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FAIRFIELD
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BBA (B&I)

GGS Indraprastha University

BBA (B&I) 202: Insurance Business Environment in India

L-4 T-0 Credits –4

INSTRUCTIONS TO PAPER SETTERS MAXIMUM MARKS: 75

- Question no. 1will is compulsory case study of 4 P's of marketing. It should be of 15 Marks.
- Every unit should have two questions. Students may be asked to attempt only 1 question From each unit. Each question should be of 15 marks.

Objective: The main objective is to make aware the conduct of Insurance Business in India and how the same be conducted.

Course Contents

UNIT-1 **No. of Hrs.-10**

History of Insurance Business: Business Environment and Insurance; Insurance and Economic Development; Growth and potential in Life Insurance; Growth and potential in General Insurance; Insurance Industry in India; Contemporary issues in Insurance.

UNIT-11 **No. of Hrs.-12**

Insurance Regulations in India: A brief introduction of Insurance Act.1938, A Brief Profile of IRDA (Authority) and its functioning; IRDA Regulation 2000(Obligations of Insurers to Rural or Social Sectors); IRDA Regulation 2000(Insurance: Advertisements and Disclosure); IRDA Regulation 2000(Licensing of Insurance Agents); IRDA (Protection of Policy Holders Interest)

UNIT—111 **No. of Hrs.-8**

Marketing of Insurance Services: Requirement of different Market Segment; Distribution Channel; Collaborating Professions; Setting –up a new Insurance Company; IRDA Regulation 2000 (Registration of new Insurance Company); Foreign Investor

UNIT-1V **No. of Hrs.-9**

Financial aspects of Insurance Business: Valuation of assets and Liabilities with particular reference to unexpired risk; Impact of Tariff to Non-Tariff regime in Non-Life Business; Distribution of profits.

UNIT-I

Insurance business follows same organization structure as any other business, but it largely differentiates itself by its process orientation. There are five verticals discernible in core insurance business. They are business governance, product development, product delivery, investment, and after-sale service. The growth of any business always depends upon the marketing strategies used by that business organization. In insurance, marketing strategy is the unit of business planning and marketing planning starts from the backyard of the customer. The process of product development in an insurance organization requires huge industry level data. Insurance business also focuses on the product life cycle. Strategic planning is necessary for successful launching of products. Insurance business differs from other business in its cash flow pattern. Insurance companies earn cash by way of premiums merely by offering promises as products. They deploy/invest the cash to earn sufficiently by the time they are called upon to pay claims in few probable cases. Mastering this dynamic process cycle is the rudiment of the insurance business operation.

It was in the **14th century** in which the idea of insurance was first conceptualized. At that time it was used more as a tool for protection against financial loss of sea features involved in foreign trade. Since then this concept has undergone several changers. It is basically the unforeseen contingencies of human life that has given a very new look to the insurance industry Gradually as competition increased the benefits given by the industry to its traditional extended family system that provided a natural umbrella to each and every an impetus to excel. With the growth of industry, trade and commerce the insurance also grew over a period of time and gained maturity. In terms of insurance premium collection, presently, India stands fifth in Asia with Japan having 40 times more premium collection than India. Despite a double digit growth in last two years, the ratio of insurance premium to GDP has remained low in china and India. On the other hand, the non – life insurance business has vital role to play to safeguard the properties of the nation. The gross domestic premium of general insurance business in India has increased to

Rs. 11860 crores in 2010 from Rs. 184 crore in 1973. This speaks about the volume of growth in non-life insurance business in the country.

INSURANCE AND ECONOMIC DEVELOPMENT

For economic development, investments are necessary. Investments are made out of savings. A life insurance company is a major instrument for the mobilization of people, particularly from the middle and lower income groups. These savings are channeled into investments for economic growth. All good life insurance companies have huge funds, accumulated through the payments of small amounts of premium of individuals. These funds are invested in ways that contribute substantially for the economic development of the. Countries in which they do business. The private insurers in India are new and had not built up funds in 2002. But, in course of time, they also would be directly and indirectly contributing to the country's.: economic development. A life insurance company will have large funds. These amounts are collected by way of premiums. Every premium represents a risk that is covered by that premium. In effect, therefore, these vast amounts represent pooling of risks. The funds are collected and held in trust for the benefit of the policyholders. The management of life insurance companies are required to keep this aspect in mind and make all its decisions is ways that benefit the community. This applies also to its investments. That is why successful insurance companies would not be found investing in speculative ventures. Their investments, as in the case of the L.I.C., benefit the society at large. Apart from investments, business and trade benefit through insurance. Without insurance, trade and commerce will find it difficult to face the impact of major perils like fire, earthquake, floods, etc. Financiers, like banks, would collapse if the factory, financed by it, is reduced to ashes by a terrible fire. Insurers cover also the loss to financiers, if their debtors default.

Insurance drivers of economic growth

The insurance industry promotes economic growth and structural development through the following channels:

1. Providing broader insurance coverage directly to firms, improving their financial soundness.
2. Fostering entrepreneurial attitudes, encouraging investment, innovation, market dynamism and competition.
3. Offering social protection alongside the state, releasing pressure on public sector finance.
4. Enhancing financial intermediation, creating liquidity and mobilizing savings.

As major institutional investors, insurers gather dispersed financial resources, and channel them towards investment opportunities, facilitating companies' access to capital.

5. Promoting sensible risk management by households and firms, contributing to sustainable and responsible development.
6. Fostering stable consumption throughout life.

INSURANCE AS A SOCIAL SECURITY TOOL

INSURANCE AS A SOCIAL SECURITY TOOL: The United Nations Declaration of Human Rights 1948 provides that "Everyone has a right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood or other lack of livelihood in circumstances beyond his control". When the bread winner dies, to that extent, the family's income dies. The economic condition of the family is affected, unless other arrangements come into being to restore the situation. Life insurance provides such an alternate arrangement. If this did not happen, another family would be pushed into the lower strata of society. The lower strata create a cost on society. Poor people cost the nation by way of subsidies and doles and so on. Poor people also cost by way of larger growth in population, poor education and vagaries in behavior of children. Life insurance tends to reduce such costs. In this sense, the life insurance business is complimentary to the State's efforts in social management. Under a socialistic system the responsibility of full security would be placed upon the State to find resources for providing social security. In the capitalistic society, provisions of security are largely left to the individuals. The society provides instruments, which can be used in securing this aim. Insurance is one of them.

In a capitalistic society too, there is a tendency to provide some social security by the State under some schemes, where members are required to contribute e.g. Social security scheme in UK. In India, social security finds a place in our Constitution. Article 41 requires the State, within the limits of its economic capacity and development, to make effective provision for securing the right to work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement and in other cases of undeserved want. Part of the State's obligations to the poorer sections is met through the mechanism of life insurance. As per the law and the directions of the regulatory authorities, insurance companies in India are obliged to extend insurance benefits to economically weaker sections of the society in the unorganized sector.

OTHER MAJOR ROLE OF INSURANCE COMPANIES IN ECONOMIC DEVELOPMENT

Providing broader insurance coverage directly to firms, improving their financial soundness

Insurance allows firms to expand and take on economic risks without the need to set aside capital in liquid contingency funds. The absence of adequate business insurance cover tends to be particularly harmful for small firms. Limited capital and difficulty in accessing financial markets make them vulnerable to adverse events. Without insurance, large contingency funds would be needed to protect firms against risk. For many small firms this would represent more capital than they presently employ in total. Therefore, without insurance, the population of firms would decrease rapidly. It is difficult to assess the exact extent of the positive effect of business insurance on economic activity. Whereas comparison of insurance premiums to GDP conveys information on the performance of the insurance industry, it overlooks the wider contribution to the economy.

Fostering entrepreneurial attitudes, encouraging investment, innovation, market dynamism, and competition

Being innovative presupposes the willingness to take risks. Since (potential) entrepreneurs, much like ordinary people, are characterized by risk aversion, the willingness to take risks can be considered as a scarce resource. The more willingness to take risk is available, the more will be produced. Even if the insurance industry cannot change the overall willingness of actors in an economy to take risks (risk aversion does not change with insurance), it does play a key role in freeing entrepreneurial spirit. Insurance decreases the risk supported by entrepreneurs through mitigating and pooling procedures and allows them to take additional risks. Well developed insurance markets contribute by helping to optimize the allocation of the scarce resource of "risk-taking" by shifting it from conservative to innovative and high-profit activities. Underinsured firms, in contrast, usually do not exploit new business opportunities; they invest less in innovation and their degree in participation in global markets is low. The relationship between insurers and their business customers should be considered at least as important as the relationship between banks and their business customers.

