CHAPTER

10 GENERAL INSURANCE

INTRODUCTION

Insurance is a social device in which a group of individuals (insured) transfer risk to another party (insurer) in order to combine loss experience which permits stastical prediction of losses and provides for payment of losses from funds contributed (premiums) by all members who transferred risk. General insurance refers to all risks other than life. General insurance mitigate risks and provides some relief to the insured and thus helps varied industries to mitigate loss to some extent.

Indeed, the General insurance is also a key component of the financial system. In fact, India is at a much earlier stage of development for general insurance — an overwhelming majority of the demand is still generated by some form of mandatory or regulatory requirement.

The general insurance sector in India had for long been dominated by public sector players until it was opened to the private sector in 1994. The public sector of the general insurance comprises of GIC, New India, Oriental, National, United, ECGC, Agriculture Insurance Company of India Limited (AICIL) and DICGC. In the private sectors two stand- alone health insurance companies and ten others are in business. Of the 10 insurers, 9 are in collaboration with the foreign partners. In 2011 the market share of Public sector companies in general insurance has come down to 60 per cent. With the foray of State Bank of India into the general insurance business in 2008 will give a boost to the general insurance development in India. The general (non-life) insurers (excluding specialised institutions like ECGC and AICIL) underwrote premium within India to the tune of ` 42,576 crore in 2010-11, as against ` 9,806.95 crore in by 2000-01. Two of the fastest growing segments are motor and health accounting for 42.73 and 12.77 per cent of the premium underwritten in India in 2006-07. During 2007-08 till December 2007, the general insurers underwrote premium of ` 20,795.89 crore as against ` 18,554.95 crore in the corresponding year 2006. With a five-year compounded annual growth rate in the 16-18 per cent range. The first important issue with the market is that GIC's book of business is not profitable at the underwriting level. The general insurance business — before accounting for the investment income that the GIC companies make — is in the black. This is of critical importance to all participants in the business.

This chapter provides an account of growth of general insurance business and the policy measures taken to spread the market in urban and rural India.

GENERAL INSURANCE

The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British. Some of the important milestones in the general insurance business in India are:

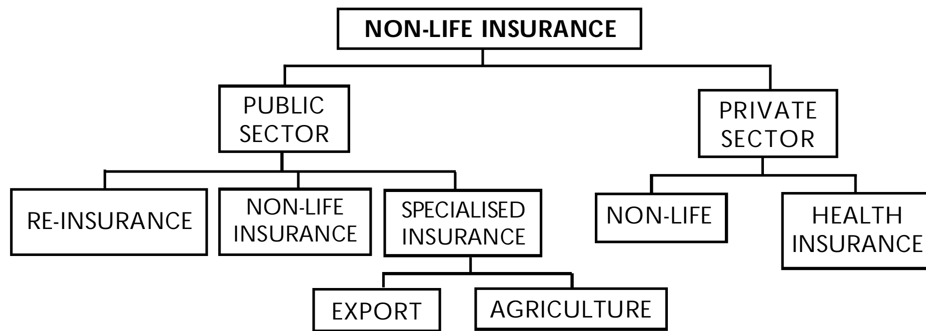
1907: The Indian Mercantile Insurance Ltd., set up, the first company to transact all classes of general insurance business.

1957: General Insurance Council, 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 investments and set minimum solvency margins and the Tariff Advisory Committee set up.

As was the case with life insurance, general insurance was also handled by a number of Indian and foreign companies, till it was nationalised in 1973. At the time of nationalisation, there were 68 Indian companies (including the LIC) and 45 non-Indian companies in the field. Their business was nationalized and vested in the General Insurance Company (GIC) and its four subsidiaries, *viz.*, National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd., and United India Insurance Co. Ltd. The GIC is the holding company and its direct business is restricted only to aviation insurance; general insurance is handled by the subsidiaries of GIC. The premia income of GIC accrues through obligatory reinsurance premia from the four subsidiaries on their direct business, on a quota share basis. General Insurance Corporation of India (GIC-Re) was approved as 'Indian Reinsurer' on 3rd November, 2000. As an Indian Reinsurer, GIC has been giving reinsurance support to four public sector and other private general insurance companies. It continues its role as a reinsurance facilitator by managing Marine Hull Pool & Terrorism Pool on behalf of Indian insurance industry. As per the directive of IRDA, Indian Motor Third Party Insurance Pool has been set up by all General Insurers in India to collectively service commercial vehicle third party insurance business and the Corporation has been selected as the pool administrator. The reinsurance programme of GIC aims at optimizing the retention within the country and developing adequate reinsurance capacity. The subsidiaries were de-linked from the parent company (GIC) and made as independent insurance companies in the Public Sector. The four companies have a network of 101 Regional Offices, 1,395 Divisional Offices, 2,880 Branch Offices (including Extension Counters and Micro Offices). The companies also have 43 overseas offices spread over 28 countries.

The gross premium income of these companies during 2008-09 was ` 19,108 crore as against ` 15,976 crore during 2005-06. The net worth of these four companies as on 31st March, 2009 stood at ` 14,317 crore (` 9,715 crore). The companies have paid a total dividend of ` 141 crore to the Government. The market share of these companies stood at 58.92% in 2008-09.



