International Journal of Academic Research
ISSN: 2348-7666 Vol.2, Issue-2(3), April-June, 2015

Insurance Sector & Government of India: An analysis

Dr. Rama krishna chittajallu, Lecturer in Commerce, P.R. Government College(A), Kakinada, Andhra Pradesh.

***Abstract**: This paper studies the Insurance, Insurance Policies and the functions and policies of financial services of Government of India. Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies. Insurance Division of Department of Financial Services, Government of India is administratively concerned with the activities of life and non-life segments of the nationalized insurance industry and Insurance Regulatory and Development Authority (IRDA).*

***Key words:** Insurance, risk management*

Introduction

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.

An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a financial (personal) loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language.

Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies.

The insurance policy is generally an integrated contract, meaning that it includes all forms associated with the agreement between the insured and insurer. In some cases, however, supplementary writings such as letters sent after the final agreement can make the insurance policy a non-integrated contract.[1]:11 One insurance textbook states that generally "courts consider all prior negotiations or agreements ... every contractual term in the policy at the time of delivery, as well as those written afterwards as policy riders and endorsements ... with both parties' consent, are part of written policy". The textbook also states that the policy must refer to all papers which are part of the policy. Oral agreements are subject to the parol evidence rule, and may not be considered part of the policy if the contract appears to be whole. Advertising materials and circulars are typically not part of a policy. Oral contracts pending the issuance of a written policy can occur.

Life Insurance Corporation of India

The Parliament of India enacted the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of Indian was established on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. The Corporation also transacts business abroad and has branch offices in Fiji, Mauritius and United Kingdom. LIC also operates in overseas Insurance Market through Joint Venture Companies namely Life Insurance Corporation (International) B S C (C), registered in Manama (Bahrain), Kenindia Assurance Company Ltd., registered in Nairobi, Life Insurance Corporation (Nepal) Ltd. registered in Kathmandu, Life Insurance Corporation (Lanka) Ltd. registered in Colombo and Saudi Indian Company for Co-operative Insurance registered in Riyadh. An offshore company, Life Insurance Corporation (Mauritius) Offshore Ltd. registered in Port Louis, Mauritius is a Joint Venture Company between LIC of India and GIC of India. It has been decided that this company defers its life business activities and contemplates to pursue non-life reinsurance business with active participation of GIC.

Insurance Regulatory & Development Authority (IRDA)

The insurance sector was opened up to private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. The Insurance Regulatory and Development Authority (IRDA) at present consist of the Chairman, 4 full-time members and 4 part-time members. The Authority is functioning from its Head Office at Hyderabad, Andhra Pradesh.

Indian Insurance Sector

Since opening up, the number of participants in the industry has gone up from six insurers (including Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation of India as the National Reinsurer) in the year 2000 to 52 insurers operating in the life, non-life and reinsurance segments (including specialized insurers viz. Export Credit Guarantee Corporation and Agriculture Insurance Company of India Ltd.).

Three of the general insurance companies, viz. Star Health and Alliance Insurance Company; Apollo Munich Health Insurance Company; and Max BUPA Health Insurance Co. Ltd. function as standalone health insurance companies. Of the twenty three life insurance companies which have set up operations in the life segment post opening up of the sector, twenty one are in joint venture with foreign partners. Of the eighteen who have commenced operations in the non-life segment, sixteen had been set up in collaboration with foreign partners.

(i) Amendment to Insurance Legislation:

The Insurance Laws (Amendment) Bill, 2008 introduced in the Parliament proposes to amend the Insurance Act, 1938, the Insurance Regulatory and Development Authority Act, 1999 and the General Insurance Business (Nationalization) Act, 1972. The amendments to the Insurance Laws (Amendment) Bill, 2008 proposes to raise foreign equity participation from 26% to 49%, have already been cleared by the Government and the official amendments to the bill is likely to be introduced in the forthcoming Parliament session. The Bill also provides to permit foreign re-insurers to open branches only for re-insurance business and entry of Lloyd's of London in insurance business in India etc.The amendments to the Insurance Act and the IRDA Act focus on the current regulatory requirements. The proposed changes provide for more flexibility in operations and are aimed at deletion of certain sections which are no longer relevant in the present context. The amendments also provide for enhancement of enforcement powers and levy of stringent penalties.

