Chapter III

Reforms in India's Life Insurance Sector: A Comparative Study

3.1: Introduction

Liberalization of the domestic financial market had been a common characteristic of a number of economies since late 60's. This was particularly true in case of industrially advanced countries like Australia, Japan, UK, and France. However, this had not been confined to these industrially developed countries only. In recent years, many LDCs had taken macroeconomic reforms, which involved structural adjustment programme. Main concentration was towards the financial system, especially banking and insurance sectors, which typically either owned or controlled by the state itself. The developing country like India along with other semi-industrialised countries had opened up their financial sector[1].

The New Economic Policy (NEP) introduced in India in June 1991 by the then newly elected government and the process of liberalization of Indian financial sector was a part of that new policy. The main thrust of reforms in the financial sector was the creation of efficient and stable financial institutions and markets. Reforms in the banking and non-banking sectors focused on creating a deregulated environment, strengthening the prudential norms and the supervisory system, changing the ownership pattern, and increasing competition. The main idea was globalization, privatization, deregulation and liberalization[2].

With the paradigm shift in the development strategy, the economy was increasingly opening up and there was a step forward towards market orientation. Consequently, some financial markets such as capital market, for-ex market and banking sector had been reformed subject to various levels of degrees. The public sector utilities (PSUs) such as power, airline, postal and telecommunication had also been reformed by introducing more and more private participation. The insurance sector was yet to receive the reform initiatives for securing the benefits out of the global changes that occurred in the recent past. The Uruguay Round of GATT (now WTO) also advocated the removal of restrictions and non-tariff trade barriers for free flow of international services across countries so that domestic market of LDCs could improve its efficiency and

competitiveness and eventually improve their economic growth. It was against this backdrop that many countries had deregulated its insurance sector. Countries, which already allowed private insurance business, further deregulated their reinsurance business such as Brazil (1991) and Peru (1991). Table: 3.1 summarizes the year when different countries opened up their insurance industry. The insurance business remained a state monopoly only in Cuba, Myanmar, North Korea and in India[3].

Table 3.1: Country specific year of opening of domestic insurance market

Country	Years
South Korea	1987
Taiwan	1987
Argentina	1990
Pakistan	1990
Czechoslovakia	1992
Philippines	1992
Japan	1996

Source: Compiled from various sources.

In India, the reforms in the insurance sector (Life and General) commenced with the setting up of the **Committee on Reforms on Insurance Sector** under the chairmanship of Dr. R.N.Malhotra, the ex- governor of RBI, by the GOI in April 1993 for examining the structure of insurance industry.

3.2: Malhotra Committee Report

The **Committee on Reforms on Insurance Sector**[4], which was also known as Malhotra Committee, submitted its report in January 1994. The terms of reference of the said committee were:

(1) To examine the structure of the insurance industry and to assess its strengths and weaknesses in terms of the objective of creating an efficient and viable insurance industry providing wide range of insurance services to the masses and an effective instrument for mobilisation of financial resources for development.

(2) To make recommendations for change in the structure of the insurance industry and the general frame work of policy for the pursuit of above mentioned objectives consistent with the structural changes in the economy and financial sector.

(3) To make specific suggestion regarding the LICI and GICI to help in the functioning of these organizations in the changing economic environment.

(4) To review the present structure of regulations and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory system in the changing economic environment.

(5) To review and make recommendations on the role of surveyors, intermediaries and other ancillaries of the insurance sector.

(6) To make recommendations on such other matters as the committee considers relevant for the health and long-term development of the Indian insurance sector.

The Malhotra Committee covered both general and life insurance sector and came up with the recommendations in January 1994. The following section of this chapter will discuss the major recommendations for the insurance sector in general and those recommendations that have direct implications for the life insurance business in India as the study focuses on the life insurance sector only. The Committee appointed MARG[5] to conduct a market survey among users of life insurance to find out their satisfaction levels with LICI and to assess their perceptions regarding a possible liberalisation of the

insurance sector. Based on the growth statistics of LICI and the findings of the said survey, the committee highlighted some positive and negative aspect of the development of LICI which may be stated as under:

A) On the positive side, LICI had,

1) Spread the insurance culture widely across India.
2) Mobilised large savings for national development and financed socially important sectors such as housing, electricity, water supply and sewerage.
3) Acquired considerable financial strength and gained confidence of the insuring public, and
4) Built up a large talented pool of insurance professionals.

