CHAPTER -I
INTRODUCTION

1.1 INSURANCE OVERVIEW

"Insurance is a contract between two parties where by one party, insurer undertakes in exchange for a fixed sum called premium to pay the other party on happening of a certain event[1]"

Insurance is a protection against a financial loss arising on the happening of an expected event. Insurance companies collect premium to provide for this protection. A loss is paid out of this premium collected from the insuring public. The insurance company acts as a trustee to the amount collected through premium.

Insurance is the outcome of man's constant search for security and finding out ways and means of ameliorating to the hardships arising out of calamities. Insurance may be described as a social device to reduce or eliminate risk to life and property. Hence **Professor Rober Mehr and Professor Emesson Cammack[2]** rightly defined Insurance

"As a social device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable, the predictable loss is then shared proportionally by all these in the combination".

There are two branches of insurance viz, general insurance and life insurance general insurance deals with the exposure of risks of goods and property, whereas life insurance is a way to meet the contingencies of physical death and economic death. In case of premature death of the assured the proceeds of the policy are paid to the beneficiaries and annuities protect the assured against economic death when he lives too long to arrange for his necessities.

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[1] Dr.Ali Sajid, Mohammad Riyaz, Ahmad Masharique, Insurance in India, Regal Publication New Delhi, Year 2007.
[2] Mehr.R.I,Puri.V.K, India and the World Economy: Himalaya publishing House, Mumbai, 2000.

Life Insurance:

"Life insurance is a contract for payment of a sum of money to the person assured on the happening of the event insured against"[3]. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death, if it occurs earlier.

Among other things the contract also provides for the payment of premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution which eliminates 'risk' substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner. By and large life insurance is civilization's partial solution to the problems caused by death.

The need for life insurance depends on human life value; insurance is a safeguard for living too long or dying too young and reduces the impact of financial loss. Life insurance in short is concerned with two rewards that stand across the life path of every person that of dying prematurely leaving a dependent family to fend for itself and that of living to old age without visible means of support.

Life insurance guarantees full protection against risk of death of the assured. Incase of death full sum assured is payable. Life insurance encourages long-term saving. By paying a small premium in easy installments for a long period a handsome saving can be achieved. Loan can be obtained against a policy assured whenever required. Tax relief in income tax and wealth tax can be availed on the premium paid for life insurance.

1.2 HISTORY OF INSURANCE:

The roots of insurance might be traced to Babylonia where traders were encouraged to assume the risk of the carvan trade through loans that were paid only after the goods had arrived safely a practice resembling bottamry and given legal force in the code of Hammurabi (C.2100.B.C). With the growth of towns and trade in Europe the medieval guilds undertook to protect their members from loss by fire and ship wreck and

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[3] Dr.Ali Sajid, Mohammad Riyaz, Ahmad Masharique, Insurance in India, Regal Publication New Delhi, Year 2007.

to provide decent burial and support in sickness and poverty. By the middle of the 14th century as evidenced by the earliest known insurance contract (Genoa 1347), marine insurance was practically universal among the maritime nations of Europe. In London Lloyd's coffee house (1688) was a place where merchants, ship owners and underwriters met to transact business. By the end of the 18th century, Lloyd's had progressed into one of first modern insurance companies. In 1693, the astronomers Edmony Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest. The table constructed in the year 1756 by Joseph Dodson made it possible to scale the premium rate to age, previously the rate had been the same for all ages.

Insurance developed rapidly with the growth of British trade and commerce in the 17th and 18th centuries. Prior to the formation of insurance corporations devoted solely to the business of writing insurance, policies were signed by a number of individuals each of who writing his name and the amount of risk he was assuming underneath the insurance proposal, hence the term underwriter.

The first joint stock company to engage in insurance was established by charter in England in 1720 and in 1735. The first insurance company in the American colonies was founded at Charfeston. Later, SC Fire Insurance Corporation was founded in New York city in 1787. The Presbyterian Synod of Philadelphia was founded in 1759. This was the first life insurance corporation in America, for the benefit of Presbyterian ministers and their dependents. After 1840, with the decline of religious prejudice against this practice, life insurance entered a boom period. In the 1830s the practice of classifying risk began.

The Workmen's Compensation Act of 1897 in Britain required employers to insure their employees against industrial accidents, public liability insurance, fostered by legislation made its appearance in the 1880s it attained major importance with the advent of the automobile.

