# Enhancing Competitiveness: The Case of the Indian Life Insurance Industry

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Abstract: Insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The consistent sub-optimal performance of this sector in India from independence through the 1990s has led to different sets of reforms, with each model adopted focusing on distinct competitive strategies. This study identifies the causes and the objectives with which the sector was reformed in 2000 to conclude that only in the last decade, the hybrid model of privatization with regulation adopted by the Government has yielded positive results and the sector has started to look up. The sector in its present form looks promising for the consumers, the insurers and the nation as a whole.

Keywords: life insurance, regulation, competitiveness, Governmental reforms
Theme: Enhancing Competitiveness
Sub-Theme: Strategies for Enhancing Competitiveness of Firms, Industry Sectors and Country

**Introduction**

The insurance industry affects money, capital markets and the real sectors in an economy, making insurance facility necessary to ensure the *completeness* of a market. It is an industry with strategic importance for any country as it contributes to the financial sector (and hence the GDP) as well as confers social benefits on the society. At the micro-level, an insurance policy protects the buyer against financial loss arising from a specified set of risks at some cost. It thus reduces anxiety and promotes financial stability by providing a much needed social security net, especially in times of crumbling family ties and nuclear households in developing countries. Despite the obvious advantages of insurance, India was one of the least insured countries in the last few decades of the $20^{th}$ century. In 1999 per capita insurance premium in developed countries was very high ($ 4800 for Japan, $ 887 for Singapore and $ 144 for Malaysia), whereas in India it was only $8. The premium as a percentage of GDP stood at 2% for India whereas it was 14% for Japan, 13% for South Africa and 9% for UK (Vijayakumar, 2007).

It was evident that something needed to be done to tap the potential for further growth. With privatization of traditional public sector businesses like banking, power, telecom and airlines gaining momentum in 1991, the Government also realized that the opening up of the insurance sector could lead to enhancement of insurance penetration within the country by leveraging on the rising per capital incomes and rising literacy rates. The life insurance sector was thus opened for private entry in the year 2000 with the passing of the IRDA Act. Opening of the sector to private firms was aimed at fostering competition and innovation through a greater variety of products. It was also looked at as an avenue for generating greater awareness on the need for buying insurance as a service.

With six years having passed since liberalization of the insurance sector, this study is an effort at studying the trends emerging with in this sector and benchmarking its status with respect to that prior to liberalization(2000). An attempt has been made to analyze whether the industry has benefited from the Governmental reforms. One important aspect that we need to keep in mind is that the insurance industry is characterized by high gestation periods and slow growth. Therefore it will not be before a decade that the benefits of the transition materialize. Nonetheless trends towards improvements in the sector should have been able to typify themselves with in a period of six years. Hence this paper is an endeavor towards analyzing the industry in its present form and comparing it with the pre-liberalized era, thereby understanding the alternate strategies that can facilitate the development of sound policies and practices leading to a globally competitive insurance industry within the country.

The next section of the report describes the methodology undertaken for the study, followed by an overview of the evolution of the Indian Insurance industry. The fourth section encapsulates the industry's business environment. The fifth section analyses the impact of Governmental reforms

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by comparing the insurance industry in its present form with its avatar from the pre-liberalized era. The last section concludes the study identifying the strategy that best fits the Indian Life Insurance Industry.

**Methodology**

Based on the objectives of this project, information was gathered through published journals and Government reports. These were analyzed to understand the factors that led the government to nationalize the industry and later reverse its decision to bring the entire life insurance industry under its control. The objectives of liberalization were objectively elucidated and suitable quantitative and qualitative measures were identified and a comparative assessment was made.