B) On the negative side,

1) The vast marketing and services network of LICI was inadequately responsive to customer needs,
2) Insurance awareness was low among the public,
3) Marketing of life insurance with reference to the customer needs left much to be desired.
4) Term assurance plans were not being encouraged and unit linked assurance was not available,
5) Insurance covers were costly and returns from life insurance were significantly lower compared to other savings instruments due to

    a) Excessive government directed investments of LICI funds,
    b) The marketing organisation was weak and turnover of agents were extremely high,
    c) Development Officers (D.O) concentrated on their incentives to the neglect of training the agents and building up an efficient agency organisation,
    d) There was excessive lapsation of policies,

6) The management of LICI was excessively hierarchical, especially at the central and the zonal offices, and was overstaffed.
7) Work culture within the organisation was unsatisfactory.
8) Trade unionism had contributed to the growth of restrictive practices:
9) Failure to adequately computerise had seriously affected the efficiency of the organisation and the quality of customer service;

The main recommendations of the Malhotra Committee may be discussed under the following major headings as stated below:

3.2.1: Liberalisation:

- The committee recommended that the state monopoly of writing life insurance business should be broken up by opening the market for competition and limited number of private companies (domestic and foreign) to be allowed to operate in this sector but no firm to be allowed to operate in both lines (life and general) of insurance business.
- Minimum paid up capital for a new entrant should be Rs 100 crore (except in case of state level co-operative institution) with promoters' holding should not exceed 40 percent of the total and less than 26 percent.
- Foreign life companies may be allowed to enter the industry in collaboration with the domestic companies.
- No person other than the promoter should be allowed to hold more than 1 percent of the equity.
- Postal Life Insurance should be allowed to operate in the rural market

3.2.2: Restructuring:

- The Committee recommends the restructuring of LICI involving delegation of administrative, operational and financial authority to zonal offices. The central office should focus on policy formulation, product development, pricing of

products and actuarial valuations, investments, personnel policies and the accounts of the corporation.

- Raising the capital base of LICI from Rs. 5 crore to Rs. 200 crore, half retained by the government and the remaining 50 percent to be held by the public at large including employees of the organisation.
- The committee recommends the comprehensive computerization of LICI for effective management information system and better customer service in the era of information technology.

3.2.3: Investment Regulations:

- The Malhotra Committee recommends reduction in the mandated investments and recommends certain modifications in Sec 27 of Insurance Act as follows:
  (1) Investment in central government securities within prudential norms should remain not less than 20 percent and the special deposits with the government should continue to be considered as investment in central government securities.
  (2) State government securities and government guaranteed (state and central) securities should not be less than 40 percent than the earlier 50 percent statute.
  (3) Investment in social sector including the above should not be less than 50 percent from the existing not less than 75 percent which is considered to be high.

3.2.4: Supervision and regulations

- Controller of Insurance (COI) should be empowered as prescribed in the Insurance Act as an interim measure.
- The committee recommends the setting up of Insurance Regulatory Authority (IRA), a strong and effective regulatory body, on similar lines of Security and Exchange Board of India (SEBI) before allowing private sector.

- IRA should be empowered with supervisory powers with full functional autonomy and operational flexibility in all aspects of insurance to conduct the business and to protect the interest of the customers.
- To finance the IRA, the committee proposes that 0.05 percent of yearly premium income of insurance companies should be levied.

3.2.5: Others

The committee also recommends other steps in the insurance sector to popularize insurance and extend the benefit of insurance to the masses in India. Those are summarized as follows:

- The committee recommends newer marketing strategies from the insurance companies to reach the life insurance coverage to the weaker sections of society including working women and introduction of cheap term insurance coverage to improve the insurance coverage in India.
- *To ensure rural business, the committee proposes, new entrants into the life* insurance business should be required to write a specified proportion of their new business in rural areas.
- The committee also proposes penalties for that life insurance company which fails to write specified portion of their business in rural areas by the IRA.
- Unit linked schemes encouraged to float in the market.
- Private pension funds schemes allowed to operate in the market under the vigil of IRA.

3.3: The Debate about Opening Up

The recommendations of the Malhotra Committee have been accepted by the government in principle and the same has been placed before the parliament to make the recommendations in effect. Among all the recommendations the committee has made the recommendation of the privatization of the insurance industry and the foreign

participation in it came under heavy debate and delayed the process of implementing the recommendations in the insurance sector.

The recommendation of privatization of the life insurance industry has been based on several factors such as mobilization of savings from the economy, insurance awareness and coverage and also to tackle the fiscal measures which have taken in the new economic policy. The other sectors of financial market have seen some degree of reforms and if the insurance sector wants to harvest the benefit of the global and domestic changes it needs to come out of the insulation for the greater benefit of the consumers. Though the LICI has done commendable job in spreading and providing the benefit of life insurance in the country, it still fall short of international standards in terms of coverage, cost efficiency, technical skills, managerial skills and product innovations.

