PRIVATISATION OF INSURANCE INDUSTRY IN INDIA

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As a result of the General Agreement on Tariff and Trade (GATT), many nations are to open up the market and financial services, one of the vital segments include insurance industry. The days of the controlled economy are over and the dawn of open market is being heralded all over the world. The global trend takes in its sweep the liberalisation of the economic activities allowing free market access and the forces of open market to prevail. Thus,India too has to go with the rest of the world market and free itself from four decades of socialist economy. Inevitably, the public sector industries have to be privatised so as to integrate the country's trade and business with the world trade. While it is the logical development, it is equally essential to appreciate the historical perspective of the Insurance Industry in India over the years to ensure effective privatisation.

Steady growth in the 19th century

Insurance business was established in India at the beginning of the19th century. In Calcutta, the then headquarters of the East India Company, a few insurance companies were started between 1793 and 1810. In the year 1818, Oriental Life Assurance Company was established, followed by Bombay Life Assurance Company in 1823 and Madras Equitable Life Insurance Society in 1829. Alliance British and Foreign Fire Insurance Company commenced an Agency office at Madras in 1825 to transact Fire Insurance. Other foreign offices, mainly British, gave agency representations to British trading houses dealing in Tea estates, Sugar factories, coal mines, Jute mills, Cotton mills etc. By 1885, about 50 foreign companies transacted insurance business through Agency houses.

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Towards the end of 19th century, Indian businessmen in western India started taking active interest in Insurance as brokers. During this period, insurance transactions were confined to metropolitan cities of Bombay, Calcutta and Madras. These were gradually extended to other areas as industries developed. There was keen competition for business among agency houses and brokers leading to unhealthy practices. They had to face common problems and therefore formed an Association of Agents in Bombay, Calcutta and Madras around 1890. Earlier, underwriters' Association had come into existence. As trade and industry developed Agency offices were converted as Branch offices of the British companies. A few American companies too started operation in the early part of the 20th century. At this stage, the freedom struggle and "Swadeshi movement" gained momentum which saw the birth of Indian insurance companies. By the end of the first world war, seven of the largest Indian insurance offices were established. The political and economic conditions of the time attracted government intervention resulting in the insurance reform and in 1938 Indian Insurance Act was passed to bring about goverment control over insurers, foreign and Indian. It was a landmark in the history of the Indian insurance industry.

Government control following legislation

The period between 1940 and 1950 witnessed steady growth of Indian Insurance. During the second world war period, 10 composite companies (Life and General) and 15 General Insurance companies were reestablished as a result of increase in insurance potential. During this period, industrial houses, banks and insurance companies were closely interlocked through common owners which had unhealthy influence on the insurance market as a whole. The situation led to the appointment of Cowasji Jehangir Committee whose investigations resulted in the amendment of the Insurance Act 1938, imposing limitations of expenses of management, commissions payable to principal and ordinary Agents. The Aet also established a statutory Association of Insurers called Insurance Association of India with Indian companies as Members and foreign companies as Associate Members. The Association had two councils, Life Insurance Council and General Insurance Council, to aid and advise insurers in rendering efficient services to policyholders and set up standards

of conduct and sound practice. The objective of this machinery was to create a collective sense of responsibility among the insurance companies and act as a statutory machinery to advise the Goverment in the matter of control and supervision of insurance companies.

Socialistic pattern and nationalisation

The period from 1951 was marked by rapid development of insurance business as a result of Five year plans of the Government. The Policy then was to build a socialistic pattern of society. Life Insurance was nationalised in 1956 and Life Insurance Corporation was set up by an Act of Parliament. In 1964 L.I.C. entered into general insurance business as well. With the increasing pressures from trade union and with the nationalisation of major Banks, the Goverment took over the management of general insurance business in 1971 and, eventually, in 1973, established General Insurance Corporation and its 4 subsidiary insurance companies.

