

# A study on financial performance of indian non – life insurance industry



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Executive Summary India is one of the world's fastest growing economies, with real GDP rising to 9.4 per cent in 2006-07 as against 9.

0 per cent in 2005-06. India's share in world GDP thus has increased to 6.3 per cent in 2006 measured in terms of purchasing power parity. Growth in per capita income also accelerated to 8.

4 per cent in 2006-07 from 7.4 per cent in 2005-06. Economic fundamentals strongly suggest that there is a tremendous potential for the insurance sector to attain a high growth level. The insurance penetration in a country depends on its level of economic activity, risk awareness among the people and the deepening of the financial system. With a large population and an untapped market, insurance industry has a huge growth potential in India.

The improved performance in the domestic economy has an impact on the insurance industry, in particular. Higher per capita income, domestic savings and availability of more instruments for parking surplus funds facilitates growth in the activities of financial services, particularly insurance. At the time of opening up of the sector in 1999, insurance was viewed primarily as a tax saving device. However, policyholders' perspective began gradually changing towards an insurance cover irrespective of the tax incentives. Most of the private insurance companies are joint ventures with recognized foreign players across the globe. Consumer awareness has improved.

Competition has brought more products and improved the customer service. It has had a positive impact A Study on Financial Performance of Indian non-life Insurance Industry 2 on the economy in terms of income generation and employment opportunities in this sector. The purpose of this study is to

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assess the financial performance of the Indian non - life insurance industry from 2003 till 2007. This about three to four years after the private sector initiatives commenced in this sector. Insurance is a highly regulated industry , therefore the study also aims at examining the key IRDA regulations, in the context of the financial norms to be adhered to by all the new and existing insurers in the non - life Indian sector. The study thus examines the compliance of these norms by the non - in particular - the Solvency margins and Rural and Social Sector Obligations.

This study is conducted on the non - life sector as this form of insurance gets the least attention by the insured in India. Barring vehicle insurance which is compulsory, the other forms of property indemnities are rarely given the due attention particularly in the retail market. India currently is at mid - size on non - life market but the predicted growth is attracting foreign investments and competition. The new private insurers are growing at a fast rate as such a study of this sector would be of extreme interest and relevance for both new and existing insurers in the Indian market. Data for the study was collected from the secondary source such as IRDA Annual reports, official gazettes and e-journals - available to the public over the web. A Study on Financial Performance of Indian non - life Insurance Industry 3 Some of the Key findings from the study are: The Combined ratio for all the insurers was more than 100.

Combined ratio of all the private insurers has definitely been reducing gradually over the period of five years from 2003 to 2007 and getting close to 100 per cent but in case of public insurers the combined ratio has mostly remained the same or there has been a marginal increase. Public insurers

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have a very high capacity ratio at least 5 times that of the generally accepted upper limit of 3, all through out the span of five years. Except for Bajaj Allianz, ICICI Lombard and Reliance all the other private insurers maintained a capacity ratio well below three over the period of five years. This relatively high written premium's not commensurate with the backing of equity is not a comforting sign.

Public sector insurers continue to dominate in terms of amount of premium underwritten but private sector insurers continue to grow and penetrate at a very rapid pace. Average growth in net underwritten premium was 7.6 per cent in case of four public insurers while in case of eight private insurers it was 85.05 per cent. Growth in total net premium earned between year ending 2003 and 2004, in case of private insurers, was 98.

42 per cent. Thereafter there was a steep decline in the growth rate of net premium earned; the annual growth between year 2006 and 2007 was 61.70 per cent. A Study on Financial Performance of Indian non - life Insurance Industry 4 In case of private insurers the spread between premium underwritten and premium earned is showing an either decreasing or a sine wave trend from 2003 to 2007. In case of public insurers the pattern of spread over the five year period is slightly different.

Operating profits over the span of five years are highly unstable and volatile for both public as well as private insurers. Thus trend in the growth of operating profits is also highly varying. Operating profit as a percentage of net premiums earned also does not indicate any typical trend because of the volatile numerator. Based on the findings the study recommendations are

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directed both to the insurance regulator as well as the Insurance companies both private and public.

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Chapter 1: Introduction 1. 1: Background The insurance sector in the country has come to a full circle from starting off as a private market prior to the nationalisation of the sector and now back to a liberalised market again, where both the public and private sector companies compete. An evolving and sustainable insurance sector is important for economic growth. The improved performance in the domestic economy is reflected in the insurance industry as well. Higher per capita income, increased domestic savings and availability of more instruments for parking surplus funds have facilitated growth in the activities of financial services<sup>1</sup>. The insurance penetration in a country depends on its level of economic activity, risk awareness among the people and the deepening of the financial system.

With a large population and an untapped market, insurance industry has a huge growth potential in India. India is one of the world's fastest growing economies, with real GDP rising to 9. 4 per cent in 2006-07 as against 9. 0 per cent in 2005-06. India's share in world GDP thus has increased to 6. per cent in 2006 measured in terms of purchasing power parity. Growth in per capita income also accelerated to 8. 4 per cent in 2006-07 from 7. 4 per cent in 2005-06.

<sup>1</sup> IRDA Annual Report 2002 A Study on Financial Performance of Indian non - life Insurance Industry 6 Economic fundamentals strongly suggest that there is a tremendous potential for the insurance sector to attain a high growth <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

level. The improved performance in the domestic economy is also reflected in the performance of the insurance industry. Higher per capita income, domestic savings and availability of more instruments for parking surplus funds have facilitated the growth in the activities of financial services like insurance. Insurance in India once was a synonym to Life Insurance Corporation (LIC) but it is slowly moving away from that. The opening up of the sector to the private players witnessed the introduction of number of new products and possibly making the Indian insurance markets as one of the fastest growing.

The factors that support the possibilities for increased penetration of the Indian insurance market are the emerging socio - economic changes, increased wealth, education and increase awareness<sup>2</sup>. The insurance sector in India was opened-up for private participation in the year 1999 and has completed seven years in a liberalized environment. By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 28, up from five before liberalisation. As many as 24 private companies have been granted licenses as of 31st March, 2007 to conduct business in life and general insurance (Table 1. 1).

