Vol III Issue VI March 2014 ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

Review Of Research Journal

Chief Editors

Welcome to Review Of Research

RNI MAHMUL/2011/38595 **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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Review Of Research
Vol. 3 | Issue. 6 | March. 2014
ISSN:-2249-894X
Available online at www.ror.isrj.net

ORIGINAL ARTICLE

"REFORMS IN INSURANCE SECTOR IN INDIA - A EMPIRICAL STUDY"

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Abstract:

Insurance sector reform in India is likely to increase insurance demand in the country. However the experience of several countries with ?nancial reforms has been that savings have tended to go either way. Using a two-period model we show that in the short run, absent any income or productivity growth, private savings go unambiguously down since market based insurance replaces savings hitherto meant for self-insurance (the precautionary motive). Thus insurance is likely to edge out the precautionary component of savings. This paper deals with growth and modifications of Insurance sector in India.

KEY WORDS:

Empirical Study , Insurance sector , modifications.

INTRODUCTION:

In pursuance of the announcement made by the Finance Minister in his Budget Speech of 1998-99, the Insurance Regulatory & Development Authority Bill, 1999 as passed by both Houses of Parliament was notified on 29th December, 1999. The Act provides for the establishment of a statutory Insurance Regulatory & Development Authority to protect the interest of holders of insurance policies and to regulate, promote and ensure orderly growth of the insurance industry. It also amends Life Insurance Corporation Act, 1956, General Insurance Business (Nationalization) Act, 1972 and brings in consequential provisions in Insurance Act, 1938 with a view to cease the exclusive privilege of LIC and GIC in life and non-life business

MEANING:

IRDA Act, 1999 has defined Indian Insurance Company as

(a) Which is formed and registered under the Companies Act, 1956 (1 of 1956);
(b) in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed twenty-six per cent paid up equity capital of such Indian insurance company;
(c) Whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business.

The regulations issued by IRDA prescribed the manner for calculation of 26% equity capital held by a foreign company as under:

(i) The quantum of paid up equity share capital held by the foreign company either by itself or through its subsidiary companies or nominees in the applicant company;
(ii) the quantum of paid up equity share capital held by other foreign investors, non-resident Indians, overseas corporate bodies and multinational agencies in the applicant company; and
(iii) the quantum represented by that proportion of the paid up equity share capital to the total issued equity capital of an Indian promoter company mentioned in sub-clause (I) of clause (g) of regulation 2 held or controlled by the category of persons mentioned in sub-clauses (I) and (ii) of this sub regulation.

Structural Changes in the Nationalized Insurance Sector:

· It has been decided, in principle, to approve General Insurance Corporation (GIC) as the Indian reinsurer. Necessary approval is being issued under section 101A of the Insurance Act. It will be mandatory for all the insurance companies, private and nationalized, to cede a prescribed percentage of their policy premium to GIC as re-insurer.
· Delinking of GIC from its subsidiaries has been approved in principle. Necessary amendment in the General Insurance Business (Nationalization) Act, 1972 (GIBNA, 1972) is being brought out. This is required under IRDA Act, 1999 as GIC as an re-insurer cannot underwrite direct insurance business
· The paid-up equity of the nationalized insurance companies is being increased from existing Rs. 40 crores to Rs. 100 crores as per the requirement under IRDA Act, 1999. The required notifications are being issued.
· The subsidiary insurance companies will require considerable autonomy and independence of functioning to survive the intense competition after the entry of private player. This will not be possible as long as they continue to be subsidiaries of GIC. IRDA has also been insisting on delinking of GIC from its subsidiaries as per the requirement under the Insurance Act, 1938 and also to ensure a level playing field to all the players in the market. It has, therefore, been decided, in principle, to transfer the shares of subsidiary companies currently held by GIC to Government by an amendment of GIBNA, 1972.
· The Government is taking all necessary measures to strengthen public sector companies. The measures include grant of greater autonomy, upgradation of technology, organisational restructuring, development of human resources through training etc.
· The wage revision in the insurance industry was notified on 22nd June, 2000. This is effective from 1st August 1997.The wage revision package is a landmark package in the insurance industry as it seeks to provide for incentive payment with linkage to productivity improvement and cost reduction.

PERFORMANCE OF LIFE INSURANCE CORPORATION

1.During the year 1999-2000, the total new business under individual assurances was Rs.91, 213.42 crores under 169.77 lakh policies.
2.The growth of new business over the last year is 21.11% by sum assured and 14.37% by no. of policies.
3.The total premium income of the Corporation is Rs.24, 630.37 crores representing a growth of 21.23% over previous year. The total income of the Corporation is Rs.27, 849.76 crore representing 21.21% increase over last year.
4.The Life Fund of LIC as at 31st march, 2000 has exceeded Rs.1, 50,000 crores representing a growth rate of over 20% over the last year. The gross yield earned on the mean Life Fund during 1999-2000 was 12.08%.
5.There were 9.16. crore individual insurance policies in force as on 31st March, 1999 with Rs.4,57,435 crores of sum assured. It is estimated that LIC have covered 7.71 crore persons out of 27.70 crores of insurable population. This indicates that 27.83% of insurable population stand covered as on 31st March, 2000.
6.The penetration in terms of Premium Income as a percentage is 1.22% of Gross Domestic Product.

PERFORMANCE OF GIC AND ITS SUBSIDIARIES GIC:

The net premium income of GIC during 1999-2000 has increased to 1886.31 crores (as against Rs.1710.26 crores during the previous year) representing the growth of 10.3% over the last year.
The corporation has earned an net profit of Rs. 417.75 crores during the year 1999-2000 (as against Rs. 429.64 crores during 1998-99)

Underwriting loss during the year 1999-2000 is Rs.230 crores (as against under writing loss of Rs. 102 crores during the previous year.)
GIC has maintained dividend at the rate of 30% during the current year.

SUBSIDIARIES OF GIC:

The total gross premium of the of all the four subsidiaries of GIC has increased to a sum of Rs. 9906.77 crores during 1999-2000 from Rs. 9101.87 crores during the previous year. This represents the growth of 8.84%.
The net premium in India for all the four subsidiaries during 1999-2000 is Rs.7477.20 crores. This is against 6692.22 crores during the previous year indicating a growth of 11.19% during 1999-2000.
The net profit of all the four companies during 1999-2000 is Rs.733.84 crores as against Rs.835.13 crores during the previous year.
All the subsidiary companies except United India have maintained the dividend at the last year's level.

CONCLUSION:

The role of insurance in the ?nancial system and the economy as a whole differs fundamentally from that of banking. By pooling risks such as accident, ? re, theft or illness of a large number of policyholders, classic insurers contribute to welfare and to economic stability and should pose no systemic risk to the stability of the ?nancial system. Based on the speci?c features of the classic insurance business model and existing regulatory safeguards, even large insurers can be unwound in an orderly manner without causing major market disruptions.

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