Impressive growth of Life Insurance business

Since nationalisation, L.I.C. has built a huge life Fund of the order of Rs41,000 crore as on 31/3/1993. (1crore = 10 million). It has a network of 1906 Branches, 93 Divisions and 7 Zonal offices spread all over the country. L.I.C. has foreign offices also in a few countries-United Kingdom, Fiji, Mauritius, Bahrain, Kenya etc-. New Business in India has registered phenomenal growth over the years as is seen from the data given in Table I at the end. From 9.5 lakhs number of Policies in the year of nationalisation to 93.6 lakhs Policies in the year 1992-93; Sum Assured from Rs 329.3 crore to Rs35,956.8 crore, First-year Premium from Rs13.1 crore to Rs1,609.2 crore-etc.-these speak loudly of the growth. Similarly business in force and the Life Fund have shown tremendous growth as can be seen from Table II. Number of Policies in force grew by more than 10 times, S.A in force by 129 times, Premium by 87 times and Life Fund by 108 times!. A very impressive performance over the years by any standards indeed. Table III shows the earnings of the Fund, Yield and the valuation surplus share of the Government (Capital provided Rs. 5 crore) which show the financial strength of the Corporation. Over the years LIC's presence was felt in the rural areas

too. In fact 45% of the new business was from the rural sector in the year 1992-93 LIC also administers group insurance schemes for weaker sections of society.

Steady progress in the non-Life sector

In the General insurance sphere, growth has been steady since nationalisation; Gross Domestic Premium which was Rs184 crore in 1973, has grown to Rs3,792 crore in 1992-93 (as per Table IV), about 20 times growth over the years. Table V given at the end shows the different indicators of performance of the general insurance industry which speak eloquently of the industry's position. Table VI shows the growth of investment during 1973 to 1993 which is, indeed, creditable. In fact the insurance industry as a whole (both Life and General) are subject to certain government controls on the investments with a view to meet the socio-economic goals of the government, which the industry has laudably achieved. Another significant factor is the building up of the large number of professionally-qualified personnel in Life and General and the setting up of staff training centers and National Academy.

Operational drawbacks

Thus, it could be seen that the nationalised insurance industry both Life and General has been a success story from the point of view of growth, spread and financial stability besides the significant contribution to the nation-building efforts of the government. But these fine features fade away before the insensitivity to customers at operational levels. An atmosphere of fear in the minds of decision makers at various levels appears to have been generated by the operations of vigilance and audit systems over the years, which greatly stifle the initiative and enthusiasm of employees at all levels. Commercial nature of the organisation of the industry has been slowly converted into one of indifferent bureaucracy. Added to these constraints, is the strong presence of trade unions-a multiplicity of unions of employees and associations of managerial persons-each vying with the other to protect the respective interests, rights and privileges, not to speak of the occasional political and governmental influences on the operations. Perhaps these are the inevitable concomitants

to any business run by Government itself. Not surprisingly the advocates of free economy preach, in the words of former British Prime Minister Ms Thatcher, "Government's business is not to do business but to govern!."

Privatisation proposal

The Government of India appointed a committee on reforms in the insurance sector in April 1993 which has made the folowing seven recommendations:

I) The private sector should be allowed to enter insurance business. No single company should be allowed to transact both life and general insurance business. The number of new entrants should be controlled.

II) The minimum paid-up capital for a new entrant should be Rs 100 crore. However, a lower capital requirement can be prescribed for state level cooperative institutions taking up life insurance business.

III) The promoters' holding in a private insurance company should not exceed 40% of the total. However, if the promoters wish to start with a higher holding, they should be permitted to do so provided their holding is brought down to 40% within a specified period of time through public offering. No person other than the promoters should be allowed to hold more than 1% of the equity. Promoters should at no time hold less than 26% of the paid-up capital.

IV) If and when entry of foreign insurance companies is permitted, it should be done on selective basis. They should be required to float an Indian company for the purpose, preferably in joint venture with Indian partner.

V) Before the private sector is allowed to enter the insurance field, the Controller of Insurance should start functioning effectively.

VI) Regulatory and prudential norms as well as conditions for ensuring level playing fields among insurers should be finalised early so that life insurers do not neglect the small man or the rural business and that the general insurers have balanced portfolios.

VII) Though nationalised insurance companies are in a position to face competition, it is essential that they quickly upgrade their technology, reorganise themselves on more efficient lines and are enabled to operate as board-run enterprises.