<sup>2</sup> IRDA Annual Report 2007 A Study on Financial Performance of Indian non - life Insurance Industry 7 Table 1. 1 Key Market Indicators 001 2007 Size of Market, Life and Non - Life \$8 Billion a year \$ 41. 74 billion Total global insurance premium \$ 3723 billion Rate of Annual Growth Average 20% for Life (1990-99) Life: 47. 38 per cent Average 12% for Non-Life (1990-99) Non-life: 21. 51 per cent Geographical Restriction for new players None, Players can operate all over the country None, Players can operate all over the <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

country Equity Restriction in a new Indian insurance company Foreign promoter can hold up to 26% of the equity Foreign promoter can hold up to 26% of the equity Registration Restriction Composite registration not available Composite registration not available Number of Registered companies Type of Business Public Sector Private Sector Total Type of Business Public Sector Private Sector Total Life Insurance 1 10 11 Life Insurance 1 16 17 General Insurance 4 6 10 General Insurance 6 11 17 Re-Insurance 1 0 1 Re-Insurance 1 0 1 Total 6 16 22 Total 8 27 35 Source: IRDA Annual Report 2001 and 2007 A Study on Financial Performance of Indian non - life Insurance Industry 8 At the time of opening up of the sector in 1999, insurance was viewed primarily as a tax saving device. However, policyholders' perspective is slowly changing towards taking insurance cover irrespective of tax incentives.

The insurable populace is looking for products which suit their specific requirements. As of now a variety of choices are available in the market meeting the requirements of different cross-sections of the society and across age groups. The level of penetration tends to rise as income levels increase. Within a span of 7 years since deregulation, industry has grown almost 5 fold from a USD 8 billion in 2001 to USD 41. 74 in 2007.

Growth rate of various businesses (Life and Non - life) has almost doubled (Table 1. 1). This indicates the growing need and demand for insurance products coupled with improving understanding and awareness among the consumers since the entry of private companies. The Authority and the industry have been playing an active role in increasing consumer awareness about the importance of insurance. Insurance are reaching out to untapped <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

semi-urban and rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments. The insurers are increasingly introducing innovative products to meet the specific needs of the prospective policyholders.

Innovative products, imaginative marketing, and aggressive distribution has enabled upcoming private insurance companies to sign up Indian customer's faster A Study on Financial Performance of Indian non - life Insurance Industry 9 growing expectations at the time of opening up of the sector. A range of new products have been launched to cater to different segments of the market, while traditional agents are being supplemented by other channels including the Internet and bank branches. These developments are influential in propelling business growth. While IRDA continues to pursue a cautious approach in issuing licenses to new insurance companies and regulations continue to be stringent, existing companies have a huge potential to grow and penetrate huge Indian market in terms of both life and non - life insurance. Especially with saturation of many developed economies Indian market has become even more attractive for global insurance majors. The insurance market in India has witnessed dynamic changes including presence of a number of insurers in both life and non-life segment.

On 7 December 1999 the government finally passed the Insurance Regulatory and Development Authority (IRDA) Act. This Act repealed the monopoly conferred to the Life Insurance Corporation in 1956 and to the General Insurance Corporation in 1972. The authority created by the Act is called the Insurance Regulatory and Development Authority (IRDA). Table 1.

2 summarizes some of the milestones in the Indian insurance regulations. A <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>



Study on Financial Performance of Indian non - life Insurance Industry 10 Key IRDA Regulations Table 1.

2: Milestones of insurance regulations in the 20th Century Year Significant regulatory event

1912 First piece of insurance regulation promulgated - Indian Life Insurance Company Act, 1912

1928 Promulgation of the Indian Insurance Companies Act 1938 Insurance Act 1938 introduced, the first comprehensive legislation to regulate insurance business in India

1956 Nationalisation of life insurance business in India

1972 Nationalisation of general insurance business in India

1993 Setting-up of the Malhotra Committee

1994 Recommendations of Malhotra Committee released

1995 Setting-up of Mukherjee Committee

1996 Setting-up of an (interim) Insurance Regulatory Authority (IRA)

1997 Mukherjee Committee Report submitted but not made public

1997 The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channelling funds to the infrastructure sector

1998 The cabinet decides to allow 40% foreign equity in private insurance companies - 26% to foreign companies and 14% to non-resident Indians (NRIs), overseas corporate bodies (OCBs) and foreign institutional investors (FIIs)

1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act

1999 Cabinet clears IRDA Act

2000 President gives assent to the IRDA Act

Source: Sinha Tapen, 2004, The Indian insurance industry: challenges and prospects, Institute of Insurance and Risk Management ; A Study on Financial Performance of Indian non - life

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Insurance Industry 11 Features of the 1999 IRDA Act The Insurance Regulatory and Development Act of 1999, was set up to protect the interest of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry. The Act effectively reinstated the Insurance Act of 1938 with (marginal) modifications. Whatever was not explicitly mentioned in the 1999 Act was referred back to the 1938 act.

The salient features of the 1999 IRDA Act and as applicable on March 2007 are discussed in the following pages. Licensing The IRDA Act, 1999, sets out details of registration of an insurance company along with renewal requirements. The minimum capital requirement for direct non-life and life insurance business is INR 100 crore (i. e.

INR 1 billion). The IRDA regulates the entry and exit of players, capital norms, and maintains a strict watch on the equity and solvency situation of insurers. Should an application be 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, IRDA stipulates a fee of one-fifth of one percent of total gross premiums written direct 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. Details of the sales force, activities in rural business and projected values of each line of business are also required. Further, A Study on Financial Performance of

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Indian non - life Insurance Industry 12 the Act sets out the reinsurance requirement for (general) insurance business. For all general insurance a compulsory cession of 20%, regardless of the line of business, to the General Insurance Corporation (the designated national re-insurer) is stipulated. Currently, India allows foreign insurers to enter the market in the form of a joint venture with a local partner, while holding no more than 26% of the company's shares.

Compared to the other regional markets, India has more stringent restrictions on foreign access. Solvency Margins Insurers have to observe the required solvency margin (RSM). For general insurers, this is the higher of RSM-1 or RSM-2, where RSM-1 is based on 20% of the higher of (i) gross premiums multiplied by a factor A\*, 21 or (ii) net premiums; RSM-2 is based on 30% of the higher of (i) gross net incurred claims multiplied by a factor B\*, or (ii) net incurred claims; There is also a lower limit of INR 500 million (INR 1 Billion in case of re-insurer) for the RSM. In India, IRDA had prescribed the solvency ratio (Ratio of Actual Solvency Margin to the Required Solvency Margin) of 1.5 for all insurers. If this ratio is more or equivalent to 1.

