CHANGING SCENARIO OF INSURANCE INDUSTRY

By : Shri Jagendra Kumar
United India Insurance Co. Ltd., Jaipur

Law Commission Member Secretary has commented that "Insurers should draft their policies in plain language to make it understandable to the common man." There is a need to look at the insurance laws comprehensively. The Insurance Act 1938 has phrases and concepts which are no longer relevant. The need to bring in a comprehensive law also stems from the fact that there were thousands of litigations in the insurance and banking sectors due to the old provisions. Inadequate laws and lack of good insurance schemes are the reasons for poor development of the health insurance sector.

The consultation paper has been drawn up by the Law Commission on a comprehensive law by merging Insurance Act of 1938 and IRDA Act of 1999. The Chairman Justice M.J.Rao has reacted that lot of provisions in the two Acts have become redundant and have to be removed. Relevant to emerging changes and needs, the Government has favoured a comprehensive law including an alternate dispute resolution and appellate authority in line with that of the securities market and telecom sector. There is a need for a Regional Grievance Authority to resolve most of the insurance disputes referred to consumer forums. The main objective is access to justice.

The insurance disputes are not very often resolved through mediation and reconciliation. Consumer courts are made to interpret difficult insurance laws. The tendencies of insurers of not settling the claims taking advantage of the complex legal provisions, is increasing the burden on courts. The discrepancies in the case of nominations in life and general insurance sector are leading to further litigations which is not within the reach of common man.

GIC : IN A NEW LOOK

At present GIC is insuring both ways. A whopping increase in foreign insurance premium at Rs. 600 crore has pushed the national reinsurer's total premium to over Rs. 3800 crore in 2002-03. GIC is willing to write more risks back home for domestic insurance companies. The knock on this account hag been primarily from the motor portfolio. GIC apparently does not have much control on its motor, marine or fire losses as the entire chunk comes from the public and private insurance companies. At present every public and private general insurance company has to necessarily cede 20% of its risk with GIC. The reinsurer is in talks with a host of companies to increase their cession limits back home. The quantum of foreign inward premium may be low in the total premium income but the increase in its share over the last one year is significant. In 2002-03, the share of foreign premium has been over 15% compared to just 6% the previous year.

GIC is keen to write more risks back home and looking at picking up a strategic stake in African reinsurance major East Africa Re. apart from establishing its presence in London, Moscow and Dubai. Besides, it is examining new Asian markets like China, Korea and Malaysia. With the existing networth of about Rs. 2800 crore, the capacity to write business is almost four times. Going by the huge capacity for retention back home, GIC has approached life insurers to cede 10% of their reinsurance risk.

ROLE OF IRDA AND TAC :

IRDA had earlier indicated that the entire non-life business would be detariffed and left to market forces in the next two years. This would mean that the Tariff Advisory Committee would lose its prime reason for existence. The TAC was constituted to issue administered rates in business in the non-life sector. At present over two thirds of non-life business is governed by tariff rates. The businesses where rates are fixed include motor and fire insurance. Marine and many other classes are non-tariff where rates are decided by the operating offices. The TAC, which has its own secretariat, employees and offices in various centres is working towards becoming a data warehouse.

IRDA has made it mandatory for the insurance brokers to invest Rs. 50 lakhs so that they can remain committed to their clients and offer professional services. Brokers are also required to take up professional indemnity policy of three-times of their brokerage income subject to a minimum amount of Rs. 50 lakhs. Thus the brokers have sunk in couple of crores to set up their businesses, are finding the going tough with the clients approaching the insurance companies directly to avail of the special 5% discount. The insurance agents are able to earn 15% discount if the sum assured is less than a crore of rupees, with an investment of just about Rs. 250/- per annum, while the insurance brokers earn 12.5% return after having invested Rs. 50 lakhs for registering themselves. Brokers certainly earn more brokerage than the agents in the categories where the sum assured is more than Rs. 1 crore, but today none of the corporate clients move to them as they can get a special discount of 5% if they directly approach the insurance compaines. Unless IRDA scraps the special discount, none of the insurance broking companies can survive. Several insurance brokers in the country are today able to survive only by eating into their share capital as the clients are by passing them to approach the insurance companies directly to avail of the special discount of 5%.

INTER-COMPETITION AMONG INSURERS :

Private insurance companies can give a good competition to the PSUs in terms of customer orientation and quick settlements. There is a big scope for financiers to book a good fee based income by becoming corporate agents. Before the industry was opened up, the four public sector insurance companies were underwriting Rs. 14000/- crore premium a year. So far, the eight private insurers had taken away only 14% of the business. They have an uphill task in taking on the four PSUs which have big network of officers, market reach and a vast development force. The need for de-tariffing premium for the sake of removing unfair trade practices, has been stressed upon by all the private players. While there is a big business potential, the regulators, in a bid to create entry barriers, have forced the promoters to pump over Rs. I 00 crore as capital. This will result in longer payback period of six to seven years.

The insurance companies so far have been providing separate insurance cover for each and every segment but the efforts are on to provide a comprehensive insurance cover to machines, assets and the people. Attempts are also on to include the health and accident insurance for the IT companies where the insurers are trying to bundle the existing services to provide a comprehensive package. Three leading insurance companies are preparing a blueprint for offering the policy to IT companies. However, these companies are yet to approach the insurance Regulatory and Development Authority for seeking approval. IT companies are still major clients for the country's budding insurance industry, attempts are on to roll out an exclusive insurance cover for IT Companies. Insurance broking Companies like India Insure, Helios Insurance Services and Kadel Insurance Services for IT Companies. Insurance companies are today looking at different segments where there is business potential and are trying to customize policies to suit the specific needs of their clients.

