BANKING AND INSURANCE

UNIT 4

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INSURANCE

Insurance is generally defined as a contract which is also called a policy. An insurance policy is a contract in which an individual or an organization gets financial protection and compensation for any damages by the insurer of the insurance company. In simpler words, one can answer what is an insurance policy as a form of protection from any unexpected loss or damage. From this paragraph, one can get a clear overview of insurance meaning.

HISTORY OF INSURANCE

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the

Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

ROLE AND IMPORTANCE OF INSURANCE

Insurance plays a major role in the insured’s life.

- The insured’s family is protected with the help of insurance at the time something unexpected happens. Their family doesn't have to worry about the monetary aspects of the finances in this case.
- We all know that unexpected events can occur at any time and are a part of life. In case of any injury, illness, or death, finances are the last thing that they need to worry about. This way, their emotional stress is also reduced to an extent.

- Insurance is a great financial security to an individual's family. An insurance policy gives the family the coverage needed as well as the courage to move on.
- Insurance is peace of mind for the insured in case of theft or medical emergency. This way they would not have to go and arrange money or go into a panic mode.
- The funds which are provided by the insurance company are well enough for managing the school fees of the insured children. It also takes care of their standard of living.

FUNCTIONS OF INSURANCE

- They provide certainty to the insured.
- They ensure the protection of the family.
- They are risk-sharing policies.
- They prevent the damages that can come from loss.
- It provides capital.
- It’s known for improving efficiency.
- It helps in boosting the economy.

NATURE OR CHARACTERISTICS OF INSURANCE

1. Contract: Insurance is a contract between the insurance company and the policyholder wherein the policyholder (insured) makes an offer and the insurance company (insurer) accepts his offer. The contract of insurance is always made in writing.

2. Consideration: Like other contracts, there must be lawful consideration in insurance also. The consideration is in the form of premium which the insured agrees to pay to the insurer.

3. Co-operative Device: All for one and one for all is the basis for cooperation. The insurance is a system wherein large number of persons, exposed to a similar risk, are covered and the risk is spread over among the larger insurable public. Therefore, insurance is a social or cooperative method wherein losses of one is borne by the society.

4. Protection of financial risks: An insurer is protected from financial risks which can be measured in terms of money. As such insurance compensates only financial or monetary loss or risks.

5. Risk sharing and risk transfer: Insurance is a social device for division of financial losses which may fall on an individual or his family on the happening of some unforeseen events. When insured, the loss arising out of the events are shared by all the insured in the form of premium. Therefore the risk is transferred from one individual to a group.

6. Based upon certain principles: The insurance is based upon certain principles like insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution, etc.
7. Regulated by Law: Insurance companies are regulated by statutory laws in almost all the countries. In India, life insurance and general insurance are regulated by Life Insurance Corporation of India Act 1956, and General Insurance Business (Nationalization) Act 1972, and IRDA Regulations etc.
8. Value of Risk: Before insuring the subject matter of the insurance contract, the risk is evaluated in order to determine the amount of premium to be charged on the insured. Several methods are being adopted to evaluate the risks involved in the subject matter. If there is an expectation of heavy loss, higher premiums will be charged. Hence, the probability of occurrence of loss is calculated at the time of insurance.
9. Payment at contingency: An insurer is liable to pay compensation to the insureds only when certain contingencies arise. In life insurance, the contingency, the death or the expiry of the term will certainly occur. In such cases, the life insurer has to pay the assured sum. In other insurance contracts, the contingency a fire accident or the marine perils, may or may not occur.
10. Insurance is not gambling: An insurance contract cannot be considered as gambling as the person insured is assured of his loss indemnified only on the happening of such uncertain event as stipulated in the contract of insurance, whereas the game of gambling may either result into profit or loss.
11. Insurance is not a charity: Premium collected from the policyholders under an insurance is the cost of risk so covered. Hence, it cannot be taken as charity. Charity lacks the element of contract of indemnity and compensation of loss to the person whosoever makes it.
12. Investment portfolio: Since insurers' liability to pay compensation to the insured arises on the happening of certain uncertain event, the insurers do not have to keep the collected premium with them. They invest the premium received in selected securities and earn interest and dividend on them. Thus, the insurers have two sources of income: the insurance premium and the investment income (i.e. interest / dividend) which occurs over time.