1.3 ORIGIN OF LIFE INSURANCE IN INDIA

In 1818 a British firm called the Oriental Life Insurance Company was formed in Calcutta to serve the interest of those who came from Europe. This was followed by the establishment of the Bombay Life Assurance Company in 1823 in Bombay. The Madras

Equitable Life Insurance Society in 1829 and The Oriental Government Security Life Assurance Company in 1874. It is a telling comment on the British view of Indians that prior to 1871, Indian lives were treated as sub-standard and attracted an extra premium of 15 to 20 percent. The Bombay Mutual Life Assurance Society, an Indian insurer formed in 1871, was the first one to charge normal rates for Indian lives.

There were no specific regulations for the life insurance business until 1912, when it came to be formally regulated under the provisions of the Indian Life Assurance Companies Act 1912.In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about both the life and the non-life insurance business including the provident insurance societies. During the period from 1912 to 1930 the insurance business witnessed a setback. A number of changes took place from 1930 to 1938 and the Government of India passed Insurance Act 1938, with comprehensive provisions for the detailed and effective control over the insurers so as to protect the interest of insuring public.

NATIONALISATION OF LIFE INSURANCE BUSINESS

By 1956, as many as 154 Indian insurers 16 non Indian insurers and 75 provident societies have entered the life insurance business in India. However the geographical spread and the number of lives covered were rather small. Insurance companies by and large were governed by short term considerations and consequently the business was confined mainly to cities and the more affluent segments of society. Offering insurance policies to people with small incomes to suit their income and financial position had not even been attempted.

During this period a number of malpractices occurred in the industry causing loss to the unsuspecting public. There were also some instances of mismanagement and mis utilization of the funds collected. Despite the regulatory measures, the private insurance industry suffered from all the maladies such as under-cutting of premiums, unscrupulous management misfeasance falsification of reports questionable investment. The claims settlement ratio was abysmally poor and so was the high rate of expenses and managerial privileges. Winding up of companies was also not totally unknown. This process gathered momentum especially after the First World War and between 1914 and 1920 many insurance companies were closed down causing large losses for the small investors.

The former **Finance Minister Dr.C,D.Deshmukh**[4] said in parliament during the debate on the life insurance bill 1956 that :

"…the industry was not playing the role expected of insurance in a modern state and efforts at improving the standard by further legislation we felt, were unlikely to be more successful than in the past. The concept of trusteeship which should be the corner stone of life insurance seemed entirely lacking. Indeed most management had no appreciation of the clear and vital distinction that exists between trust moneys and those which belong to joint stock companies". Misuse of power position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance".

In the light of these developments the demand for stricter government control of the industry gathered momentum and called for nationalization of insurance business - which almost became a foregone conclusion. Hence nationalization of life insurance business became necessary with a view to:

- Provide for cent percent security to policy holders.
- Ensure the use of life insurance funds for nation building activities.
- Avoid wasteful efforts in competition
- Save the dividends paid to shareholders of insurance companies.
- Avoid certain undesirable policies adopted by the management of some of the insurance companies.
- Spread the gospel of life insurance into the neglected rural areas.

[4] Shri .C.D Deshmukh., Debate in the Parliament, Broadcast in 1956, In Defence of Nationalised LIC & GIC, Vol.1 AIIEA Publication, Year 1994.

1.4 FORMATION OF LIFE INSURANCE CORPORATION OF INDIA:

The Government of India took the first step towards nationalization of life assurance business in India on 19th January 1956 by promulgating an ordinance vesting the management and control of life insurance business of 154 Indian, 16 Non-Indian Insurers and 75 Provident Societies operating in the country. Moreover the companies continued to exist as separate entities and the ownership continued to exist with respective shareholders. On June 18, 1956 they put a bill through the parliament which emerged as the Life Insurance Corporation Act (XXXI of 1956) which was gazette the next day. It came into force in July 1956.

By this act all the assets and liabilities pertaining to the life assurance business in India of all registered Indian Insurers were to be transferred to and vested in the Life Insurance Corporation of India as from the appointed day. According to this act, a corporation called the Life Insurance Corporation of India (LIC) was established which started its career on September 1, 1956. Mr.H.M.Patel of the Indian Civil Service (ICS) and Secretary, Ministry of Finance, was nominated as its First Chairman. At the time of its inception, The LIC had five zonal offices, 33 divisional offices and 212 branches.

Objectives of LIC:

Pandit Jawaharlal Nehru [5], the then Prime Minister expressed confidence that (Lok Sabha debates, 1956)," Its..

………. Objective will be to serve the individual as well as the state. The profit motive goes out of it and the service motive becomes much more dominant. I trust that this corporation will serve an ever-increasing number of our people and will do this work in the true spirit of service. We require life insurance to spread rapidly all over the country and to bring a measure of security to our people".

Dr.Deshmukh, while piloting the bill for nationalization, outlined the objectives of LIC thus:

1. To conduct the business with the utmost economy in a spirit of trusteeship.

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[5] Pandit Jawaharlal Nehru, Lok Sabha debates, 1956, In Defence of Nationalised LIC & GIC, Vol.1 AIIEA Publication, Year 1994.