Offering social protection alongside the state, releasing pressure on public sector finance

In all industrialized countries, the debate about the need to revise the social protection offered by the state is increasing. The population structure is changing fundamentally with a longer life expectancy, an increase in elderly people and a falling birth-rate. At the same time people expect to receive a high level of healthcare, pensions, unemployment allowance and other social benefits. This evolution raises general concern for the future if reform is not rapidly introduced. A 2006 study prepared by the European Commission and the Economic Policy Committee notes that without a change in policy, public finance will be put under extreme pressure and the EU potential economic growth will be almost cut in half by 2030. Moreover, this situation will push wages upwards and reduce the propensity to consume or, in other words, it will depress demand and erode competitiveness. In addition, a large part of the population does not seem to be fully aware of the reduced prospects for social protection. Significant reform of the current social security system is therefore needed in most Members States. Private insurers are naturally willing to contribute in the development of an additional pillar alongside the protection offered by the state. For instance, insurance products such as 'Payment Protection Insurance' play a vital role in protecting households from the consequences of unemployment in the event of an economic downturn.

In many other countries, however, only a small fraction of households benefit from complementary health coverage and an increasing proportion of health expenses are financed by patients. This trend demonstrates the difficulties experienced by the public health systems in meeting the growing demand for healthcare. Radical reform of the healthcare system is necessary in most industrialized countries. There is also broad consensus on the need to involve the private sector in this process with clearly defined areas of competence for both the public and private sectors. Similar to the developments seen in pensions, it is necessary to foster the creation of a second pillar for healthcare in which insurers can play a significant role.

GROWTH AND POTENTIAL IN LIFE INSURANCE

By 1956, 299 Indian insurers, provident insurance societies, and 16 non – Indian insurers were carrying on life insurance business in India. But since January 19, 1956, the Life business came under the control and ownership of government. In June 1956, a bill was passed for establishing life insurance Corporation of India, which started functioning since September 1, 1956. The corporation is a body corporate having perpetual succession and a common seal with powers to acquire, hold and dispose of property and may by its name sue and be sued. There will be not more than 15 members including a Chairman thereof. The corporation is charged with the main duty to carry on life insurance business. It has one central office 5 zonal offices and several Divisional and branch offices.

The growth of life insurance business has been analyzed under new business inclusive of group insurance business, new business individual insurance excluding annuities, growth in sum assured and number of policies, lapses, number of offices, productivity of assets and process of new insurance plans.

Business in India

The new business in India has tremendously increased during the period of last 50 years. It has gone up from Rs. 277.67 crores in 1957, Rs. 336450.37 crores in 2010-2011.

Business outside India

The new business outside did not rise satisfactorily. It has gone up from Rs. 5.40 crores in 1957 to Rs. 11.73 crores in 1975 and to Rs. 14.41 crores in 1981, and Rs. 28.30 crores in 1984. The cause of the lesser rate of increase was that the corporation has to compete with other concern outside India whereas in Indian it is monopolistic concern. However, it improved in 1989 – 90when it rose to Rs. 100.00 crores and 199.07 crores in 1993 – 94 and Rs. 840 crores in 2010-11.

Rural new Business

Rural LIC business has increased from Rs. 10,294.55 crores under 36.75 lakh policies in 1990 – 91 to Rs. 28,000 crores under 70 lakh policies in 1999-2000. The percentage share of policies to total new policies increased from 42.5 to 49.2 during the period 1990-91 and 1996-97. Percentages share of rural new business in total new business of LIC has increased from 36.6 to 42.8 in the same duration. It is expected that the percentage share of rural business in the total business would not change in future. The LIC may not devote much time and angry for procuring new business in rural areas, as it has to compete with foreign insurance that would devote only in urban area. The role of LIC in enhancing rural business would socially be the essential but commercially, it would be loss-making endeavor because LIC's urban share would be snatched by foreign and domestic insurers. The inertia of large number applies in insurance. The mortality is comparatively lower in urban people than that of rural – people.

Product Diversification by LIC

Product diversification is essential to meet the varying needs, changing preferences and rising aspirations of the customer. Realizing the importance of product diversification LIC has introduced various insurance plans so as to increase its business multifold. The growth of LIC according to policies is given below. It is obvious from the table that the importance of whole life policies and endowment assurance are reducing gradually, that total sum assured under these policies are increasing although in relation to total individual business, they are not increasing. Money back policies have increased to the level of Rs. 20,000 crores. It is prominent assurance policy because of its advantages of investment. The amount of children's anticipated endowment is reducing year after year. It has come down to nearly 10 crores. On may conclude from the foregoing details that those policies are becoming popular, which have features of investment and periodical payment along with coverage of risk. LIC has diversified insurance products. Under this scheme, Asha Deep with some novel features was introduced in 1993 – 94. This plan besides providing death and maturity payment provides benefits in case the life assured suffering from any of ailments, viz., cancer, and paralytic stroke leading to permanent disability, renal failure of both kidney and coronary artery diseases, where bypass surgery has been done.

GROWTH AND POTENTIAL IN GENERAL BUSINESS

In India, general insurance was brought by British. Their operation was through agencies. The Triton insurance Company Ltd. was the first general insurance company established in India in 1858 at Kolkata. It was British owned company and its share was held by them. The first general insurance company to be set – up by Indian was Indian Mercantile Insurance company Ltd. in Mumbai in 1907. It was to transact all types of general insurance business. Thereafter, a larger number of both Indian and foreign insurance companies were set – up in the country. However, till independence as much as 40 % of the insurance business was held by foreigners mainly Britishers. With the setting up a large number of insurance companies, it was felt that there should be a code of conduct to be followed by these companies in order to ensure fair and sound be a code of conduct business and prevent unethical practices. As a result, Insurance Association of India through its General Insurance Council framed a code of conduct, which was to be administrated by the controller of insurance. Its head office was located at Delhi with branch offices at Mumbai, Kolkata and Chennai. Further, the need was also felt to retain maximum business in India. To achieve the above objectives, Indian Reinsurance Corporation was established in 1956. All the insurance companies voluntarily decided to cede 10 % of their gross direct premium to the Reinsurance Corporation. In 1961 the government constituted Indian Guarantee and General Insurance Company Ltd. as a Government owned Reinsurance Company, which coexisted along with Indian Reinsurances Corporation. The insurance companies were required to cede 10% of their premium to each of these two companies. In addition, insurers established two other organizations, namely, fire Insurance Pool, the marine Insurance Pool, and a percentage of companies of fire and hull insurance business were ceded to these pools respectively. The business ceded to these pools was retroceding to the ceding companies thereby ensuring the spread of risks amongst the members of pools. In 1968, the Insurance Act, 1938 was amended which empowered the controller of insurance to regulate deployment of assets, provide for maximum seize their books of accounts, etc. the amendment also facilitated setting up of tariff advisory committee to be chaired by the controller of insurance. Its function comprised of controlling and regulating rates, terms and advantages of general Insurance business in India. After independence, under the planned development of the company, the Government came to the conclusion that a strong public sector under its direct control will be able to meet national objectives of growth, equity, resource mobilization, employment generation, etc. in pursuance to the above objectives, life insurance was nationalized in 1956, and banking sector in 1969. The General Insurance business was nationalized with effect from January 1,1973, through the General Insurance Business Act, 1972. However, as a prelude to the above Act, the government took over the management of all the operating companies in 1971, through General Insurance Act, 1971. The emergency act provided for the appointment of custodians who were empowered to exercise controls over these companies subject to the directions of the central Government at the time of nationalization of these companies, there were a total of 107 companies underwriting general insurance business in India. All these companies were amalgamated and grouped into four, namely, the National Insurance Company limited, the New India Assured Company Limited, the Oriental Insurance Limited, and the United India Insurance Company Limited with head offices at Kolkata, Mumbai, Delhi and Chennai respectively. The General Insurance Company (GIC) was formed as a holding company in November 1972. The GIC was constituted for the purpose of superintending, controlling and carrying out the business of general insurance. The entire capital by the GIC on behalf of the Government of India. The main objectives of nationalization were to ensure the development of the general insurance business in sympathy with the best of interest and advantages to the community. Further, these companies were required to promote competition in the economy and to prevent the concentration of wealth and growth of monopoly. They were supposed to widely spread their activities over geographical area, innovate new products as per the requirements of different segments of population, and also meet social objective through formulating policies for weaker sections of society.

