MANAGEMENT OF GENERAL INSURANCE BUSINESS IN INDIA

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Abstract
Business is a socio-economic activity. This socio-economic activity is amenable to several types of risks such as natural (drought, floods, earth quakes, whirl winds etc), and manmade; known and unknown (theft, burglary, fire accidents), expected and unexpected. Irrespective of their nature, risks shatter the hopes of several groups of people and society at large Such measure is known as assurance or insurance. Profit is the reward for risk taking. The business as a socio-economic activity is, therefore planned to be bailed out through the system of assurance by the other party. In legal sense "it is a contract by which one party in consideration of the price paid to him proportionate to the risk provides security to other party that he shall not suffer loss, damage or prejudice by the happening of certain specified events. Insurance is meant to protect the insured against uncertain events which cause financial damage".

Key Words: Insurance, Business, Finance.

INTRODUCTION

Insurance business has a positive correlation with economic development in an economy. As an economy develops over the years, the insurance business starts making inroads into the various sectors of economic activity in the country. Insurance is basically a device to share the losses of a few, by transferring a portion of the loss to the insurance company. The company which is compensating the loss collects a price which is called as premium. It means that a lot of people, who think that they may suffer a loss, will put in a little money as premium to cover the financial costs of the unfortunate. Hence, insurance works on the concept of risk sharing, which divides risk among many people.

The term 'insurance' can be defined in both financial and legal terms. The financial definition focuses as an arrangement that redistributes the cost of unexpected losses. It is the collection of a small premium payments from all the suspected and distribute it to those suffering actual losses. The legal definition focuses on the contractual arrangement whereby one party agrees to compensate the loss of other party. In brief, insurance is the provision, which a prudent man makes against happenings by chance, or inevitable contingencies, loss of the unfortunate. This agreement of contract is put in writing and is known as 'insurance policy'. The person whose risk is insured is called 'Insured' or 'Assured' and the person or the company, which insures is known as 'Insurer', or 'Assuror' or 'Underwriter'. The consideration in return for which the insurer agrees to make good the loss is known as 'Premium'. This premium is to be paid regularly by the insured which contributes to build 'Insurance Fund'. The compensation which the insurer is obliged to pay is a charge against this Fund. Insurance can be classified broadly into: (a) life insurance, and (b) general or non-life insurance. Life insurance or life assurance is a contract between the policy owner and insurer, where the insurer agrees to pay the designated beneficiary a sum of money upon the occurrence of the insured individual's death or other event, such as terminal or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. Life-based contracts tend to fall into two major categories: General insurance or non-life insurance policies, including automobile and Homeowners' policies provide payments depending on the loss from particular financial event. General insurance typically comprises any insurance cover that is not deemed to be life insurance. Some categories of general insurance policies are: vehicle, home, health, property, accident, sickness and unemployment, casualty, liability, and credit. The terms of insurance generally depend on the company providing the cover.

OBJECTIVES OF THE STUDY

1. To examine the trends in business of general insurance sector in terms of established insurance business parameters.
2. To make suggestions for improving the present status of the general insurance operations.

RESEARCH METHODOLOGY

The present study employs both primary and secondary data. Personal interviews with selected customers with the help of structured questionnaires are held to collect primary data. The questionnaires are also pre-tested to make them more relevant and cohesive. Secondary data are collected from the reports published by the IRDA, text books, and from the websites of all the general insurance companies. The study shows that there are thirteen general insurance companies in both public and private sector together as at the end of March 2015. For an in-depth study a sample of one general insurance company from each sector is selected on deliberate sampling basis. However, the selection is based upon their seniority in their respective sectors i.e., from public sector out of the four general insurance companies; The United India Insurance Company Ltd., (UIIGC) and from private sector out of nine companies ICICI Lombard General Insurance Company Ltd., (ICICIGC) are chosen. Thus at this strata the sample size is 25% of public sector companies and more than 10% of the private sector insurance companies. There are thirteen general insurance companies have 1135 offices excluding the corporate head offices in India. As per the convenience Visakhapatnam district is taken as the location for conducting field study as it is one of the developed districts in terms of industrial employment, agriculture production, and also as an outlet for exports to Western as well as to the Middle East countries. In-spite of repeated requests the select companies did not provide the sample frame of the policy holders to the researcher. Hence, by referral method the policy holders (i.e., customers) have been taken to the extent of 5% of the total policy holders of each company.