2. To charge premium no higher than warranted by strict actuarial considerations.
3. To invest the funds for obtaining maximum yield for the policyholders consistent with safety of the capital and
4. To render prompt and efficient service to policyholders thereby making insurance widely popular.

In 1974, LIC formulated its objectives in pursuance of the recommendations of the **Administrative Reforms Commission** [6] as under:

1. Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
2. Maximizing mobilization of people's savings by making insurance linked savings adequately attractive.
3. Deploying the funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
4. Conducting business with utmost economy and with the full realization that the moneys belong to the policyholders.
5. Acting as trustees of the insured public in their individual and collective capacities.
6. Meeting the various life insurance needs of the community that would arise in the changing social and economic environment.
7. Involving all people working in the corporation to the best of their capacity in furthering the interests of the insured public by providing efficient service with courtesy.
8. Promoting among all agents and employees of the corporation a sense of participation pride and job satisfaction through discharge of their duties with dedication towards achievement of corporate objective.

[6] Suminder Kaur Bawa, Life Insurance Corporation, Impact of Privatisation and performance, Regal publications, New Delhi, Year 2007.

1.5 REVIEW OF GENERAL ECONOMIC ENVIRONMENT :

According to 1995 statistics, India has the highest number of life insurance policies in force and the total investible funds with LIC were almost 8% of GDP. The LIC employs more than one lakh employees who in turn supervise through 200 branches and more than five lakh agents. Yet these numbers believe the fact that life insurance in India is spread very thinly and shallowly and its role as a mobiliser of long –term savings is under developed.

Insurance companies in the developed world also sell products for old age income security in form of pensions and annuities. The absence of pension coverage for a vast important gap to be filled by the life insurance sector. LIC largely remains a slow moving, overstaffed behemoth. The phased globalization of the Indian economy that started in the early 1990s began to have its impact on the monopolistic structure of the Indian Insurance industry. The liberalization of insurance market was among the objectives of the Uruguay round negotiations conducted under the auspices of **General Agreement on Trade and Tariff (GATT)**.However ,LIC was put on tits toes when in 1993 , the Government of India appointed a committee headed by **Shri.R.N.Malhotra** [7] to examine the reforms required in the insurance sector.

The Government with the committee came out with the following arguments in justification of liberalization:

1. Insurance penetration and density in the country is low.
2. The country needs massive investments in infrastructure and liberalizing insurance and pensions will help mobilization of long term funds.
3. Allowing foreign companies would help them bring a substantial portion of their world wide premium funds into Indian infrastructure and
4. India is a large economy and a big market with ample space for both private and public sector.

[7] Report of Malhotra Committee on Insurance sector reforms, January 7, 1994.

Government's decision to accept recommendations of the committee on reforms in the insurance sector and to constitute an interim insurance regulatory authority by an executive order in January 1996, to look onto the modifications, the regulatory framework of the insurance sector has resulted in the establishment of a statutory body for regulating the players and in broadening the sector by admission of new players from the private sector. Such a development has had a ripple effect leading to the establishment and development of professional institutions that are connected with the industry.

As more than 42% of the country's current GDP is being generated by service sector, obviously necessary steps are required to be taken to sustain this process of growth and towards this end a coordinated approach is necessary. And insurance industry being a service industry, could prima facie act as an engine of growth. In this regard, the history of development of insurance industry in India has been one of the under performance and under –achievement.

Some basic and fundamental statistics related to the Indian economy, which are relevant to the insurance industry, have been presented in the Table no.1.1 followed by Tables 1.2, 1.3, 1.4 and 1.5, which portray India's Profile, the picture of Indian Insurance market, Comparative data of Insurance Density and Insurance Penetration, Growth of GDP, Gross Domestic Savings in India regarding various countries all over the world. For better understandability bar charts representing these data are also presented.

1.6 INSURANCE SECTOR REFORMS:

In 1993,Malhotra Committee, headed by former Finance Secretary and RBI Governor N.Malhotra, was formed to evaluate the Indian insurance industry and recommended future direction. The Malhotra Committee was setup with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural change currently underway and recognizing that insurance in an important part of the overall financial system where it was necessary to address the need for similar reforms.