50 then the insurer is considered to be solvent. \* The detailed Factor A and Factor B tabulated by the IRDA A Study on Financial Performance of Indian

non - life Insurance Industry 13 Obligation of insurers to rural and social sectors The IRDA (Obligations of insurers to rural or social sectors)

Regulations, 2002 lay down the obligations of insurers (registered post opening up of the sector) for the first six years of their operations. For

general insurers share of premiums from the rural sector shall be, (a) 2% in the first financial year; (b) 3% in the second financial year; and (c) 5%

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thereafter (of total gross premium income written direct in that year). In addition, each company is obliged to service the social sector as follows. In respect of all insurers, (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; (e) 20, 000 lives in the fifth financial year and (f) 25, 000 lives in the sixth financial year. As of FY 2006 - 07 the Authority is in the process of reviewing the extent of obligations beyond the sixth year.

While those who have entered in the seventh year of operations in the FY 2006-07 the obligations would continue to be as applicable to them in the sixth year of operations. Most of the private insurance companies are joint ventures with recognized foreign players across the globe. Consumer awareness has improved. Competition has A Study on Financial Performance of Indian non - life Insurance Industry 14 roughed more products and improved the customer service. It has a positive impact on the economy in terms of income generation and employment opportunities in the sector. An evolving insurance sector is of vital importance for economic growth.

It encourages savings habit and also provides a safety to both enterprises as well as individuals by assuming the risk on behalf of them. 1. 2 Statement of Problem India's rapid rate of economic growth over the past decade has been one of the very significant developments in the global economy. This growth has been a result of the introduction of economic liberalisation in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living. Insurance has a very important role in the growing economy.

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Health insurance and life insurance are fundamental to protecting individuals against the hazards of life and India, as the second most populous nation in the world, offers huge potential this type of insurance cover. Furthermore, non - life insurance such as fire insurance is essential for corporations to keep investment risks and infrastructure projects under control. By nature of its business, insurance is closely related to saving and investing. The insurance industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry.

The liberalisation of industry has seen the entry of international insurers, an increase in the number of innovative products as well as distribution channels.

1. 3 Purpose of Study The purpose of this study is to assess the financial performance of the Indian non - life insurance industry since 2003 till 2007. The study aims at highlighting key IRDA regulations to be followed by all the new and existing insurers in the non - life Indian sector. The study also assesses the compliance by the non - life insurers with key IRDA regulations - Solvency margins and Rural and Social Sector Obligations.

. 4 Objectives To study the financial performance of the non - life insurance sector in India. To assess the compliance with IRDA regulations towards Solvency Margins and Rural and Social Sector Obligations, by the non - life

insurers operating in India.

1. 5 Research Questions ? How has non - life

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insurance sector performed, financially, during the period 2003 to 2007? ?

Have the insurers complied with the IRDA regulations for Solvency Margins and Rural and Social Sector Obligations during the span of 2003 - 2007? A

Study on Financial Performance of Indian non - life Insurance Industry 16 1.

Scope and Limitation Study is confined to only 12 non - life insurance sector companies in India. This research is carried out within a time boundary and thus an in depth study could not be conducted. This research is carried out primarily on the secondary data, available in the form of reports and articles, due to time and resource constraints. Only the data available through public sources (internet, journals, magazines, annual reports etc.

) is considered for the study. Study conducted for a period from year ending 2003 until year ending 2007. As such only the companies having operation over this span have been considered. A Study on Financial Performance of Indian non - life Insurance Industry 17 Chapter 2: Literature Review This section provides a perspective to the subject of study i. e.

financial performance of non - life insurance sector in India. This will simulate the reader as well as the researcher in to getting a deeper understanding of the sector and its financial performance. Literature review will help emphasize the reason why this study is important and relevant to the current scenario. Literature review involves extensive reading and helps the researcher to get a closer look at various insurers are performing.

This research aims to promote a better understanding of non - life insurance in India today. In addition it would also provide background information on

the right institutional and legal frameworks which an insurer operating in <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

India needs to abide by. Literature review is not just meant to be a theoretical collection of concepts rather it is the work of people in the industry carried out based on the real time scenario and thus would give the researcher and anyone reading the report a more practical preview about the subject. This chapter is further divided into following sections: 2. 1 Conceptual Review 2. 2 Empirical Review 2.

3 Contextual Review A Study on Financial Performance of Indian non - life Insurance Industry 18 2. 1 Conceptual Review In legal terms insurance is a contract whereby, for specified consideration, one party undertakes to compensate the other for a loss relating to a particular subject as a result of the occurrence of designated hazards. The normal activities of daily life carry the risk of enormous financial loss. Many persons are willing to pay a small amount for protection against certain risks because that protection provides valuable peace of mind. The term insurance describes any measure taken for protection against risks. When insurance takes the form of a contract in an insurance policy, it is subject to requirements in statutes, Administrative Agency regulations, and court decisions.

In an insurance contract, one party, the insured, pays a specified amount of money, called a premium, to another party, the insurer. The insurer, in turn, agrees to compensate the insured for specific future losses. The losses covered are listed in the contract, and the contract is called a policy. When an insured suffers a loss or damage that is covered in the policy, the insured can collect on the proceeds of the policy by filing a claim, or request for coverage, with the insurance company.

The company then decides whether or not to pay the claim. The recipient of any proceeds from the policy is called the beneficiary. The beneficiary can be the insured person or other persons designated by the insured. Insurance companies collect the premiums for a certain type of insurance policy and use them to pay the few individuals who suffer losses that are insured by that type of policy<sup>3</sup>. A contract is considered to be insurance if it distributes risk among a large number of persons through an enterprise that is engaged primarily in the business of insurance. Warranties or service contracts for merchandise, for example, do not constitute insurance.

They are not issued by insurance companies, and the risk distribution in the transaction is incidental to the purchase of the merchandise. Warranties and service contracts are thus exempt from strict insurance laws and regulations. Insurance companies create insurance policies by grouping risks according to their focus. This provides a measure of uniformity in the risks that are covered by a type of policy, which in turn allows insurers to anticipate their potential losses and to set premiums accordingly<sup>4</sup>. The most common forms of insurance policies include life and non - life (which includes health, automobile, homeowners' and renters', Personal Property, fire and casualty, marine, and inland marine policies etc).