Level playing by Public and Private sectors

The studied recommendations are very realistic and the government is expected to consider the recommendations and come out with its decisions on the question of liberalising the insurance market. Though the various interested sectors may have various views on the recommendations, dispassionate view keeping in mind the historical development of insurance in India over the century will certainly go along with these recommendations. These take good care of the useful lessons learnt from the past developments of the industry and look to the world trend as well. In sum it goes to strengthen the basic philosoply of mixed economy permitting private and public sectors to play, and play they must in a level playing field!. After all the good features of both the sectors have to be drawn out fully for the benefit of the consumer-the ultimate judge.

TABLE I

Life Insurance Corporation of India

New business in India - Individual Assurances

Year	No.of Policies (in lakh)	Sum Assured (Rs.in Cr.)	First Yr. Premium Income (Rs.in Cr.)
1957*	9.5	329.3	13.1
1958	9.5	339.1	13.4
1959	11.4	419.7	17.2
1960	12.5	487.8	19.7
1961	14.6	598.8	22.6
1962-63#	17.6	734.7	30.1
1963-64	16.4	692.6	28.4
1964-65	14.4	690.0	8.9
1965-66	15.5	789.3	30.9
1966-67	14.1	757.9	31.4
1967-68	14.2	835.4	33.6
1968-69	14.5	920.7	37.4
1969-70	14.0	979.8	40.9
1970-71	16.1	1215.6	48.0
1971-72	19.0	1498.1	60.3
1972-73	20.2	1726.1	71.6
1973-74	20.5	1912.9	82.2
1974-75	18.5	1760.9	82.7
1975-76	20.1	2104.0	94.2
1976-77	20.5	2095.4	98.5
1977-78	18.5	2004.9	97.2
1978-79	17.6	2057.4	103.4
1979-80	21.0	2733.1	130.0
1980-81	19.5	2882.7	142.2
1981-82	21.0	3478.9	157.6
1982-83	22.3	3974.4	180.3
1983-84	23.7	4387.0	190.0
1984-85	27.0	5375.9	224.4
1985-86	32.9	7056.1	285.2
1986-87	38.7	9067.5	371.9
1987-88	46.9	12434.5	523.1
1988-89	59.8	17222.8	713.3
1989-90	73.9	23219.5	976.7
1990-91	86.5	28139.1	1192.0
1991-92	92.4	32064.4	1398.8
1992-93	99.6	35956.8	1609.2

N.B. (1) Figures for years from 1956 to 1968-6969 are inclusive of group schemes business as separate figures for these years are not available.

(2) Figures are inclusive of direct business from foreign countries on Indian register.

**From 1.9.1956 to 31.12.57 (16 months)*
** From 1.1.62 to 31.3.63 (15 months)*

TABLE II

Life Insurance Corporation of India

Business in Force (in India) - Individual Assurances

As at	No.of policies (in lakh)	Sum Assured (Rs in cr)	Prem. Income (Rs in cr)	Life Fund (Rs in cr)	Average Sum Assured (Rs)
31.12.1957	54.2	1375	81.7	378.0	2536
31.12.1958	59.7	1584	68.8	412.6	2651
31.12.1959	66.8	1862	79.9	457.5	2780
31.12.1960	74.6	2176	92.6	519.7	2918
31.12.1961	83.4	2623	107.6	588.3	3147
31.03.1963	92.6	3054	144.2	674.3	3298
31.03.1964	101.2	3458	141.8	760.1	3417
31.03.1965	106.7	3774	157.3	847.5	3537
31.03.1966	114.1	4282	175.4	930.9	3753
31.03.1967	120.0	4606	191.4	1064.2	3828
31.03.1968	126.4	5116	207.5	1202.6	4046
31.03.1969	133.5	5606	229.4	1374.8	4201
31.03.1970	139.4	6303	254.9	1552.1	4521
31.03.1971	146.9	6952	279.1	1765.0	4732
31.03.1972	157.1	8082	323.3	2010.0	5144
31.03.1973	167.9	9204	372.4	2300.5	5481
31.03.1974	179.4	10725	434.4	2643.7	5977
31.03.1975	187.5	11728	486.9	2970.9	6257
31.03.1976	196.1	13248	543.0	3381.6	6757
31.03.1977	202.8	14371	597.6	3891.0	7088
31.03.1978	207.1	15698	647.5	4443.7	7581
31.03.1979	211.7	16743	710.9	5062.4	7908
31.03.1980	220.4	19114	802.8	5764.2	8673
31.03.1981	227.6	20923	888.1	6583.5	9194
31.03.1982	236.0	23998	1006.6	7513.9	10167
31.03.1983	243.8	26264	1108.2	8583.7	10774
31.03.1984	252.7	30266	1228.9	9740.2	11977
31.03.1985	264.8	33785	1404.6	11126.0	12760
31.03.1986	279.9	40404	1609.1	12588.0	14436
31.03.1987	298.0	47906	1884.8	14405.6	16075
31.03.1988	323.5	58798	2336.9	16524.0	18178
31.03.1989	360.8	74129	2938.0	19450.0	20546
31.03.1990	403.4	94408	3812.3	23327.6	23404
31.03.1991	455.1	118651	4777.3	28221.1	26073
31.03.1992	508.6	145929	5945.9	34423.8	28691
31.03.1993	566.1	177268	7146.2	40706.4	31313