Table no: 1.1

India's Profile & Insurance Market In India

Total area	3,287,263 km^2 (1,269,219.3 sq mi)
Land area	90.44%
Water area	9.56 %
States	28
Union Territories	7
Districts	626
Population	1,028,610,328 (1.13 billion)
Urban population	286,119,689 (27.3 %)
Rural population	742,490,639
Population Growth rate	1.93
Sex Ratio 2008	933
Density of Population	313 per km^2
Literacy rate	64.84%
Life Expectancy (2002-est)	
Total Premium	
- (Life and non-life)	Rs.252143.10 crore
- Life	Rs.221791.26 crore
- Non-Life	Rs.30351.84 crore
World premium *	
- (Life and Non-life)	USD 4270 billion
- Life USD	2491 billion
- Non-Life	USD 1779 billion
Inflation adjusted growth in Total	13.0
Premium in India	(35.0 percent in 2006-07)
Growth in Premium (world) unwritten 2007-08	Life: 5.4 percent Non-Life: 0.7 percent
Geographical restriction for new players	None
Equity restriction	Foreign promoter can hold Up to 26 % of the equity
Registration restriction	Composite registration not available

Source: IRDA Annual Reports 2001- 2007: 08

Table 1.2

International Comparison (Insurance Density)

Life Insurance

(Premiums per capita in US$)

Countries (1)	1999 (2)	2000 (3)	2001 (4)	2002 (5)	2003 (6)	2004 (7)	2005 (8)	2006 (9)	2007 (10)	2008 (11)
US	1446.6	1611.4	1602.0	1662.6	1657.5	1692.5	1753.2	1731.8	1922.0	1900.6
Canada	674.6	757.2	675.9	657.3	722.9	926.1	1071.9	1024.1	1386.8	1442.7
Brazil	11.8	12.9	10.8	27.2	35.8	45.9	6.4	7.7	7.7	7.6
Mexico	41.3	50.8	53.2	59.2	41.3	50.2	49.9	62.9	71.8	71.8
Chile	114.3	126.0	122.1	103.5	138.3	164.5	174.9	176.0	228.0	220.0
UK	2502.8	3028.5	2567.9	2679.4	2417.1	3190.4	3287.1	5139.6	5730.5	5582.1
Germany	762.2	683.0	674.3	736.7	930.4	1021.3	1042.1	1136.1	1234.1	1346.5
France	1392.3	1437.4	1268.2	1349.5	1767.9	2150.2	2474.6	2922.5	2928.3	2791.9
Russia	9.9	19.5	33.2	23.1	33.9	24.8	6.3	4.0	6.1	5.4
Japan	3103.4	3165.4	2806.4	2783.9	3002.9	3044.0	2956.3	2829.3	2583.9	2869.5
South Korea	760.5	935.6	763.4	821.9	873.6	1006.8	1210.6	1480.0	1656.6	1347.7
PR China	8.3	9.5	12.2	19.5	25.1	27.3	30.5	34.1	44.2	71.2
India	**6.1**	**7.6**	**9.1**	**11.7**	**12.9**	**15.7**	**18.3**	**33.2**	**40.4**	**41.2**
Malaysia	78.1	86.4	129.5	118.7	139.8	167.3	188.0	189.2	221.5	225.9
Indonesia	4.4	4.0	3.6	5.2	6.4	7.5	10.5	12.5	20.4	20.1
South Africa	413.0	392.9	377.2	360.5	476.5	545.5	558.3	695.6	719.0	707.0
Nigeria	0.2	0.4	0.5	0.5	0.6	0.7	0.5	0.8	0.9	0.9
Kenya	2.4	2.4	2.9	3.0	3.4	3.7	4.5	5.3	6.1	6.0
Australia	1333.6	1193.5	1040.3	1010.4	1129.3	1285.1	1366.7	1389.0	1674.1	1700.0

Source: IRDA Annual Reports 2001- 2007: 08

Table 1.3

International Comparison (Insurance Penetration)

Life Insurance

(Premiums as percentage of GDP)