The functions of GIC as laid down in the act were:

1. Carry on of any part of general insurance business, if it thinks desirable to do so;

2. Aiding, assisting and advertising the acquiring companies in the matter of setting up of standards of conduct and sound practice in general insurance business and in the matter of rendering efficient service to holders of policies of general insurance;

3. Advising the general insurance companies in the matter of controlling their expenses including the payment of commission and other expenses;

4. Advising the acquiring companies in the matter of investment of their funds.

From the analysis of progress of different types of insurance it has been revealed that the Indian insurers were doing well more in marine insurance than in other types of general insurances. The general insurance could not increase rapidly as industrial production did up to 1967. The general insurance would have risen at least parallel to the development of industrial production does, it is a clear indication of satisfactory development of general insurance. The index of general reveals that it had gone up to 137.5 in 1967 and 158.9 in 1968 whereas the index of industrial production has gone up 143.2 in 1967 and 152.9 in 1968. Thus, the general insurance started rising more rapidly after 1967. The index number of general insurance was 202.8 whereas the index number of industrial production was 182.6 in 1972. It reveals that the general insurance business was satisfactory progressing.

Growth of general insurance after nationalization

The growth of general insurance over a period of time has been evaluated in terms of parameters such as growth of gross and net premium, geographical spread of the business, class – wise distribution of business, underwriting results, reinsurance operations, investment income, free and technical reserve, net worth, overall profitability, etc. the overall claim ratio expenses on management have also been examined

1. **Business In India:** The gross domestic premium income in India (GDP), which was Rs. 184 crores in 1973, has increased to Rs. 9522 crores in 1999 – 2000, recording an average growth rate of about 19.90%.

2. **Business outside India:** The premium income originating outside India went up over the level of Rs. 24 crores in 1973 to Rs. 460 crore in 1999-00, registration annual growth rate of about 11.95 %.

3. **Net Claim Payable:** The net claim payable was at Rs. 7586 crore in 1999-00 as against Rs. 1123 crores in 1973, accounting for 81% to net premium.

4. **Operating expenses:** The expenses including management expenses, commission and other outgo which were Rs. 68 crore in 1973 increased to Rs. 2510 crore in 1999-00. It constitute31% and 72% of net premium income in 1973 and 1999-00 respectively.

5. **Management Expenses:** The expenses of the management increased from Rs. 43 crores in 1973 to Rs. 2264 crores in 1999-00 .it amounted to 22.7 % of gross premium income and 24.1% of net premium.

6. **Sum Invested:** The total investment increased from Rs. 355 crore in 1973 to Rs. 16659 crores in 1999-00. It grew by about 47 times. The compound annual growth in investible funds was about 17%.

7. Income from investments: The investment income increased from Rs. 21 crores in 1973 to Rs. 2392 crores in 1999-00. The average annual gross yield on mean funds amounted to about 13%.

8. **Capital and reserves:** The paid up capital and fee reserve increased from Rs. 37 crore and Rs. 62 crore in 1973 to Rs. 375 and Rs. 7745 crore in 1999-00 respectively. The increase in reserve for unexpired risk which was Rs. 23 crore in 1973 increased to Rs. 485 crore in 1999-00.

9. **Insurance pie:** In so far the class-wise distribution of business is concerned, the fire, miscellaneous and marine accounted for 24%, 66% and 10% in 1999-00 respectively. In miscellaneous portfolio, motor business, which is a long- making business has steadily grown over a period of time and accounted for about 32% of the total business of the industry. However, this is in consonance with the world-wide trend since in most of the countries of the world motor business was more than 30% of the total business. For instance, it was about 63.56% and 54% in Thailand, Malaysia and Taiwan respectively.

10. **Geographical Pie:** The geographical spread of the premium written in India indicates that the maximum, i.e. about 40% was generated from western region and minimum, i.e., about 9% from the eastern region. The northern and southern region contributed about 26% and 25% of gross premium in 1999-00 respectively.

11. **Number of insurance product:** Although the total numbers of insurance products in the general insurance industry are around 175, only a few, i.e. 40 to 50products have dominated the market controlling about 75 to 80 % of the total market. Rest of the products have not been popular as they lack mass base, may be due to poor publicity and marketing, lack of awareness, higher premium rates, and might have been introduced without adequate database.

12. **Rural Business:** The rural and non-traditional business, which was practically nil in 1973, has gradually increased over a period of time. The premium collected through this business was

only about Rs. 425 crores in 1999-00, constituting only 4% of the total gross premium income. It calls for innovating new products for the rural population suiting to different incomes groups and marketing them aggressively.

13. **Operating countries:** The general insurance industry has operations in 30 countries. Out of these in 16 countries it is operating directly and in 14 countries through subsidiary and associated companies during 1999-00, the total gross and net premium income from business operations in these countries were Rs. 488.76 crore and Rs. 440.36 crore respectively. The net claim during the year amounted to Rs. 288.19 crore amounting to 65.7% of net premium.

Issues concerning Growth of Insurance Despite the fact that the industry has grown after nationalization in terms of premium income, introduction of new products, wide coverage of individuals and organizations, innovating new covers for weaker sections of society, investment in social sectors, creating infrastructure at gross-roots level, etc., several weaknesses have also come to surface during these years of operations. These are :

1. Low level of insurance penetration.
2. Low level of insurance density.
3. Poor quality of insurance services.
4. Low productivity.
5. Lack of qualitative and quantities insurance products.
6. Inadequate application of information technology.

Availability of insurance products

Although on the general insurance side, there are a total of about 175 products covering most of the common insurance products in their portfolio, yet hardly 30 to 35 products are actively traded in the market. Today, customer desire to purchase package products instead of purchasing several multiple policies. There is very limited number of such package policies. The policies catering to special needs of the public such as Advance loss of profit, Directors and officers Liability, etc. are quite limited in number. The products catering to rural sector where disposable income is increasing are limited in number and existing products have not been properly marketed. The policies in segments of Health covers, Household Risk covers, have not properly marketed and publicized. For instance, health insurance products roughly cover only 25 lakhs population with premium income of about Rs. 20 crore.

Future potential

The operating of the insurance sector offers ample opportunities to both existing as well new players to penetrate into untapped areas, sectors and sub-sectors and unexploited segments of population as presently both insurance density and penetration are at a low level. As mentioned earlier, insurance penetration broadly measures the significance of insurance industry in relation to a country's entire economic productivity. It indicates the importance of insurance industry in the national economy as a whole. On the other hand, insurance density reflects upon the country's insurance purchasing power. Both indices being at a very low level in a country even compared to the country with the same level of economic development and the per capita income are indicative of the vast potential of the growth of this sector in future. Besides, as the economy grows at the rate of 6 % in future, the scope for increasing insurance network in the country further grows up.

INSURANCE INDUSTRY IN INDIA

Insurance is a subject listed in the Union list in the Seventh Schedule to the Constitution of India where only centre can legislate. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment of up to 26%(as of 2013 there have been proposals to extend the FDI upto 49% to strengthen the Insurance Market even further) the insurance sector has been a booming market. However, the largest life-insurance company in India is still owned by the government. In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company Ltd., which was founded in 1906. It is in business.

The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalization) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1, 1973. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies.

With effect from December 2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited.

ACTS OF INSURANCE

The insurance sector went through a full circle of phases from being unregulated to completely regulate and then currently being partly deregulated. It is governed by a number of acts. The Insurance Act of 1938 was the first legislation governing all forms of insurance to provide strict state control over insurance business. Life insurance in India was completely nationalized on January 19, 1956, through the Life Insurance Corporation Act. All 245 insurance companies operating then in the country were merged into one entity, the Life Insurance Corporation of India. The General Insurance Business Act of 1972 was enacted to nationalise the about 100 general insurance companies then and subsequently merging them into four companies. All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance and United India Insurance, which were headquartered in each of the four metropolitan cities.

Until 1999, there were no private insurance companies in India. The government then introduced the Insurance Regulatory and Development Authority Act in 1999, thereby de-regulating the insurance sector and allowing private companies. Furthermore, foreign investment was also allowed and capped at 26% holding in the Indian insurance companies. In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries. A minimum capital of US$80 million (Rs.400 Crore) is required by legislation to set up an insurance business.