TYPES OF INSURANCE

1. General Insurance

General insurance policies are one of the types of insurance that offer coverage in the form of sum assured against the losses incurred other than the death of the policyholder. Overall, general insurance comprises different types of insurance policy that offer financial protection

against losses incurred due to liabilities such as bike, car, home, health, and similar. These various general insurance types of insurance policies include:

- **Health Insurance:** Health insurances are types of insurance policy that covers the expenses incurred due to medical care. Health insurance plans either pay or reimburse the amount paid towards the treatment of any illness or injury. Different types of insurance policy cover varied medical care expenses.
- **Motor Insurance:** Motor insurances are types of insurance that offer financial assistance in case your bike or car get involved in an accident. Various types of Motor insurance policies in India include:
    - Car Insurance: Individually owned four-wheelers are covered under this plan. The car insurance types include- third-party insurance and comprehensive cover policies.
    - Bike Insurance: These are types of insurance policy where individually owned two-wheelers are covered against accidents
    - Commercial Vehicle Insurance: This is one of the insurance types, which offers coverage to any vehicle used for commercial purposes
- **Home Insurance:** As the name suggests, a home insurance policy offers comprehensive protection to the contents and structure of your house against any physical destruction or damage. In other words, this insurance type will provide coverage against any natural and human-made calamity, such as fire, earthquake, tornado, burglaries, and robbery.
- **Fire Insurance:** Fire insurance policies are different types of insurance coverages that compensate any losses incurred due to a fire breakout with a sum assured. These types of insurance policy usually provide a significant amount of coverage to help both individuals and companies to reopen their places after incurring extensive damage due to fire. These insurance types cover war risk, turmoil, riots losses as well.
- **Travel Insurance:** As the name suggests, travel insurance is a type of insurance policy, providing financial protection for you and your loved ones while you are visiting any place in India or abroad. Whether you are travelling solo or with your loved ones, the travel insurance coverage will help ensure that you have a peaceful journey.

2. Life Insurance

Life insurance plans offer coverage against unfortunate events like death or disability of the policyholder. Besides financial protection, there are various types of life insurance policies that

allow the policyholders to maximize their savings through regular contributions into different equity and debt fund options.

- **Term Life Insurance Plans:** Term insurance is the purest and most affordable among the types of insurance policy in which, you can opt for a high life cover for a specific period. You can secure your family's financial future with a term life insurance plan by paying a low premium. If anything happens to you within the policy period, your loved ones would receive the agreed Sum Assured as per the pay-out option chosen (some term insurance types offer multiple pay-out options as well)
- **Whole Life Insurance Plans;** Whole life insurance plans, also known as 'traditional' life insurance plans, provide coverage for the entire life of the insured individual, as opposed to any other life insurance instrument that offers coverage for a specific number of years. While a whole life insurance plan offers to pay a death benefit, the plan also contains a savings component, which helps accrue a cash value throughout the policy term. The maturity age for whole life insurance policy is 100 years.
- **Endowment Plans:** Endowment plans essentially provide financial coverage to the policy holder against life's uncertainties, while allowing them to save regularly over a certain period. Upon maturity of the endowment plan, the policyholder receives a lump sum amount if he or she survives the policy term. If anything happens to you (as Life Insured), the life insurance endowment policy pays the complete Sum Assured to your family (beneficiaries)
- **Unit-Linked Insurance Plan (ULIP);** Unit Linked Insurance Plans are types of insurance policy that offer both investment and insurance benefits under a single policy contract. A portion of the premium that you pay towards a Unit Linked Insurance Plan is allocated to a variety of market-linked equity and debt instruments.
- **Child Plans;** Child plans are types of insurance policy that helps you financially secure your child's life goals such as higher education and marriage, even in your absence. In other words, child plans offer a combination of savings and insurance benefits that aid you in the financial planning for your child's future needs at the right age.
- **Pension Plans:** Pension plan, also known as retirement plan, is a type of investment plan that aids you in accumulating a portion of your savings over an extended period. Essentially, a pension plan helps you deal with financial uncertainties post-retirement, by ensuring that you continue to receive a steady flow of income even after your working years are over.