STRUCTURE OF GENERAL INSURANCE

OBJECTIVES OF THE ACT

1. To provide for the acquisition and transfer of shares of Indian Insurance Companies and undertakings of other existing insurers.
2. To serve better the needs of the economy by securing the development of general insurance business in the best interests of the community.
3. To ensure that the operations of the economic system does not result in the concentration of wealth to the common determinants.
4. For the regulation and control of such business and for matters connected therewith or incidental thereto.

ESTABLISHMENT OF GENERAL INSURANCE CORPORATION OF INDIA (GIC)

The General Insurance Business (Nationalisation) Act, 1972 provides that the Central Government shall form a Government Company in accordance with the provisions of the Companies Act, 1956 to be known as General Insurance Corporation of India for the purpose of superintending, controlling and carrying on the business of general insurance.

The authorised capital of ` 75 crore of the corporation out of which ` 5 crore is the subscribed capital wholly contributed by the Central Government.

GIC is the sole insurer of the domestic re-insurance market, providing re-insurance to the direct general insurance companies in India. The corporation's re-insurance programme has been designed to meet the objectives of optimising the retention within the country, ensuring adequate coverage for exposure and developing adequate capacities within the domestic market. GIC receives statutory cession of 20 per cent on each and every policy issued by domestic insurers subject to certain limits and leads domestic companies treaty programmes and facultative programmes. GIC is the manager of the Third Party Motor Pool.

FUNCTIONS OF GIC

The functions of the Corporation shall include:

(*a*) the carrying on of any part of the general insurance business, if it thinks it desirable to do so.

(*b*) aiding, assisting and advising the acquiring companies in the matter of setting up of standards of conduct and sound practice in general insurance business.

(*c*) rendering efficient service to holders of policies of general insurance.

(*d*) advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses.

(*e*) advising the acquiring companies in the matter of investing of their funds.

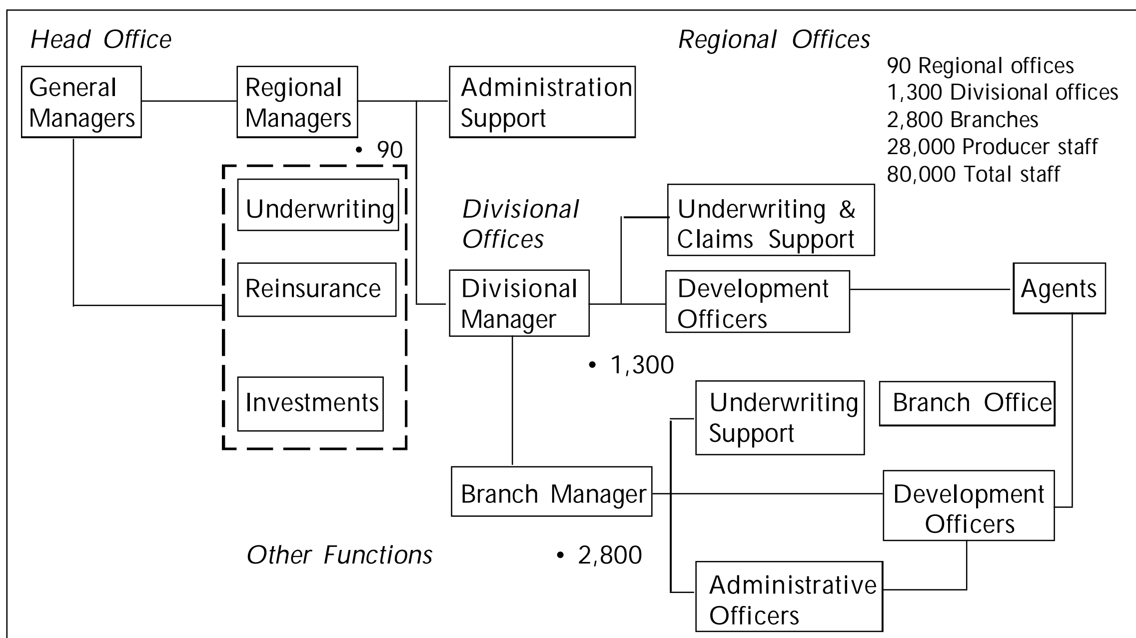
(*f*) issuing directions to acquiring companies in relation to the conduct of general insurance business.

(*g*) issuing directions and encouraging competition among the acquiring companies in order to render their services more efficiently.

(h) giving re-insurance support to general insurance companies.

GIC COMPANIES: THE DISTRIBUTION SYSTEM

Multilayered distribution and support set-up impedes decision-making and adds unnecessary costs.



Sales Other functions

Source: GIC Publications, Expert Interviews, Monitor Analysis.