Government is also considering further initiatives to give fillip to the insurance industry in the country and expand the spread and penetration of life/non-life insurance. This includes faster approvals under use and file system for standard products and relaxations in investments in debt instruments and other issues relating to service and indirect taxation.

(ii)Portability of Health Insurance:

Insurance Regulatory and Development Authority (IRDA) has issued guidelines vide circular dated 9.9.2011 implementing portability of health insurance policies amongst non-life insurance companies w.e.f. 1.10.2011. The health insurance policy holder by virtue of the said circular can, at the time of renewal, switch:- i) from one insurance company to another insurance company of his choice; or ii) from one insurance plan to another insurance plan with the same insurance company. By the process, the policy holder will not lose the credits gained in terms of waiting periods for pre-existing conditions, time-bound exclusions, etc. The Health Insurance Policy Holder can at the time of Renewal of his/her policies can shift to another Insurance Company for a similar product, if he is not satisfied with the present Insurance Company for any reason, without losing the Credits gained, if renewed with the existing company. This was not the case earlier; because change in insurance company or plans amounted to loss of these credits and the policies started as new, carrying all time limitations afresh. Thus "Portability" helps to have a level playing field for all insurance companies and the Customer can choose and compare benefits across products and Companies. IRDA has also provided a portability portal facilitating easy data transfer between the insurance companies.

(iii)Innovations in Health Insurance:

Eighty per cent of all health expenditure in the country is spent through personal resources. This is despite an increase in premium from Rs. 519 crore in 2000-01 to Rs. 9944 crore (19 times) in 2010-11. With increasing demand, the health insurance industry has introduced innovative products to enable the policyholder to plan comprehensive protection against health eventualities by combining hospitalisation indemnity products with supplementary covers or additional policies to meet specific needs of the policyholder. There are products available that provide Daily Hospital Cash benefit in the form of fixed daily allowance which could be used to cover the incidental costs associated with hospitalisation (like travel and stay costs of an attendant). These benefits are available either on standalone basis or as optional component of a packaged health insurance policy. Though most of the health policies offered are annually renewable, insurance companies are finding innovative ways to establish long term arrangements with the policyholder by offering long term policies or by incentivising timely renewals, free health check-ups, loyalty vouchers for OPD covers, etc. The innovative covers offered by the health insurance industry have to some extent blurred the lines between life and non-life covers. Recently, the Authority has allowed insurance companies to offer pure term life insurance products along with health insurance products under the umbrella of a single product. It is envisaged that the combi-products could enhance the penetration of personal lines of insurance business with a wider product choice to policyholders.

(iv)Micro insurance:

One of the main objectives of promoting financial inclusion packages is to economically empower those sections of society who are otherwise denied access to financial services, by providing banking and credit services thereby focusing on bridging the rural credit gap. The banking sector is focusing on financial inclusion on a priority basis. Vulnerability to various risk factors is one of the fundamental attributes of these sections of the society. Lack of protective elements may, thus, not serve the objective of promoting financial inclusion packages as the targeted sections may fall back into the clutches of poverty in the event of unforeseen contingencies. Hence, to provide a hedge against these unforeseen risks, micro insurance is widely accepted as one of the essential ingredients of financial inclusion packages. Micro insurance regulations issued by IRDA have provided a fillip in propagating micro insurance as a conceptual issue.