Countries (1)	**1999 (2)**	**2000 (3)**	**2001 (4)**	**2002 (5)**	**2003 (6)**	**2004 (7)**	**2005 (8)**	**2006 (9)**	**2007 (10)**	**2008 (11)**
United States	4.23	4.48	4.40	4.60	4.38	4.2	4.14	4.00	4.20	4.10
Canada	3.19	3.27	2.97	2.81	2.63	2.9	3.05	3.10	3.20	3.20
Brazil	0.35	0.36	0.36	1.05	1.28	1.3	1.33	1.30	1.40	1.40
Mexico	0.82	0.86	0.86	0.94	0.78	0.7	0.68	0.80	0.90	0.90
Chile	2.65	2.92	2.93	2.53	2.61	2.5	1.82	1.80	2.20	2.10
UK	10.30	12.71	10.73	10.19	8.62	8.9	8.90	13.10	12.60	12.80
Germany	2.96	3.00	3.00	3.06	3.17	3.1	4.80	4.70	3.10	3.00
France	5.70	6.59	5.73	5.61	5.99	6.3	8.36	6.50	7.30	6.20
Russia	0.78	1.13	1.55	0.96	1.12	0.6	0.12	0.10	0.10	0.00
Japan	8.87	8.70	8.85	8.64	8.61	8.26	8.32	8.30	7.50	7.60
South Korea	8.39	9.89	8.69	8.23	6.77	6.7	7.27	7.90	8.20	8.00
PR China	1.02	1.12	1.34	2.03	2.30	2.2	1.78	1.70	1.80	2.20
India	**1.39**	**1.77**	**2.15**	**2.59**	**2.26**	**2.5**	**2.53**	**4.10**	**4.00**	**4.00**
Malaysia	2.16	2.13	3.38	2.94	3.29	3.5	3.60	3.20	3.10	2.80
Indonesia	0.66	0.54	0.53	0.66	0.66	0.63	0.82	0.80	1.10	0.90
South Africa	13.92	14.04	15.19	15.92	12..96	11.43	10.84	13.00	12.50	12.50
Nigeria	0.07	0.13	0.14	0.11	0.14	0.17	0.09	0.10	0.10	0.10
Kenya	0.78	0.72	0.82	0.81	0.78	0.82	0.78	0.80	0.80	0.80
Australia	6.43	6.04	5.70	5.02	4.42	4.17	3.51	3.80	3.80	3.80

Source: IRDA Annual Reports 2001- 2007: 08

Table No:1.4

Growth of GDP,Gross Domestic Savings in India

Year	GDP Rs.in crores at market prices	Gross Domestic Savings Rs. In Crores at current prices	Gross Domestic Savings as % of GDP at current market prices	Household savings	Percent of penetration of Life Insurance
Base year 1999-2000					
1999-2000	19,52,036	4,84,256	24.81	4,12,516	1.77
2000-2001	21,02,314	4,99,033	23.74	4,54,853	2.15
2001-2002	22,78,952	5,34,885	23.47	5,04,165	2.59
2002-2003	24,54,561	6,64,521	26.34	5,63,240	2.26
2003-2004	27,54,620	8,20,685	29.79	6,64,064	2.50
2004-2005	31,49,407	9,97,873	32.41	7,16,874	2.53
Base year 2004-2005					
2004-2005	32,39,224	10,44,280	33.45	7,55,445	4.10
2005-2006	37,06,673	12,26,046	34.61	8,58,705	4.00
2006-2007	42,83,979	14,74,788	36.85	9,80,195	4.00
2007-2008	49,47,857	18,01,469	32.21	11,20,221	4.00
2008-2009	55,74,448	18,11,585	33.70	NS	4.00

2007-08 data are Provisional, 2008-09 are based on Quick Estimates. Source : RBI

Table 1.5

Insurance Penetration: International Comparison

Country/Region	2003	2004	2005	2006	2007	2008
India	2.26	2.53	2.53	4.10	4.00	4.00
Asia	5.74	5.58	5.16	5.00	4.60	4.20
World	4.59	4.55	4.34	4.50	4.40	4.10

