

# Mobilisation of funds in insurance industry assignment



It has been established that village co-operatives insured against loss of profit in an industry in the early days of the Aryan Civilization. There were contacts safeguarding risks of transport by sea or land. Further these well renowned joint-family system rendered services similar to those of present life assurances.

However expecting the system of joint family all other gradually waned and insurance in the modern sense appeared in the late eighteenth and early nineteenth centuries by the established of seven Marine Insurance companies in Calcutta-then the centre of trade and commerce in India. This was followed in due course by the opening of branches and or agencies in India by many British offices, and some continental and colonial insurers. Even the American offices did not lag behind.

The successful operation of the foreign insurers encouraged the formation of life offices in India in the late nineteenth century such as Bombay Mutual in 1871 and the oriental in 1874 and Hindustan cooperative in 1907 other life offices followed. The swadeshi movement at the beginning of the present century was responsible for the establishment of various insurers with Indian capital. Thus in 1907 the Indian Mercantile was the first Indian general insurance company followed later on by New India in 1919 and six other insurers.

The year 1922 and 1923 were very critical for these young general insurers in as much as they had to compete with 150 foreign offices that had not only the experience of actual organization but also a tradition of general insurance business behind them. On the top of this the exchange banks

provided impediments in one-way or the other. However patriotism of the Indian public saw the general insurers through this difficult period and national agitation insisting for legislative protection compelled the government of India to investigate into the matter.

As a result of the above-mentioned investigation the Insurance Act of 1938 came into existence, which removed the hideous distinction between Indians and Non-Indian companies as far as provisions relating to deposits and submission of returns were concerned. The Nationalism or swadeshi spirit brought about an increase in the share of Indian insurers of the business in India from 11 percent in 1928 to 31 percent in 1939 largely at the expense of foreign offices.

## 1. 2. REASONS FOR ESTABLISHMENT OF INSURANCE INDUSTRY.

The Second World War helped the establishment of several indigenous industries the managing agents of which tried to acquire the control of insurance companies and banks to provide easy finance for their undertakings. This led to the appointment of Cowasji Jehangir Enquiry Committee resulting in certain amendments of the Insurance Act, 1938. The Indian insurers successfully faced the Bombay Explosion of 1944 and survived the partition of the country in 1947. 1951 onwards this has been a period of increasing business for Indian insurers due to the following causes: 1. The growing confidence of the Indian public. . The increasing awareness of the Indian public of the benefits of insurance. 3. The five-year plans. 4. The development plans undertaken by some of the leading insurers. The increase in life business of Indian insurers in the years 1954 and 1955 was

phenomenal and on 19th January 1956 the government of India nationalized <https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

the life insurance business in India as a result of which the Life Insurance Corporation of India formally came into existence on September 1956. The main aims of nationalisation were: 1. Provision of complete security to the policyholders. 2. To prevent malpractices prevalent in life business. . To spread insurance to rural areas. 4. To encourage public savings and channel the same to finance national plans. Consequently not only is the LIC at present the main source of finance for the government and state organisations, public undertakings and well-established industrial organisations in the private sector but also provide loans to individuals to buy their own houses under the ‘ own your home’ scheme. It has also succeeded in its other main aims. The LIC also started transacting all classes of general insurance with effect from 1st April 1964 in competition with other general insurers on India.

Their total direct premium income for the financial year 1968-69 was over Rs. 15. 35 crores, detailed as under: Fire Rs. 378. 79 lakhs Motor Rs. 95. 62 lakhs Marine Rs. 679. 59 lakhs Miscellaneous Rs. 381. 49 lakhs The general insurance business in India has also been nationalised as from 13th may 1971 and the General Insurance Corporation of India (GIC) came into existence as from 1st January 1973. To ensure proper service to the public, it was decided that the GIC would underwrite general insurance business through its four subsidiaries that will mutually compete for business.

As from 1st of January 1974 all the insurers transacting general insurance in India ‘ whether Indian or foreign- were merged into the under noted four subsidiaries or companies or groups having more or less equal premium income. 1. The Oriental Fire and General Insurance Co. Ltd. 2. The New India  
<https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

Assurance Company Ltd. 3. The National Insurance Company Ltd. 4. The United India Fire and General Insurance Company Ltd. The object of the government of India in forming these four subsidiaries is to ensure that these are so situated so as to render their combined services effectively to all parts of India.