Rather than clutter the research with all the players with in the industry(16 in all), some of which are marginal, the study focused on assessing the top five industry players which are Life Insurance Corporation(LIC), Bajaj Allianz, ICICI Prudential, HDFC Standard and SBI Life based on market shares. These comprise 82% share in the industry together and therefore can be taken to be representative of the industry practices and strategies. To gain insights into the company offerings and changing consumer trends, discussions with agents of these companies were initiated. Thus primary information about consumer perspectives and internal company orientation about the market was obtained. The study is therefore based on secondary material available on public domain as well as primary material collected through personal interviews of employees in these firms.

However, the results from this study need to be interpreted with some amount of caution. Six years may not be sufficient time for a complete overhaul of the industry, and many trends may only be indicative. This study aims to conclude whether liberalization has resulted in any changes in the status of the life insurance sector and whether the move has helped to enhance competitiveness within the industry. While it may be difficult to demonstrate substantial changes, one could comment on incremental improvements and trends.

**EVOLUTION OF THE INDUSTRY**

Life insurance traces its origins in India to the early nineteenth century when companies in India insured the lives of Europeans living here. Eventually these companies began to cover Indians as well but required them to pay higher premiums. Regulations were passed to regulate the Indian insurers (but not the foreign companies providing insurance services in India) and to allow collection of information about insurance companies thus facilitating comparison amongst them. However the legislations became insignificant with time and the government nationalized the sector by combining all the 154 Indian private insurance companies to give birth to one behemoth: the Life Insurance Corporation of India.

Through this the Government strived to put an end to prevalent malpractices such as poor servicing standards along with the appalling management of companies wherein funds were simply being divested to all types of securities without any valuation of the borrowers. The Government took over the reins of the industry in its own hands reasoning that insurance was a cooperative enterprise and should be within the purview of the state in order to provide improved services to the public at lower costs. It was also envisioned that the nationalization of this sector would lead to more effective mobilization of funds to enable capital to be allocated to development projects. Besides the charter of freedom also pleaded the control of the state on key industries such as banking and insurance. Thus the industry was transformed from a competitive one to a highly regulated monopoly.

In the last decade of the 20$^{th}$ century India watched history repeat itself. With the Government implementing the New Industrial Policy in 1991, the country underwent a major wave of globalization. Strategic sectors such as the banking and the financial sector were reformed. Time had come for the policymakers to introspect the current policies in the Indian insurance industry as well. Committees on insurance sector reforms followed suit and it was found that India had continued to be one of the least insured countries till the late 20$^{th}$ century. Experts emphasized that customer service, insurance coverage, allocation of resources needed to be improved within the industry. Also more innovative products were needed to suit varied customer needs and to change opinion of people towards insurance, from tax exemption product to a tool for mitigating risks and increasing savings. Thus it was recommended that the industry should be opened up to enhance competition and autonomy be given to insurance companies to improve their performance and enable them to act as independent companies with economic motives. Thus the life insurance industry was liberalized with the aim of increasing contribution to the GDP and to the society.

## CURRENT BUSINESS ENVIRONMENT

The Indian insurance industry is currently valued at Rs. 180000 crores ($400 billion) and gross premium collection contributes to roughly 2% of the GDP. The life insurance sector premiums grew at a rate of 41% in the last fiscal (2005-06) to Rs. 35896 crores[1].

Within the sector, Life Insurance Corporation of India continues to be the market leader with the highest premiums collected in FY 06 to the tune of Rs. 25645 crores. LIC is followed by Bajaj Allianz with an 8% market share, ICICI Prudential with a 7.4%, HDFC Standard with a 3% and SBI Life with a market share of 2.5% as shown in Figure 1 below. The private players have a long way to go before they can challenge the largest player in the industry with only single digit market shares to boast of. However with almost 30% share of the industry taken away from this eternal player in a small period of 6 years, LIC has strived towards strengthening its foothold by bringing in innovative products and services upbeat with the new kids on the block. LIC has thus managed to increase its premium income consistently over the past years although its market share has continued to slide downwards.