CONTEMPORARY ISSUES IN INSURANCE

Insurance today has moved to the center stage of World economy. The growth of insurance worldwide and its influence on the government action provides a clear indication of the relevance and importance of this sector in the Indian economy. With the opening up of the insurance sector, policy holders and investors will be exposed to a wide range of products. However, in India, insurance is far from being considered with due importance. Actually, in India, nobody takes up insurance unless and until he has had a bad experience. In a liberalised market, the country can gather enormous investment for infrastructure growth. Competition can bring in a healthy insurance industry. The only deterrent in India is that it has only a single digit billion foreign investment and lags behind other developing countries. A very competitive insurance sector is going to give the society many advantages. There will be some job units as insurance companies might take away agents for smaller sales and may decide to sell it directly. For instance, agents are there for motor insurance. However, once the market opens up, it will be paid through banks, and hence, there won't be a need for these agents. More and more competitors are going to attract the customer by the service that is being offered and so the customer will become the ultimate focal point. Insurance Act 1938 prescribes fairly rigid guidelines for investment of insurance funds at present. As much as 75% of the investment has to be in government-owned and other securities. If this inflexibility continues, the insurance companies will have very little to earn more on their investment. LIC has concentrated more on individual assurance over the period and neglected the other sectors, which is clear from the decline in their percentage to 1999-2000 from 1998-1999. This allows upon de-regulation of other companies to leverage their business from other sectors hitherto ignored by the LIC. LIC in fact is using software packages developed in-house in all their 2048 branches. It has also networked their city branches of Mumbai, Delhi, Bangalore and Chennai. The policy holders can tender premium anywhere, and thus, distances are eliminated. Foreign companies will use superior software's, like Apex, that will give them an edge over the in-house LIC software. The technology will help private insurers in product development and customizing products to suit individual needs.

De-regulation will be a boon to the Indian consumers, as there will be plethora of products and more options to choose from. It is also possible that market segmentation will be more fragmented. The competition will ensure a decrease in price levels. Banks will start to be one of the new channels in this market. The structural changes resulting from liberalization will cause fundamental changes in the market behavior within the insurance industry. The strategy of maximizing turnover is no longer a recipe for success. In future, companies may compete over price, products, underwriting criteria, innovative sales method and financial standing. The abolition of market barriers will permit the appearance of specialist suppliers, banks and foreign insurers, wanting to take advantage of additional entrepreneurial freedom. Poorly managed companies with a weak capital base will drop out of the market, or premium rates and profits will dwindle. The liberalization of insurance prices will impact the transparency of the market. From the suppliers point of view, this means profit from innovation, and this can be reaped longer if the innovation is not duplicated fast. Insurance companies globally are actually investment companies. In India, they could give mutual funds a run for their money. For the first time, it may be possible to look at insurance as a serious investment option. Some new comers in the market will offer universal life and variable life insurance products that allow the holder flexibility in deciding how his product mix is going to be split. New products will also enable product combinations that allow greater customization.

Finally, insurance companies can take a leaf out of the customer durable companies and offer their equivalent exchange schemes. In this era of competition, no one insurance company can sulk at his or her success and maintaining the performance will be a tough task.

UNIT-II

INTRODUCTION OF INSURANCE ACT.1938

The Insurance Act, 1938 had provided for setting up of the Controller of Insurance to act as a strong and powerful supervisory and regulatory authority for insurance. Post nationalization, the role of Controller of Insurance diminished considerably in significance since the insurance companies were owned by the Government. With the opening up of the insurance industry to the private sector, the need for a strong, independent and autonomous Insurance Regulatory Authority was felt. As the enacting of legislation would have taken time, the then Government constituted through a Government resolution an Interim Insurance Regulatory Authority pending the enactment of a comprehensive legislation.

The Insurance Regulatory and Development Authority Act, 1999 is an act to provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General insurance Business (Nationalization) Act, 1972 to end the monopoly of the Life Insurance Corporation of India (for life insurance business) and General Insurance Corporation and its subsidiaries (for general insurance business). The act extends to the whole of India and will come into force on such date as the Central Government may, by notification in the Official Gazette specify. Different dates may be appointed for different provisions of this Act. The Act has defined certain terms, some of the most important ones are as follows:-

Appointed day means the date on which the Authority is established under the act. Authority means the established under this Act.

Interim Insurance Regulatory Authority means the Insurance Regulatory Authority set up by the Central Government through Resolution No. 17(2)/ 94-lns-V dated the 23rd January, 1996.

Words and expressions used and not defined in this Act but defined in the Insurance Act, 1938 or the Life Insurance Corporation Act, 1956 or the General Insurance Business (Nationalization) Act, 1972 shall have the meanings respectively assigned to them in those Acts.

PROFILE OF IRDA

Insurance Regulatory & Development Authority is regulatory and development authority under Government of India in order to protect the interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry. It is basically a ten members' team comprising of a Chairman, five full time members and four part-time members, all appointed by Government of India. This organization came into being in 1999 after the bill of IRDA was passed in the Indian parliament.

Powers and Functions of IRDA

- It issues the applicants in insurance arena, a certificate of registration as well as renewal, modification, withdrawal, suspension or cancellation of such registrations.
- It protects the interests of the policy holders in any insurance company in the matters related to the assignment of policy, nomination by policy holders, insurable interest, and resolution of insurance claim, submission value of policy and other terms and proposals in the contract.
- It also specifies obligatory credentials, code of conduct and practical instructions for mediator as well as the insurance company. Apart from this, it also defines the code of conduct for the surveyors and loss assessors involved with the insurance business.
- One of the major functions of IRDA includes endorsing competence in the insurance business. Apart from this, upholding and regulating professional organizations in insurance and re-insurance business is also a major duty of IRDA.
- IRDA is also entitled to for asking information, undertaking inspection and investigating the audit of the insurers, mediators, insurance intermediaries and other organizations related to the insurance sector.

- It is also concerned with the regulation of the rates, profits, provisions and conditions that may be offered by insurers in respect of general insurance business if it is not controlled or regulated by the Tariff Advisory Committee.
- It is also entitled to supervise the functioning of the Tariff Advisory Committee.
- IRDA specifies the terms and pattern in which books of accounts are to be maintained and statement of accounts shall be provided by insurers and other insurance mediators.
- It also regulates investment of funds by insurance companies as well as the maintenance of margin of solvency.
- It is also empowered to be involved in the arbitration of disagreements between insurers and intermediaries or insurance intermediaries.
- It is meant to specify the proportion of premium income of the insurer to finance policies.
- IRDA also specifies the share of life insurance business and general insurance business to be accepted by the insurer in the rural or social sector.

Impact of IRDA on Indian Insurance Sector

The creation of IRDA has brought revolutionary changes in the Insurance sector. In last 10 years of its establishment the insurance sector has seen tremendous growth. When IRDA came into being; only players in the insurance industry were Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC), however in last decade 23 new players have emerged in the field of insurance. The IRDA also successfully deals with any discrepancy in the insurance sector.

ROLE OF IRDA

The Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop insurance business in India. As a key part of its role, it is responsible to protect the rights of policyholders. In order to create awareness about IRDA, its role, duties and responsibilities are stated here under:

- IRDA provides a certificate of registration to a life insurance company.

- IRDA is responsible for the renewal, modification, withdrawal, suspension or cancellation of this certificate of registration.
- IRDA frames regulations on protection of policyholders' interests.
- It offers policyholders the right to voice their complaints against insurers or insurance companies.
- The IRDA has set up the grievance redressal cell to take up the complaints of the policyholder.
- It specifies the requisite qualifications, code of conduct and practical training for intermediaries or insurance intermediaries and agents.
- It specifies the code of conduct for surveyors and loss assessors;
- It promotes efficiency in the conduct of insurance businesses;
- It promotes and regulates activities of professional organizations connected with life insurance;
- It levies fees and other charges to carry out the purposes of the IRDA Act;
- It can call for information from, undertake the inspection of, conduct enquiries and investigations including the auditing of insurers, intermediaries, insurance intermediaries and other organizations connected with the business of life insurance;
- It specifies the form and manner in which books of account should be maintained and statements of accounts should be rendered by insurers and other insurance intermediaries;
- It regulates the investment of funds by insurance companies;
- It regulates the maintenance of margins of solvency;
- It adjudicates disputes between insurers and intermediaries or insurance intermediaries;
- It specifies the percentage of premium income of the insurer to finance schemes for the promotion and regulation of certain specified professional organizations;
- It specifies the percentage of life insurance business to be undertaken by an insurer in the rural or social sector; and
- It exercises any other powers as may be prescribed
-

Duties, Powers and Functions of IRDA

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA:

1. Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

2. Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include,

1. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
2. protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of Insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
3. Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
4. Specifying the code of conduct for surveyors and loss assessors;
5. Promoting efficiency in the conduct of insurance business;
6. Promoting and regulating professional organizations connected with the insurance and re-insurance business;
7. Levying fees and other charges for carrying out the purposes of this Act;
8. calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
9. control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
10. Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
11. Regulating investment of funds by insurance companies;

12. Regulating maintenance of margin of solvency;

13. Adjudication of disputes between insurers and intermediaries or insurance intermediaries;

14. Supervising the functioning of the Tariff Advisory Committee;

15. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);

16. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

17. Exercising such other powers as may be prescribed from time to time.

IRDA REGULATION 2000 (INSURANCE: ADVERTISEMENT AND DISCLOSURE)

In exercise of the powers conferred by section 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of1999), the Authority in consultation with insurance advisory committee, hereby makes the following regulations, namely:

1. Short title and commencement –

(a) These regulations may be called the insurance Regulatory and Development Authority Regulations, 2000.