By 1993, the LICI has only 566.12 lakh policy holders where as estimated middle class population is around 250 million. It is visible from the statistics that less than 23 percent of the insurable population is being covered[6]. Further only 99.68 lakh new policies were issued in that year. Other life insurance development indicator such as penetration *which is the percent of premium income over the GDP*, density *which is the ratio of direct gross premium volume to the population in a country* shows that there exists huge market potential yet to be exploited. This in itself calls for more private players in the market to fill the gap. The privatization in the life insurance market will bring competition and enhance the efficiency of the operators through improved resource utilization which will ultimately benefit to the end consumers of life policies in terms of reduced premium price and wider range of available product choices before them. Once the market is open to the private players, they will come with array of products before the consumers and eventually the demand for newer products will increase. In advanced countries life insurance is not merely treated as a means to protect the dependants in adverse situations, it is considered an alternative financial form of saving. With the introduction of computerisation with more and more private players operating in the life insurance market, productivity will increase and the demand for newer products will increase the demand for more skilled labour force.

The debate on life insurance reforms escalate more when it comes to allowing foreign life companies to operate in Indian soil. The committee recommends the participation of foreign players as the Indian insurance industry is lagging behind the international standards in terms of technical skills and knowledge and managerial know how. Only privatization will not solve this problem as this stands true in case of all domestic private players too. Therefore foreign participation is a must to improve the efficiency in the life insurance market due to the long isolation from the world market. Once the foreign firms (mostly MNCs) are allowed to operate in the domestic market they will bring in technical and managerial know how which will have its effect on the market as a whole. As the foreign firms operate at a better efficient level, domestic firms will try to emulate them through the *'demonstration effect'* and the over all efficiency level at the domestic market will improve. This will help to reduce the cost of writing new business through the cost cutting measure in the premium rates and the premium fixation would be more scientific and precise as the MNCs have better actuarial understanding. Apart from these advantages foreign companies have more diversified portfolios and efficient portfolio management as they work globally. The other imperative benefit which will accompany with the MNCs is the variety of tailor made products that will available before the consumers to choose from[7].

Finally, the recent policy change in the greater perspective of the economy due to the BOP crisis makes it crucial to open up the domestic insurance market to the foreign players which will bring foreign capital into the system for a longer period of time as the life insurance contracts are long-term in nature. Therefore, opening up the life insurance market to foreign insurers would fetch foreign capital which can be invested in the much needed infrastructural development projects in the country for long period.

If such benefit can be derived out of privatization and from the foreign life insurance players then why the debate against the privatization and opening of the domestic life insurance market to foreign companies are there?

In case of privatization of the life insurance business in India, it is based on the outlook that the privatization will bring more players into the market and competition will improve the efficiency of the existing players through better resource utilization as stated earlier. Competition will bring more and more private insurer in the market at the initial stage and there will be more premium cuts price war among the insurers to capture the market share. But in the circumstances of competitive competition, only fittest can survive in the market in the long run. This competition will prompt the insurers to charge premium rates below the cost to capture the greater share of market and in doing so they end up losing their own reserves in servicing their claims or liabilities. This leads to the bankruptcy and liquidation of the firms as they are not in a position to provide service of settlement of claim to its policy holders. Again the income from premium income and investments made by the insurers are used to meet the current operation cost of life insurance and expenses of the management. Once the income from the underwriting life insurance premiums fall due to the price cut below the level which the firms can sustain, the profit get squeezed. The moment private insurers find it difficult to attain profit they may exit or lead the insurers to indulge in immoral activities such as investing funds of innocent policy holders' in equities, speculative activities and other subsidiary activities. In times of crisis such as crash of stock prices and slowdown of overall economy, the income from these sources also affects unfavorably and leads to liquidation as the net worth and the assets values goes down. The worst sufferers will be the small firms which will force them to exit the market or merged with the efficient or big firms. This will lead to the concentration of total life insurance market into the hands of few efficient big life insurers[8].

Only privatization of life insurance market will expand the existing market with the help of the array of products which all the insurer will bring does not hold good as the per capita income and the savings in the form of life insurance is very low in India. The development of life insurance market is highly co-related with the economic development of the country. Therefore, it will take long time to develop the life insurance market in India and privatization is not the only solution to develop an existing market. In actual fact well established state owned and regulated life insurance companies contributed

substantial finance in the form of investment in governmental securities and bonds, investments in priority sectors and in the form of taxes; for example India and Argentina. Foreign life insurance players will influx huge amount of capital in the economy at the beginning of their operation as they operate globally with other related financial services. With this enormous capital they try to obtain major part of the market share by reducing the cost of their premiums. The same will be difficult for the domestic life companies as they do not have that much of capital which will support them to cut the premium rates and sustain for a longer period of time. To keep the present market share and to have more the foreign players will further cut the price of insurance products at a level where domestic firms will no longer be able to sustain and ultimately collapses or merges with the big players or with the foreign players. This leads the whole life insurance market in the hands of few players who can easily now manipulate the market in their own interest later. Due to the severe cut in the premium rates and high expenditure in the form of advertisement, salaries, commissions at the beginning of their operation, foreign insurers starts increasing the premium rates gradually as they enjoys almost a monopoly in the market after the collapse of the domestic firms. Such collapses or the exits of the domestic insurance firms will have serious macro-economic and socio-economic implications in India[9]. In the Indian perspective, as the foreign life insurance players operate globally and they have the exposure of the global financial market, the performance of these companies will not solely depend upon the performance of the Indian economy. Therefore, any meltdown in the global financial arena will definitely affect the performance of these players. The collapse or the exits of these life insurance players will have severe social consequences due to the fact that millions of middle or lower middle class people in India by the life insurance products not only to take care of themselves but for their dependants. For example, a person can opt for a policy to safe guard himself in his old age, or for the education of his son/daughter, or for the marriage of his daughter after a certain period of time. Therefore, the social cost of such failure or collapse will be more than the economic cost and the end sufferers will be the common policy holders.