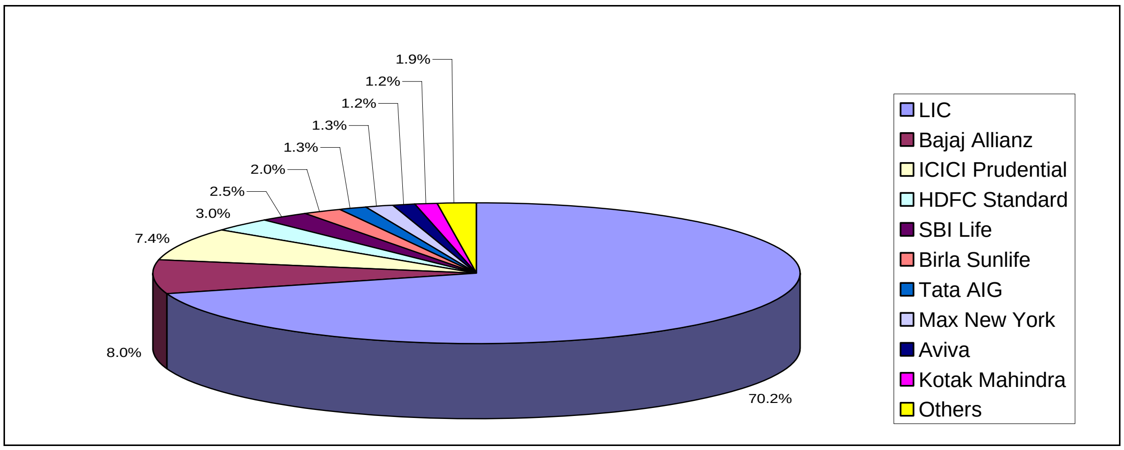


Figure 1
Market share of life insurers in 2005-06, based on first year premiums
Source: Compiled from The Economic Times, Sept 1, 2006

The various factors which have largely led to the development of the insurance sector in its present form can be broadly classified into two groups: market driven factors and the regulatory driven factors.

### Market Driven Factors

The role of insurance is undergoing a phenomenal change today as is evident from the product bouquet and the product advertisements. The emphasis lies on insuring oneself and one's close family members for self-reliance more-so because nuclear families are the emerging trend in the country today. To meet the varying needs of various individuals, the insurance players have a vast foray of products in their bouquet. Besides this, almost all companies offer the flexibility to customers to choose the most suitable product for themselves by combining features of a number of products together. Thus the products can be customized to suit the customer as per their needs.

[1] The Economic Times, Sept 1, 2006

With this flexibility, comes the cost of comparing[2] all the products (with their riders) across the companies before judiciously investing in one of them.
To reach out to the consumers, the companies in the industry today have widened their distribution channels by approaching prospective customers through agents, brokers and bancassurance[3]. With Information Technology revolutionizing the financial sector, another channel has been made available for selling which is the internet. ICICI Prudential offers Insta-insurance through which a client can chose an insurance policy in mere 10 minutes. Similarly other players have also been pushing their products through the internet.

**Regulation Driven Factors**
The industry is now open to private players under the Government mandate of a minimum capital requirement of Rs.100 crores, of which a maximum of 26% stake can be held by a foreign partner as equity. For license renewal, each company is required to file an application to IRDA on an annual basis accompanied with a payment fee of 50000/- for each class of insurance business and 20% of the total gross premium written by the insurer in the previous year of operation in India or Rs. 5 crores whichever is less.
IRDA also holds the right to cancel the license of any insurance company if it feels that the company or insurer fails to conduct its business in a manner prejudicial to the interests of the policyholders. To prevent any accidental or uninformed decisions in such circumstances, IRDA appoints an enquiry officer who looks further into the matter before any verdict is taken. So far no life insurance company has been challenged by the authority for violating any of the norms. By not passing the verdict before validating, the Government has tried to keep the interests of the players in mind along with the consumers. IRDA also clearly explains the reasons under which a license can be cancelled. This transparency in the regulatory body proceedings helps to allay the fears of any private enterprise subjected to Government regulations.
The insurance players today are expected to invest the funds judiciously with the combined objectives of liquidity, maximization of yield and safety by conferring to the Authority's guidelines on investments. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year to efficient resource allocation.
With moderate entry barriers prevalent in the industry and minimal Government interference possible, more industrialists and public sector banks are planning to jump into this sector. Also with the recent growth in the per capita income of the country and people becoming more aware of the need for insurance as a protection and investment tool, the sector promises excellent returns for the incumbent 16 players and prospective entrants.