REVIEW OF LITERATURE

Neetu Andotra (1997) in her article “Liberalization Challenges and Reforms before Indian Insurance Industry” states that liberalization is an opportunity to be exploited, not necessarily a threat . For continuous growth Indian insurance companies will need the flexibility to ascertain and respond to customer’s needs. Thus the Article emphasizes the importance of market orientation of the general insurance companies after the introduction of reforms. P.S. Nayak and R.P. Choudhury (1997) in their article “Changing Patterns of General Insurance In India” states that the delay in insurance sector reforms had given general insurance enough time to prepare for the competition which is inevitable in the liberalized environment. They observed that the products offered by the general insurance companies were not catering to the needs of the customers. For instance, the health insurance product offered was a failure. Hence, they heralded the introduction of reforms in the insurance sector. Murty. MSGK and Purnachandra Rao. R (2007) in their article “Economic Reforms in Indian General Insurance Sector – A Review in Retrospect and Prospect” developed a case for liberalization of resources by which competition – both domestic and global – is considered essential. If a sense of competition is to be injected into the insurance business field, it is necessary to open up the sector initially to Indian Private Entrepreneurs and finally to the foreign entrepreneurs. C. R. Reddy (2000) in his article “Privatization of General Insurance”, views that the General Insurance Corporation should focus on standardization, communication, diversification and globalization so that its schemes become more marketable. Further he recommends that human resource development should be considered as a key factor in achieving the objectives of General Insurance Corporation. Hence, reengineer human resource development for growth and services of the insurance business. G. V. Rao (2006) states that globalization in the insurance community in every country is becoming an integral part of the financial reforms. What happens in the developed markets has an impact on the domestic markets. There is a greater need to examine and understand how the developed markets have dealt with the problems that are likely to arise in our national markets. Understanding of global scenario helps to understand our markets with more clarity.

DISCUSSIONS AND RESULTS - GENERAL INSURANCE BUSINESS:

Non-life insurance business is also called as general insurance. The most common and widely practiced general insurance business is again divided into- marine, fire, motor, and miscellaneous insurance. The ‘miscellaneous insurance’ again broadly comprises of health, cattle, householder, overseas medi-claim insurance, shop-keepers insurance, personal accident insurance and so on. There are many other risks covered by ‘miscellaneous insurance’ system which are mainly non-life insurance contracts by nature. Depending upon the level of economic development in the country as well as by the nature of economic activities the various types of general insurance business emerge because of which a comprehensive classification is not feasible. Since there are a variety of general insurance business activities, it is a complex problem for the insurers to extend consumer satisfying services. In the competitive market environment, which is a typical characteristic of liberalized insurance sector effective and efficient service provision to the customers (policy holder) is a pre-requisite for growth.

FEATURES OF GENERAL INSURANCE BUSINESS

General insurance business activities are treated as an exclusive business portfolio by the insurance community. The business characteristics of general insurance are quite different from the life insurance business. In addition to these special features, the general insurance products in the form policies may also be different and large in number. Hence, liberalized environment offers a freedom to the insurance companies to develop new products as per the market demand. As such the business environment of general insurance is likely to be complex and ever changing. In view of the above distinctive features of general insurance the service package to the customer must be clear and convincing on the part of the insurer.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Further, possession of technical knowledge to estimate the loss is also a pre-requisite for general insurer. Again the need for investigative skills on the part of general insurer is more because of which claims may become challengeable.

GENERAL INSURANCE: IMPACT ON THE BUSINESS.

After having seen various dimensions of insurance business, it is pertinent to note the concept of liberalization followed by its influence on insurance sector in India. Liberalization is understood as an environment that allows the companies to operate in a flexible manner subject to the moral and ethical values in the relevant field. In other words, liberalization is a condition that helps the business enterprises to operate in such a way that the product expectations are met without harming the stakeholders. It does not mean that the enterprises will have unfettered freedom to operate in whatever way that is profitable to them. In other words, the firms in a liberalized environment have the liberty to offer the products as per the market demand. In the context of general insurance business it is otherwise known as 'reforms in insurance business'. It is also observed that there are a lot of potentials for the expansion of insurance business in India since (a) there is much untapped market in rural India and (b) the economic growth is increasing year after year on account of 7 to 9 per cent growth of GDP during the past one decade. All these achievements are the aftermaths of reforms (liberalization) introduced in the insurance sector. However, it is to be noted that the reforms have been introduced over a period of seven years after a careful processing of the legislative and administrative requirements. Annexure Table 1.C shows the developments that took place over a period of seven years starting from 1993.