Legal definition of Insurance, The free dictionary, Farlex Inc. , <http://legal-dictionary.thefreedictionary.com/insurance>, June 03, 2008  
4 Legal definition of Insurance, The free dictionary, Farlex Inc.



, <http://legal-dictionary.thefreedictionary.com/insurance>, June 03, 2008 A

Study on Financial Performance of Indian non - life Insurance Industry 20 Life insurance provides financial benefits to a designated person upon the death of the insured. Many different forms of life insurance are issued. Some provide for payment only upon the death of the insured; others allow an insured to collect proceeds before death.

A person may purchase life insurance on his or her own life for the benefit of a third person or persons. Individuals may even purchase life insurance on the life of another person. For example, a wife may purchase life insurance that will provide benefits to her upon the death of her husband. This kind of policy is commonly obtained by spouses and by parents insuring themselves against the death of a child. Health insurance policies cover only specified risks.

Generally, they pay for the expenses incurred from bodily injury, disability, sickness, and accidental death. Health insurance may be purchased for one's self and for others. All automobile insurance policies contain liability insurance, which is insurance against injury to another person or against damage to another person's vehicle caused by the insured's vehicle. Auto insurance may also pay for the loss of or damage to, the insured's motor vehicle. Most states require that all drivers carry, at a minimum, liability insurance under a no-fault scheme. Homeowners' insurance protects homeowners from losses relating to their dwelling, including damage to the dwelling; personal liability for injury to visitors; and loss A Study on Financial Performance of Indian non - life Insurance Industry 21 of, or damage to, property in and around the dwelling.

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Renters' insurance covers many of the same risks for persons who live in rented dwellings<sup>5</sup>. As its name would suggest, personal property insurance protects against the loss of, or damage to, certain items of personal property. It is useful when the liability limit on a homeowner's policy does not cover the value of a particular item or items. For example, the owner of an original painting by Pablo Picasso might wish to obtain, in addition to a homeowner's policy, a separate personal property policy to insure against loss of, or damage to, the painting. Businesses can insure against damage and liability to others with fire and casualty insurance policies.

Fire insurance policies cover damage caused by fire, explosions, earthquakes, lightning, water, wind, rain, collisions, and riots. Casualty insurance protects the insured against a variety of losses, including those related to legal liability, Burglary and theft, accidents, property damage, injury to workers, and insurance on credit extended to others. Fidelity and surety bonds are temporary, specialized forms of casualty insurance. A fidelity bond insures against losses relating to the dishonesty of employees, and a surety bond provides protection to a business if it fails to fulfil its contractual obligations.

5 Legal definition of Insurance, The free dictionary, Farlex Inc. , <http://legal-dictionary.hefreedictionary.com/insurance>, June 03, 2008 A Study on Financial Performance of Indian non - life Insurance Industry 22 Marine insurance policies insure transporters and owners of cargo shipped on an ocean, a sea, or a navigable waterway. Marine risks include damage to cargo, damage to the vessel, and injuries to passengers.

Inland marine insurance is used for the transportation of goods on land and on land-locked lakes. Many other types of insurance are also issued. Group health insurance plans are usually offered by employers to their employees. A person may purchase additional insurance to cover losses in excess of a stated amount or in excess of coverage provided by a particular insurance policy.

Air-travel insurance provides life insurance benefits to a named beneficiary if the insured dies as a result of the specified airplane flight. Flood insurance is not included in most homeowners' policies, but it can be purchased separately. Mortgage insurance requires the insurer to make mortgage payments when the insured is unable to do so because of death or disability. Premiums Premiums are a regular periodic payment for an insurance policy, also called insurance premium<sup>6</sup>. Different types of policies require different premiums based on the degree of risk that the situation presents.

For example, a policy insuring a homeowner for all risks associated with a home valued at \$200, 000 requires a higher premium than one insuring a boat valued at \$20, 000. Although liability for injuries to others might be similar <sup>6</sup> Premium Definition, Investorwords. com, WebFinance Inc, <http://www.investorwords.com/3785/premium.html>, June 03, 2008

A Study on Financial Performance of Indian non - life Insurance Industry 23 Under both policies, the cost of replacing or repairing the boat would be less than the cost of repairing or replacing the home, and this difference is reflected in the premium paid by the insured<sup>7</sup>. Premium rates also depend on characteristics of the insured.

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For example, a person with a poor driving record generally has to pay more for auto insurance than does a person with a good driving record.

Furthermore, insurers are free to deny policies to persons who present an unacceptable risk.

For example, most insurance companies do not offer life or health insurance to persons who have been diagnosed with a terminal illness<sup>8</sup>. Claims An insurance claim is the actual application for benefits provided by an insurance company. The most common issue in insurance disputes is whether the insurer is obligated to pay a claim. The determination of the insurer's obligation depends on many factors, such as the circumstances surrounding the loss and the precise coverage of the insurance policy.

Insurers Business Model Profit = earned premium + investment income - incurred loss - underwriting expenses 7 Legal definition of Insurance, The free dictionary, Farlex Inc. , <http://legal-dictionary.thefreedictionary.com/insurance>, June 03, 2008 8 Legal definition of Insurance, The free dictionary, Farlex Inc. , <http://legal-dictionary.thefreedictionary.com/insurance>, June 03, 2008

A Study on Financial Performance of Indian non - life Insurance Industry 24 Insurers make money in two ways - through underwriting, the process by which insurers selects the risks to insure and decide how much in premiums to charge for accepting those risks and by investing the premiums they collect from the insured. The most complicated aspect of the insurance business is the underwriting of policies. Using a wide assortment of data, insurers predict the likelihood that a claim will be made

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against their policies and price products accordingly. To this end, insurers use actuarial science to quantify the risks they are willing to assume and the premium they will charge to assume them. Data is analyzed to fairly accurately project the rate of future claims based on a given risk. Actuarial science uses statistics and probability to analyze the risks associated with the range of perils covered, and these scientific principles are used to determine an insurer's overall exposure.