NEW ENTERANTS IN THE GENERAL INSURANCE

Since opening up, the number of partipants in the non-life and re-insurance segments including specialised insurers, *viz;* Export Credit Guarantee Corporation (ECGC) and Agriculture Insurance Company of India Limited (AICIL) has gone up from seven non-life insurers to 22 insurers on November 2009. Two of the general insurance Companies, *viz.,* Stat Health Alliance Insurance Company and Apollo K V Health Insurance company function as standalone health insurance companies. Fifteen that have commenced operations in the non-life segment fourteen has been set up in collaboration with the foreign partners.

CLASSIFICATION

The general insurance business is broken into three product-lines — fire and allied perils (25 per cent), marine (10 per cent) and miscellaneous (65 per cent). However, this classification is not meaningful as it clubs many diverse lines of business into one large block — miscellaneous — and does not offer any insights into distinctive diverse of various businesses within any of the three classes.

In modern times general insurance is classified as follows:

(*i*) Insurance of person — Personal Accident and Personal Accident along with Sickness Insurance are included under this classification.

(*ii*) Insurance of Property — Buildings, machinery, aircrafts, steamers, stock of business, cash, securities come under the heading property and therefore Fire Insurance, Marine Hull Insurance, Marine Cargo Insurance, Burglary Insurance, Engineering Insurance, Crop Insurance and Aviation Hull Insurance fall under this classification.

(*iii*) Insurance of Interest — Fidelity Guarantee Insurance and the Guarantee Insurance fall under this classification.

(*iv*) Insurance of Liability — Public (third party) Liability Insurance. Professional Indemnities fall under this classification.

A better starting point of examining the challenges is to divide the overall market numbers into two very broad but internally consistent areas — one, that comprises of general insurance products bought by commercial undertakings and second, those bought by individuals. This will allow industry participants to start understanding elements of consumer behaviour more clearly and give them an ability to design appropriate measures to develop and profit from subsegments of the market that are most amenable to providing attractive business potential.

General Insurance

- Fire
  - Fire
  - Lighting
- Marine
  - Ocean
  - Hull Cargo
  - P and L
  - (*) Freight
  - Inland
- Property and Liability
  - Liability
  - (i) Tort
  - (ii) Product
  - D and O (+)
  - Employers
  - Public
  - Professional Indemnity
- Rural
  - Aquaculture
  - Cattle
  - Failed well
  - Farmer's Package
  - Fish
  - Poultry
  - Floriculture
  - Plantation
  - Horticulture crop
- Project and Engineering
  - Project
  - Engineering
  - Civil Engineering
  - All Risks
  - Deterioration of stock
  - Erection All Risks
  - Industrial All Risks
- Social
- Health
- Motor
- Miscellaneous
  - Burglary (Business and Private)
  - Money-in-transit
  - Jeweller's Block
  - Baggage
  - Personal Accident
  - Bankers' Indemnity
  - Aviation
  - Airline
- Others
  - Horse
  - Cycle Riskshaw
  - Pedal Cycles
  - Plate Glass
  - Household Appliances
  - Shopkeepers
  - Carriers Legal Liability
  - LPG Dealers
  - Office umbrella
  - Special contingency
  - Electronic Equipment
  - Gun

Governed by The All India Fire Tariff, 2001

The Indian Marine Insurance Act, 1963

Public Liability

IRDA Act, 1999

(*) Protection and Indemnity
(+) Director's and Officers'

Commercial insurance encompasses a very large variety of products including fire and allied risks insurance, marine insurance, casualty, and workmen's compensation. In India, however, the most 'developed' products-lines are those that are mandatory for the commercial establishments to purchase.

The business of general insurance essentially differs from that of life insurance since general insurance policies, unlike most under life insurances, are not financial claims. General insurance cover based on sharing risks that may arise on accidental, fortuitous occurrences, is of a shorter duration than life insurance — normally a year or even less. The investment pattern followed by the GIC is, therefore, quite distinct from that of the LIC. As liabilities are of short-term nature and claims thereby unpredictable, the investment pattern is dictated by the need to have fairly liquid assets coupled with higher returns. The most important avenue for investment for the GIC is, thus, industrial securities, followed by Government Securities.

GIC and its subsidiaries, apart from offering insurance cover in such areas as fire, automobile, ocean, and inland marine, theft, loss, damage, etc., have introduced quite a few non-traditional schemes suitable to Indian conditions. An example of such insurance schemes is the Comprehensive Crop Insurance Scheme introduced by the Government and being managed by GIC since 1985, in respect of summer and winter crops. GIC also operates cattle and livestock insurance schemes. Other innovative scheme recently introduced are Mediclaim, Householders' Comprehensive Insurance Policy, Professional Products, Nuclear Insurance Pool for insurance on nuclear power plants and other nuclear related risks, Personal Accident and Insurance Social Security Scheme, etc. Although general insurance business, unlike life insurance, does not collect savings of the community, it does collect pools of funds from premia and investment income, to provide cover to various types of activities in the economy.

The General Insurance Industry in India offers a wide range of policies to cover risks associated with industrial, commercial, social and personal activities. General insurance indemnifies the policyholder for financial losses suffered as a result of the occurrence of an insured peril.