The resistance before the new reform policy in the insurance sector also comes from the trade unions as they fear of 'retrenchment of labour' from the insurance industry due to computerisation and demand for more skilled labour.

3.4: Independent Regulatory Authority

If we study and consider the different opinions against the privatization of the life insurance market and opening the sector before the foreign firms then we will find that those problems are basically due to the weak institutional and legal framework which persisted in the industry for a long period. Therefore, to address the same the Malhotra Committee laid down few recommendations regarding the regulatory and supervisory framework of the new liberlised life insurance industry. Among all the recommendations the most important is the formation of a strong, effective and independent regulatory body of insurance sector as **Insurance Regulatory Authority (IRA)** in India to protect the interest of the policy holders and the proper development of the total life insurance industry. As stated earlier, the insurance business has not only its economic significance in an economy but also it has its social implications in that economy. Privatization may lead the insurers to indulge themselves in speculative acts, restrictive business practice or forming cartel to enjoy monopoly in the market which ultimately bring the firms into the door steps of liquidation and eventually breaks the confidence of the normal policy holders or the investors. Therefore, for the development of the life insurance industry in India and to achieve the desired objectives of privatisation the formation of IRA, which is recommended by the reforms committee, is a necessary. In fact, many developing countries faced huge losses in the absences of such strong regulatory body. For example, Chile, Mexico, Peru and Uruguay. The main role of the proposed IRA can be summarised as,

(1) to promote the growth of insurance market in India;

(2) to protect the interest of the policy holders, and

(3) to ensure financial soundness of the insurers.

In performing its role the IRA prescribed certain well defined norms[10] to regulate and administer the insurance industry. Those norms are as under,

- provide a conducive environment to the growth of the insurance industry,
- entry restrictions through licensing or initial capital requirements,
- defining the premium rate to stop the price war among the insurers,
- introduction of mandatory and stipulated business norms in the rural areas for the insurers and imposition of penalties for violation of such norms,
- introduction of disclosure, solvency and capital adequacy norms,
- introduction of prudential norms to regulate the investments made by the insurance companies arising out of the policy holders premiums in a specified areas for safe return,
- regulations of insurance intermediaries such as agents, brokers, and surveyors,
- informing the end consumers through better education.

To achieve these objectives IRA entrusted with statutory legal provisions to enforce insurance laws and powers to prosecute and convict the insurers/brokers/agents for their default in performing or delivering services to the general investors with minimum government involvement. Thus IRA's functioning is financed by levying a small fee on the premium income of the insurance firms operating in the market and ensuring an autonomy to function independently with out government cost and control. The independence of the new regulatory body is a fair indicator before the market by the Government to ensure that the private companies can operate on a level playing field and no preference is shown to the State owned enterprises.

3.5: Steps towards Deregulation

After the submission of the Malhotra Committee Report on January, 1994 the journey of the Indian life insurance industry, controlled and regulated for 45 years, towards deregulation was quite eventful. In order to make the transition from State

monopoly to free market, the Committee recommended that only potential and serious players should be permitted to enter the market and an independent regulatory mechanism should be established to inculcate confidence among the prospective policyholders in the financial viability of the private insurance companies. Soon after the recommendation of the Malhotra Committee to set up an independent regulatory mechanism, a new committee (called the Mukherjee Committee[11]) was formed to make concrete plans for the requirements of the newly formed insurance companies by the Government of India in 1995. Since there was support for the opening of the sector with a strong and effective regulatory authority, the government established an independent interim Insurance Regulatory Authority (IRA) by executive order in September 1996, for the insurance industry along with modifications required to remove the State monopoly in this area. The IRA Bill was introduced in the Parliament in December 1996 with a proposal of 40 percent stake of foreign companies in a newly formed life insurance company. After a debate in the house the Bill was referred to the Standing Committee of the Ministry of Finance which submitted its report in May 1997. The Bill incorporating the recommendations of the standing committee was introduced once more for consideration by the UF government but it could not be passed due to opposition from the BJP and the Left with a demand of reducing the foreign equity and eventually was withdrawn by the government. Unfortunately, the instability in Central Government, changes in insurance regulation could not be passed through in the parliament but the Government allowed greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the needed infrastructure sector.