**IMPACT OF GOVERNMENTAL REFORMS OF 2000**
The Government having tried various models for the insurance industry such as privatization with negligible regulation (pre 1956) and nationalization (1956-2000) and having observed sub-optimal performance of the sector, resorted to adopting a hybrid model of both these, resulting in privatization of the sector with an efficient regulatory mechanism (post 2000).
This was initiated with the aim of making the industry competitive so that there are more players offering a greater variety of products over a larger section of the population. Table 1 lists out five objectives which were gleaned from the Government policy documents, with a

[2]Also called search costs which is the cost incurred in comparing all available options, for instance, policies across various insurers
[3] **Bancassurance** is the term used to describe the sale of insurance products in a bank.

Table 1
An Assessment of Reforms in the Life Insurance Industry

| Objective | Effort | Observation | Assessment |
|---|---|---|---|
| To encourage competition and improve insurance penetration | Low Entry barrier<br>Stipulation of the minimum number of lives to be covered by the private insurers in the rural and the social sector | All companies operating with an equity substantially higher than the requirement<br>Insurers have consistently achieved higher figures than the given targets | Equity requirement significant enough to appease the consumers & low enough to encourage new players<br>The IRDA has successfully encouraged the insurers to concentrate on hereto ignored sectors resulting in improved penetration |
| Innovation through products which suit customers better | Insurers focusing on improving product range, benefits offered in terms of return, premium payment options | Most insurers allow customers to customize terms of policies as per their needs<br>The bouquet of products comprises Term Insurance, Whole Life, Endowment, Single Premium Product, Annuities, Pensions | The products being offered today are far more innovative and customer oriented |
| Improve servicing standards in the industry | Insurer to appoint Actuary, after approval of IRDA<br>Eligibility criteria stipulated by IRDA for agent recruitment<br>Insurance Advertisement and Disclosure Regulations formulated<br>Insurance Ombudsman set-up | The actuary appointed to fulfill the eligibility criteria and the insurer not to transact insurance business unless it is so<br>Insurance Training institute to certify an agent for taking 100 hours of training classes. The appointment of the agent is subject to his clearing the exam conducted by Insurance Institute of India<br>Insurers to comply with the Advertisement Code while addressing policy-holders and prospects<br>Twelve such ombudsman centers set up countrywide to address consumer grievances within 3 months | Actuary made responsible for stability and solvency of insurance company, to aid regulator in protecting the interest of the policyholders. The ombudsman is found to be highly functional with improvement in the number of cases resolved annually. Insurers have become selective in recruiting agents; ways exist to forge training certificates without actually undergoing one. Other distribution channels also should have specified minimum eligibility requirements |
| Efficient allocation of resources by dynamic management of portfolios | An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year<br>IRDA to stipulate the investment of various funds | All insurers' investments found to confirm with regulators stipulations | Improvement the operating, profitability, investment yield, marketing and actuarial efficiency ratios of the insurers over the past years |
| To bring about a change in consumer outlook | | Primary reason for buying insurance policies is not tax savings anymore<br>More consumers approach insurers in periods from December to March | Some change in customer perception is reflected by the promotional schemes offered by insurers today. However insurance still remains a tax saving tool to some extent |

qualitative assessment of the extent to which each of them have been met. We elaborate further with specific evidence to justify our analysis below.