RE-INSURANCE

Re-insurance is an arrangement whereby an insurer having accepted a risk, ***transfers a part of the risk to another*** insurer or re-insure in order to reduce its own liability in the event of a loss. This assumes significance with regard primarily to the general insurance business since the general insurance companies are more subject to ***incurring large liabilities in various crises.*** The insurers are in business to make profit and provide a return to their shareholders. Whatever benefits that insurance provides to the individual or corporate insured, the insurance company would derive similar benefits out of re-insurance. Re-insurance enables the direct insurer to stabilise his loss levels by removing some of the uncertainty. Re-insurance provides confidence to the insurer and encourages expansion of that company's business.

WHAT IS RE-INSURANCE? Box: 10.1

Re-insurance is insurance for the insurer. What this basically means is that just like an individual purchases an insurance policy against the risk of some damage to his property or life, insurance companies purchase re-insurance to mitigate the risk of huge losses from claims on policies sold by them. One or more re-insurers then take on a portion of the insurance company's risk in a policy or type of policy. The insurance company then pays the re-insurer a premium is much the same way as individuals pay their insurance premiums.

- Re-insurers give insurance companies capacity to grow by taking on some of the risk and freeing up some capital, besides allowing them to participate in bigger risks.
- It brings a degree of stability to the insurance company's results as large losses are passed on to the re-insurer, and
- There is also a possibility of profits from arbitrage when reinsurance rates are lower than premium charged by the insurance company.

Most non-life re-insurance is in the form of annual treaties undertaken in the beginning of each financial year according to IRDA regulations. The most common form of treaty is where the insurance company transfers a portion of the premiums paid for the original policy to the reinsurer while retaining a percentage, which is termed the ceding commission and is termed 'proportional treaty'. Other treaties include 'non-proportional treaties' where the insurer agrees to cover any loss above a stated amount, e.g., an insurance company may be able to absorb up to ` 1 crore but may reinsure for any losses above that amount up to ` 4 crore.

Life reinsurance is much more stable as the quantum of risk or exposure is better understood and the underlying principles are very different from non-life. The premiums are also relatively lower than in non-life.

MIXED FEELINGS

Re-insurance, especially non-life, has traditionally been done through intermediaries and brokers. The re-insurance broking fraternity in India has mixed feelings regarding the entry of foreign re-insurers. On the one hand, they welcome the move as it will usher in more players and a larger market and they expect brokerages to flourish as they understand the Indian market better. However, their apprehensions centre on whether the market will become chaotic if Indian companies don't consolidate first. However, most re-insurance and insurance companies believe that brokerages add significant value in terms of technical assessment of risk and have a wider reach when placing business, therefore, they will not be affected by the entry of foreign reinsurers. Brokerage sources add that upgrading technical abilities and skills in suggesting innovations will be the key to their growth and success.

TYPES OF RE-INSURANCE ARE

(i) *Facultative:* Here each risk is offered for re-insurance by the ceding (direct) insurer, i.e., the insurer intending to transfer a part of its risk and it may be accepted or refused by the insurer.

(ii) *Quota Share Treaty:* The re-insurer under it will accept a fixed proportion of all insurance contracts in a specified class of business for example, fire marine and so on.

(iii) *Surplus Treaty:* Here the insurer would accept the difference between the gross amount underwritten and the actual amount retained by the ceding insurer.

(iv) *Excess of Loss Treaty:* This is an arrangement whereby the re-insurer would bear the ceding insurer's loss due to any one event, when the loss exceeds a predetermined amount.

APPLICABILITY OF RE-INSURANCE

(i) Proportional re-insurance is more suitable for property insurance, where the extent of risk is known beforehand.

(ii) Non-proportional reinsurance is more applicable in liability business, where there is no foreseeable limit to the amount, which may have to be paid.

(iii) Life reassurance can be arranged on ***"original terms"*** and on risk premium basis. The reassurer divides the total premium and sum assured, in a given proportion, with the ceding life office, following all terms and conditions of the direct office's policy. The reassurer would pay re-insurance and profit commission to the ceding office as in the case of re-insurances, in general insurance business.

EXTENT OF RE-INSURANCE IRDA REGULATIONS, 2000

IRDA may specify the quantum to be re-insured on each policy and different percentages may be specified for different classes of insurance. The profile of such a programme duly certified by the appointed actuary, which shall include the names of re-insurers with whom the insurer proposes to place business shall be field with IRDA, at least 45 days before the commencement of each financial year, by the insurer. However, the maximum amount that can be re-insured on any given policy is 30% of the sum assured. The re-insurer, chosen by the insurer shall enjoy a credit-rating of a minimum of BBB of standard and poor company or equivalent. Currently, the four subsidiaries of GIC re-insure around 20% of their business with GIC.

Market Reach: Comparing general insurance premia as a percentage of GDP with per capita GDP, India falls closely in line with the other low GDP per capita in Asian countries. Graphically, India falls along the fitted curve, indicating that, on an average, the GIC has done as well as companies in the other Asian nations in penetrating the general insurance market. Life insurance premia, however, as a percentage of GDP relative to GDP per capita shows that the LIC has been extraordinarily successful in penetrating the market. India sits well above the fitted line *vis-à-vis* the other Asian countries, displaying a much higher ratio despite the lowest per capita GDP.