The General Insurance Corporation has been formed as a government company with an authorised capital of Rs. 75 crores (with an initial subscribed capital of 5 crores) for the purpose of superintending, controlling and carrying on the business of general insurance. It is now possible to transact certain types of general insurance business, which were formerly considered too hazardous, and the GIC is likely to make a beginning with crop insurance. Current environmental forces in the insurance sector. 1. 3

STAGES OF DEVELOPMENT OF INSURANCE INDUSTRY. April 1993 | Malhotra Committee appointed for insurance deregulation | | January 1994 |

Recommends privatisation of the insurance sector and the setting up of the Insurance | | | Regulatory Agency (IRA) | | January 1996 | Interim IRA set up. | | September 1996 | IRA bill drafted. | | December 1996 | IRA introduced in parliament and referred to the standing committee on finance. | May 1997 | Standing committee presents its final report. | | November 1997 |

Government gives greater autonomy to LIC, GIC and its four subsidiaries to restructure its | | | boards and flexibility in investment norms. | | April 1998 |

The government promises to open up the sector. | | November 1998 | Cabinet decided to allow 40% foreign equity in private insurance companies-26% to foreign | | | companies and 14% to NRIs, OCBs and FIIs. | December 1998 | IRA bill presented in parliament and referred to the standing committee. | |

April 1999 | Agreed to limit foreign equity to 26% IRA bill renamed as IRDA bill. | | October 1999 | Cabinet clears IRDA bill. | | 2000 | President gives assent to the IRDA bills. | | 2001 | IRDA's first annual report. | | 2002 | Number of new policies issued by life insurers and non-life insurers. | | 2003 | Top life insurance companies launched in India. | 2004 | The authority had issued circular INV/CIR/046/2004-2005. | | 2004 | Further modified the circular INV/CIR/059/2004-2005 dated 28th Dec 2004. | | 2008 | Vide GO Gazette notification dated 11th Feb 2008. |

#### 1. 4. ENTRY OF PRIVATE INSURANCE PLAYERS INTO INSURANCE BUSINESS.

Private companies that ventured into the life insurance sector have discovered in their first year of operation that insurance is still largely a tax saving exercise for a large number of Indians.

The private sector managed to corner around 2-2.5 percent of the fresh premium market during the first year, which increased to 8.5 percent in 2002. The total premium earned by the 12 private insurance companies during the 2002-2003 fiscal year is at around Rs. 1200 crores. HDFC Standard Life the first private insurance company in India had a premium earnings of 132 crores. The company commenced its operations on December 2000. The company sold 150,000 policies amounting to a sum assured of 5,000 crores during the year.

In the little over two years the company has been operating it has set up a network covering 39 locations through out the country. ICICI Prudential Life Insurance, which started its operations around the same time as HDFC Standard Life has a larger network covering 42 locations around India. The company has sold around 184,000 policies totaling a sum assured of over 7,000 crores.

<https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

460 crores. The company's premium earnings for the period were around 163 crores. Max New York Life set up in 2001, with a presence in 12 cities sold around 64, 000 policies with a sum assured of Rs. 100 crores during the year 2002-2003. The company's premium earnings were at over Rs. 43 crores during this period. Birla Sun Life, which also set up its operations in 2001, sold 20, 000 plus policies with a sum assured of Rs. 1600 crores and a premium earning of around Rs. 35 crores. Alliance Bajaj and Om Kotak Mahindra who entered into the fray later sold around 22, 000 and 13, 000 policies respectively. While Alliance Bajaj notched up premium earnings of over Rs. 12 crores, Om Kotak's premium earnings were slightly higher at over Rs. 13 crores.

The remaining main six players made up for the rest of the premium pie, which is estimated at around Rs. 100 crores plus. While the figures are small compared to Life Insurance Corporation of India, which has much greater reach and penetration, the innovations being introduced by the private players in the insurance market are expected to change the insurance market in the country. The life insurance premium pie is around Rs. 20, 000 crores in India today. However if one were to look at the premiums paid on existing policies the market is estimated to be around Rs. 30, 000 crores.

The low insurance penetration levels of just around 22 percent make India into a huge potential market for the insurance business. In the top 10 cities that the private insurers are strong in, they command over 12 percent of the market today.

#### 1. 5. FACTORS INFLUENCING INSURANCE INDUSTRY 1. 5. 1.

**POLITICAL ENVIRONMENT** The insurance sector till recently closed to the private sector has also come under the ambit of the ongoing economic

<https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

reform process. The process was initiated in 1993 with the setting up of the Malhotra Committee to look at the deregulation of this sector.

Though the past few years in the political arena has been plagued by vagaries of the parties and instability at the helm of affairs, the perception towards the current government seems to be strong. This lends the confidence, which is required for any industry to progress ahead in its reforms as in the case of the insurance sector.

### 1. 5. 2. SOCIAL & CULTURAL ENVIRONMENT

In general, the Indian community is very cautious when making business decisions. Consequently, Indian consumers will scrutinise vigorously the products and services offered by the insurance companies. In addition the Indian consumers prefer a wide range of options.

Given the uncertainty about their life span and about the increasing costs and responsibilities, the consumer opt for a life insurance policy with the following features.