Note: Figures as on 31.12.57 to 31.3.1970 are inclusive of group schemes as separate figures are not available.

TABLE III

Life Fund, Investment Income and Share of Central Government in valuation surplus
(Business in India)

(Rs in Crore)

Year	Life Fund (in India)	Interest Dividend and Rents etc.	Yield Gross %	Central Govt.share of Valuation Surplus
1957#	378.0	18.5	3.7	1.5
1958	412.6	14.8	4.5	--
1959	457.5	15.8	4.5	--
1960	519.7	18.5	4.6	1.3
1961	588.3	21.6	4.8	1.7
1962-63*	674.3	30.7	4.8	1.3
1963-64	760.1	30.1	5.1	--
1964-65	847.5	37.9	5.3	3.1
1965-66	930.9	43.4	5.5	--
1966-67	1064.2	58.4	5.8	3.6
1967-68	1202.6	59.0	5.9	--
1968-69	1374.8	67.9	5.9	4.8
1969-70	1552.1	78.4	6.1	--
1970-71	1765.0	91.9	6.3	5.8
1971-72	2010.0	104.6	6.3	--
1972-73	2300.5	126.3	6.6	7.6
1973-74	2643.7	148.2	6.8	--
1974-75	2970.9	173.8	6.9	9.1
1975-76	3381.6	200.9	7.1	--
1976-77	3891.0	265.9	7.6	12.7
1977-78	4443.7	305.1	7.5	--
1978-79	5062.4	351.6	7.6	18.7
1979-80	5764.2	415.1	7.9	--
1980-81	6583.5	492.8	8.2	26.1
1981-82	7513.9	583.0	8.6	--
1982-83	8583.7	684.8	8.8	39.2
1983-84	9740.2	812.6	9.2	--
1984-85	11126.0	950.6	9.5	52.8
1985-86	12588.0	1127.0	9.9	29.1
1986-87	14405.6	1334.2	10.3	39.2
1987-88	16526.0	1557.2	10.5	47.6
1988-89	19450.0	1884.8	11.0	59.4
1989-90	23327.6	2278.3	11.1	75.7
1990-91	28221.1	2820.6	11.4	89.5
1991-92	34423.8	3573.9	12.0	104.6
1992-93	40706.4	4157.4	11.6	117.6

 # For 16 months ended 31.12.1957 ** For 15 months ended 31.3.1963*

TABLE IV

GIC and its subsidiaries
Total Gross Direct and Net Premium (In India and abroad): 1973-1993

(Rs in lakh)

Year	Gross Direct Premium	Net Premium	%
1973	18426	17036	92.5
1974	21999	18661	84.8
1975	25375	21749	85.7
1976	28651	24484	85.5
1977	30606	25393	83.0
1978	34305	28766	83.9
1979	38768	32270	83.2
1980	46939	38509	82.0
1981	58514	48859	83.5
1982	72333	59878	82.8
1983	85700	73129	85.3
1984	99116	85031	85.8
1985	115776	98311	84.9
1986	136056	114245	84.0
1987	156452	131971	84.4
1988-89*	224781	197079	87.7
1989-90	217443	190926	87.8
1990-91	279570	241917	86.5
1991-92	328722	294528	89.6
1992-93	379207	328415	86.6

Net premium income of an insurer denotes gross direct premium income plus premiums receivable on reinsurances accepted minus premiums payable on reinsurances ceded.