So, the GIC hasn't been a miserable failure either. Rather, it has achieved similar penetration results to other Asian countries with comparably low levels of affluence. Its revenue growth substantiates the GIC's performance. A real compound annual growth rate of 7.6 per cent is, certainly, nothing to snigger at. And the GIC has shown a more aggressive revenue growth rate than the industrial average over the last 7 years.

Tougher Competition: In terms of competing with the new private sector entrants, the nature of the market makes the task more difficult for the GIC. Unlike life insurance — where

attributes like the lock-in of existing customers and the value of trust give the LIC an inherent advantage — the situation in the general insurance market is different. The mandatory nature of most general products makes customers extremely price-sensitive. This means that customer-loyalty will be slim to none as customers will seek the lowest price for a product they are buying in order to comply with lender-requirements or government regulations rather than by choice.

Additionally, the annual terms of the policies provide a switching-opportunity with little cost or inconvenience to the consumer; general policies do not have the lock-in power that life policies do. Finally, building trust is less important in winning customers in the general insurance segment. Since it is not an investment-vehicle, the extent of the risk is limited to the term of the policy, and, since no long-term benefits accrue, competitors should be able to lure consumers away from their current providers more readily.

It is also important to remember that the deregulation of the insurance industry will not occur all at once; a small number of large, established players will, probably, be allowed to enter the market initially, followed by a second rung of players. This phasing, coupled with the continued regulation of pricing, means that competition will build-up gradually, allowing the GIC time to adapt to its new market-conditions, and to reinvent aspect that will make it more competitive in future.

Taking into consideration the nature of the general insurance market, the GIC's inherent strengths and weaknesses, and the deregulation schedule, it is expected that a scenario will develop wherein the GIC will be able to retain substantial market share over the next decade. We estimate that the GIC will retain 50 to 60 per cent market share 10 years after the market is deregulated. Although the picture looks bleaker for the GIC, the company still has distinct advantages that will have to be a competitive player. The incumbent will have to think carefully about how it plans to retain the penetration it has developed, and how it plans to target new and expanded markets, but it is likely to remain a force to contend with.

Major portion of GIC's investment continued to be in shares/debentures of, deposits with and term-loans to companies which rose to 41.4% (39.4%), followed by investment in Government and other approved securities, special deposits with Government of India 40% (37.5%) and loans to HUDCO/DDA/state governments for housing/fire fighting equipments 8.5% (7/6%) up to end March 2001, GIC's sanctions and disbursements aggregated to ` 14,095.61 crore and ` 11,767.21 crore. Direct finance accounted for over 69.98 per cent of the total assistance to the corporate sector.

A close look at the financials of the four GIC companies reveals that they have returned consistent underwriting losses (their overall profitability emanating from the investment incomes they earn). However, within these overall results, underwriting profit performance varies dramatically across commercial insurance and personal insurance — while the fire and marine lines of businesses are very profitable, results in areas like motor insurance and health insurance drags overall numbers down to a situation of underwriting losses. Thus, GIC companies will respond aggressively towards any threat to their market shares in commercial business will impact overall profitability dramatically. While this does not necessarily mean a limiting condition for the growth of alternate channels (GIC companies can defend their market share by sourcing business from alternate channels), it probably will become a limiting condition, as it is likely that GIC companies will be far slower to adopt new practices than their private competitors.

The stage of development of general insurance in India will also be a limiting factor. Unlike developed economies, where a large part of insurance purchased is of a discretionary nature and sales are driven by the customer recognising specific risks and valuing coverage against those, most commercial insurance purchases in India are driven by mandatory requirements. Such mandatory sales transacted at tariff pricing between individuals with longstanding relationships make the entry of a new channel difficult.

Other factors such as a very high concentration of insurable assets in a few sectors and in large corporate entities, negligible penetration of "retail commercial insurance" driven by a combination of low insurance awareness and financing of assets through undeclared income, and poor experience with claims processing will also impede the pace of development of the insurance industry in general and alternate channels in particular.

CRITICAL APPRAISAL

The GIC's uni-channel distribution system is characterised by numerous elements that are severely value constraining for both insurance companies and for their customers. First, it is a high-cost channel — large number of producers and the over-engineered administrative and servicing infrastructure add up to a significant amount. The current structure will, therefore, be detrimental to GIC's competitiveness in the post-privatised industry, as the new entrants will not replicate such a high fixed cost base. Thus in the short-term, development of alternate channels such as corporate agencies and brokerages will allow insurance companies, including GIC, to access business on a lower, variable cost basis. Over the longer term, as some classes of insurance are de-tariffed, a part of the cost savings would benefit the customers in the form of lower prices.

Next, state ownership and resultant bureaucratic processes have created a hierarchy where skills are valued less than tenure. This impacts customers directly as they are constrained to deal with a set of "intermediaries" who are likely incapable of assessing the true insurance requirements and structuring appropriate products. For GIC, it is an opportunity loss in up selling and cross selling, which would enhance account revenues and profitability. Emergence of vibrant alternate distribution systems staffed by qualified personnel will result in better assessment of the risks that a customer faces and, therefore, contribute to both growing the insurance industry in India and making it more robust.

