

Indian Insurance Sector: General Insurance

Dr. Nakka Rinku Venkatesh,

Senior - Clerk

Lal Bahadur Shastri Mahavidyalaya,
Dharmabad, Dist. Nanded (M.S).

Introduction:

Insurance refers to the commercial arrangement in which a business establishment accepts the liability of risks faced by individuals for a small sum of fee called premium. Companies providing such insurance are called insurance companies. Insurance companies help to spread the risk of loss among a large number of their clients. For example when a company insure your car for a small sum against accidents, it charges a yearly insurance which is much less than the losses you may have to bear if the accident actually happened. In return it will compensate you for the actual losses incurred if an accident actually happens.

In this arrangement the clients of the insurance companies benefit by avoiding a major but undertrained loss which they may be ill prepared to bear by accepting to pay a small but certain premium. Not only they avoid the big loss they also buy the peace of mind by knowing that if something goes wrong, the insurance companies will bear the losses. The insurance companies benefit as the premium is so calculated the even after paying for the losses occurring against insured events, they will still be left with some surplus profit. Insurance and insurance companies are grouped in two broad classes-life insurance and general insurance. Life insurance is protection against pre-mature death of a person. In case, of premature death of a person, his nominated survivors are paid a sum substantial sum of money. This sum of money is agreed in advance and the insured person pays premium to insurance company in proportion to this.

General insurance refers to insurance for anything other life. It covers loss of property due to reasons such a theft, accidents and natural calamities. It also covers expenses for some specific purposes such as medical treatment and liability for payment of compensation to victims of road accidents.

What I General Insurance:

Insurance other than 'Life Insurance' falls under the category of General Insurance companies of insurance of property against fire, burglary etc., personal insurance and liability insurance which covers legal liabilities. There are also other covers such as errors and omissions insurance for professionals, credits insurance etc. Non-life insurance companies have products that cover property against fire and allied perils, flood storm and inundation, earthquake and so on. There are products that cover property against burglary, theft etc. The non-life companies also offer policies covering machinery against breakdown, there are policies that cover the hull of ships and so on. A Marine Cargo policy covers goods in transit including by sea, air and road. Further, insurance of motor vehicles against damages and theft forms a major chunk of non-life insurance business.

In respect of insurance of property, it is important that the cover is taken for the actual value of the property to avoid being imposed a penalty should there be a claim. Where a property is undervalued for the purposes of insurance the insured will have to bear a rateable proportion of the loss. For instance if the value of a property is Rs. 100 and it is insured for Rs. 50/-, in the event of a loss to the extent of say Rs. 50/-, the maximum claim amount payable would be Rs.

25/- (50% of the loss being borne by the insured for underinsuring the property by 50%). This concept is quite often not understood by most insured.

There are general insurance products that are in the nature of package policies offering a combination of the covers mentioned above. For instance, there are package policies available for householders, shopkeepers and also for professionals such as doctors, chartered accountants etc. Apart from offering standard covers, insurers also offer customized or tailor-made ones. Suitable general insurance covers are necessary for every family. It is important to protect one's property, which one might have acquired from one's hard earned income loss or damage to one's property can leave one shattered. Losses created by catastrophes such as the tsunami, earthquakes, cyclones etc, have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against personal accident. A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury.

Industries also need to protect themselves by obtaining insurance covers to protect their building, machinery, stocks etc. They need to cover their liabilities as well. Financiers insist on insurance. So, most industries or business that is financed by banks and other institutions do obtain covers. But are they obtaining the right covers? And are they insuring adequately are questions that need to be given some thought. Also organizations or industries that are self-financed should ensure that they are protected by insurance.

The general insurance business in India is governed by the Insurance Act, 1938 which is based on the British Insurance Act. The Act was amended in 1969 for 'social control' to govern the general insurance business on healthy lines. However, it was felt that there still existed some scope for improvement. In view of this, on May 13, 1971 the government nationalized the general insurance industry by an ordinance which became the General Insurance (Nationalization) Act, 1972. At that time there were 63 domestic insurance companies and 44 foreign insurance companies operating in India. The managements of all the 107 companies were taken over by the Government and accordingly the General Insurance Corporation (GIC) was formed as a government company in November 1972. The GIC as the holding company is entrusted with the task of superintending, controlling and carrying on the general insurance business in the country. Its subsidiaries in all the four zones of the country viz., the oriental fire & General Insurance Company (now known as the Oriental Insurance Co. Ltd), the National Insurance Company Ltd., the New India Assurance Company Ltd. & the United India Insurance Company do all classes of direct business of general insurance except aviation which is done by the GIC.

Types of General Insurance:

General Insurance includes those insurance policies which are not covered under life insurance. General insurance provides protection against risk of loss to assets like home, motor vehicle etc. Common general insurance plans include motor insurance, fire insurance, personal accident insurance, health insurance, marine insurance etc. The most popular general insurance plans are mentioned hereunder:

1. Fire Insurance:

Fire insurance provides protection against damage to property caused by accidents due to fire, lightning or explosion, whereby the explosion is caused by boilers not being used for industrial purposes. Fire insurance also includes damage caused due to other perils like storm tempest or flood: burst pipes: earthquake: aircraft: riot, civil commotion: malicious damage: explosion: impact.