INSURABLE RISKS

Insurable risks are risks that insurance companies will cover. These include a wide range of losses, including those from fire, theft, or lawsuits. When you buy commercial insurance, you pay premiums to your insurance company. In return, the company agrees to pay you in the event you suffer a covered loss. By pooling premiums from many policyholders at once, insurers are able to pay the claims of the few who do suffer losses, while providing protection to everyone else in the pool in case they need it. A risk which can be easily insured and which follows the norms and specifications of an insurance is called an Insurable Risk. These include being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable.

For example: loss of life.

Pure Risk vs. Speculative Risk

Insurance companies normally only indemnify against pure risks, otherwise known as event risks. A pure risk includes any uncertain situation where the opportunity for loss is present and the opportunity for financial gain is absent.

Speculative risks are those that might produce a profit or loss, namely business ventures or gambling transactions. Speculative risks lack the core elements of insurability and are almost never insured.

Characteristics of an Ideally Insurable Risk

Private insurers generally insure only pure risks. However, some pure risks are not privately insurable. From the viewpoint of a private insurer, an insurable risk ideally should have certain characteristics. There are ideally six characteristics of an insurable risk:

- There must be a large number of exposure units.
- The loss must be accidental and unintentional.
- The loss must be determinable and measurable.
- The loss should not be catastrophic.
- The chance of loss must be calculable.
- The premium must be economically feasible.

PRINCIPLES OF INSURANCE

The concept of insurance is risk distribution among a group of people. Hence, cooperation becomes the basic principle of insurance. To ensure the proper functioning of an insurance

contract, the insurer and the insured have to uphold the 7 principles of Insurances mentioned below:

1. Utmost Good Faith
2. Proximate Cause
3. Insurable Interest
4. Indemnity
5. Subrogation
6. Contribution
7. Loss Minimization

1. Principle of Utmost Good Faith

The fundamental principle is that both the parties in an insurance contract should act in good faith towards each other, i.e. they must provide clear and concise information related to the terms and conditions of the contract. The Insured should provide all the information related to the subject matter, and the insurer must give precise details regarding the contract.

Example – Jacob took a health insurance policy. At the time of taking insurance, he was a smoker and failed to disclose this fact. Later, he got cancer. In such a situation, the Insurance Company will not be liable to bear the financial burden as Jacob concealed important facts.

2. Principle of Proximate Cause

This is also called the principle of 'Causa Proxima' or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

Example – Due to fire, a wall of a building was damaged, and the municipal authority ordered it to be demolished. While demolition the adjoining building was damaged. The owner of the adjoining building claimed the loss under the fire policy. The court held that fire is the nearest cause of loss to the adjoining building, and the claim is payable as the falling of the wall is an inevitable result of the fire.

In the same example, the wall of the building damaged due to fire, fell down due to storm before it could be repaired and damaged an adjoining building. The owner of the adjoining

building claimed the loss under the fire policy. In this case, the fire was a remote cause, and the storm was the proximate cause; hence the claim is not payable under the fire policy.

3. Principle of Insurable interest

This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss.

Example – the owner of a vegetable cart has an insurable interest in the cart because he is earning money from it. However, if he sells the cart, he will no longer have an insurable interest in it. To claim the amount of insurance, the insured must be the owner of the subject matter both at the time of entering the contract and at the time of the accident.