- Policies that meet an untimely accident or a premature death whereby the dependents are able to continue to meet their financial obligations for some initial period. This is very important because in most Indian families there is only one earning member in the household.
- Policies that meet an untimely accident involving the loss of a limb, creating a major disability.
- Policies that avail owners of a tax rebate, a fixed rate of return on the insurance investment and non-taxable pay out upon maturity.
- Policies that provide bonus if the insurer has not withdrawn any sum of money during the insured period (certain sums can be withdrawn after the policy has been in effect for specified periods of time).
- Policies that provide for a housing loan at very favorable interest rates after the insurance policy has been in effect for a specified duration.
- Policies that provide money

<https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>



back policy after reduced duration, 5 or 10 years. Funds from the payout may be expanded or reinvested in other saving programs or in other life insurance plans. . 6. LIFE INSURANCE Life insurance is a contract providing for payments of a sum of money to the person assured or falling on him, to the person entitled to receive the same on the happening of certain event. A family is generally dependent for its food, clothing and shelter on the income brought in regularly by the breadwinner in the family. So long as he lives and the income is received steadily that family is secure, but if death suddenly intervene the family may be left in a very difficult situation and sometimes in stark poverty. Uncertainty of death is inherent in human life.

It is this uncertainty that is risk which gives rise to the necessity for some form of protection against the financial losses arising from death. Insurance substitutes this uncertainty with certainty. 1. 8. ADVANTAGE OF LIFE

INSURANCE 1. It is superior to an ordinary savings plan: This is so because, unlike other savings plans, it affords full protection against risk of death. In case of death, the full sum assured is made available under a life assurance policy, whereas under other savings schemes the total accumulated savings alone will be available.

The latter will be considerably less than the sum assured, if death occurs during early years. 2. Insurance encourages and force thrift: A savings deposit can be too easily withdrawn. Many may not be able to resist the temptation of using the balance for some less worthy purpose. On the other hand, the payment of life insurance premiums becomes a habit and comes to be viewed with the same seriousness as the payment of interest or a mortgage. The insurance, in effect, brings about compulsory savings. 3. <https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

Easy settlement and protection against creditors: The life assured can name a person or person (Nominee/s) to whom the policy money would be payable in the event of his death. The proceeds of a life insurance policy can be protected against the claims of the creditors of the life assured by effecting a valid assignment of the policy. A married woman's property Act policy constitutes a trust in favour of the wife and / or children and on separate assignment is necessary. The beneficiaries are fully protected from creditors except to the extent of any interest in the policy retained by the assured. 4.

Administering the legacy for beneficiaries: It often happens that a provision which a husband or father had made through insurance is quickly lost through speculative or unwise investment or by unnecessary expenditure on luxuries. These contingencies can be provided against in the case of insurance . The policyholder can arrange that in the event of his death the beneficiary should receive instead of a single sum (I) payment of the claim amount by equal instalments over a specified period of years (II) payment of the claim amount by smaller monthly instalments over the selected period followed by a lump sum at the end thereof. . Ready marketability and suitability for quick borrowing: After an initial period, if the policyholder finds himself unable to continue payment of premiums he can surrender the policy for a cash sum. Alternatively, He can tide over a temporary difficulty by taking a loan on a sole security of the policy without delay. Further, a life insurance policy is sometime acceptable as security for a commercial loan. 6.

Tax relief: For computing income-tax the Income tax Act allows deduction of certain portion of the taxable income of individuals or HUF, which is diverted <https://assignbuster.com/mobilisation-of-funds-in-insurance-industry-assignment/>

to payment of life insurance premiums, from income chargeable to tax in India, when this tax relief is taken into account it will be found that the assured is in effect, paying a lower premium for his insurance.

1. 9. IRDA REGULATIONS. List of Regulations issued by the IRDA

1. IRDA (Actuarial Report and Abstract) Regulations, 2000
2. IRDA (Appointed Actuary) Regulations, 2000
3. IRDA (Assets, Liabilities and Solvency Margin of Insurance) Regulations, 2000
4. IRDA (General Insurance ‘ Reinsurance) Regulations, 2000
5. IRDA (Insurance Advertisements and Disclosure) Regulations, 2000
6. IRDA (Licensing of Insurance Agents) Regulations, 2000
7. IRDA(Registration of Indian Insurance Companies) Regulations, 2000
8. IRDA-Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000
9. IRDA (Investment)Regulations, 2001
10. IRDA (Re-insurance Advisory Committee )Regulations, 2001
11. IRDA (Third Party Administrators ‘ Health Services )Regulations, 2001
12. IRDA(Distribution of Surplus) Regulations, 2002
13. IRDA( Insurance Brokers ) Regulations, 2002
14. IRDA(Licensing of Corporate Agents ) Regulations, 2002
15. IRDA( Manner of Receipt of Premium ) Regulations, 2002
16. IRDA( Obligations of Insurers to Rural Social Sectors ) Regulations, 2002
17. IRDA(Preparation of financial statements and auditor’s report of insurance Companies) Regulations, 2002
18. IRDA( Protection of Policyholders’ Interests) Regulations, 2002
19. IRDA (Qualification of Actuary) Regulations, 2004
20. IRDA (Micro-Insurance) Regulations, 2005