Upon termination of a given policy, the amount of premium collected and the investment gains thereon minus the amount paid out in claims is the insurer's underwriting profit on that policy. Insurance companies also earn from investment. Available reserve is the amount of money, at hand at any given moment that an insurer has collected in insurance premiums but has not been paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest or returns on them until claims are paid out.

A Study on Financial Performance of Indian non - life Insurance Industry 25 .  
2 Empirical Review The property/casualty (P/C) insurance industry reported an annualized statutory rate of return on average surplus of 12. 3 percent in 2007, down from 14. 4 percent in 2006. The decline in profitability in 2007 was expected and is primarily attributable to a marginal deterioration in underwriting performance, which pushed the full-year combined ratio up to 95. 6 from 92.

4 in 2006. Net written premium growth was down 0.6 percent in 2007, the first such decline since 1943. At the same time policyholder surplus, a measure of capacity increased 6. percent to a record US \$517.

9 billion. Though profits remained reasonably strong, industry margins did fall short of those realized by the Fortune 500 group of companies, which turned in an estimated average return on equity (ROE) in the 13 to 14 percent range in 2007. Net written premiums declined by \$2.6 billion or 0.

6 in 2007, down from a 4.2 percent increase during in 2006, which experienced strong growth in property-related insurance premiums in hurricane-exposed areas. Last year's decline was the first in 64 years, when premium growth fell in 1943 in the midst of World War II. One observation from 2007 is that insurer profits going forward will become increasingly dependent on investment earnings as underwriting performance steadily deteriorates. It is notable that despite a substantial 38.

9 percent (\$12.1 billion) drop in underwriting income (the margin by which premium income exceeds claims costs, expenses and policyholder dividends) to 9 Hartwig, Dr. Robert P, "2007 - Year End Results", Insurance Information Institute, April 9, 2008, www. iii.

org/media/industry/financials/2007yearend/ , June 03, 2008 A Study on Financial Performance of Indian non - life Insurance Industry 26 19.0 billion from \$31.1 billion a year ago, profits (net income after taxes) fell just \$3.8 billion, or 5.2 percent, to \$61.

9 billion in 2007, from \$65.8 billion in 2006. The decrease in underwriting profit was substantially offset by modestly higher investment income—up \$2.3 billion (4.5 percent) to \$54.

6 billion—and a 154.6 percent (\$5.4 billion) leap in realized capital gains to \$9.0 billion from \$3.

5 billion a year earlier<sup>10</sup>. The strong financial and underwriting performance of the P/C insurance industry in 2007 creates unexpectedly strong momentum for the first part of 2008. The results were primarily attributable to a strong, across-the-board underwriting performance, resulting in one of the best combined ratios in the past 80 years. Deteriorating underwriting performance, primarily the result of increasing price competition, will likely lead to a greater share of earnings coming from investment gains going forward. One major cause for concern is the fact that negative premium growth in 2007 means that the industry growth has come to a screeching halt and is, in fact, severely negative on an inflation-adjusted basis.

Another is the rapid accumulation of capital on insurer balance sheets. The current slow-growth environment means that insurers face very difficult capital allocation decisions over the next several years. To date, insurers 10 Hartwig, Dr. Robert P, “2007 – Year End Results”, Insurance Information Institute, April 9, 2008, [www.iii.org/media/industry/financials/2007yearend/](http://www.iii.org/media/industry/financials/2007yearend/), June 03, 2008

A Study on Financial Performance of Indian non-life Insurance Industry 27 have sought to reduce capital primarily through share repurchases. A spate of

acquisitions in late 2007 suggests, however, that the pace of consolidation <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

could accelerate in 2008<sup>11</sup>. Table 2. 1 Industry income statement \* (\$ Billions) Particulars \$ Net Earned Premiums 439.

1 Incurred Losses (Including loss adjustment expenses) 298. 6 Expenses 119. 1 Policyholder Dividends 2. 4 Net Underwriting Gain (Loss) 19. 0 Investment Income 54. 6 Other Items -0.

9 Pre-Tax Operating Gain 72. 7 Realized Capital Gains (Losses) 9. 0 Pre-Tax Income 81. 7 Taxes 19.

8 Net After-Tax Income 61. 9 Surplus (End of Period) 517. 9 Combined Ratio 95. 6 \*Figures may not add to totals due to rounding.

Calculations in text based on un-rounded figures. Source: Hartwig, Dr. Robert P, “ 2007 – Year End Results”, Insurance Information Institute, April 9, 2008, www. iii.

org/media/industry/financials/2007yearend/ , June 03, 2008 11 Hartwig, Dr. Robert P, “ 2007 – Year End Results”, Insurance Information Institute, April 9, 2008, www. iii. org/media/industry/financials/2007yearend/ , June 03, 2008 A

Study on Financial Performance of Indian non – life Insurance Industry 28 Worldwide insurance premium amounted to US \$ 3723 billion in 2006 comprising of US \$ 2209 billion in life and US \$ 1514 billion in general insurance business.

At this level the premium has increased by 5. per cent in real terms in 2006 as compared to 2. 5 per cent in 2005. The growth in life insurance premium was about 7.



7 per cent which is the highest since 2000. In most of the countries the growth in life insurance premium was faster than growth in the economic activity<sup>12</sup>. The global non-life business grew by 1.5 per cent in 2006 recovering from previous year's stagnation. The global growth performance in non-life business varied between industrialized countries and emerging markets.

While industrialized countries had shown a small growth of 0.6 per cent, the emerging markets exhibited a robust growth of 11. per cent in the non-life insurance business. This growth was higher than 7 per cent recorded in 2005. In emerging markets, strong economic developments and introduction of mandatory cover in areas such as motor, third party liability and health were key drivers of growth. Strong underwriting discipline and absence of major catastrophes helped improving the profits of general insurance business in 2006.

As some of the Asian economies like Hong Kong, Singapore, Taiwan and South Korea are being reclassified as industrialized countries, the premium share of industrialized countries increased to 92. per cent in 2006 from 87.0 per cent in 2005. The share of emerging markets in the total 12 IRDA Annual Report A Study on Financial Performance of Indian non - life Insurance Industry 29 world premium was 8.0 per cent in 2006.

