment opportunities.

ii. Increase in the capital formation of the country as a result of employment opportunities.

iii. Due to the Global involvement from the foreign companies' huge investment takes place.

iv. It extends the scope of insurance which now reached in villages and rural areas.

v. Increase in standard of living due to good package offer by foreign companies in the insurance sector.

vi. Establishment of training and professional institute to run the course of insurance as a subject matter.

vii. Competing capacity of Indian industries is also increased with the availability of professional and trained managers.

viii. Customer can get a better choice of selection of policy and the insurer as many new Indian and foreign companies have started in this field.

ix. Now an insured has a choice to select such an insurer whose premium rate is reasonable.

x. Now there will be a number of policies based on pension schemes, gratuity schemes, accident benefits, medical claims etc. in such a manner a customer can avail benefits after retirement from services, or when they are unable to work.

xi. Now insurance is also beneficial in developing the productivity of employees by enriching them through better training and education facility, knowledge about new technology etc.

xii. Insurance will promote international goodwill.

xiii. Now insurance is one of the leading businesses in India in increasing foreign exchange.

xiv. Insurance premium income is also used in greater quantity for the development of basic facilities in the country like roads, railways, water supply schemes and electricity generation, telecommunication, setting up of industrial colonies, construction of dams, canals etc.

Negative impact

Although liberalization has proved very much beneficial for the development of the economy, industry, and the people, yet there are certain negative implications arising out of the liberalization process in the insurance sector which are:

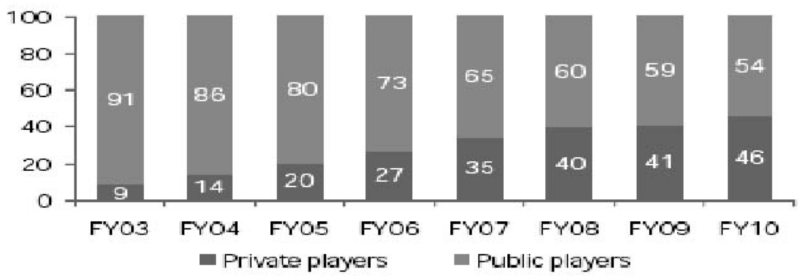
i. Domination of the private sector companies.
ii. Due to cut-throat competition insolvency of the insurance companies creates some serious problems for the policy holders.
iii. Insurance companies' issue policies for heavy insured sums consequently people of economically backward classes are not able to avail the benefit of insurance.
iv. The private sector insurance companies pay more attention only on such policies which involves minimum risk burden. They would not take any special attention to insure the lives of the women, physically handicapped etc. which involves more risks.
v. To minimize average cost on policies, the domestic and the International companies shows less interest in rural areas and consider urban areas more.
vi. The private and foreign insurance companies charge higher rate of premium as there is no regulation from the government on the working of these companies. They neither make timely payment of claims in time, nor comply of with the code of conduct.
vii. Private companies attracted skilled employees of GIC and LIC by offering them attractive salary package which cause a high degree of employee turnover and drainage of experts from these two industries.
viii. Indirectly insured remain unsecured under the policies issued by private companies as there is no central government guarantee which SC Corporation carries in their policies.
ix. No job security to the employees of private companies though they are working on good remuneration.

Major players in Indian Insurance Industry after Liberalization:

1. Bajaj Allianz General Insurance Company limited: Incorporated on 19th September 2000 offered policies on Fire insurance, industrial all risk insurance, motor insurance, workmen's compensation and Engineering insurance, critical illness, health guard, personal accident etc.
2. New India Assurance Company Limited: Incorporated in 1919, with a wide range of policies New India has become one of the largest nonlife insurance companies, not only in India, but also in the Afro-Asian region.
3. HDFC Standard Life Insurance Company Limited: Incorporated in 2000, offered policies like with profits Endowment Assurance, with profits money back, single premium whole of life, loan cover term assurance, personal pension plan, children's plan, group term insurance, development insurance plan.
4. Life Insurance Corporation of India Ltd: Established in 1956, it offers a wide variety of products like whole life insurance plans, endowment schemes, children plans, joint life plans and etc.

5. Max New York (Max India) Life Insurance Company Limited: started its operations in the April 2001, offers a wide range of insurance plans including whole Life Endowment and Term Assurance plans.
6. ICICI prudential Life Insurance Company Limited: Incorporated in 2000, it offers products like cash back, life guard, forever life, Life Link Pension, Life Time Pension, Reassurance, group gratuity, group Term Assurance.
7. Tata AIG Life Insurance Company Limited: started operations in India on April 1st 2001, products of the company include: Assure Lifeline plans, 15 Years Lifeline (with return of premiums) plan, Money Saver plan, Security and Growth plan, Mahalife plan.
8. Royal Sundaram General Insurance Company Limited: started its operations in 2001, offers Insurance in the form of - Travel Shield, Accident Shield, Health Shield, Home Shield.
9. Birla Sun Life Insurance Company Limited: it is a joint venture between Birla Group and Sun Life Corporation of US, Insurance products of the company are: Flexi save plus Endowment plan, Flexi Life line plan, Flexi Cash Flow plan, Money back plan, Single premium bond, etc.
10. Export Credit Guarantee Corporation of India Limited: Incorporated in 1957, offered turnover policy, small exporters policy, standard policy, Buyer wise policy, Construction workers policy, etc.
11. HDFC General Insurance Limited: established in 2002, ING Vyasa Life Insurance Company Limited, Aviva Life Insurance Company Limited, AMP Sanmar Assurance Company ltd., Bharti-AXA Life Insurance Company ltd., Met Life Insurance Company Private Limited, etc.

Market share (in %) of private non-life insurance players



Source: "IRDA annual report for FY00-FY09, "IRDA Journal," Insurance Regulatory and Development Authority website, www.irdaindia.org, accessed 26 May 2010

Conclusion

From the above analysis we can conclude that the liberalization and privatization process in the insurance sector both have positive and negative implications for the country. The entry of private players in the insurance business is needful and justifiable in order to increase the efficiency of operations and to achieve greater density and insurance coverage in the country. But now what is required is an assessment of the true insurance needs of the insured, with a priority towards cheap, pure term insurance with an effective regulatory measure which can help in avoiding or minimizing the risk factor

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