In the mean while the Mukherjee Committee submitted its report in 1997 but the recommendations of the Mukherjee Committee were never made public. The information that came out from informal sources, it became clear that the committee recommended the inclusion of certain ratios in the balance sheets of insurance companies to make sure transparency in accounting standards. But the Finance Minister objected the proposals made by the said committee and argued (probably on the opinion of some of the potential entrants) that it could affect the prospects of a developing insurance company[12].

In 1998, BJP led, a new government came into power at the centre. In the budget speech of 1998, the policy of the government was announced by the then Finance Minister Mr. Yashwant Sinha to open up the insurance sector and also to make IRA a statutory regulatory authority. The new government reconstituted the Tariff Advisory Committee (TAC) and brought under IRA. Accordingly, the Insurance Regulatory Authority Bill 1998 was introduced in the Lok Sabha in December 1998 to permit the entry of private "Indian companies" into the Insurance sector. The Bill was referred to the Standing Committee on Finance, headed by Mr. Murli Deora in January 1999 for examination and report. The standing committee suggested some amendments and proposed to reduce the foreign equity stake to 26 percent from 40 percent, which were accepted by the government and the Bill was circulated in March 1999. The IRA Act was renamed as the Insurance Regulatory and Development Authority (IRDA) Act. This Bill too could not be taken up for consideration in the Lok Sabha due to the fall of the NDA government and the deregulation was put on hold once again.

An election was held in 1999 and a new BJP-led government came to power. On October 1999, the revised bill of IRA as IRDA Bill was introduced in the Lok-Sabha by the newly elected government. A long debate over the issue was witnessed in the Parliament and later followed by a walkout of Left and non-Congress parties. The Congress party, which was the main opposition party, supported the new insurance bill by stating that the government had accepted the amendments, which have recommended by the party to incorporate in the new bill. On December 7, 1999, the new government passed the Insurance Regulatory and Development Authority (IRDA) Bill. The President of India gives Assent to the Insurance Regulatory and Development Authority (IRDA) Bill, in April 2000, and the bill became The **Insurance Regulatory and Development Authority (IRDA) Act**, which repealed the monopoly conferred to the Life Insurance Corporation of India (LICI) in 1956 and to the General Insurance Corporation in 1972[13].

3.6: Features of IRDA Act 1999.

The Insurance Regulatory and Development Act of 1999 embarked for the establishment of an Authority to protect the interests of policy holders of insurance, to regulate, promote and ensure orderly growth and development of the insurance industry. The Act effectively reinstituted the Insurance Act of 1938 with minor modifications. Whatever was not explicitly mentioned in the 1999 Act referred back to the 1938 Act. On July 14, 2000, the Chairman of the IRDA, Mr. N. Rangachari laid down a set of regulations in an extraordinary issue of the Indian Gazette. The salient features of the 1999 IRDA Act[14], which are related to the life insurance business, are discussed below.

3.6.1: Licensing

The IRDA Act, 1999, sets out details of registration of an insurance company together with renewal requirements. The minimum capital requirement for the entry into the life insurance business is 100 crore (i.e. INR 1 billion). The IRDA regulates the entry and exit of life insurance firms, capital norms, and maintains a stringent watch on the equity and solvency situation of insurers. Once the application to conduct business is rejected, the applicant will have to wait for a minimum of two years to make another proposal, which will have to be with a new set of promoters and for a different class of business. For renewal, the Act, stipulates a fee of one-fifth of one percent of total direct gross premiums written by an insurer in India during the financial year preceding the renewal year. It also seeks to give a detailed background for each of the following key personnel: chief executive, chief marketing officer, appointed actuary, chief investment officer, chief of internal audit and chief finance officer.

Currently, India allows foreign life insurers to enter into the domestic market in the form of a joint venture with a local partner, while holding no more than 26% of the company's shares. If we compare the reforms in the Indian life insurance sector with that of the rest of the developing economies, especially in respect of BRIC (Brazil, Russia,

India and China) countries along with the neighboring countries. India's position (see Table: 3.2) is *far more competitive and liberal*.

Table: 3.2 **Development of Life Insurance Industry**

(BRIC and Neighboring Countries of India)