The global outlook for 2007 suggests a mixed picture. While healthy growth is expected in life insurance with strong development of savings and pension products, the non-life insurance premiums are likely to stagnate. The outlook for profits remains robust with life sector making further progress on

profitability. The combined ratios for non-life insurance are expected to deteriorate due to sluggish premium growth thereby affecting profitability<sup>13</sup>.

Russian Insurance Market<sup>14</sup> The Russian insurance market continues to experience strong growth. Annual growth rates of up to 30 percent, combined with low levels of insurance penetration, are attracting large amounts of capital and many investors. There are great opportunities for new entrants to the market - as long as they get their homework right. The Russian economy has grown rapidly and consistently for the last nine years, since the financial crisis of 1998. GDP growth of 6 - 7 percent annually has been driven principally by high oil prices, and the resulting flow of cash into the economy has in turn spurred increased disposable incomes, consumer demand and corporate investment. Capital investment has grown by over 10 percent annually for the last 5 years, and personal incomes by more than 12 percent.

These factors are having a significant impact <sup>13</sup> IRDA Annual report <sup>14</sup> Quinton, Adrian; Coops, Anthony; and Gorman, Mat, September 2007, KPMG's Frontier in Finance, KPMG International, Switzerland, pg. + A Study on Financial Performance of Indian non - life Insurance Industry <sup>30</sup> on Russia's insurance industry which is seeing tremendous growth in both the retail and commercial sectors and is seeing increased foreign and local investment. The level of "grey insurance", being schemes driven by tax rather than risk transfer factors, has decreased significantly as a result of an aggressive drive by the regulatory authorities to clean up the industry. Given favourable conditions, the Russian insurance sector is forecast to grow at an average annual rate of 30 percent between 2006 and 2010. A dramatic rise in <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

disposable income is fuelling a boom in the retail insurance sector. In addition, growth in consumer financing in the form of car loans, credit cards, and mortgage lending is driving increased consumption of non-essential durable goods and demand for housing and real estate, which in turn spurs increased demand for retail insurance products such as motor insurance and property insurance.

However, the extremely low - almost non-existent - baseline means that despite this rapid growth, penetration rates remain low. The non-life sector was worth about US\$14 billion in 2006. This is equivalent to about 1.2 percent of GDP, significantly below the comparable levels in Central and Eastern Europe. Market penetration in the life sector is still very low.

Only about 1 percent of the population has life insurance. Traditionally, Russians have not had the long-term trust or confidence in financial institutions which is necessary to underpin significant life insurance business. There is little tradition of saving, and little understanding of the benefits of long-term protection. A Study on Financial Performance of Indian non - life Insurance Industry 31 Chinese Insurance Market<sup>15</sup> Although the potential within the Chinese insurance market is vast, foreign companies need to overcome a restrictive regulatory environment and the established dominance of domestic players. Addressing these challenges calls for strong relationship building, deep cultural understanding and a clear perception of where, when and how to compete, along with an appreciation of the heightened risk and uncertainty in this evolving market and, not least, the need for patience and perseverance.

China's sheer size and exponential economic expansion make it one of the most attractive developing markets for international insurance groups.

Premium volumes have been rising by more than 15% per year since the beginning of the decade, albeit from a low base. China's premiums per head of €40 in 2006 (life accounted for €25.50 and non-life for €14.

50) were still far closer to Kazakhstan (€31.70) than Japan (€2,692). This relatively low market penetration indicates that considerable further growth is likely as expendable incomes and risk protection needs continue to increase. Estimates by the China Insurance Regulatory Commission (CIRC) suggest that premiums in 2007 may have exceeded €60 billion. A highly visible sign of China's increasing prosperity is the rapid rise in the number of vehicles on the road. More than 30 million Chinese people now own their own car and 15 Campbell, David and Sutter, Felix; April 2008, European Insurance Digest, Realising the potential: entry and development in the Chinese insurance market, Pricewaterhousecoopers, pg 32+ A Study on Financial Performance of Indian non - life Insurance Industry 32 ales are expected to increase by an average of 30% per year over the next three years, fuelling further growth in demand for compulsory motor insurance.

Further opportunities in retail non-life insurance come from the increasing demand for buildings and contents insurance emanating from the rise in private home ownership. The deep integration of Asian economies opens up particular opportunities for multinational insurers able to offer policies that cut across national boundaries. Insurers familiar with the US market may also be able to provide cover for the many Chinese manufacturers concerned about the growing threat of product liability and recalls. Ways in to China <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

Exacting capitalisation and credit rating rules mean that access to the Chinese insurance market is effectively restricted to the largest international groups.

Foreign companies can set up a representative office. After two years, they can then apply for an insurance licence. Options for business development are then as follows: 1. Wholly-owned operation Non-life insurers, health insurers and reinsurers can open a branch and subsequently seek approval to turn the branch into a subsidiary.

While 100% ownership confers full control over strategy, securing licences and developing relationships can be a lengthy process. Foreign non-life insurers cannot sell legally obligatory insurance, which restricts their ability to participate in the motor insurance market. A Study on Financial Performance of Indian non - life Insurance Industry 33 2. Joint venture Life insurers must operate through a joint venture with a local financial or industrial partner (non-life insurers, health insurers and reinsurers may also form joint ventures. ) Finding the right partner is vital as companies cannot easily chop and change.

Notable examples include Generali's partnership with China National Petroleum Corporation (CNPC). In 2005, the JV's €1.95 billion sale of a pension plan covering CNPC's 390,000 employees pushed foreign companies' share of the life market above 10% for the first and only year. 3. Investment holding Foreign companies can buy a stake of up to 20% in an existing Chinese insurer. To deter speculative short-term investment and

encourage long-term development, holdings must be retained for at least three years.

Examples include AIG, which owns a significant stake in the People's Insurance Company of China (PICC), the country's leading non-life insurer, and HSBC, which owns just fewer than 20% of Ping An Insurance. Generally, it is expertise rather than capital that is being sought and therefore a stake of as little as 5% may be enough to command a seat on the board. Revenue growth has often been elusive in the relatively mature insurance industry. Net premium written by U.

S P&C companies from 1990 to 2005 grew at an annual rate just 4.7 per cent, lagging the 5.2 per cent growth rate of GDP during the A Study on Financial Performance of Indian non - life Insurance Industry 34 period. Although the industry posted strong profits in 2006, the net income of U. S P&C companies has fluctuated widely due to the impact of natural catastrophes and pricing cyclicalities.