4. Principle of Indemnity

This principle says that insurance is done only for the coverage of the loss; hence insured should not make any profit from the insurance contract. In other words, the insured should be compensated the amount equal to the actual loss and not the amount exceeding the loss. The purpose of the indemnity principle is to set back the insured at the same financial position as he was before the loss occurred. Principle of indemnity is observed strictly for property insurance and not applicable for the life insurance contract.

Example – The owner of a commercial building enters an insurance contract to recover the costs for any loss or damage in future. If the building sustains structural damages from fire, then the insurer will indemnify the owner for the costs to repair the building by way of reimbursing the owner for the exact amount spent on repair or by reconstructing the damaged areas using its own authorized contractors.

5. Principle of Subrogation

Subrogation means one party stands in for another. As per this principle, after the insured, i.e. the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company. Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

Example – If Mr A gets injured in a road accident, due to reckless driving of a third party, the company with which Mr A took the accidental insurance will compensate the loss occurred to Mr A and will also sue the third party to recover the money paid as claim.

6. Principle of Contribution

Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

Example – A property worth Rs. 5 Lakhs is insured with Company A for Rs. 3 lakhs and with company B for Rs.1 lakhs. The owner in case of damage to the property for 3 lakhs can claim the full amount from Company A but then he cannot claim any amount from Company B. Now, Company A can claim the proportional amount reimbursed value from Company B.

7. Principle of Loss Minimisation

This principle says that as an owner, it is obligatory on the part of the insurer to take necessary steps to minimise the loss to the insured property. The principle does not allow the owner to be irresponsible or negligent just because the subject matter is insured.

Example – If a fire breaks out in your factory, you should take reasonable steps to put out the fire. You cannot just stand back and allow the fire to burn down the factory because you know that the insurance company will compensate for it.

RISK MANAGEMENT

Risk Management is the practice of assessing a company's or an individual's risks and then mitigating the costs associated with such risks. There are two kinds of risks in each situation.

1. The Risk associated with the expense that would be caused if a possible failure occurs. An example is the cost of repairing and reequipping an assembly facility if a building catches fire and is burnt to the ground.

2. The second type is the cost associated with minimizing or removing the chance of possible failure. The cost of buying cover against fire damage or the cost of not constructing the plant at all will be included here.

For **Risk Management** to be reliable, these two forms of costs must be balanced against the other.

What are the four ways to manage Risk?

A risk that we face can be dealt with in one of four ways. Depending on the circumstances and type of Risk, one can choose the best way to manage Risk.

Four ways to manage Risk are:

1. Avoiding Risks: The best way to avoid a potential loss from a certain operation is to avoid it entirely. For Example, the decision not to start a store due to the Risk of losses. The problem is that whenever we escape a risk, we often lose out on the advantages of engaging in the related operation. Furthermore, not all hazards, such as the risks of sickness or natural catastrophe, can be eliminated.

2. Reducing Risks: We can take precautions to minimize the likelihood and seriousness of damage involved with an activity if we cannot prevent it. This is called Reduction of Risks. Planning for the possibility that you won't have enough space or supplies to meet a great demand is a clear example of risk mitigation. In that case, you should have a plan to help you quickly scale your resources or delegate some of the work to third parties to accommodate the increased demand.

3. Transferring of Risks: In this case, you are transferring the Risk to someone else in this situation. It is mostly applicable to financial risks and cases where it is possible to write it into contracts. A simple example is insuring yourself against the possibility of burning—the insured bears the financial Risk if a fire damages your warehouse.

4. Retention of Risk: There's always the choice of doing nothing. You should, however, make a deliberate and educated decision to consider the possibility. It would help if you didn't choose that by default because you haven't given the other choices much thought. This technique is better for minor threats with a low impact or for risks that are impossible to occur, such as the possibility of a meteor striking your headquarters.

Importance of Insurance in Risk Management

Insurance has developed as a means of protecting people's assets from loss and confusion. It can be viewed as a social device that helps to minimize or remove the chance of death or property loss.