Countries	Pre-Regulatory Regime	Regulatory Change	Regulator	Foreign Ownership
Sri Lanka[a]	Nationalisation of life insurance business in 1961 to form ICS.	100% private participation since 1986	The Insurance Board of Sri Lanka (IBS). (2001)	Maximum of 90% equity participation in local companies.(2001)
Pakistan[b]	Merger of 34 life insurance companies to form State Life Insurance Corporation in 1972.	100% private participation allowed since 1992	Securities and Exchange Commission of Pakistan (SECP). (1999).	Allowed
Bangladesh[a]	Formation of state owned life insurer *Jiban Bima Corporation* in 1973.	50% private participation since 1990	Department of Insurance (*Ministry* of Commerce)	Not allowed
Brazil[b]	**Privatisation initiated in the early 1990s.**	**Private participation** ***since 1994***	**The Superintendence of Private Insurance (SUSEP)**	**Allowed**
Russia[c]	**After Soviet** era, **Ingosstrakh (International State Insurance) and** Rosgosstrakh **(Russian State Insurance) have been** ***privatized in 1991.***	**The Russian Federal Law on Insurance (1999)**	**Insurance Supervision Department (ISD), Ministry of Finance.**	**Maximum of 49% only through acquisition of established Russian insurance companies.(2001)**
India[d]	***Nationalisation of life*** **insurance business in 1956 to form LICI.**	***100%*** **private participation since 1999**	***Insurance*** **Regulatory and Development Authority(IRDA), (1999)**	**Maximum of 26% equity participation in local joint ventures.(1999)**
China[a]	**PICC's monopoly ended with the creation of 5 new insurers in 1985.**	**Foreign entry allowed** ***since 1992.***	**China Insurance Regulatory Commission(CIRC), (1998)**	**Allowed (2002)**

Sources: [a] Kwon, W. Jean (2001), IIF Occasional Paper, No.3[15]; [b] Karimov, T.R. (2002)[16];

[c] http://www.commercialdiplomacy.org/ma_projects/karimov3.htm.

[c] http://www.commercialdiplomacy.org/ma_projects/karimov.htm.

[d] IRDA.

Note: ICS: Insurance Corporation of Sri Lanka; LICI: Life Insurance Corporation of India; PICC: People's Insurance Company of China.

In case of The Russian insurance industry, it is subjected to a 25 percent limit upon participation by foreign entities in the aggregate capital of Russian insurance companies. A Russian insurance company whose charter capital is more than 49 percent held by one or more foreign parties becomes subject to certain qualitative limitations upon the scope of its activities (i.e., it cannot offer life insurance). In china, there is certain geographical restriction which regulates the foreign life insurers to operate in the licensed regions only. In Brazil total life insurance market activity represents only 24% compared to India where life insurance is a major part of total insurance industry[17]. Out of the four BRIC countries India and Brazil became the member of WTO in 1995 where as China has just entered WTO in 2001. Surprisingly, Russia, perhaps the only developed country, which is out side of WTO and still negotiating. WTO is showing intense activity to include major developing/developed economies such as Russia[18].

3.6.2: Solvency controls

The IRDA has set up strict guidelines on asset and liability management of the insurance companies along with solvency margin requirements. Initial margins are set high as compared with developed countries. Life insurers are required to maintain a required solvency margin, as per Section VA of the Insurance act, 1938. The IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations, 2000, describes in detail the method of computation of the Required Solvency Margin[19]. As per provisions of the Insurance Act and the regulations made there under, every life insurer is required to maintain an excess of value of his assets over the amount of his liabilities of not less than Rs. 50 crore (Rs. 100 crore in the case of a re-insurer) or a sum equivalent based on a prescribed formula , as determined by regulations not exceeding 5% of the mathematical reserves and a percentage not exceeding 1% of the sum at risk for the policies on which the sum at risk is not negative, whichever is highest. In addition, at the time of registration all the new insurers have been required to maintain a solvency ratio of 1.5 times the normal requirements[20].

Previously the required solvency margin of the life insurers was monitored by the IRDA on annual basis. But considering the importance of this ratio, IRDA has now asked the insurers to submit quarterly returns on the solvency margin[23].

3.6.3: Investment norms

The new IRDA Act modified the Section 27 of the Insurance act 1938 in conformation with the objectives of improving confidence among the potential policy holders and diverts the funds into the infrastructural development. The new provisions under the IRDA (Investments) Regulations, 2000, made it obligatory for the insurers to perk at least half of the total investments to be invested in the government securities or other approved securities as these investments are considered to be safest of all because of government guarantee[24].

Table: 3.3 **Investment Regulation of Life Business**

	Type of investment	Percentage
I	Government securities	At least 25%
II	Government securities or other approved securities (including (I) above)	Not less than 50%,
III	**Approved investments as specified in Schedule I** a) Infrastructure and social sector Not less than 15% Explanation: for the purpose of this requirement, infrastructure and social sector shall have the meaning as given in Regulation 2(h) of Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000, and as defined in the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural and Social Sector) Regulations, 2000, respectively.	Not less than 15%
	b) Others to be governed by exposure/prudential norms specified in Regulation 5	Not exceeding 20%
IV	Other than in approved investments to be governed by exposure/ prudential norms specified in Regulation 5	Not exceeding 15%

Source: Gazette of India Extraordinary Part III Section 4: Insurance Regulatory and Development Authority (Investment) Regulations. New Delhi, the 14th August, 2000

3.6.4: Business conduct

As well as licensing and solvency regulations, the IRDA Act also prescribes guidelines and regulations on business conduct. It specified the creation and functioning of an Insurance Advisory Committee that sets out relevant rules and regulation.