Third, and consequent to the first two issues, the GIC system is also plagued by a slow decision-making process. Development of insurance brokerages will be beneficial since companies will now be able to deal with a single point of contact for all their insurance needs and it will be incumbent upon the broker to source individual covers from best-in-class carriers.

REFORM PROPOSALS

As part of the financial sector reforms programme, the government has appointed a Committee to go into issues concerning the Insurance industry in detail and submit recommendations on the structure and efficiency of the sector. Reforms in the insurance sector would cover identification of risk exposure and risk management, pricing, methodology of claim settlement and speedy payments. There have been suggestions on denationalisation of the general insurance business to open it to private and foreign competition. This and other issues like

setting up a separate regulatory body for the insurance sector to supervise adherence to prudential norms, setting up a National Fund for social insurance, etc., are within the Committee's brief. Reducing the share of direct investment by the General Insurance Corporation in its total investment would also be looked into.

The insurance sector serves as an important financial intermediary providing insurance cover, both on life and other risks. It is also an important source of funds for the corporate sector as also the Government to direct investment into socially desired sectors. On removal of the shortcomings observed to have crept into the working of the sector in the past, the insurance sector is expected to function more efficiently in the year ahead, once the reforms' agenda on hand is launched.

LIBERALISATION OF INSURANCE

No financial sector reform can be complete without encompassing a major constitution like the insurance sector. Despite laudable statements of intent, the insurance sector has so far not been covered by the process of liberalisation. Contractual savings institutions like insurance and pension funds have a major role to play in mobilising financial savings and are also ideally suited to financing long-term investments such as in infrastructure. The broad principles which should govern reform of the rest of the financial sector, namely, of granting greater autonomy in decision making and flexibility in operations, and providing a more competitive framework, apply equally to the insurance sector as much as they do to other subsectors of finance.

Following on the Malhotra Committee's (1994) report, the Government opened up of the general insurance to private sector. Competition in this sector would effectively end the monopoly of the LIC and the GIC in life and general insurance business. This monopoly has had its adverse consequences on efficiency and customer-service. The structure of the LIC has also become too large and perhaps unwieldy and represents the emergence of the diseconomies of scale. Consideration needs to be given to dismantling of this monolithic structure.

The Malhotra Committee has also recommended that the Government's stake in the corporations be reduced to 50 per cent. This recommendation needs to be given the most serious consideration and indeed in respect of general business, Government holding should go below 50 per cent. While opening up insurance to the private sector, we should consider also allowing foreign participation in this business, so as to help access to both resources and technology.

Operational flexibility would also be enhanced by reducing the scope of mandatory investments and creating a proactive framework or infrastructure financing on commercial principles. With the opening up of this sector, attention has to be paid to the scope and content of prudential regulation, covering solvency margins, capital adequacy, investment norms and other aspects as well as regulation of tariffs. An Insurance Regulatory Development Authority (IRDA) has been set up in 1999 so as to provide such a framework of regulation but vesting this authority with statutory status and other aspects of reform await legislative action. It is to be hoped that the necessary legislation would be enacted soon. In the new liberalised economic environment, general insurance has greater scope for expansion and focus. The thrust areas are widening and as such, it plays a catalytic role in accelerating the process of industrialisation.

OPPORTUNITY GALORE

With the ratification of the Insurance Regulatory and Development Authority (IRDA) Bill on 7th December, 1999, the way has been cleared for entry of private sector in insurance and statutory status on the insurance regulator has been conferred.

The opening of insurance sector is likely to witness a flurry of activities not only among new foreign and private companies but also the state run LIC and GIC. Even the public sector banks will not be far behind. Since the distinction between different financial entities — banks, DFIs, insurance companies, mutual funds — is getting narrower banks are increasingly seen as the financial services sectors, a step ahead of Universal banking. In the changed milieu, banks cannot afford to sell a single product to survive profitably for long. Ultimately, it would culminate into *Bancassurance or Allfinanz* under which a bank and an insurance company would offer their products within a single organisation. In this regard, India can learn from the experience of Italy, Spain and France where a large amount of the insurance business is conducted through banks. However, in USA, the insurance and banking business have traditionally been kept apart by the Glass-Steagal Act. But with the repealing of this Act recently, USA would also witness convergence of the businesses as the merger of Travellers (insurance co.), Soloman Smith Barney (an investment bank/broker) and Citi Bank (a commercial bank) to form Citigroup (world's largest financial services company) shows.

With a number of players operating both as underwriters and intermediaries, the insurance market may double in dimension, which means that the insurance premium for the industry as a whole will be ` 30,000 crore by 2008.