- The Risk of company losses is reduced
- Insurance improves the productivity of a company

- Promotes Economic Growth
- Credit improvement
- Business continuity

1. The Risk of company losses is reduced:

Insurance offers financial assistance and mitigates the risks that people and companies face throughout their existence. It's an excellent risk-mitigation tool against incidents that could inflict financial hardship for people and businesses.

2. Insurance improves the productivity of a company:

When a business owner is no longer concerned with losses, he will undoubtedly devote more time to the company. The unconcerned owner will act more efficiently to maximize benefit. The fear of losing money may harm businessmen's minds. However, by minimizing the doubt, Insurance encourages business people to work harder and thus increase productivity.

3. Promotes Economic Growth:

By mobilizing domestic investments, the insurance industry has a direct effect on the overall economy. It is because insurance converts accrued funds into profitable investments. Insurance also allows for loss prevention, financial security, and the promotion of trade and commerce practices, both of which contribute to long-term economic growth and prosperity. As a result, Insurance is extremely important.

4. Credit improvement

The policy may be used as collateral to secure a loan for the company. Because of the guarantee of reimbursement at death, insured people are receiving more loans. As a result, Insurance will assist the corporation in obtaining additional credit.

5. Business continuity

In any company, especially a relationship business, the business may cease to exist if one partner dies. While the remaining partners may resume the business, both the business and the partners of the deceased will lose financially. At the time of death, the insurance plans have sufficient money. Each partner's stake in the relationship must be secured, and his dependents may receive compensation.

PRIMARY OBLIGATIONS OF THE INSURER

Payment for Losses

An insured is responsible for indemnifying the policyholder or paying for the losses suffered by the insured or a third party as a result of a covered risk. Example*:* Lynn gets into an automobile accident that is his fault. The insurance carrier may be obligated to pay the cost of Lynn's injuries, the injuries to the other driver, and the cost of damages to both Lynn and the other drivers car.

Duty to Defend

An insurer generally has the duty to defend or pay the legal expenses of an insured who is subject to a legal action for the covered risk. Example*:* Hank has professional liability insurance for his accounting practice, the insurer will be obligated to defend Hank if a client brings a civil action against Hank alleging negligence in his accounting services.

Subrogation

An insured inherits the identified interest of the insured based upon the occurrence of the covered risk. The insurer may then seek recovery or contribution for harm suffered (funds paid to the insured or third parties) based upon the harm to the insureds interest. The majority of all civil litigation in the United States involves insurance coverage. Failure of an insurer to comply with its duties under an insurance policy is a common subject of litigation, known as bad-faith refusal.

TYPES OF INSURANCE COMPANIES

There are many types of insurance companies. It is useful to be aware of the general types, since the differences can impact the kinds of insurance that a business chooses to buy. The more common categories of insurance company include the types noted below.

- **Captive Insurance Company:** A captive insurance company is an entity that exists to underwrite the risks of its parent owner. The concept can also be used to provide insurance for a group of participating entities. The risk of loss is confined to the captive entity.

- **Domestic Insurance Company:** A domestic insurance company is incorporated in the state within which it is domiciled. This entity is considered a domestic insurer within that specific state, and a foreign insurer within all other states (though it can still be licensed to do business in other states).
- **Alien Insurance Company:** An alien insurance company is incorporated under the laws of another country. It is considered an alien entity from the perspective of any other country within which it does business.
- **Lloyds of London:** Lloyds of London is a business that underwrites insurance under the authorization of the English Parliament. These entities are more likely to issue coverage for more unusual or high risk items, as well as the usual types of insurance.
- **Mutual Insurance Company:** The policy holders own a mutual insurance company, so earnings are distributed back as dividends. Losses are not usually charged back to policy holders, based on the terms of their insurance agreements.
- **Stock Company:** A stock company is an entity organized as a corporation, with shareholders. Any excess earnings of this type of business may be distributed as dividends to the shareholders.
- **Standard Lines:** A standard lines carrier is much as its name implies. It is an insurance company that has a license to operate and sell specific lines of insurance in a particular state. Another word for standard lines carriers is "admitted carriers." The rates charged for coverage for a standard lines carrier is regulated by the state board of insurance in the state or states where it offers coverage. These admitted carriers are also subject to laws and restrictions of the states where licensed to operate. A standard lines carrier must contribute to a state guarantee fund. This guarantee fund pays claims presented should the insurance company become insolvent.
- **Excess Lines:** Another name for an excess lines insurance company is a "surplus lines" company. These types of companies mainly insure specialty risks such as high-risk auto insurance or high-risk individuals that would not be eligible for coverage by a standard lines carrier because of its underwriting guidelines or restrictions. An example would be a driver who has many speeding tickets or other traffic violations or a company who has just opened up and has no prior coverage.