The Act stipulates that the "Appointed Actuary" has to be a Fellow of the Actuarial Society of India and the appointed actuary has to be an internal company employee particularly in case of Life Insurance Company. Given that there has been a scarcity of actuaries in India with the qualification of a Fellow of the Actuarial Society of India, the IRDA is in the process of replacing the Actuarial Society of India by a newly formed institution to be called the Chartered Institute of Indian Actuaries (modeled after the Institute of Actuaries of London). The Appointed Actuary would also be responsible for reporting a detailed account of the company to the IRDA[22].

Further, all the insurers are obligatory to provide some coverage for the rural and social sector which is known as the "Obligations of Insurers to Rural Social Sectors"[23]. Life insurers have to maintain the following mandatory coverage in the **Rural Sector** (where the population is not more than 5000; population density not more than 400 per Sq. Km; and at least 75% of male working population is engaged in agriculture) as,

(a) five percent in the first financial year;
(b) seven percent in the second financial year;
(c) ten percent in the third financial year;
(d) twelve percent in the fourth financial year; and
(e) fifteen percent in the fifth year of total policies written direct in that year.

In case of **Social Sector** (includes unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both

rural and urban areas) obligation, life insurers have to keep up the following obligatory covers as under;

(a) 5000 lives in the first financial year;

(b) 7500 lives in the second financial year;

(c) 10,000 lives in the third financial year;

(d) 15,000 lives in the fourth financial year; and

(e) 20,000 lives in the fifth financial year.

3.6.5: Others regulations

Few more regulatory features of the IRDA Act' 1999, are as follows,

(1) Insurance agents should have at least a high school diploma along with training of 100 hours from a recognized institution. More than a dozen institutions have been recognized by the IRDA for training insurance agents.

(2) Through a Government of India notification, dated 11 November 1998, the Insurance Ombudsman was created to address grievances of the policyholders and to protect their interest. Twelve Ombudsmen have been appointed across the country to expedite disposal of complaints. Ombudsmen have jurisdiction in respect of personal lines of insurance where the contract value does not exceed INR 20 lakh. The Ombudsman is bound to come with a judgment within three months from the date of receipt of the complaint.

3.7: Development of LICI during 1992-2000

The debate on reforms in the life insurance sector and the report submitted by the Malhotra Committee put pressure on LICI to improve its performance which is visible in its overall results. It would be unfair to say that the reform initiatives in the life insurance sector alone created an environment which drives the performance of the LICI in the north direction. The new economic policy initiated by the government, especially the reforms in the financial sector, helps to improve the basic indices of economic

development which ultimately reflected in the performance of the LICI. Due to the implementation of the new economic policy, India witnessed a rise in its macro-economic conditions which affects the per capita income positively and the savings of people in the financial products also seen improved over the years[25]. In the 1997 the government gave greater autonomy to LICI in respect of policy formulation, product development and decentralisation of the corporation in decision making process at the zonal levels for the development of quicker operational efficiency.

Table: 3.4 New Business of LICI: Individual Assurance (1991-2000)

Year	No. of Policies (in lakh)	Sum Assured (Rs. in crore)
1991-92	92.38	32064
1992-93	99.58	35957
1993-94	107.26	41814
1994-95	108.75	55229
1995-96	110.21	51816
1996-97	122.68	56741
1997-98	133.11	63618
1998-99	148.57	75316
1999-00	169.99	91214

Source: LICI Annual Reports; various issues.

The largest segment of the life insurance business done by the LICI has been individual life insurance. The number of individual new life insurance policies sold by the corporation each year went from 92.38 lakh policies in 1991-1992 to 169.77 lakh policies in 1999-2000 and the volume of sum assured towards the new life business increased from Rs.32064 crore in 1991-1992 to Rs. 91214 crore in 1999-2000. The total business in force in India has increased almost four times from 1991 to 1999. At the end of March 1992, number of policies was 508.26 lakh which increased to 1012.99 lakh

policies at the end of March 2000. The volume of sum assured stood at Rs.5, 34,589 crore in 1999-2000 from Rs.1, 45,929 crore in 1991-1992[26].

Table: 3.5 **Growth of Life Business in Force in India (LICI)**

Year	No. of Policies (in lakh)	Sum Assured (in crore)	Annual Premium (in crore)
1991-92	508.63	1,45,929	5946
1992-93	566.12	177268	7146
1993-94	608.00	207601	8758
1994-95	654.52	253333	10385
1995-96	708.78	294336	12094
1996-97	776.66	343018	14500
1997-98	849.15	398959	17066
1998-99	916.37	457435	20234
1999-00	1012.99	534589	24540

Source: LICI Annual Reports; various issues.

The numbers of new policies written by the LICI, nearly half of the policies are written in the rural areas. The share of rural business in 1999-00 went up to more than 57 percent from the level of nearly 44 percent in 1991-92[27].