(b) They shall come into force on the date of their publication in the official Gazette.

2. Definitions –

(a) "authority" means the Insurance Regulatory and Development Authority established under Sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).

(b) "insurance advertisement" means and includes any communication directly or indirectly related to a policy and intended to result in the eventual sale or solicitations of a policy from the members of the public, and shall include all forms of printed and published materials or any materials using the print and or electronic medium for public communication such as:

a. Newspaper, magazines and sales talks;

b. Billboards, hoardings, panels;

c. Radio, televisions, website, e-mail, portals;

d. Representations by intermediate;

e. Leaflets;

f. Descriptive literature/circulars;

g. Sales aids flyers;

h. Illustrations form letters;

i. Telephone solicitations;

j. Business cards;

k. Videos;

l. Faxes; or

m. Any other communication with a prospect or a policy-holder that urges him

Explanation: the following materials shall not be considered to be an advertisement provided they are not used to include the purchase increase, modification, or retention of a policy of insurance:

- Materials used by a insurance company within its own organization and not meant for distribution to the public;
- Communications with policy-holders other than materials urging them to purchase, increase, modify surrender or retain a policy;
- Materials used solely for the training recruitment and education of an insurer's personal, intermediaries, counselors and solicitors, provided they are not used to induce the public to purchase, increase, modify, or retain a policy of insurance;

(c) "Intermediary or insurance intermediary" includes insurance brokers, re-insurance brokers, insurance consultants, surveyors and loss assessors, or any other person representing or assisting an insurers in one more of the following:

i. Soliciting, negotiating, procuring or effectuating an insurance contract or renewal of an insurance contract;

ii. Disseminating information relating to coverage or rates;

iii. Forwarding insurance applications;

iv. Servicing and delivering an insurance policy or contract;

v. Inspecting a risk;

vi. Setting a rate;

vii. Investing or assessing a claim or loss;

viii. Transacting a matter after the effectuation of a contract; or

ix. Servicing a policy or contract;

(d) 'Unfair or misleading advertisement will mean and include any advertisement;

(b) That fails to clearly identify the product as insurance;

(ii) Makes claims beyond the ability of the policy to deliver or beyond the reasonable expected performance;

(iii) Uses words or phrases in a way a way which hides or minimizes the costs of the hazard insured against or the risks inherent in the policy;

(iv) Omits to discloses insufficiently, important exclusions, limitations and conditions of the contract;

(v) Gives information in a misleading way;

(vi) Makes unfair or incomplete comparisons with products which are not comparable or disparages competitors;

(vii) "Prospect" means any party that enters or propose to enter into an insurance contract directly, or through an insurance intermediary.

IRDA REGULATION 2000 (LICENSING ON INSURANCE AGENT)

The Authority in consultation with the Insurance Advisory committee hereby makes the following regulation, namely:

1. Short title and commencement –

a. These regulations may be called the Insurance Regulatory and development Authority Regulations, 2000.

b. They shall come into force on the date of their publications in the official Gazette.

2. Definitions – in these regulations, unless the context otherwise requires:

a. 'Act' means the Insurance Act, 1938 (4 of 1938);

b. 'Approved' institution' means an institution engaged in education and or training particularly in the area of Insurance sales service and marketing approved and notified by the Authority;

c. 'Authority' means the Insurance Regulatory and Development Authority established under the provisions of Section 3 of the Insurance Regulatory and development Authority Act, 1999 (41 of 1999);

'Composite insurance agent' means an insurance agent who holds a License to act as an insurance agent for a life insurer and a general insurer;

e. 'corporate agent' means a person an officer normally in charge of marketing operations, as specified by an insurer and Authorized by the Authority to issue or renew License under these regulations;

f. 'examination body' means an Institution, which conducts pre-recurrent tests for insurance agents and which is duly recognized by the Authority;

g. 'license' means a certificate of license to act as an insurance agent issued these regulations;

h. 'person' means:'

- An individual;
- A firm; or
- A company formed under the Companies Act, 1956 (1 of 1956), and includes a banking company as defined in Clause (4A) of Section 2 of the Act;

i. Practical training includes orientation, particularly in the area of insurance sales, service and marketing, through training modules as approved by the Authority;

j. Proposal form means as application for purchase of an insurance product which shall be the basis of insurance contract

k. Recognized Board or Institution means such board or institution as may be recognized by any state Government or the Central Government.

3. Issue or renewal of License –

a. A person desiring to obtain or renew a License to act as an insurance agent or a composite insurance agent shall proceed as follows:

The applicant shall make an application to a designated person:

- The fees payable by the applicant to the Authority shall be as specified in Regulation 7.

b. The designated person may, or receipt of the application along with the evidence of payment of fees to the authority, and on being satisfied that the applicant:

- Possess the qualifications as specified under Regulation 4;
- Possesses the practical training as specified under Regulations 5;
- Has passed the examination as specified under Regulation 6;
- Has furnished the application complete in all respects;
- Is capable of providing the necessary service to the policy-holders, grant or renew, as the case may be, a License in form IRDA-Agents-

IRDA REGULATION 2000 (OBLIGATION OF INSURERS TO RURAL OR SOCIAL SECTOR)

Regulations 2002

1. Short title and commencement –

a. These regulations may be called the Insurance Regulatory and Development Authority regulations 2002.

b. They shall come into force the date of their publication in the official Gazette.

Definition – in this regulation, unless the context otherwise requires:

a. 'Act' means the insurance Act, 1938 (4 of 1938);

b. "Authority' means the Insurance Regulatory and development Authority established under the provisions of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);

e. "Rural sector" shall mean any place as per the latest census which meets the following criteria:

- A population of less than five thousand;

- A density of population of less than four thundered per square kilometers; and
- More than 25 % of male working population is engaged in agricultural pursuits.

Explanation: the categories of working falling under agricultural pursuits are as under:

- **Cultivators;**
- Agricultural laborers;
- Workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities;

d. 'social sector' includes unorganized sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural urban areas;

e. Unorganized sector includes self-employed workers such as agricultural laborers, bidi workers, brick kiln workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and Khadi workers, lady tailors, leather and tannery workers, papad makers, power loom workers, physically handicapped self-employed persons, primary milk producer, rickshaw pullers, safai karamcharis, salt growers, sericulture workers, sugarcane cutters, tendu leaf collectors, toddy tappers,

Vegetable vendors, washerwomen, working women in hills, or such other categories of persons;

f. 'economically' vulnerable or backward classes' means persons who love below the poverty line;

g. 'other categories of persons' includes persons with disability as defined in the persons with Disabilities Act, 1995 and who may not be gainfully employed; and also includes guardians who need insurance to protect spastic persons with disability;

h. 'Informal sector' sector includes small-scale, self-employed workers typically at a low level of organization and technology, with the primary objective of generating employment and income, with heterogeneous activities like retail trade, transport, repair and mainstence, construction, personal and domestic services and manufacturing, with the work mostly labour-intensive, having often unwritten and informal employer – employee relationship;

i. All words and expression used herein and not defined herein but defined in the Insurance Act, 1938, or in the Insurance Regulatory and development Authority Act, 1999, shall have meaning respectively assigned to them in those Acts.