THE NEW MARKET PLAYERS	
THE POTENTIAL ENTRANTS	**THE TARGET MARKETS**
Foreign broking firms	Transnationals and big business groups
Captive broking-units	Group companies of mid-sized business
Financial institutions and NBFCs	Credit cardholders
Individual consultants	Individuals & small enterprises
PHASE FOR THE INTRODUCTION OF BROKING REGULATIONS	
PHASE I *Kick-starting the process* Agency licence allowed to firms and companies, instead of only individuals. Adjustment of the limits for inflation, above which no commissions will be paid.	
PHASE II *Comprehensive regulations* Registration and monitoring of brokers Norms on ownership patterns of brokers Fixation of brokerage rates	

INSURANCE INTERMEDIARIES

The primary difference between a broker and an insurance agent is that the former is an agent of the insured, whereas the latter acts for the insurer. In countries like Australia, insurers

are responsible for the conduct of their agents even if the latter do not operate within the purview of their authority. Although both insurance brokers and consultants represent the insured, the former have to be registered after meeting the eligibility criteria. The relationship between the broker and the client is subject to a code of conduct imposed by the registering authority. But the consultant does not have to be registered. His relationship with the client is governed by the contract between them.

Brokers have been in business since the 17th century. The concept of insurance gradually evolved from sharing losses to transferring the risks to professional financiers of underwriters. As the market grew, merchants began the complicated, time-consuming exercise of looking out for the best bargain. To resolve this was born the insurance broker: a middleman between the buyer, or the insured, and the seller, or the insurer.

In most developed markets, insurance brokers are regulated in the following areas:

- Registration.
- Experience, training and qualification, and other restrictions on entry into the profession.
- Solvency requirements.
- Professional indemnity, or a minimum level of errors. There is also a central fund to protect clients against broker malpractice.

THE INSURANCE BROKER'S SERVICE PORTFOLIO

- Advise clients on product selection with an in-depth knowledge of the market process
- Provide a one-stop for clients seeking insurance and risk-management advice
- Process insurance papers and claims and provide service beyond premium collection
- Provide specialised services by concentrating on single lines of business like fire insurance
- Assist insurers on new products through an intimate knowledge of market needs
- Develop risk-management strategies by providing clients links with insurance firms.

Internationally, insurance brokerages are more than just distribution intermediaries. Broking companies provide a host of insurance-related services to their clients including loss control, risk management, etc. While these are specialised services, most Indian insurance customers get only "seat-of-the-pants" advice on these issues from sales employees of GIC. Based on selected target customer segments, new intermediaries will have to assess appetite for such services and provide these. Not only will this add fee-base income to the intermediary (substantial portion of income for international brokers), it also gives the new entrants an opportunity to differentiate by adding significant value.

THE CHANGING FACE OF GENERAL INSURANCE

Most general policies have undergone a defining change in recent years – in the way they are structured, the range and extent of cover, how the premiums are computed and how settlements are made. Here's how they have evolved, and here's what you can expect in this space.

	Past	*Present*	*Future*
Health	• Single standard plan • No cover for pre-existing diseases • Available only from insurer/agent • Pay and get reimbursed.	• Product differentiation and add-ons like hospital cash • Pre-existing diseases covered after 3-5 years of no claims • Cashless claims via TPAs.	• Pre-existing diseases covered from Day • at higher premium • More hospitals in cashless network • Policy transferable across insurers.
Automobile	Premium based on market value of car • Unlimited third-party cover • Pay and get reimbursed • Not deductible • No-claims bonus lowered after claim.	• Premium based on IEV, vehicle c.c., city • ` 7.5 lakh limit on third-party cover • Cashless settlements • No-claim bonus ends after claim • Mandatory deductible.	• Customisation via. 'detari-ffing': literate/safe/better drivers to pay less premium. • Policy transferable across insurers.
Overseas Travel	One-size-fits-all plans; • PSU insurers had tie-up with only one global partner for settlements; • Min. deductible: $150; • Sold by insurer alone.	• Tailor-made covers for tourist, executives and students; • Country-specific tie-ups for claims settlement • Min. deductible: $100; • Also sold by travel agents/airlines.	• Wider claims settlement network; • More toll-free helplines to help with claims settlement.
Householder	• Policy on all-or-nothing cluster of assorted clauses; • No no-claims benefit.	• Freedom to choose assets you want covered; • No-claims benefits in the form of higher cover or lower premium.	• Higher cover for expensive electronic gadgets; • Free pricing as opposed to regulator-defined tariffs.

LIBERAL ENVIRONMENT: FREE MARKET

As of 1, January, 2007, the general insurance sector has been thrown open to a more liberal environment, in an effort to guide it towards a free market from a largely tariff-controlled one. The move has started with price control, which means that only pricing is allowed to be altered in the erstwhile tariffed segments of general insurance namely, fire, motor, engineering and workmen's compensation.

The market has now moved from an environment of tightly controlled tariffs to one where the premiums are arrived at after assessing the actual risks at the individual level, rather than a broad overview of the probable risks as was the case earlier. Therefore, the focus is more on the customer now, since the pricing is now based on the individual's personal risk. What this means is that general insurance companies can increase or decrease the premium prescribed in tariff to various customer segments. Today, the premium prescribed in tariff is minimal; so, technically, insurance companies can now charge more. However, it will be important to know on what basis one can do that and the competitive environment will be important considerations.