Source: IRDA Annual Reports 2001- 2007: 08

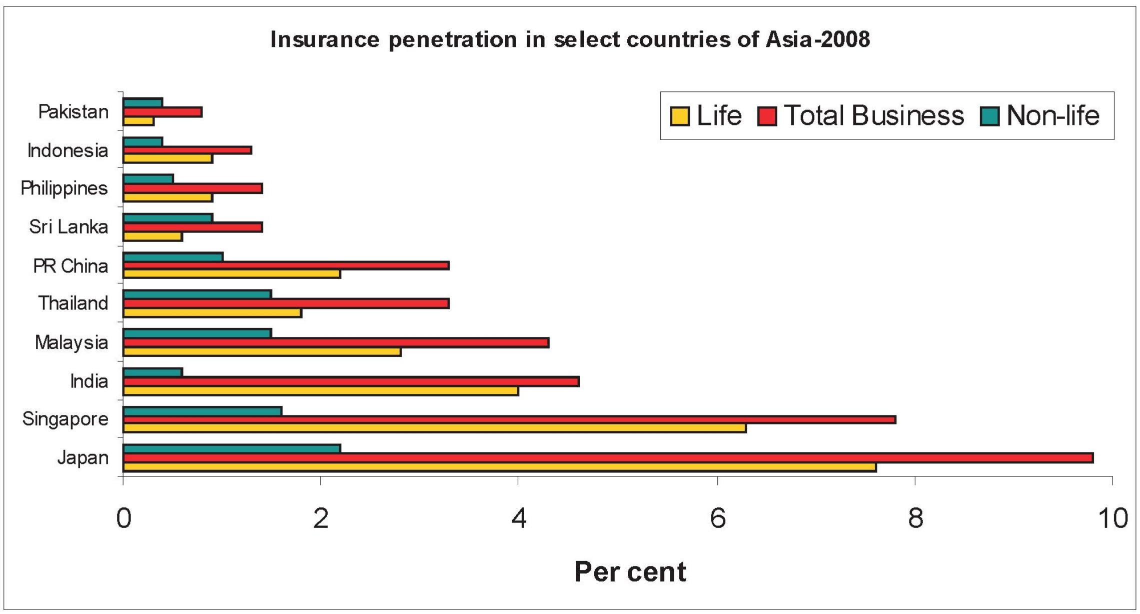
Table 1.6

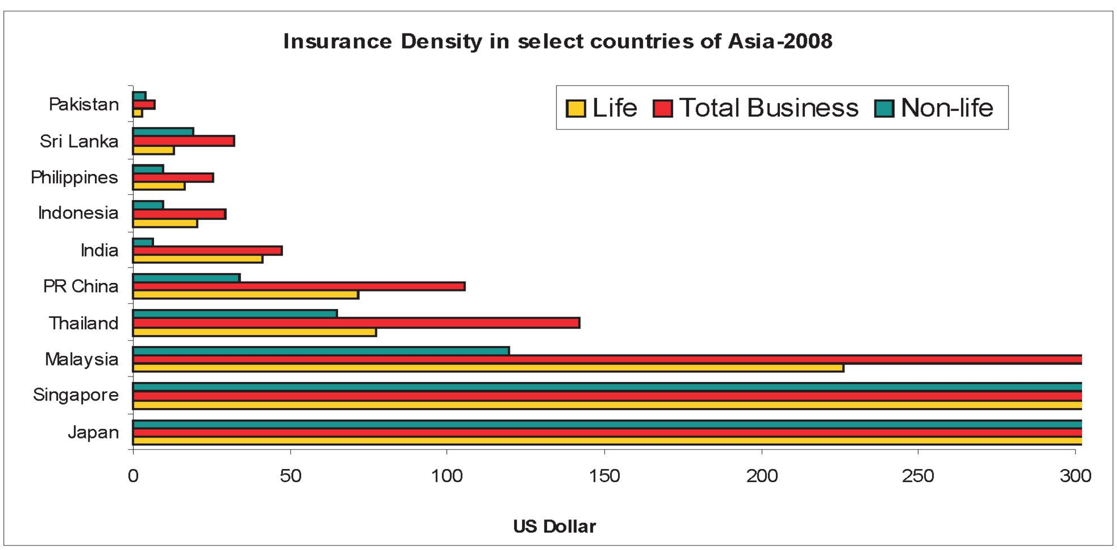
Insurance Density: International Comparison

Country/Region	2003	2004	2005	2006	2007	2008
India	12.9	15.7	18.3	33.2	40.4	41.2
Asia	140.1	147.2	149.6	154.6	156.7	155.3
World	267.1	291.5	299.5	330.6	358.1	369.1

Source: IRDA Annual Reports 2001- 2007: 08

Chart No: 1.1 & 1.2





In 1994 the committee submitted the report and some of the key recommendations included :

i) Structure:

- Government stake in the insurance companies to be brought down to 50%.
- Government should take over the holdings of GIC and its subsidiaries so that subsidiaries can act as independent corporations.
- All the insurance companies should be given greater freedom to operate.

ii) Competition:

- Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.
- No company should deal in both life and general insurance through a single Entity.
- Foreign companies may be allowed to enter the industry in collaboration with domestic companies.
- Postal life insurance should be allowed to operate in the rural market.
- Only one state level life insurance company should be allowed to operate in each state.

iii) Regulatory Body:

- The Insurance Act should be changed.
- An insurance regulatory body should be set up

- Controller of insurance should be made independent (currently a part from the Finance Ministry)

iv) Investments:

- Mandatory investments of LIC life fund in government securities to be reduced from 75% to 50%.
- GIC and its subsidiaries are not to hold more than 5% in any company.

v) Customer Service:

- LIC should pay interest on delays in payments beyond 30 days.
- Insurance companies must be encouraged to set-up unit.

vi) Linked pension plans.

- Computerization of operations and updating of technology to be carried out in Insurance industry.

1.7 INSURANCE REGULATORY AUTHORITY

On the recommendations of Malhotra Committee Indian Parliament passed Insurance Regulatory Development Act (IRDA) in the year 1999. Its main aim is to activate an insurance regulatory authority essential for proper monitoring and control of the Insurance industry. Due to this act several Indian private companies have entered in the insurance market and some companies have joined with foreign partners.