UNLIMITED TP LIABILITY PHOBIA :

Unlimited third party limit is another grey area causing worry to insurance companies. The unlimited third party claims permitted under the law on road accidents is threatening the viability of the general insurance industry. It immediately requires a ceiling in the insurance claims. Nowhere in the world such unlimited third party claim is allowed and there is no reason for Imposing it on motor insurance in India when there is a limit for mishaps in aviation and railways. The robust growth of the commercial vehicle and passenger cars and falling interest rates augur well for the growth of Motor portfolio. The increase in premium rates of motor insurance have come as a life-blood to the much maligned sector but the increase in third party cases and unlimited third party awards have threatened the viability of all public and private sector insurers.

NEW RISKS : NEW COVERS

Companies could purchase insurance products for their displaced workers as part of severance package. All the jobs displaced from off-shoring can be insured for as little as 4-5% of saving coming out of offshoring these jobs. This sort of a proposal has been jointly developed by professionals of University of California and Brooking Institute for Trade-displaced workers. This would cover wage loss for all full-time workers. Once they are re-employed, compensating them 70% of wage loss between their old and new jobs for up to two years. If this happens, the insurance premiums will increase, cutting into the gains from off-shoring less attractive to companies in periods of higher unemployment. This form of insurance will create a self-regulating mechanism, by aligning the rate of offshoring with the rate of employment.

Event insurance has created rooms to cover new risks in the field of sports and festival ceremonies. India, which is a country of traditions and rituals, have plenty of religious and social events which take place every now and then. These events are dominated by religious and regional factors and, therefore, various risks attached to these areas are giving birth to the event insurance. In Health sector also the new policies are designed by both Government and insurance companies. The recent launching of Universal Health Insurance pioneered by Central Government is one step in this area.

AMENDED REBATING PROVISIONS :

Several insurance brokers have put their expansion plans on hold owing to the new notification put forward by IRDA, which enables the insurance companies to pass on rebates directly to the clients. Early this Year IRDA had decided to take action on insurance brokers indulging in rebating and called for submission of detailed returns from brokers. But from July 2003, IRDA itself has legalized rebating between the insurance companies and clients. Rebates have been legalized despite the fact that Section 41 of the Insurance Act of 1938 prohibits the offer of any direct or indirect inducement, including rebating to procure insurance business.

Section 41 of Insurance Act 1938. for instance, states " No person shall allow or offer to allow, either directly or indirectly as an inducement to any person to take out or renew or continue an insurance in respect of any kind relating to lives or property in India, any rebate of the whole or part of the commission payable or any rebate of the premium shown on the policy or accept any rebate, except such rebate as may be allowed in accordance with the published prospectuses of the insurer." The licensed Insurance brokers are strongly opposing the double standard approach of IRDA in rebating.

INSURANCE BUSINESS CYCLE :

Insurance business cycle is moving ahead rapidly. This cycle comprises alternating periods of expansion and recession which are integral features of market economics. A recession is a vicious phase of declining output, income, employment and sales, eventually giving way to an expansion, which is an analogous vicious cycle of rising economic activity. Sometimes, an economy exhibits not a recession but a milder counterpart called a slowdown, meaning a downshift in the pace of positive growth in economic activity. This cycle of insurance business is further examined and analysed by TAC which has the flexibility to take care of specific needs of insurers and ensure a healthy information exchange. TAC is doing the conversion of raw data into a analyzable data, creation and maintenance of a search engine, periodic deletion of aged data if deemed necessary, all enabling them to provide answers to online queries over the net. At present over two thirds of non-life business is governed by tariff rates.

PRESENT SCENARIO

Public Sector Insurance Companies have finally ceased to be the GIC Subsidiaries. The Rs. 100 Crore of equity has been transferred to Government from GIC. The transfer of equity follows amendments in the General Insurance Business Nationalisation Act, passed by Parliament. The possibility of tapping the capital market by public sector Insurers cannot be ruled out in future. There are visible signs of market expansion and therefore, all the insurers are expanding the targets and concentrating on most profitable personal and health segment.

The Commission structure has been the focus of debate today. The insurance players are trying to balance the diverse objectives of providing enough incentives upfront to draw full time agents and at the same time ensuring that commissions are spread over at increased rates to ensure persistency of service. IRDA cannot of its own notify changes as commission payments are fixed by law. Any change in commission structures would require a change in legislation.

The insurer's cup of woes has been similar to that of its peers In the industry. Third party claims in motor insurance have hit these companies hard with some companies having to shell out as high as 300% of the motor insurance premium collected. The new line of thinking is to tap the profitable personal lines of business. Companies are looking to bancassurance tie-ups. Emphasis also laid upon recruitment of unemployed graduates as agents. This would also provide some social stability. Companies have necessary infrastructure in the form of training centres to provide the mandatory IRDA training. Public Sector insurers expects banks to report good fee income through referrals to them. The insurance agents are able to earn 15% discount, if the sum assured is less than a crore of rupees, with an investment of just about Rs. 250/- per annum while the insurance brokers earn 12.5% return after having invested Rs. 50 lakhs for registering themselves.