1. Obligation – every insurer, who being to carry out insurance business after the commencements of the Insurance Regulatory and development Authority Act, 1999, shall, for the purpose of Section 32B and 32C of the Act, ensure he undertaken the following obligations, during the first five financial years, pertaining to the persons in:

a. Rural sector;

- Seven % in the first financial year;
- Nine% in the second financial year;
- twelve % in the first financial year;
- fourteen % in the first financial year;
- Sixteen % in the first financial year;

Of total policies written direct in that year;

c. In respect of a general insurer;

- 2% in the first financial year;
- 3% in the second financial year;
- 5 % in the first financial year;

Of total gross premium income written direct in that year.

d. Social sector, on respect of all insurers:

- 5 thousand in the first financial year;
- 7 thousand lives hundred lives in the second financial year;
- Ten thousand lives in the third first financial year;
- Fifteen thousand lives in the fourth financial year;
- Twenty thousand lives in the fifth financial year;

Provided that in the first financial year, where the period of operation is less than twelve months, proportionate % of number or number of lives, as the case may be, shall be undertaken: Provided further that, in case of a general insurer, the obligations specified shall include insurance for crops: Provided further that the Authority may normally, once in every five years prescribed, or revise the obligations as specified in this regulation.

2. Obligations of existing insurance –

a. The obligation of existing insurers as on the date of commencement of IRDA Act shall be decided by the Authority after consultation with them and the quantum of insurance business to be done shall not be less what has been recorded by them for the accounting year ended 31st March, 2002.

b. The Authority shall review such quantum of insurance business periodically and give directions to the insurers for achievement the specified targets.

IRDA REGULATION 2000 (PROTECTION OF POLICY HOLDER INTEREST)

1. Short title and commencement –

a. These regulations may be called the Insurance regulatory and development Authority (protection of policyholder's Interest) Regulations, 2002.

b. They shall come into force on the date of their publication in the official Gazette and shall apply to all contracts of insurance affected thereafter, except Regulation 4(1) which shall come into force on 1st October, 2002.

c. These regulations are in addition to any other regulations made by the Authority, which may, inter alia, provide for protection of the interest of policyholders.

d. These regulations apply to all insurers, insurance agents, insurance intermediaries and policyholders.

2. **Definitions –** in these regulations, unless the contest otherwise requires:

a. 'Act' means the Insurance Act, 1938 (4 of 1938);

b. 'Authority' means the Insurance Regulatory and Development Authority establishment under the provisions of Section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);

c. Cover means an insurance contract whether in the form of a policy or a cover note or a certificate of insurance or any other form prevalent in the industry to evidence the existence of an insurance contract;

d. 'proposal form' means a form to be filled in by the proposer for insurance, for furnishing all material information required by the insurer in respect of a risk, in order to enable the insurer to decide whether to accept to decline, to undertake the risk, and in the event of acceptance of the risk, to determine the rates, terms and conditions of a cover to be granted.

Explanation: material for the purpose of these regulations shall mean and include all important, essential and relevant information in the context of underwriting the risk to be covered by the Insurer;

e. 'Prospectus' means a document issued by the insurer or in its behalf to the prospective buyer of insurance, and should contain such particulars as are mentioned in Rule 11 of the Insurance Rules, 1939, and includes a brochure or leaflet serving the purpose. Such a document should also specify the type and character of rides on the main product indicating the nature of benefits flowing thereupon;

3. Point of Sale

a. Notwithstanding anything mentioned in Regulation 2(e) above, a prospectus of any insurance product shall clearly state the scope of benefits, the extent of insurance cover and in an explicit manner explain the warranties, exceptions and conditions of the insurance cover and, in case of life insurance, whether the products is participating or non-participating. The allowable rider or riders on the product shall be clearly spelt out with regard to their scope of benefits, and in no case, the premium relatable to heath related or critical illness riders in the case of term or group products shall exceed 100% of premium under the case of premium under the basic product. All other riders put together shall be subject to a ceiling of 30%, of the premium of the basic product.

Any benefits arising under each of the riders shall not exceed the sum assured under the basic products:

Provided that the benefit amount under riders shall be subject to section to 2(11) of the insurance Act, 1938. Explanation: the rider or riders attached to a life policy shall be bearing the nature and character of the main policy, viz., participating or non-participating and accordingly the lifer insurance shall make provisions, etc. in its books.

b. An insurer or its agent or other intermediary shall provide all materials information in respect of a proposed cover to the prospect to enable the prospect to decide on the best cover that would be decides in his or her interest.

c. Where the prospect depends open the advice of the insurer or his agent or an insurance intermediary, such a person must advice the prospect dispassionately.

4. **Proposal for insurance –**

a. Except in cases of a marine insurance cover, where current market practice do not insist on a written proposal form, in all cases, a proposal for grant of a cover, either for life business, or for general business, must be evidenced by the written documents. It is the duty of an insurer it furnishes to the insured fee of charges, within 30 days of the acceptance of a proposal, a copy of the proposal form.

b. Forms an documents used in the grant of cover may, depending

Upon the circumstances of each case, be made available in language recognized under the constitution of India.

c. In filling the form of proposal, the prospect is to be guided by the provisions of Section 45 of the Act. Any proposal from seeking information for grant of life cover may prominently state therein the requirements of Section 45 of the Act.

d. Where a proposal form is not used, the insurer shall record the information obtained orally or in writing, and confirm it within the period of 15 days there of with the proposer and incorporate the Information in its cover note or policy. The onus of proof shall rest with the insurer in respect of any information not so recorded, where the insurer claims that the proposer suppressed any material information or provided misleading or false information on any matter material to the grant of a cover.

e. Whatever the benefit of nomination is available to the proposer, in terms of the Act or the conditions of policy, the insurer shall draw the attention of the proposer to and encourage the prospect to avail facility.

Grievance redressed procedure –every insurer shall have in place proper procedure and efficiency mechanism to address complaints and grievance of policyholder's efficiency and with speed and the same along with the information in respect of Insurance ombudsman shall be communicated to the policyholder along with the policy documents and as may be found necessary.

6. Matters to be stated in the insurance policy –

a. A life insurance policy shall clearly state:

- The name of the plan governing the policy, its terms and conditions;
- Whether it is participating in profit or not;
- The benefits payable and the contingencies upon which theses are payable and the other terms and conditions upon which these are payable and the other terms and condition of the insurance contract;
- The details of the riders attaching to the main policy;
- The date of commencement of risk and the date of maturity of date(s) on which the benefits are payable;
- The age at entry and whether the same has been admitted;
- The policy requirements for (a) conversion of the policy into paid-up policy, (b) surrender, (c) non-forfeiture, and (d) revival of lapsed policies;
- Contingencies excluded from the scope of the cover, both in respect of the main policy and the riders;

- The provisions for nomination, assignment, and loans on security of the policy and a statement that the rate of interest payable on such loan amount shall be as prescribed by the insurer at the time of taking the loan;
- Any special clauses or conditions, such as, first

UNIT-III

MARKETING OF INSURANCE SERVICES

Insurance companies are in a unique position when it comes to marketing. They have no tangible products to sell, but must instead rely on strong relationships with loyal customers and word of mouth to help them compete. Still, despite the challenges, the marketing strategies for insurance companies are really no different than for any other company, and require a strong focus on the basics of effective marketing.

Know the Market

First and foremost, insurance companies must know their market. This means having a strong understanding of their target audience, their competition and the most effective ways to connect with that audience, according to Lin Grensing-Pophal, author of With the End in Competition is fierce, but service organizations like insurance agencies that thoroughly understand the needs and concerns of their target audience can effectively motivate that audience to connect with them.

Establish a Plan

Successful marketers Based on their knowledge of the market, and their overall goals and objectives, successful marketers identify and prioritize the communication strategies most likely to generate the results they need. This generally involves a combination of activities that include both traditional and new media, direct and indirect sales.

Measure Effectiveness

It is important for insurance companies to measure the effectiveness of their marketing efforts based on the goals they have established. This may be as simple as comparing the number of clients before and after a campaign. It may also involve using online analytics to monitor website visits after launching a promotion.

Gather Feedback

For insurance marketers, word of mouth is key. In addition to measuring the effectiveness of marketing efforts based on quantitative data, insurance marketers can seek input from their existing and new clients about their communication efforts. What worked well? What was unclear? How might they communicate more clearly in the future? In addition, clients can be excellent advocates and part of the marketing process. Successful insurance marketers will take advantage of the opportunity to leverage their clients as word-of-mouth marketing advocates. Now the Indian consumer is knowledgeable and sensitive. Consumers are increasingly more aware and are actively managing their financial affairs. People are increasingly looking not just at products, but at integrated financial solutions that can offer stability of returns along with total protection. In view of this, the insurance managers need to understand more about the details that go into the introduction of insurance products to make it attractive in this competitive market. So now days an insurance manager requires leadership, commitment, creativity, and flexibility. "Every family in every village in the country should feel safe and secure". This vision alone will help to bring the new ideas to the insurance manager. Financial, marketing and human resource polices of the corporations influence the unit mangers to make decisions. Performance of insurance company depends on the effectiveness of such policies. Insurance corporations formulate and revise these policies from time to time to ensure that the performance of the managers is best for the organization.