Mission statement of IRDA

- To protect the interest of and secure fair treatment to policy holders
- To bring about speedy and orderly growth of the insurance industry for the benefit of the common man and to provide long term funds for accelerating growth at the economy.
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates
- To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard
- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.
- To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players
- To take action where such standards are inadequate or inefficiency enforced and
- To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

Reclassification of Rural Business by IRDA :

Life Insurance Corporation of India pegs its rural business at over 50 percent of its total premium collection during 1999-2000.According to **N.Rangachary,IRDA Chairman ,the LIC** has been calculating its rural business on the basis that whatever is not urban can be termed as rural .

i) The IRDA, in its regulations on the obligations of insurers to the rural social sector, has said that '**rural area'** shall mean any place as per the latest census which has:

- ✓ a population of not more than 5,000.
- ✓ a population density of not more than 40 per sqkm
- ✓ at least 75 per cent of the male working population is engaged in agriculture

ii) IRDA's `**social sector'** definition includes the unorganised sector, the informal sector, the economically vulnerable or backward classes and other categories of persons, both in the rural and the urban areas.

iii) According to the IRDA guidelines, every life insurer, which is in the insurance business after commencement of the IRDA Act, 1999, has to allocate five per cent of its business to the rural sector in the first financial year, seven per cent in the second financial year, 10 per cent in the third financial year, 12 per cent in the fourth fiscal and 15 per cent in the fifth fiscal.

iv) **`Unorganised sector'** as defined by the IRDA includes self-employed workers such as agricultural labourers, 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, powerloom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, safai karmacharis, salt growers, sericulture workers, sugarcane cutters, tendu leaf collectors, toddy tappers, vegetable vendors, washerwomen, working women in the hills, or such other categories of persons, economically vulnerable or backward classes or those who live below the poverty line.

v) IRDA has again relaxed the definition of Rural India to include 10,000 to 5.8 lakh more villages.

1.8 APPRAISAL OF LIFE INSURANCE INDUSTRY IN INDIA

In a period of half a century and less, the insurance sector in the country has come a full circle, from being an open competitive market to full nationalization and then back again to a liberalized market, in which private players and public sector companies are on a level of playing field. It becomes imperative at this instance to appraise the performance of life insurance market in two segments both proceeding and succeeding sectoral reforms.

Table No:1.7

A) Appraisal of LIC performance from nationalization till sectoral reforms

S NO	PERFORMANCE INDICATORS	31.12.57	31.3.93
1	New Business (Sum Assured)	Rs.336.67 crs	Rs.36115.80 crs
2	New Business (No. of policies)	9.42 lakhs	99.68 lakhs
3	Rural New Business (Sum Assured)	Rs. 182.59 crs (as on 31.12.61)	Rs. 14085.03 crs
4	Rural New Business (No. of policies)	5.34 lakhs (as on 31.12.61)	44.39 lakhs
5	Percentage of Rural business to Total sum assured	30.49	39.2
6	Percentage of Rural business to Number of policies	36.53	44.6
7	In force policies i) Number of policies ii) Sum Assured	 56.86 lakhs Rs.1474.00 crs	 566.79 lakhs Rs. 178120.07 crs
8	First Year Premium income	Rs. 13.72 crs	Rs. 1616.58 crs.
9	Renewal premium	Rs.74.35 crs	Rs. 5567.36
10	Total Premium Income	Rs. 88.65 crs	Rs. 7987.24 crs
11	Investment income including miscellaneous income	Rs. 19.3 crs	Rs.4257.00 crs
12	Total Income	Rs. 107.15 crs	Rs.12244.23 crs
13	Life Fund	Rs.410.40 crs	Rs.40998.29 crs
14	Interest realized on life fund	3.74 %	11.56 %
15	Claims : Death , Maturity ,Surrender etc.	Rs.34.00 crs	Rs.3580.83 crs
16	No. of complaints per 1000 policies serviced	1.1	0.26

17	Percentage of Outstanding claims to total claims	38.5% as on 31.3.63	5.27%
18	Total No. of staff	30768	114927
19	Average No. of policy serviced per employee (class III)	290	784
20	Salary payments as a percentage of total income	Rs. 12.21 crs	Rs. 799.84 crs
21	Overall Expense Ratio	27.3%	22.89 %
22	Renewal Expense ratio	15.89 %	5.37 %
23	5 % of valuation surplus paid to government	Rs. 1.45 crs (for 16 mths)	Rs.117.6 crs
24	Total Valuation surplus paid	-	Rs. 754.05 crs
25	Income Tax paid	Rs. 4.92 crs	Rs.326.60 crs (for 1991-92)
26	Investment Public sector Coop sector Private sector	 Rs. 255.12 crs - Rs. 74.61 crs	 Rs. 28983.24 crs Rs. 1657.56 crs Rs. 5681.31 crs
27	Sector wise distribution of Investments Public sector Co op sector Private sector	 77.37 % - 22.63%	 79.8 % 4.6 % 15.6 %
28	Socially purposive Investments	Rs.8 crs	Rs.16608 crs

Source : In Defence of Nationalised LIC & GIC,Vol.1 AIIEA Publication,Year 1994.