"What will also happen is that rating will be more scientific now, along with better risk management practices," says Antony Jacob, MD, Royal Sundaram Alliance Insurance. "Cross-subsidisation will be eliminated, which in turn will lead to independent pricing in each line of business. The tariff free regime will give the freedom to adopt innovative practices and come out with customer friendly options for policyholders. The policyholders can also be persuaded to invest in claim controlling and loss minimising initiatives."

In the current detariffed market, the start of a transition from administered pricing to risk-based pricing has begun and more changes are expected to take place as the de-tariff process moves to the next phase. As in developed markets, the information provided by the customer will play a key role in deciding the price. Hence, this would result in different price for different customers depending on the individual risk profile. For example, in the motor segment in a tariff free market, most customers are likely to benefit as a combination of a number of factors including the make, model, location, driver's age and experience, security features of the car and usage will determine the actual premium and customers with lower risk profile will be rewarded by lower premiums.

Other initiatives taken by the IRDA for the growth of this sector during the year 2006-07 are:

(*i*) Creation of the motor pool

(*ii*) Micro Insurance,

(*iii*) Health Insurance,

(*iv*) Guidelines on Anti-money, Laundering Programme, and

(*v*) Compliance with rural and social sector obligations.

CONCLUSION

In terms of the number of players entering the insurance market, general insurance has twelve new entrants in the post-liberalisation period. And, State Bank of India moves into the general insurance business in 2008 in collaboration with IAG.

Fuelled by competition, increased awareness will bring the customers on to centrestage. The customer will be the single most important factor and will drive change in the life insurance business. The customer in India is increasingly becoming aware and is actively managing his/her financial affairs. Today, while boundaries between various financial products are getting blurred, people are increasingly looking not just at products but at integrated financial solutions that can offer them stability of returns along with total protection. The key to success therefore would be in providing insurance solutions, not insurance products.

The gestation period for general insurance business is up to three years. Motor and health insurance form a large part of the general insurance market in India, along with property and casualty. Players have restricted to individuals. There is a lot of potential in growing the institutional side of the business.

In an increasingly competitive scenario the key differentiator will be the customer experience that each life insurance player can offer in terms of quality of advice, product choice, policy servicing, and settlement of claims. Service would focus on enhancing the customer experience and maximising customer convenience.

For new entrants, to convert the opportunity into profits need to make considered choices in selecting their customers, the portfolio of services they offer and the capabilities they need to acquire or build.

Leading the growth charge are the new private players. The private players now have a 50 per cent market share in 2007. The private players are growing aggressively and developing new products, sales and distribution infrastructure as penetration levels are up. Now, products are being developed as per the requirement of the customer. In the coming years, the themes in the general insurance market would be rural, retail, microinsurance and householders' cover.

First, it will be important to target the right customer segments. Consider segmentation based on industry sector — most of the old economy companies with traditional insurance needs are being served reasonably well by GIC producers. However, as mentioned earlier, emerging sectors such as software, telecom services, life sciences and others are underserved. Next, if one were to segment the universe of commercial insurance buyers on the basis of their size, while the concentration of premiums in large corporate entities make them an attractive target, these are the accounts that GIC will compete most fiercely for. In contrast, the small and medium enterprises will emerge as a group that is very dissatisfied with both pre- and post-sale service standards of GIC companies (the targets and incentive system for development officers and divisional managers at GIC companies are based on growth in premium collection and therefore the good producers do not "waste their time" on small and medium enterprises) and may be an interesting segment for new channels to focus on.

General insurance penetration in India remains abysmally low, unlike life insurance, which has started to pick-up. This has been largely due to a slowing economy, mixed with increasing price competition and falling pric, further exacerbated by a fall in auto sales.

For any new entrant, it is critical to address these issues — making integrated choices across these will help it win against incumbent and emerging competition. Simultaneously, from an industry perspective, entry of players who make such coordinated and distinct choices will hasten the shift of premiums from high cost and inefficient traditional channels to alternate ones — to the benefit of both insurance carriers and their end-customers.

There is also talk of opening up the re-insurance market, which is currently dominated by a single player, General Insurance Corporation. As a re-insurance player, GIC redistributes the risk associated with one player or product among several insurance companies, largely overseas. Sources say global players like Munich Re and Swiss Re are keen to enter the market directly.

The challenges, players say, is in building a cost-effective distribution channel and in getting the young population to turn into buyers of insurance. Health insurance in India is mostly purchased by the older age group. Moreover, newer products are being launched in areas like dental and ophthalmological insurance.

SELF ASSESSMENT QUESTIONS

1. What do you mean by non-life insurance? What are the types of non-life insurance?
2. Discuss the scope of fire insurance. What are the various types of fire insurance policies?
3. Discuss the scope of marine insurance. What are the various types of marine insurance policies?
4. Define Health Insurance. What are the types of health insurance schemes available in India?
5. What factors have contributed to the increasing significance of health insurance in India?
6. What is social insurance? What are the various social insurance schemes available in India?
7. What do you mean, be rural insurance? What are the various types of policies available for rural insurance?
8. Discuss the role of IRDA in development of insurance sector in India.