The micro insurance regulations have been made effective from 2005. These regulations are in addition to the obligations for rural and social sector business to be done by all insurers on an annual basis. There were 10482 (PY 8678) micro insurance agents operating in the micro insurance sector as at the end of 2010-11. The new business premium secured during the year was Rs. 130.40 crore (Rs. 243.41 crore in 2009-10) on 36.51 Lakh lives (1.68 crore lives in 2009-10) in group category and Rs. 158.22 crore premium (Rs. 158.22 crore in 2009-10) on 1.53 crore policies (0.33 crore policies in 2009-10) in the individual category. An amount of Rs. 208.43 crore (Rs. 178 crore in 2009-10) was paid on 50805 claims (43463 claims in 2009-10) in group category and Rs. 17.04 crore (Rs. 8.19 crore in 2009-10) on 11391 policies (7508 policies in 2009-10) in the individual category during the year 2010-11.

Keeping in view the requirement of financial inclusion program accordingly a draft of the regulation is put by IRDA in public domain for seeking comments.

(v)Investments by the insurance sector:

During 2009-10, the IRDA aligned the definition of 'infrastructure facility' with that of the Reserve Bank of India (RBI) thereby creating more room for the insurers to invest in infrastructure sector. The Authority has also relaxed the ceiling of investments in infrastructure to 20 per cent in a "single" investee company as against 10 per cent earlier. The limit is applicable to the combination of both debt and equity taken together without sub ceilings in instruments satisfying certain criteria. An additional exposure of 5 per cent has been permitted in 'debt' alone with prior approval of the respective insurer's Investment Committee. Further strengthening on the risk management structure, IRDA has issued guidelines on the scope for "Internal and Concurrent Audit" for investment operations of insurance companies to monitor investment of both traditional and unit linked portfolio, at a closer level with the aim of mitigating risk. Similar, stipulations are also applicable to non-life insurance companies. The guidelines for audit of Investment Risk Management Systems and Processes were also issued during the year.

The total funds invested by life insurers as on 31st March, 2011 was Rs. 1430118 crore (Rs. 1205155 crore in 2009-10), of these Rs. 399116 crore (27.91 per cent of total funds) represents ULIP funds and the remaining Rs. 1031002 crore (72.09 per cent) is the contribution by traditional products. Non-Life insurers have contributed around 5.45 per cent of total investments made by the insurance industry. The total amount of investments made by the sector, as on 31st March, 2011, was Rs. 82520 crore (Rs. 66372 crore as on 31st March, 2010). During 2010-11, the net increase in investments by the non-life industry stood at Rs. 16148 crore (24.33 per cent growth over previous year).

Insurance Ombudsmen

One of the major areas of concern of the Government has been the efficient customer services in the insurance sector. With a view to ensure expeditious redressal of public grievances relating to the settlement of the claims, the Government has introduced a system of Ombudsman in the Insurance Sector with effect from 11th November 1998. Insurance Ombudsmen are currently located in 12 cities. Each Ombudsman is empowered to redress customer grievances in respect of insurance contracts on personal lines where the insured amount is less than Rs.20 lakhs.

Aam Aadmi Bima Yojana(AABY)

AAM ADMI BIMA YOJANA, a Social Security Scheme for rural landless household was launched on 2nd October, 2007 at the hands of the then Hon'ble Finance Minister at Shimla. The head of the family or one earning member in the family of such a household is covered under the scheme. The premium of Rs.200/- per person per annum is shared equally by the Central Government and the State Government. The member to be covered should be aged between 18 and 59 years.

Janashree Bima Yojana

Janashree Bima Yojana (JBY) was launched on 10th August 2000. The Scheme has replaced Social Security Group Insurance Scheme (SSGIS) and Rural Group Life Insurance Scheme (RGLIS).

Shiksha Sahayog Yojana (SSY) as add-on Benefit

The scheme was launched on 31st December, 2001. Scholarship as a free add-on benefit is provided under both Janashree Bima Yojana and Aam Admi Bima Yojana to maximum of two children of the beneficiary studying between 9th to 12th standard (including ITI courses) @ Rs. 100 per month for each child payable half yearly on 1st July and 1st January, every year. The benefit is without any additional premium.

For meeting the expenditure on Scholarship benefit under Aam Admi Bima Yojana a separate Fund has been set up by Govt. of India called "Aam Admi Bima Yojana Scholarship Fund. Fund is maintained by LIC of India. For Jana Shree Bima Yojana scholarship expenditure is paid out of Social Security Fund.