Returns have been modest, with the U. S P&C industry posting an average annual return on equity of only 9 per cent since the early 1990's, compared to 15 per cent for the Fortune 500. Growth of premiums written in life insurance has been slow for decades, with the only real upturn appearing in the 1980's with the introduction of universal life products. The return on equity for the health / life insurance industry has several points below that of the fortune 500 over the last decade<sup>16</sup>. Insurance companies see growth as critical to building the scale needed to keep their cost structures

competitive. In particular, organic revenue growth, as opposed to growth fuelled by acquisitions, has been rewarded by the markets.

For example: looking at the top U. S life insurance companies from 2001 - 2005 Deloitte found that the companies that grew organically had much higher shareholders return than those that grew through acquisitions<sup>17</sup>. To drive growth insurance companies need to work on several fronts. In particular, they will need to develop innovative new products that will allow them to differentiate themselves from the competition and move away from the commoditization of products that leads to thinner and thinner profit margins. When it comes to innovation, many 16 “ Growth Imperative”, Global Insurance Industry Outlook Issues on the horizon (2007), Deloitte, Pg.

17 “ Growth Imperative”, Op. Cit. , pg. 3 A Study on Financial Performance of Indian non - life Insurance Industry 35 insurance companies have tended to play it safe, pursuing incremental improvements to keep products evolving in step with the market.

That’s clearly important but they also need to establish some development tracks that pursue breakthrough offerings with potential to fundamentally boost their competitiveness. Companies will need to look beyond the products themselves, and consider ways to create broader value propositions that combine products, services, and distribution strategies<sup>18</sup>.

2. Contextual Review Growth is a constant in the insurance industry. To become, or remain, a major player, insurers are expected to consistently deliver double-digit revenue growth. Mergers and acquisitions, geographic

expansion, product development, cross-selling and client retention are all vital strategies.

Insurers are expanding into emerging markets such as Central and Eastern Europe (CEE), Russia and India, which are generally underinsured but increasingly affluent. In the mature markets, demographic changes are driving new product development as insurance companies adjust to the changing needs of their core domestic client base<sup>19</sup>. Insurance companies recognise that continued growth, especially top - line revenue growth, is critical to success. Driving growth will be more challenging than before 18 “Growth Imperative”, Global Insurance Industry Outlook Issues on the horizon (2007), Deloitte, Pg.

3 19 Nelson, Brandan, and Ellenbuerger, Frank, September 2007, Frontiers in Finance, KPMG International, Switzerland, pg 2 A Study on Financial Performance of Indian non - life Insurance Industry 36 or property and casualty (P & C) insurers in 2007, as the market is expected to soften. Meanwhile, life insurance companies continue to focus on investing to grow their business, with many insurers targeting the expanding retirement market. To succeed with their growth initiatives, insurance companies will need to find ways to bring innovative new products to customers, enhance distribution, and develop effective approaches to seize opportunities presented by emerging markets<sup>20</sup>. In the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), economies are growing and the regulatory environment for insurance is strengthening.



Since the insurance markets of Central and Eastern Europe began to open up to foreign investment in the early 1990s, there has been increased presence in the region of most of the major global insurance groups. In the early years the main emphasis was on establishing a presence, building a network and gaining market share. Many of the former state monopolies have been privatized, new companies have been set up by national as well as international investors and regulation and regulators have been bolstered. Yet, despite strong growth rates over the last 15 years, and impressive figures of 19 percent growth in life and 9 percent in non-life insurance in 2006, the region's insurance markets continue to lag behind Western Europe, both as a percentage of GDP 20 " Growth Imperative", Global Insurance Industry Outlook Issues on the horizon (2007), Deloitte, Pg. A Study on Financial Performance of Indian non - life Insurance Industry 37 and per capita. To put this into perspective, the total written premiums for the combined CEE/CIS region are slightly higher than those of Ireland while the combined population exceeds that of the United States of America<sup>21</sup>.

It would be a mistake to treat the region, even if one excludes Russia from the definition, as homogenous. When one considers economic development, population, pension and health reform, regulation, European Union membership or even demographics, no two countries are alike. Most obviously, the countries vary widely in size - the populations of Ukraine, Poland and Romania amount to more than 100 million; the three Baltic States total just 7 million in aggregate. More generally, the countries' insurance markets are also at very different stages of their economic and regulatory development<sup>22</sup>. However, while there is little downside in terms

of risk and uncertainty in approaching developing countries like Ukraine, Belarus, Albania or Serbia studies have shown that majority of benefits are for companies which entered the markets first.

Because of the diversity of the region, any approach has to be tailored to meet the specific market, economic and political situation of the target country. Performance across a range of different financial indicators, and ultimately delivering strong and consistent earnings, is crucial. Cost management, operational 21 Gascoigne, Roger; Leposa, Csilla; Fiedorowicz , Jacek, " Growth", September2007, Frontiers in Finance, KPMG International, Switzerland, pg. 5 22 Gascoigne, Roger; Leposa, Csilla; Fiedorowicz , Jacek, Op.

Cit. pg. A Study on Financial Performance of Indian non - life Insurance Industry 38 excellence and the optimization of business operating models are all on the agenda. Many of the larger insurers are complex, diverse entities that have been very successful in mergers and acquisitions and in growing their product sets and geographic scope. There is huge potential in the industry for increased IT investment, improved operational efficiency and cost savings.

Why should an insurance group, awash with cash, prioritize effective cash management? The general insurance industry generates an abundance of cash, retains it for long periods, and pays out vast amounts in claims settlements, so why should there be a concern about the financial performance? It is simply because cash management affects profitability. It's surprising then that cash management does not seem to be at the top of

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every insurance group's agenda. If premium income, reinsurance claims and investment income are the metaphorical taps supplying the "cash" bath then claims payments, reinsurance premium and operating expenses are the main items forming an orderly queue down the drain<sup>23</sup>. Effective cash management is about maximizing the flow through the taps, letting as little down the drain as possible and limiting the amounts lost through splashes caused by inefficient management of the cash operating cycle. Ultimately it is about keeping the

<sup>23</sup> Milsom, John; Gossmann, Arndt; "Profits down the drain?", September 2007, *Frontiers in Finance*, KPMG International, Switzerland, pg 20

A Study on Financial Performance of Indian non-life Insurance Industry 39 level of bath water as high as possible to improve returns to shareholders<sup>24</sup>. So where do the leakages and splashes come from that might flush a group's profits down the drain?