2. Marine Insurance:

Marine insurance basically covers three risk areas, namely hull, cargo and freight. The risks which these areas are exposed to are collectively known as "Perils of the Sea". These perils include theft, fire, collision etc.

3. Miscellaneous:

As per the Insurance Act all types of general insurance other than fire and marine insurance are covered under miscellaneous insurance. Some of the examples of general insurance are motor insurance, theft insurance, health insurance, personal accident insurance, money insurance, engineering insurance etc.

Insurance Scope in India:

Insurance is a nice-looking option for investment but most people are not aware of its advantages as an investment option. Remember that foremost and first, insurance is about risk cover and protection. By buying life insurance, you buy peace of mind. Insurance also saves as an excellent tax saving mechanism. The Govt. of India has provided tax incentives to life insurance products in order to facilitate the flow of funds into productive assets.

The insurance sector has opened up for private insurance companies with the enactment of IRDA Act, 1999. A large number of companies are competing under both general and life insurance. The FDI cap / equity in this sector is 26% and the proposals have to be cleared by Insurance Regulatory and Development Authority (IRDA) established to protect the interest of holder of insurance policy and act as a regulator and facilitator in the industry.

Some of the major players in this sector are LIC, Max New York Life Insurance, Bajaj Alliance, ICICI Prudential, HDFC Standard Life, MetLife Insurance, Birla Sun Life Insurance etc various types of instruments and policies are coming up in the market to attract more clients. Most of the population of India is not insured, hence there is a lot of scope in this sector and a number of companies are planning to enter the sector.

Characteristics of GIC:

The insurance has the following characteristics which are generally observed in case of life, marine, fire and general insurances.

*** Sharing of Risk:**

Insurance is a device to share the financial losses which might be fall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the family in the case of life insurance, marine-perils in marine insurance, fire in fire insurance and other certain events in general insurance eg. Theft in burglary insurance, accident in motor insurance, etc. The loss arising from these events if insured are shared by all the insured in the form of premium.

*** Co-operative Devid:**

The most important feature of every insurance plan is the co-operation of large number of persons who in effect agree to share the financial loss arising due to a particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents.

*** Value of Risk:**

The risk is evaluated before insuring to change the amount of share of an insured, herein called consideration or premium. There are several methods of evaluation of risks. If there is expectation of more loss, higher premium may be charged. So, the probability of loss is calculated at the time of insurance.

*** Payment at Contingency:**

The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency, the death of the expiry of term will certainly occurs, the payment is certain. In other insurance contracts, the contingency is the fire or the marine perils etc may or may not occur. So, if the contingency occurs payment is made, otherwise no amount is given to the policy - holder.

*** Amount of Payment:**

The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. The insurer promises to pay a fixed-sum on the happening of an event.

*** Large Number of Insured Persons:**

To spread the loss immediately, smoothly and cheaply, large number of persons should be insured. The co-operation of a small number of persons may also be insurance but it will be limited to smaller area. The cost of insurance to each member may be higher. So, it may be unmarketable.

* Therefore, to make the insurance cheaper, it is essential to insure large number of persons or property because the lesser would be cost of insurance and so, the lower would be premium. In past years, tariff associations or mutual fire insurance associations were found to share the loss at cheaper rate. In order to function successfully the insurance should be joined by a large number of persons.

Conclusion:

In terms of number of players entering the insurance market, General Insurance has twelve num entrants in the post-liberalization period. And the State Bank of India moves into the general insurance business in 2008 in collaboration with IAG.

Fuelled by competition, increased awareness will bring the customers on to Centre stage. The customer will be the most important factor and will drive change in the life insurance business. The customer in India is increasingly becoming aware and is actively managing his / her financial affairs. Today, while boundaries between various financial products are getting blurred, people are increasingly looking not just at products but at integrated financial solution that can offer them stability of returns along with total protection. The key of success therefore would be in providing insurance solutions, not insurance products.

The gestation period of general insurance business is up to three years. Motor and health insurance form a large part of general insurance market in India, along with property and casualty. Players have restricted to individuals. There is a lot of potential in growing the institutional side of business.

In an increasingly competitive scenario the key differentiator will be the customer's experience that each life insurance player can offer in terms of quality of advice, product, choice, policy servicing and settlement of claims. Service will focus on enhancing the customer experience and maximizing customer convenience.

For new entrants, to convert the opportunity into profit need to make considered choices in selecting their customers, the portfolio of services they offer and the capabilities they need to acquire of build.

Leading the growth charge are the new private players. The private players now have a 50% market share in 2007. The private players are growing aggressively and developing new products, sales and distribution infrastructures penetration level are up. Now, products are being developed as per the requirement of the customer. In the coming years, the themes in the general insurance market would be rural, retail, micro insurance and householder covers.

References:

- 1) www.google.com
- 2) The Indian Financial System & Development.
- 3) Agawam Dr. Rakesh, (2011), Guide to Regulation on Insurance Business, JBA Publishers, New Delhi.
- 4) <http://bloomiberg.com/news>.
- 5) [http://articles.economic times, indiatimes.com](http://articles.economic-times.com)