It had become apparent that the monopoly was inhibiting the growth of the industry within the country. Hence the new policy sought to encourage more players into this sector. It achieved this firstly by doing away with the legislation that disallowed private players and secondly by creating minimum capital requirement criteria which was low enough to encourage more players and high enough to safeguard the interests of the stakeholders. Thus a minimum of Rs. 100 crores of contribution of equity capital was mandated by the regulatory body for any life insurer.

A cursory look at the last three entrants of the sector and their equity, shown in Table 2, suggests that this mandate is anything but an entry barrier since all the insurers along with these entrants maintain higher equity than mandated by the regulator. Figure 2 depicts capital bases of all the players in the insurance industry. It is noteworthy that the incumbent LIC's is the lowest. Hence the Government has been successful in encouraging organizations to venture into the life insurance business post liberalization, with mandatory equity capital not acting as a deterrent.

Table 2

The capital base of the last three entrants in the industry

| Company | Year of incorporation | Initial Capital Base( in cr) | Remarks |
|---|---|---|---|
| Bharti AXA Life Insurance Co. Ltd. | Aug, 2006 | Rs. 101[4] | Joint venture between Bharti Enterprises and AXA with 74:26 share in equity |
| Shriram Life Insurance Co. Ltd. | Jun, 2005 | Rs. 125 | Shriram Group has partnered with Sanlam with an equity ratio of 74:26 |
| Sahara India Life Insurance Co. Ltd. | Feb,2004 | Rs.157 | Sahara Business group has 100% stake in this company |

Source: Compiled from IRDA Annual Report 2003-04, 2005-06

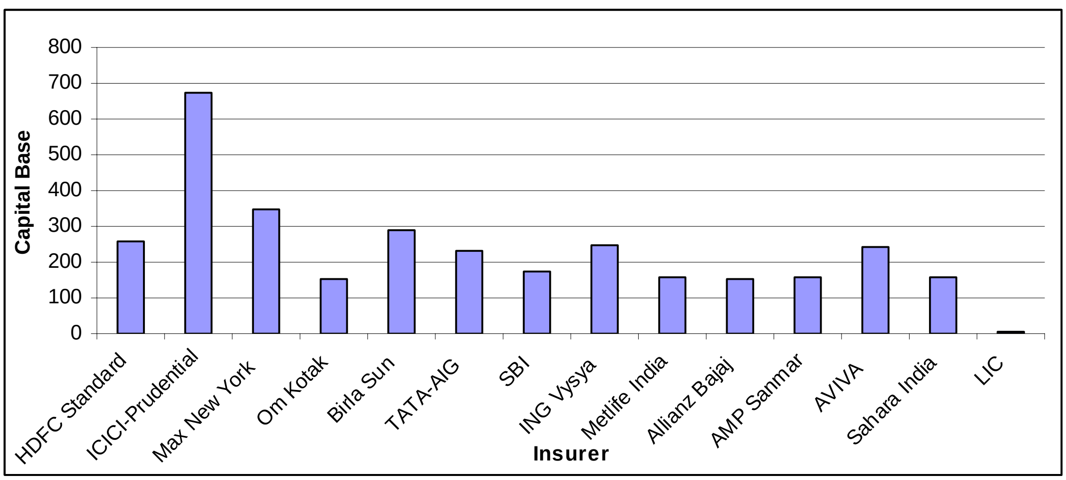


Figure 2

Capital base of life insurers in 2004-05

Source: Compiled from IRDA Annual Report 2003-04

The increase in the number of players within the sector also led to the expansion of the product portfolio offered by them. Greater focus began to be laid on not only meeting the customer's need but surpassing his expectations in terms of product range, benefits offered in terms of return, premium payment options etc. The whole industry is thus moving towards mass customization to develop products which suit the customers' needs perfectly.