India has the largest number of life insurance policies in the entire world. As at the end of December 2013 it is estimated that insurance business in India is growing at the rate of 20-25 per cent annually and it is in the order of Rs. 515 billions. Together with banking services, it adds about 7 per cent to the country's GDP. In-spite of this significant status of insurance sector in India, that nearly 80 per cent of population is without life insurance cover, health insurance and non-life insurance. In other words, insurance coverage is far below the international standards. Hence, there is an immense growth potential for insurance sector in India. Earlier it is observed that the LPG in India brought about a sea change in the economic environment of the country. The rate of growth of exports during this period is worked out to 4.36 per cent per annum. As against this the imports has increased at 3.87 per cent per annum. All these analysis eminently explain that the there is a necessity for ensuring safety and security of cargo that is moving between India and other countries. Hence, it indicates that there is a huge potentials for general insurance business in the country. Relating to insurance industry in India it can be observed that earlier (i.e., prior to Insurance Reforms) there were only two state insurers viz., LICI and GIC with the latter having four subsidiary companies. However, with effect from December 2000 these subsidiaries have been de-linked from parent company (GIC) and made as independent insurance companies. It can be understood that the number of insurance companies in private sector of both types of insurance businesses has increased significantly. All these analysis clearly indicate that there is likely to be keen competition among the insurers with regard to volume of business and also quality of services. In terms of absolute number of companies in general insurance sector, there is a discernible increase. Similarly the number of policies sold by all the general insurance companies increased from 43561912 in 2002-03 to 57250259 in 2007-08. The efficiency and customer oriented service of the insurers can be gauged by the analysis of the claims admitted and settled. In aggregate terms the admitted and incurred claims by all the general insurers rose from Rs.7929.45 crs. in 2001-2 to Rs16370.36 crs. in 2007-08

FINDINGS OF THE STUDY

1. Though there is variety of general insurance products, broadly they can be categorized as fire, marine and miscellaneous. The typology depends upon the variety of risks and the need for risk coverage.In developing countries the economic activities also increase thereby the risks and uncertainties. The rate of economic growth in different sectors will be different, particularly in developing countries. Hence, varieties of GI products are needed to cater to the needs of different sections of the society like farmers, small scale enterprise, traders and people of BPL category. The study found that the UIIGC, a public sector company offered a broader variety of GI products than the ICICIGC, a private GI company.
2. The distinction between the life and general insurances clearly explains that there is variety of risks and they are covered by different GI product offers. While designing and developing the product the insurer is expected to possess skills to estimate the probable loss in determining the tariff for each proposal. He must also have the technical skills to estimate the precise loss when the claim arises submitted. Hence, the general insurer is expected to hire persons of technical knowledge.
3. On account of rate-war among them, absence of uniformity in the conduct of business, and delay in settlement of claims, a Code of Conduct was formulated and administered by the Controller of Insurance. Further, the price

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

discrimination followed by the GI companies led the Government to constitute Tariff Advisory Committee in 1968. The government realized that the operations of GI companies are leading to concentration of wealth and economic power in the private hands. Hence, all the 107 private GI companies were nationalized and amalgamated into four companies and kept under the control of GIC

4. The Government of India contributed the total paid capital of GIC which in turn gave to the four subsidiary companies. It was only Rs.37 Crs. in 1973 and it increased to Rs.375 crs. by 1999-2000 registering a ten fold increase. The average annual growth of paid up capital is 17% over the period of 11 years. The GIC with its subsidiaries is the industry as there were no other companies operating in the field. As a matter of fact, banks and insurance companies carry many-fold business with a limited quantity of their own capital. Hence, the government oversees the activities of these companies.
5. The volume of business in the insurance industry increased significantly during the post-liberalization period with the presence of public and private players. The number of GI policies increased by nearly 1.5 times during a period of six years. A sector-wise analysis of the issue of number of GI policies reveals that in the beginning the share of private sector was insignificant but in later years it registered threefold increase. If this trend continues the private sector can assume a significant role in the development of GI sector in India.

SUGGESTIONS OF THE STUDY

1. Transparency with regard to the working of the private insurance companies should be improved and make them to fall in line with the reporting pattern of public sector enterprises' reporting pattern.
2. The IRDA has only a few peripheral powers of considering the applications of the aggrieved policyholders. The Authority should also have magisterial powers to enforce their judgment on the accused.
3. Unless the redressal mechanism for the complaints is made quickly the impact of liberalization cannot be tasted by the ordinary policyholders.
4. The profits of the private insurance companies are relatively larger than the public sector insurance companies. Hence, the premium rates are to be rationalized in the interest of expansion of GI business.
5. Miscellaneous category of insurance is wide and has become so heavy, that the insurer is not able to control the sub-classes in the category, For instance "Motor" insurance is included in it and it often occurs and claims also increase. To control this class of insurance, it is necessary to separate it from 'miscellaneous' category and prepare 'Revenue Account' for Motor Insurance like other categories. This must become a mandatory accounting function.

CONCLUSIONS

India as a vast country with 70% people living in rural areas and 40% below poverty line require risk averting social schemes of good quality. Hence, the private insurance company must be made to bear this responsibility. This responsibility should be made mandatory on the part of private insurance company as a percentage to their total business. IRDA should strengthen their data-warehousing function for which Research and Development wing be established immediately.

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