In the competitive market, insurance companies are being forced to adopt a strictly professional approach in marketing. The insurance companies face the challenge of changing the uninspiring public image of the industry. Some of the important marketing elements are-

- Marketing mix.
- The importance of relationship.
- Positioning.
- Value addition.
- Segmentation.
- Branding.
- Insuring service quality.
- Effective pricing
- Customer satisfaction research.

REQUIREMENT OF DIFFERENT MARKET SEGMENT

The term market segmentation has also been closely linked with the term target marketing. In fact, the terms 'target marketing' and 'market segmentation' are often used interchangeably. However, there is an important difference in emphasis. Market segmentation involves dividing the market into subgroups based on expected response to different marketing offerings while target marketing is the process of identifying the most attractive market segments and designing marketing strategies to reach them. The concept of target marketing is a refinement of the basic philosophy of marketing. It is an attempt by companies to relate the characteristics or attributes of their products more closely to customer requirements and to communicate this to members of the targeted segments. Kotler has noted that the process of target marketing has three distinct Stages:

• *Market segmentation.* The overall market is divided into distinct groups of buyers who are likely to respond favorably to different product/service offerings and market mixes.

• *Market targeting.* The process whereby one or more of the market segments previously identified are evaluated and selected.

• *Product positioning*. Competition is likely to exist for identified market segments in 'niche' positions. Product positioning is the process whereby the product or service and all the other marketing mix elements are designed to fit a given place within a particular segment. The position may be defined by communications such as advertising rather than actual product differences. The process of market segmentation must be conducted with an eye toward the ability of an organization to address the resulting segments. There is a danger that unrestrained segmentation may lead to an unsustainable range of product modifications and produce similar impediments to market diversification. Criteria for assessing potential segments include:

• *Profitable size* - The relative profit potential in a segment is directly related to the competitive strength and cost effectiveness of the company. Even a small market may be profitable if the company has competitive pre-eminence.

• *Accessibility* - A segment must be accessible through advertising, other promotional media, and distributive networks.

• *Self containment* - Preferably a product launched at a market segment should not take demand from another product in the company's portfolio.

• *Marketing mix response* - The market segment should be responsive to marketing and promotion efforts.

INSURANCE INDUSTRY SEGMENTS

The insurance market in United States of America is broadly segmented into: Life and Asset Management, Property and Casualty (P&C), Reinsurance, and Brokerage. For example, Commercial property insurance can pertain to medical malpractice and commercial automobiles such as buses, trucks, taxis, etc., while Personal property insurance can pertain to personal automobiles and homes.

Life and Asset Management

The life and asset management insurance market is composed of the following insurance products:

* Life insurance, which provides for payment of a specified amount on the insured's death, either to a designated beneficiary or, in the case of an endowment policy, to the policy holder at a specified date
* Annuity products, which provide an income for a specified period of time, such as a number of years or for life

Life and asset management products are sold to both individuals and to groups. Typical products are as follows:

* Individual policies, including term life, universal life, variable life, variable annuities, and fixed annuities
* Group policies (often provided by employers as employment benefits) including disability insurance, group life, and long-term care

Property and Casualty

The Property and Casualty (P&C) insurance market, also known as non-life or general insurance, is composed of the following insurance products:

* Property insurance, which provides financial protection against loss or damage to the insured's property caused by such perils as fire, windstorm, and hail
* Casualty insurance, which is primarily concerned with losses caused by injuries to persons and legal liability imposed upon the insured for such injury or for damage to property to others

P&C products are sold to both individuals and businesses. Typical products sold include the following policies:

* Personal insurance sold to individuals includes private passenger auto and homeowners
* Personal insurance sold to individuals includes private passenger auto and homeowners
* Commercial insurance purchased by business entities includes products such as accident and health, boiler and manufacturing, commercial auto, inland marine, medical malpractice, and worker's compensation

Reinsurance

Reinsurance is acceptance by an insurer, called a reinsurer, of all or part of the risk of loss of another insurer.
For example, a fire insurance company that issues a large policy generally reinsures a portion of the risk with one or several other companies. Reinsurance allows an insurer to be flexible in the size and type of policies it underwrites, and it protects the insurer from large losses from catastrophic events, such as earthquakes, floods, and hurricanes. Reinsurers often reinsure policies from insurers in much geography.

Brokerage

The insurance brokerage segment is a very specialized, transaction-based business by which insurance companies bundle and trade their risks to other insurance companies, reinsurers, and institutional investment firms. The brokerage companies facilitate these trades, similar to traditional investment bankers.

The types of activities provided by these brokerage firms include:
* Professional services in the fields of risk and insurance services, investment management, and consulting
* Insurance services provided on a worldwide basis as broker agent or consultant for insureds
* Risk management and insurance brokering services provided on a worldwide basis for a variety of clientele

DISTRIBUTION CHANNEL

An insurance cover is an intangible product evidenced by a written contract known as the 'policy'. Insurers market various insurance covers either directly or through various distribution channels—individual agents, corporate agents (including Bancassurance) and Brokers. The marketer in the distribution network is in direct interface with the prospect and the customer. Life insurance products are sold through individual agents and many of them have this as their only career occupation. General insurance products are sold through individual agents, corporate agents and brokers. Distribution channels such as agents are licensed by the IRDA. To get an agency license, one has to have certain minimum qualifications; practical training in insurance subjects and pass an examination conducted by the Insurance Institute of India.

IRDA regulations on licensing of agents/brokers lay down the code of conduct for individual agents, corporate agents and brokers. A separate note on the code of conduct is appended to this note. Thus it is seen that the dos and don'ts for these intermediaries are given clearly at the point of sale as well as in the event of a claim. Service does not end with the customer receiving his document; it in fact only begins here. After sales service is as important or even more important – like when a refund has to be made or when a claim has to be made. One of the issues that is of great concern affecting professionalism in insurance activities is resorting rebating by intermediaries. Rebating is prohibited as per Section 41 of the Insurance Act, 1938 and the public are advised not to deal with intermediaries offering rebate of any kind. Rebating means a share of commission receivable by the agent/broker is given to the prospect/client. This is done to attract the client in the purchase of insurance contract by offering cash. Competition among agents/brokers is so cut-throat, some agents indulge in such unethical practices. Public are advised not to ask for any prohibited rebates in premium since commission payment to an agent is the only income for some to take care of their families. Similarly, agents are also advised not to indulge in such practices which could cause them loss of agency income.

Code of Conduct for Intermediaries

I. <u>INSURANCE AGENT</u>

Every insurance agent shall, ---

Identify himself and the insurance company of whom he is an insurance agent; disclose his license to the prospect on demand; disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan; disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect; indicate the premium to be charged by the insurer for the insurance product offered for sale; explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract; bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;

No insurance agent shall, ----

Solicit or procure insurance business without holding a valid license; induce the prospect to omit any material information in the proposal form; induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal; behave in a discourteous manner with the prospect;

II. CORPORATE AGENT

Every Licensed Corporate Agent shall abide by the code of conduct specified below:

Every corporate agent shall:

a) Be responsible for all acts of omission and commission of its corporate insurance executive and every specified person;
b) Ensure that the corporate insurance executive and all specified persons are properly trained, skilled and knowledgeable in the insurance products they market;
c) Ensure that the corporate insurance executive and the specified person do not make to the prospect any misrepresentation on policy benefits and returns available under the policy;
d) Ensure that no prospect is forced to buy an insurance product;

III. INSURANCE BROKER

Every Insurance Broker shall follow recognized standards of professional conduct and discharge his functions in the interest of the policyholders. Conduct in matters relating to client's relationship— every insurance broker shall:

Conduct its dealings with clients with utmost good faith and integrity at all times; act with care and diligence; ensure that the client understands his relationship with the broker and on whose behalf the broker is acting; Treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;

SETTING –UP A NEW INSURANCE COMPANY

How to Open Up an Insurance Company

Insurance coverage is something that every individual and business needs. Products such as auto and home insurance are state mandated, while businesses must retain liability coverage and health insurance. Insurance is constantly in demand and, "with a little risk, setting out on your own can provide the independence and profitability you desire, while helping you gear up for a solid future.