REINSURANCE

Reinsurance is a type of insurance that is purchased by insurance companies to reduce risk. Essentially, reinsurance may restrict the cost of damages that the insurer can theoretically experience. In other words, it saves insurance providers from financial distress, thus shielding their clients from undisclosed risks. It is a process whereby one entity (the reinsurer) takes on all or part of the risk covered under a policy issued by an insurance company in consideration of a premium payment. In other words, it is a form of an insurance cover for insurance companies.

In simple words, reinsurance is nothing but insurance for companies which provide insurance. Reinsurance is a tool used by insurance firms to minimize their liability or to mitigate their exposure to a single catastrophic incident.

Breaking down Reinsurance

By distributing the risk, an insurance firm can take those clients on board whose coverage might be too burdensome for a single insurance company to deal with on its own. The premium paid by the insured is usually distributed among all the insurance companies concerned when reinsurance occurs. In case a single company takes the liability on its own, the cost of covering the expenses could eventually end up with the insurance firm being financially ruined or even bankrupt in the worst-case scenario. This may also result in the firm not being able to compensate for the losses that the original company had paid for the insurance premium.

Advantages of Reinsurance

- The risk associated with substantial coverage can be spread systematically among other companies.
  - Reinsurance allows companies to limit their losses by distributing specific risks with other companies. This can help in freeing up additional capital for the companies.
  - Reinsurance gives companies the provision to accept new clients with the purchase of additional relief insurance.

PROSPECTS OF INSURANCE COMPANIES

Insurance sector in India has become one of the most favoured investment destinations both for Indians and NRIs. India is the fifth largest insurance market among the globally emerging insurance economies. Growing interest towards insurance among people, innovative products and distribution channels are sustaining the growth of the insurance sector. The various liberalisation policies in the sector have opened the door for various private sector insurance companies. This increase in number of players has resulted in new products, better packaging, improved customer service, greater employment opportunities, etc.

Market Structure

There are 49 insurance companies operating in India as of September 2011. Out of which, 24 are in life insurance business, 24 in general insurance business, and remaining ones in re-insurance business. General Insurance Corporation of India (GIC) is the sole national re-insurer.

Growth Predictions

The Indian insurance sector is expected to grow at a rapid pace to reach around US$ 400 billion in premium income by 2020, according to a report released by an industry body and the Boston Consulting Group (BCG). As per the report, this would make India one of the top three life insurance and top 15 non-life insurance markets by 2020.

Career Prospects

There are number of career opportunities available in Indian insurance sector. Insurance companies have job openings in various fields such as marketing, distribution, actuarial, underwriting, operations and investing departments. A graduate in the area of finance, marketing, or sales can easily get the job in the insurance companies. They can earn anything between Rs. 8000 - 20,000 per month in the starting months. Most of the companies offer a very good remuneration and heavy incentives to retain the qualified candidates. Candidates can also take help of various recruitment agencies operating in India for searching the right job. These job consultancies work on the behalf of companies having job requirements.