** For 15 months ending 31.3.1989.*

TABLE V

GIC and Subsidiaries
Financial performance: 1973-93

(Rs in Lakh)

Indicators	1973	1980	1985	1990-91	1991-92	1992-93
1. Net Premium Income	22234	48051	119050	274240	345013	386845
2. Net claims payable	11293	29578	79494	189812	230299	283918
% to Net Premium	50.8	61.6	66.8	69.2	66.8	73.4
3. Net Commission, Expenses of Management & other charges	6800	12138	28661	65183	80224	90809
% to Net Premium	30.6	25.3	24.1	23.8	23.3	23.5
4. Unexpired Risk Reserve Increase/Decrease(-)	2312	4854	9653	31062	42184	24046
% to Net Premium	10.4	10.1	8.1	11.3	12.2	6.2
5. Underwriting Profit/ Losses (-)	1829	1481	1242	-11817	-7694	-11928
% to Net Premium	8.2	3.1	1.0	-4.3	-2.2	-3.1
6. Interest, Dividend & Rents (Gross incl. dividend from sub.cos.)	2050	8734	24499	60276	80807	91508
6.a. excldividend from subs. cos.)	2050	7375	21683	56644	75214	85915
7. Other Income (Net)	-69	-691	611	-300	-6244	1651
8. Transfer to Preference Share Capital Redemption Reserve	40	350				
9. Profit Before Tax	3810	9174	26352	48159	66869	77930
9.a Profit Before Tax (excluding dividend from subsidiary cos.)	3810	7815	23536	44527	61276	72337
10.Tax Provision	2112	4897	10685	14753	24095	27594
11.Net Profit	1385	4277	15667	33406	42774	50336
11.a Net Profit (excluding dividend from subsidiary cos.)	1385	2918	12851	29774	37181	44743
12.Capital & Reserves (including Reserve for Unexpired risks and Investment Reserve)	23947	62000	142695	340304	427534	496494
12.a Capital & Free Reserves	9874	31497	69515	179128	224174	260189

TABLE VI

GIC and Subsidiaries

Financial performance: 1973-93

(Rs. Lakh)

Year	Central Govt Securities	State Govt.& Public Sector	*Loans for Housing etc.	Market Invest-ments	Other Invest-ments	Total	Yield on mean value basis (excl. dividend from subs.cos.)	Investment income (exclu. dividend from subs. cos.)
1973	4363	4377		12115	14618	35473	6.5	2050
1974	5995	4987		12990	18216	42188	7.6	2656
1975	8363	6376		14626	20400	49765	8.1	3426
1976	10952	7412		17027	21832	57223	8.7	4311
1977	13085	6391	77	19171	26666	65390	8.9	5077
1978	14738	7045	3013	22143	23305	70244	8.4	5370
1979	16495	7566	5413	26255	22145	77874	8.7	6094
1980	18929	8297	7373	29926	24298	88823	9.3	7375
1981	23220	10589	11711	32646	30277	108443	9.8	9242
1982	32678	13635	19965	38817	26830	131925	10.1	11740
1983	38708	16579	32271	49060	28010	164628	10.7	15440
1984	45346	20357	44284	60844	17787	188618	10.7	18538
1985	52193	22295	57274	68570	17218	217550	10.9	21683
1986	59874	24711	71656	81052	19327	256620	11.5	26056
1987	65720	30184	85698	92151	17772	291525	11.4	29921
1988-89	72855	37562	106500	107489	26859	351265	11.9	#44160
1989-90	79409	44966	126069	131189	31794	413427	11.6	42477
1990-91	95166	54937	153494	153518	59174	516289	12.4	55392
1991-92	106588	64752	186580	178471	70663	607054	13.5	74304
1992-93	127031	79618	223416	235875	66889	732829	12.3	82209

** Including special deposits with Govt. of India,loan for purchase of fire fighting equipment and loans to staff for housing.*

 # For 15 months from 1.1.1988 to 31.3.1989

Market investments represent equity and preference shares, debentures of and loans to corporate sector.

Other investments represent fixed deposits with non-banking companies, short term investments i.e. participation certificates/bills, immovable properties and deposits with banks.