Step 1

Get licensed. Visit your state's board of professional licensing online or phone the department of professional regulation and find out what licenses you will need to operate an insurance agency. Laws differ by state, but in general you will need to obtain licensing to sell health insurance, life insurance and annuities as well as casualty and property Insurance.

Step 2

Select insurance products to carry. Contact insurance underwriters and ask about becoming a licensed representative. Compare several underwriters products as well as any incentive programs offered to registered agents. Choose a variety of insurance products and specialize in a particular area. For instance, you might focus on variable annuities and life products but still offer home and auto insurance.

Step 3

Apply for financing and purchase insurance. Your insurance company will incur startup expenses, such as office supplies and equipment, office lease payments, hiring a receptionist, and errors and omissions insurance as well as advertising. Hire an accountant to draft a business plan and use the plan to apply for a small business loan through the Small Business Administration's approved lender program (See Resources).

Step 4

Lease office space. Locate office space with enough room for a private office, reception space and conference room. Choose an office that has a professional looking exterior facade and is well-maintained inside.

Step 5

Advertise. Market your insurance company through radio and print advertisements as well as sending brochures detailing employee health insurance plans to local schools, churches and businesses. Offer workshops for potential clients in your conference room through radio and print.

FOREIGN INVESTOR

Foreign investments, especially in emerging countries, may be related to political uncertainty. The statutory framework in such countries often lacks legal certainty and foreign investments can be affected by sudden political changes or arbitrary government action.

Many forms of investments may be insured. The most common are:

- an equity creation or participation in a foreign company; the contribution may either be pecuniary or in nature;
- Investment loans with long-term repayment terms (from 3 to 15 years).

The investor is compensated for full or partial loss of the investment and for not being able to transfer the invested funds out of the host country, provided the losses are the direct consequence of one of the following political events:

- Expropriation (all forms of nationalization and confiscation, as well as any government action discriminatory in nature and taken against investors or companies in the host country)
- War
- Transfer restrictions where it is made impossible to transfer invested funds as a result of currency shortages or a general moratorium imposed in the host country
- Breach of contract, meaning the non-fulfillment or non-compliance with contractual obligations. Those may have been concluded between on the one side the investor or the company in which the investment is realised and on the other side the public authorities of the host country, or government entities or entities regulated by the government.

In order to qualify for compensation, the sustained loss must be final and irreversible. The insurance normally covers the capital value, but may be extended to the investment income (interests and dividends) as well as to potential further investments.

UNIT-IV

VALUATION OF ASSETS AND LIABILITIES WITH PARTICULAR REFERENCE TO UNEXPIRED RISK

Unexpired Risk

A reserve account opened at the discretion of the insurer if it believes the amount of funds kept in the unearned premium reserve account is not sufficient to cover the amount of risk perceived. While unearned premium reserve minimums are set by law, an unexpired risk reserve is voluntary.

1. Interpretation. In this Schedule, unless the context otherwise requires, 'non-mandated investments' means neither those investments that are neither approved securities nor approved investments.

Values of Assets.—

(1) The following assets should be placed with value zero,--

(a) Agent's balances and outstanding premiums in India, to the extent they are not realized within a period of thirty days;

(b) Agents' balances and outstanding premiums outside India, to the extent they are not realizable ;

(c) Sundry debts, to the extent they are not realizable;

(d) Advances of an unrealizable character;

(e) Furniture, fixtures, dead stock and stationery;

(f) Deferred expenses;

(g) Profit and loss appropriation account balance and any fictitious assets other than pre-paid expenses;

(h) Reinsurer's balances outstanding for more than three months;

(i) Preliminary expenses in the formation of the company;

(2) The value of computer equipment including software shall be computed as under:--

(i) seventy five per cent. Of its cost in the year of purchase;

(ii) fifty per cent. Of its cost in the second year;

(iii) twenty-five per cent. Of its cost in the third year; and

(iv) Zero per cent. Thereafter.

(3) All other assets of an insurer have to be valued in accordance with the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.

Valuation of Liabilities - Life Insurance

1. Interpretation.--In this Schedule, --

"Valuation date", in relation to an actuarial investigation, means the date to which the investigation relates.

"Universal life contracts" means those contracts that are presented in an unbundled form. The contracts where policyholders have an option to invest in units of insurer's segregated fund(s) shall be treated as "linked business"; and others shall be treated as "non-linked business".

"Segregated funds" means funds earmarked in respect of linked business.

Method of Determination of Mathematical Reserves.—(1) Mathematical Reserves shall be determined separately for each contract by a prospective method of valuation in accordance with sub-paras (2) to (4).

(2) The valuation method shall take into account all prospective contingencies under which any premiums (by the policyholder) or benefits (to the policyholder/beneficiary) may be payable under the policy, as determined by the policy conditions. The level of benefits shall take into account the reasonable expectations of policyholders (with regard to bonuses, including terminal bonuses, if any) and any established practices of an insurer for payment of benefits.

(3) The valuation method shall take into account the cost of any options that may be available to the policyholder under the terms of the contract.

(4) The determination of the amount of liability under each policy shall be based on prudent assumptions of all relevant parameters. The value of each such parameter shall be based on the insurer's expected experience and shall include an appropriate margin for adverse deviations (hereinafter referred to as MAD) that may result in an increase in the amount of mathematical reserves.

(5) (i) The amount of mathematical reserve in respect of a policy, determined in accordance with sub-para (4), may be negative (called "negative reserves") or less than the guaranteed surrender value available (called "guaranteed surrender value deficiency reserves") at the valuation date.

The appointed actuary shall, for the purpose of section 35 of the Act, use the amount of such mathematical reserves without any modification; The appointed actuary shall, for the purpose of sections 13, 49, 64V and 64VA of the Act, set the amount of such mathematical reserve to zero, in case of such negative reserve, or to the guaranteed surrender value, in case of such guaranteed surrender value deficiency reserves, as the case may be.

IMPACT OF TARIFF TO NON-TARIFF REGIME IN NON-LIFE BUSINESS

With the unfolding of time-bound de-tariffing road map by IRDA, the pricing aspect of general insurance product is once again under sharp focus. The demise of tariff in any insurance market is an unsettling time and the insurance companies have to gear themselves up to come out with innovative products and competitive prices. This would become a survival necessity for them. A tariff is a schedule of premium rates and policy terms and conditions applicable to risk in a particular class of business. The insurance business in India is basically governed by Insurance Act of 1938 which under section 64 U refer to the establishment of TAC to control and regulate the rates, advantages, terms and condition to be offered by insurer of general insurance business. So legally speaking as on to-day any violation of rates, terms and condition as prescribed by TAC in the tariff would mean violation of Insurance Act 1938.

The government opened up the insurance sector by passing IRDA Act in 1999. Lot of private players opened their shops and this created a competitive environment where both the public and private insurance companies are to compete with each other and amongst themselves also. The liberalization is expected to bring about:

- Product and price innovation
- Market expansion
- Focused penetration
- Improved customer service
- Updating of technology

In order to arrive at claims cost, the insurance companies depend upon the statistical principle of what is called law of large numbers. As per this principle the accuracy of projection of future losses will increase, if the number of exposure units increase. However, the exposure unit must be similar and independent of each other. In other words, the uncertainty associated with an insurance pool can be minimized if the number of observation is increased. This calls for proper classification of risks and collection of data for each risk. Obviously, this will vary geographically from one place to the other as also from one class to other and even from one segment to the other within the same class. Therefore, there is no need to have strictly uniform all India rate structure. If the risks brought are of new types for which no past experience is available or for which data base is inadequate, then insurance companies individually evaluate the risks and risk-perception based rate is quoted which is judgmental in nature rather than being based on sound actuarial footing. However, a system should always be in place to build the data-base for risks of all kinds and magnitude.

Insurance companies being, commercial organization, must earn some profit at the end of the day. This in simple language means that premium earned over a period should be more than all outgoes during that period. The difference between the premium earned and the outgoes constitute what is called **"U/W Profits."** The insurance companies generate huge revenues by way of premium collection which are invested and they in due course generate investment income. Due to pricing competition or due to some other adverse factor, frequently it so happens that insurance companies do not make U/W profit. But it is always their Endeavour to ensure that they make a net profit by taking into account their investment income. In the pricing war that is going to ensue, the insurance company must have to examine each element of pricing to ascertain as to the extent to which they can maneuver with them to bring down the price to the level at which they are competitive and fulfills adequacy criteria also.

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