Recent Initiatives

The Finance Minister has approved a proposal to raise foreign direct investment (FDI) in insurance and pension sectors to 49 percent from the existing 26 percent to encourage more

investment in the sector. The Securities and Exchange Board of India (SEBI) has relaxed rules to allow more life insurers to launch public offers. The Government's Financial Sector Legislative Reforms Commission (FSLRC) is working on new insurance policies' framework that would end LIC's monopoly, empower IRDA and establish a legal system to handle any lapses at insurers' end.

Road Ahead

The Indian insurance industry is booming, with several national and international players competing and increasing operations in the country. The Mckinsey report on the outlook for insurance sector in 2012 predicts an exponential growth for the insurance industry in 2012 due to contributing factors such as increasing household incomes, higher premiums, growing technology, liberal policies, etc. This will result in more career opportunities in the coming years. India is also expected to become the third largest life insurance market by 2015, after China and Japan. The life insurance sector in India may see a major jump of 13-14 per cent from fiscal year 2010 to 2015 to reach USD 110 billion by 2015, according to a report by McKinsey.

IRDA

Insurance Regulatory and Development Authority of India, commonly known as, IRDA, is the supreme authority that authorizes the insurance business in India. It was established by the Insurance Regulatory and Development Authority of India Act, 1999 after the declaration made by the former President of India, Pranab Mukherjee, on Insurance Laws (Amendment) Ordinance of 2014.

Establishment of IRDA

The Insurance Regulatory and Development Authority of India was established on the recommendations made by the Malhotra Committee in its report. This committee was headed by Mr. R.N. Malhotra (retired Governor of the Reserve Bank of India). It was finally set up at New Delhi on April 2000, but later on, it was shifted to Hyderabad, Telangana in 2001. The main recommendation made by this committee was to allow the entrance of private sector companies and foreign promoters and independent regulatory authority for the Insurance sector in India.

Objectives of IRDA

- To carry forward the interests of the policyholders.
- To uphold the development of the Insurance industry.
- To ensure speedy resolution of claims.
- To prevent frauds and malpractices.
- To ensure fair conduct on the part of the financial market and transparency when dealing with insurance.

Composition of IRDA

According to Section 4 of the Insurance Regulatory and Development of Authority Act, 1999, the members of the Authority will consist of the following:

- a chairman
- not more than five full-time members
- not more than four-part time members

And together they are supposed to work as a team, work cooperatively and not individually.

These members are to be appointed by the Government of India from amongst the persons exhibiting qualities that would be useful to the Authority like, exceptional knowledge in the field of life insurance, financial markets, economics, law, accountancy, general insurance. They should have good experience in these fields, too. Though, the chairman and each of the five full-time members are expected to have knowledge and experience in life insurance, general insurance, or actuarial science respectively. The current chairman of the Authority is Subhash Chandra Khuntia. He was appointed in 2018. It has the right to sue the other party on its name. It can also be sued in its name. Also, if any of the members dies or resigns, the Authority will continue to work.

Powers of IRDA / IRDA Functions

As per Section 14 of the Insurance Regulatory and Development of Authority Act, 1999 the Authority has to ensure the regulation, development and promotion of the insurance business

and reinsurance business. Following are the other powers, duties and functions of the Authority:

India began to witness the concept of insurance through a formal channel back in the 1800s and has seen a positive improvement ever since. This was further supported by the regulatory body that streamlined various laws and brought about the necessary amendment in the interest of the policyholders. Below mentioned are the important roles of IRDA -

- First and foremost is safeguarding the policyholder's interest.
- Improve the rate at which the insurance industry is growing in an organised manner to benefit the common man.
- To ensure the dealing are carried on in a fair, integral manner along with financial soundness keeping in mind the competence of the insurance company.
- To ensure faster and a hassle-free settlement of genuine insurance claims.
- To address the grievances of the policyholder through a proper channel.
- To avoid malpractices and prevent fraud.
- To promote fairness, transparency and oversee the conduct of insurance companies in the financial markets.
- To form a reliable management system with high standards of financial stability.