B) Appraisal of ten years of liberalization of life insurance market in India

The Indian insurance industry has registered impressive growth in the past one decade. Many private players entered the market and most of the companies have entered as joint ventures with participation of a foreign partner holding 26% of the total paid-up equity capital. While four private sector companies had underwritten life business during the financial year 2000-01, the number of private players competing for business during the year 2001-02 alone increased to eleven and as of now, 2008-09 it numbered twenty one in total. The following table gives the total number of insurance companies in India in the year 2011.

Table No: 1.8

REGISTERED INSURERS IN INDIA

Type of business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General Insurance	6*	18**	24
Re-insurance	1	0	1
Total	**8**	**41**	**49**

Source : IRDA Annual Report 2008-09

The life insurance grew at a very fast pace with new business premium increasing from Rs. 19857.28 crore in 2001-02 to Rs. 87006 crore in 2008-09.The growth continues and for the current financial year with new premium touching Rs.75347.27 crore as at 31st January 2010, similarly the total premium income increased from Rs. 221791 crore in 2008-09. The total assets under management rose to Rs. 931000 crore as at the end of 31st march 2009[109].

The premium mobilized through life insurance as a present of GDP has touched 4.1% [9] in 2008-09. The opening up of the sector to the private players witnessed the introduction of a number of new products deserving the attention of the customers and possibly the Indian insurance market is one of the fastest growing markets.

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[*] Includes specialized insurance companies - ECGC and AIC .
[**] Includes two Stand alone Health Insurance Companies-Star Health & Allied Insurance Co. and Apollo DKV.
[8] Shri T.S. Vijayan ,Chairman LIC,Interview in Business Standard.
[9] Finance Minister Pranab Mukherjee ,LIC Contributes 4% to the country’s GDP Economic Times, National seminar on,” A Decade of Liberalised Insurance Sector –Away Ahead” Andra University, Insurance worker, April 2010.pp 19-25.

But the happenings of the world during the year 2008 brought a new experience that also has to be taken into consideration. The crisis which has engulfed the financial sector of the US has far reaching implications both for the international economic order underlying globalization especially the global financial architecture as well as the policy regimes in developing countries.Countries like India were told to emulate the US financial system and integrate with the international financial markets in order to benefit from the globalization of finance.

At this juncture happened the first jolt in the US economy, the stock market crash and collapse of the IT boom in the year 2000.This led to the recession in the US in 2001 which caused a global slowdown. Liberalized rules for banks coupled with easy liquidity conditions enabled mortgage lending banks to adopt reckless lending strategies, fuelling housing demand. In order to push up their credit business, these mortgage lenders indulged in sub-prime lending, giving housing loans even to those borrowers whose ability to repay the loans were doubtful. These loans were then packaged into securities and were sold off to other financial institutions like the wall street based investment banks and hedge funds, in complex transactions that were made possible by financial deregulation in United States.

The assumption underlying financial deregulation was that financial innovations would enable the mortgage lenders and banks to insulate themselves against loan defaults by spreading the risks associated with these loans. This, however was a flawed assumption since spreading of risks through complex derivatives cannot make the risk disappear completely. Eventually a full blown crisis surfaced in the US in 2006 when the housing bubble went burst. Sharp fall in the property prices led to the collapse of hundreds of mortgage lenders engaged in sub prime lending, with even the largest mortgage lender in US, countrywide financial heading towards bankruptcy .This had a deepening impact when the list of investment banks and leading insurance companies were marked bankrupted. Among them were Lehman Brothers, the fourth largest investment bank in US, Merill Lynch, Bear Sterns, Fannie Mae, Freddie Mac and the world largest insurance company AIG managed to survive only after the injection of $

180 billion[10] from the US government .Similar problems were faced by OECD countries, which also witnessed similar real estate bubbles over the past decade .

Hence out of these significant events occurring in the US and other advanced developed economies, there arise the need for policy makers of India to rethink their economic strategy, as this has been a period of two decades of globalization of finance. The global financial turmoil witnessed today should also be considered to safeguard the interest of Indian financial system.

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[10] Prasenjit Bose ,“ Financial Crisis in the US: Lessons for Indian Policymakers”,People’s Democracy, Oct 2008, Pg no: 20-26.