LICI's role in increasing the business in the rural areas would socially be essential but commercially it would be a loss making venture. In performing its social responsibility, LICI introduced social security group insurance schemes which is applicable to 23 approved occupational groups that includes self-employed women, rickshaw puller, beedi rollers etc. which covers around 50 lakh lives. LICI also sells specific subsidized group insurance policies to unorganized and rural sector in meeting its social and rural obligations. The number of lives covered under the new group insurance scheme stood at 22.5 lakh at the end of 1999-00[28].

Table: 3.6 **Growth of Rural Business (in percent)**

Years	No. of Policies	Sum Assured	Share in Total New Business	
			Policies	Sum Assured
1991-92	12.3%	20.8%	44.7%	38.8%
1992-93	7.6%	13.2%	44.6%	39.2%
1993-94	9.4%	18.4%	45.3%	39.9%
1994-95	0.9%	29.3%	45.1%	39.1%
1995-96	7.2%	-1.4%	47.7%	41.0%
1996-97	14.8%	14.2%	49.2%	42.8%
1997-98	13.4%	13.5%	51.4%	43.3%
1998-99	18.8%	28.4%	54.7%	47.0%
1999-00	19.5%	24.9%	57.5%	48.7%

Source: LICI Annual Reports: various issues; EPW: January 20, 2001.

References:

(1) Rao, D. T, (2000), "Privatisation and Foreign Participation in (Life) Insurance Sector", *Economic and political Weekly*, March 25, pp. 1107-1120.

(2) Bhole, L.M., (1999), *"Financial Institutions and Markets: Structure, Growth and Innovations" (Third Edition)*, Tata McGraw-Hill Publishing Company Limited, New Delhi, India.

(3) Palande, P.S, Shah, R.S and Lunawat, M.L, (2003), *"Insurance in India: Changing Policies and Emerging Opportunities"*, Response Books, Sage Publications, New Delhi, India, p.62.

(4) Government of India, (1994), *"Report of the Committee on Reforms in the Insurance Sector"*, Ministry of Finance, New Delhi, India.

(5) Palande, P.S, Shah, R.S and Lunawat, M.L, (2003), op. cit, p.64.

(6) Rao, D. T, (2000), op. cit, p. 1113.

(7) Ibid, p. 1114

(8) Ibid, pp. 1113-1114.

(9) See, Rao, D. T, (2000),

(10) Ranade, A and R, Ahuja (1999), "Life Insurance in India: Emerging Issues", *Economic and Political Weekly*, January (16-23), p. 208; Rao, D. T, (2000); Government of India, (1994), *"Report of the Committee on Reforms in the Insurance Sector"*, Ministry of Finance, New Delhi, India.

(11) Sinha, T., (2004), "The Indian Insurance Industry: Challenges and Prospects", *Swiss Re Visiting Professor, Institute of Insurance and Risk Management*, Hyderabad, India, p.24.

(12) Sinha, T., (2002), "Privatisation of Insurance Market in India: From British Raj to Monopoly Raj to Swaraj", *CRIS Discussion Paper Series, 2002.X, Centre for Risk and Insurance studies*, The University of Nottingham, pp. 9-10.

(13) Ibid. p. 10.

(14) IRDA Act' 1999; (www.irda.gov.in).

(15) Kwon, W. Jean (2001), "Towards Free Trade in Services: The ASEAN Insurance Market", *IIF Occasional Paper*, No. 3; International Insurance Foundation, Washington, DC.

(16) Karimov, T.R. (2002), "Liberalisatiopn of the Russian Insurance Market in Light of Russia's Accession to the WTO", MACD Project, Montery Institute of International Studies, Timour.Karimov@miis.edu.

(17) (http://www.economywatch.com/insurance/brazil-insurance-industry.html); (http://www.economywatch.com/insurance/russia-insurance-industry.html); (http://www.economywatch.com/insurance/china-insurance-industry.html).

(18) Candel, F. Mira. (2006), "New Markets – New Regulations", The Geneva Papers on Risk and Insurance – Issues and Practice, Vol. 31, p. 12.

(19) Annual Report of IRDA, (2007-2008), IRDA, Hyderabad, India; (www.irdaindia.gov.in).

(20) Annual Report of IRDA, (2000-2001), IRDA, Hyderabad, India; (www.irdaindia.gov.in).

(21) Annual Report of IRDA, (2007-2008), op. cit, pp. 73-74.

(22) IRDA (Appointnted Actuary) Regulation, 2000; (www.irdaindia.gov.in).

(23) IRDA (Obligation of Insurance to Rural and Social Sector) Regulation, 2000, 2002. (www.irdaindia.gov.in).

(24) IRDA (Investment) Regulation, 2000; (www.irdaindia.gov.in).

(25) Mohan, R., (2005), "Financial Sector Reforms in India: Policies and Performance Analysis", Economic and Political Weekly, March, 19, pp. 1106-1121.

(26) Annual Report of IRDA, (1999-2000), IRDA, Hyderabad, India, (www.irdaindia.gov.in); Annual Reports of LICI, Various Years, Life Insurance