Apart from above two schemes, the earlier old Social Security Schemes namely Social Security Group Scheme, Integrated Rural Development Programme (IRDP), Swarnjayanti Gram Swarojar Yojana(SGSY) for the existing lives continued to be administered by LIC. These schemes are closed for the new lives from the year 2000 onwards.

Micro-Insurance Products

"Jeevan Madhur" a simple savings related life insurance plan for low income persons was launched in 2006. On surviving to the date of maturity, sum assured is paid alongwith vested bonus if any. On death of the policy holder, death benefit amount equal to the total premiums payable during the entire term of the policy will be paid alongwith vested bonus if any.

"Jeevan Mangal", LIC's second Micro Insurance product, was launched in 2009. It is a term insurance plan with return of premiums paid on maturity, provided the policy is in force. On death during the term of the policy, the sum assured under the basic plan is payable, provided the policy is in force.

Varishtha Pension Bima Yojana (VPBY)

VPBY meant for senior citizens aged 55 years and above was launched on 14.7.2003. Under the scheme the pensioner gets an effective yield of 9% per annum on the investment. The difference between the effective yield of 9% paid to the pensioner and that earned by LIC is compensated as subsidy to LIC by the Government of India.

Universal Health Insurance Scheme (UHIS)

The four public sector general insurance companies have been implementing Universal Health Insurance Scheme for improving the access of health care to poor families. The scheme provides for reimbursement of medical expenses upto Rs.30,000/- towards hospitalization floated amongst the entire family, death cover due to an accident @ Rs.25,000/- to the earning head of the family and compensation due to loss of earning of the earning member @ Rs.50/- per day upto maximum of 15 days. The Universal Health Insurance Scheme (UHIS) has been redesigned targeting only the BPL families. The premium subsidy has been enhanced from Rs.100 to Rs.200 for an individual, Rs.300 for a family of five and Rs.400 for a family of seven, without any reduction in benefits.

National Agricultural Insurance Scheme (NAIS)

The Government of India introduced the scheme from Rabi 1999-2000 season to protect the farmers against losses suffered by them due to crop failure on account of natural calamities. The scheme is currently implemented by Agriculture Insurance Company of India (AICIL). The scheme is available to all the farmers, loanee and non-loanee, irrespective of size of their holding. The scheme covers all food crops (cereals, millets and pulses) and oil seeds and Annual commercial/ horticultural crops. At present, 10% subsidy on premium is available to small & marginal farmers. NAIS is presently being implemented in 24 States and 2 Union Territories except in States of Punjab & Arunachal Pradesh. Nagaland has given consent to implement the scheme and Rajasthan has decided to implement WBCIS in place of NAIS. Since the inception of the scheme and until up to 31.03.11 about 176 million farmers have been insured, covering an area of 269 million hectares for a sum insured value of Rs. 2,21,213 crore, against a premium of Rs. 6589 crore. Claims to the tune of about Rs. 22190 crore have been reported so far benefiting nearly 47.6 million farmers representing a claim ratio of 1:3.37.

Conclusion

The insurance policy is generally on integrated contract, meaning that it includes all forms associated with the agreement between the insured and insurer. In some cases however, supplementary writings such as letters sent after the final agreement can make the insurance policy a nonintegrated contract. Now in India, insurance sector is one on of the important branches of the service sector, which is regulated by Government of India. Insurance Division of Department of Financial Services, Government of India is administratively concerned with the activities of life and non-life segments of the nationalized insurance industry and Insurance Regulatory and Development Authority (IRDA).Government of India through IRDA regulates the Insurance, Insurance Policies and the functions and policies of Financial services of Government of India.

References :

1. http://en.wikipedia.org/wiki/Insurance
2. Insurance Division Department of Financial Services Insurance Division
3. en.wikipedia.org/wiki/**Economy**_of_**India**
4. www.indiabix.com