<sup>5</sup> Premium income leakages Bad debts, where the underwriting team focus on writing the risk itself but not on the insured's ability to pay.

Incomplete and inaccurate billing. Failure to process reinstatement premiums promptly Ineffective credit control The net accounting system which means that companies may not even be aware who they are owed premium by, let alone chase it Unallocated cash. Reinsurance function leakages Failure to claim resulting from inadequate linkage between inwards claim agreement and processing of reinsurance collection notes

<sup>24</sup> Milsom, John; Gossmann, Arndt; "Profits down the drain?", September 2007, *Frontiers in Finance*, KPMG International, Switzerland, Pg 20

<sup>25</sup> Milsom, John; Gossmann, Arndt; , Op. Cit. Pg 20

A Study on Financial Performance of Indian non-life Insurance Industry 40 Time lags between inwards claims being paid

and the associated reinsurance being billed Bad debt through reinsurer credit risk Avoidance by re-insurers through poor or missing policy wording Inadequate credit control policies and procedures Unallocated cash not being processed. Investment income leakages Lack of a group-wide treasury function pooling all the group's free cash and maximizing returns on a group basis The treasury function not being equipped to follow industry best practice Lack of a system to upstream cash leading to monies sitting in low or no interest rate accounts for too long Lack of cash forecasting leading to investment penalties when monies are required at short notice Inefficient or non-existent asset versus liability matching leading to losses from interest rate and exchange rate fluctuations.

A Study on Financial Performance of Indian non - life Insurance Industry 41 Performance of insurance company in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity etc. These measures can be classified as profit performance measures and investment performance measures (Fig 2. 1). Profit performance includes the profits measured in monetary terms. It is the difference between the revenues and expenses. Investment performance can take two different forms. One the return on assets employed in the business other than cash, and two, return on the investment operations of the surplus of cash at various levels earned on operations. All the financial measures mentioned pertain to the efficiency of operations<sup>26</sup>. Key Financial Indicators: 27 1. Gross and Net premium 2. Profit from underwriting 3. Average profit per branch and per employee 4. Average cost per each type of policies 5. Average annual cost per employee 26 Ramanadh, Kasturi;

Spring 2006, " Performance Management in Insurance Corporation", Journal <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

of Business Administration Online, Vol. 5 No. 1. Pg. 7 27 “ Ramanadh, Kasturi”, Op. Cit. Pg. 13 A Study on Financial Performance of Indian non - life Insurance Industry 42 6. Return on Investment & other lending activities Fig 2. 1 Financial Performance Source: Ramanadh, Kasturi; Spring 2006, Performance Management in Insurance Corporation, Journal of Business Administration Online Vol. 5 No. 1. Pg. 7 Performance is evaluated both on financial and non-financial achievements of business. Financial performance is understood in terms of various financial ratios, which are divided as profit performance measures and investment performance measures. Non-financial measures include a range of indicators with orientation of customers, growth, and value to the community and societies. Maintaining a balance between these measures in order to achieve success is a highly growing concern among the managers in modern organizations. Financial Performance Profit Performance Investment Performance Net Premium Earned Profit from Underwriting Activities Investment in Companies Assets Investments Outside A Study on Financial Performance of Indian non - life Insurance Industry 43 Governance is crucial in an industry that is fundamentally concerned with the management of risk and is closely watched by a range of global, national and state regulators. Insurance companies face challenges to improve the quality of their risk management, underwriting discipline and risk pricing. In many cases improvements are still required in the basic documentation and reporting of risk. Extensive pressures are being faced by insurance finance functions to ensure they continue to support the strategic needs of the business. At the same time, finance teams have to address a number of other issues that affect their day-to-day operations. Many local and international insurance companies are <https://assignbuster.com/a-study-on-financial-performance-of-indian-non-life-insurance-industry/>

focusing on both organic and non-organic growth in Asia as a key element of their business strategies. Finance teams are required to be knowledgeable to review and check the reasonableness of this information for financial reporting purposes<sup>28</sup>. While potential for growth of insurance sector in India is tremendous, deepening of the financial system within the sector will make businesses more cost effective and profitable. Finance function needs to be viewed less as a support function and more as strategic and business led service. 8 Chen, Adelyn; Gasson, Bill; August 2006, " Addressing challenges faced by the insurance finance function", Insurance Digest,

Pricewaterhousecoopers, pg 22+ A Study on Financial Performance of Indian non - life Insurance Industry 44 Chapter 3: Research Methodology 3. 1

Nature of Study This study is exploratory in nature. The chapter deals with an historical perspective of the Indian insurance industry followed by the research design and a detailed method of analysis used to conduct the study. 3. 2 Indian Insurance Industry - A Historical Perspective Insurance first arrived in India through a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. The first general insurance company, Triton Insurance Company Limited, was established in 1850. For the next hundred years, both life and non-life insurance were confined mostly to the wealthy living in large metropolitan areas. Regulation of insurance companies began with the Indian Life Assurance Companies Act, 1912. In 1938, all insurance companies were brought under regulation when a new Insurance Act was passed. It covered both life and non-life insurance companies. It clearly defined what would come under life and non-life

insurance business. The Act also covered, among others, deposits,  
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supervision of insurance companies, investments, commissions of agents and directors appointed by the policyholders. This piece of legislation lost significance after the insurance business was nationalised in 1956 (life) and 1972 (non-life), respectively. When the market was liberalized again to private A Study on Financial Performance of Indian non - life Insurance Industry 45 anticipation in 1999, the earlier Insurance Act of 1938 was reinstated as the backbone of the current legislation of insurance companies, as the IRDA Act of 1999 was superimposed on the 1938 Insurance Act. Since opening up of the insurance sector in 1999, 24 private companies have been granted licenses by 31st March, 2007 to conduct business in life and general insurance. Of the 24, 15 were in the life insurance and 9 (including a standalone health insurance company) in general insurance. 3. 2. 2 Non - Life Insurance Business Non-life insurance was not nationalised in 1956 along with life insurance. This was done on the grounds that general insurance was a part and parcel of the private sector of trade and industry and functioned on a year to year basis. Any Errors and omission in the conduct of i