[4] Bharti AXA Life Insurance Co. Ltd. increased its capital base to Rs. 188 crore by Dec.,2006, available at http://www.bharti-axalife.com/pressroom/hindu-businessline.asp, last accessed on 14th Apr.,2007

Pre 2000, the sole Life Insurance player LIC operated as a virtual monopoly and there was little need for it to pay attention to customer needs. The most popular policy or more appropriately the only policy variants available were Pure Protection 'Jeevan Suraksha' policy (with or without the money back guarantee). Endowment policies and Whole Life plans were also in place but the term policies were the largest selling product of LIC. However after liberalization, there has been a change in the mindset which can be understood by observing the product portfolio of the insurers. The innovative products of some of the insurers are stated below in Table 3.
From 2000, there has been a plethora of products ranging from ULIPs[5] to Traditional Products which have been used by insurers to capture the market share.

Table 3. Product Portfolio of Leading Players in the Industry

| Product Category | ICICI Prudential | Bajaj | LIC |
|---|---|---|---|
| Endowment | Invest Shield | Unit Gain Plus | Jeevan Mitra |
| Whole Life | Life Long | Life Time Care | Jeevan Tarang/sathi |
| Child Plan | Smart Kid | Child Gain | Jeevan Kishore |
| Pension | Life link Super Pension | Swarna Vishranti | Future Plus |
| Women | Kanyadaan | Mahila Gain | Jeevan Bharati |
| Health | Diabetes Care | Health Care | |
| Rural | ICICI pru Suraksha Kavach | Swarna Jeevan | Jeevan Saral |
| Term | Life Guard | Swarna Raksha | Amulya Jeevan |
| Group | Group Superannuation Plan | Group Credit Shield | Gratuity Plus |

The expansion in the product bouquet enabled them to capture varying needs of different profiles of customers.
To increase the penetration with in other hereto neglected sectors, IRDA has stipulated the minimum number of lives in the rural and the social sector[6] that the private insurers must cover depending upon the year of operation of the company. For the government insurers the quantum of insurance business to be done shall not be less than what has been recorded by them for the accounting year ended 31st March, 2000.
For the rural sector, the minimum number of lives that the private insurers must cover is specified as a percentage of the total number of policies written by the firm in the respective years and the percentage gradually increases from the first to the fifth year of its operation.

Table 4
Percentage of Policies Issued in Rural Sector by Life Insurers in India

| Insurer | 2001-02 | | 2002-03 | | 2003-04 | | 2004-05 | |
|---|---|---|---|---|---|---|---|---|
| | Target | Achieved | Target | Achieved | Target | Achieved | Target | Achieved |
| Allianz Bajaj | 5 | 18.13 | 9 | 16.7 | 12 | 12.95 | 14 | 15.84 |
| SBI Life | 5 | 4 | 9 | 15.48 | 12 | 14.03 | 14 | 21.92 |
| HDFC Standard | 7 | 4.5 | 12 | 12.3 | 14 | 19.23 | 16 | 20.6 |
| ICICI Prudential | 7 | 7.04 | 12 | 12.02 | 14 | 14.85 | 16 | 16 |
| LIC | | 16.05 | | 18.52 | | 22.79 | | 22.89 |

[5] An ULIP - Unit Linked Insurance Plan - is a financial product that offers you life insurance as well as an investment like a mutual fund
[6]**rural sector** (as defined in the annual report of IRDA 2000-01) includes areas where the population is not more than 5000; population density not more than 400 per Sq Km; and at least 75% of male working population is engaged in agriculture
**social sector** includes unorganized sector, informal sector, economically vulnerable or backward classes and other categories of persons, both rural and urban areas

Source: www.indiastat.com

As can be seen, the penetration in the rural sector has increased at a CAGR of 24.5% which is higher than expected by the authorities since the insurers have consistently achieved higher figures than targeted through this sector.

Similarly for the social sector, IRDA stipulates the minimum lives to be covered by the insurers in this sector. The following table shows the target set out by the authority for the insurers and the numbers achieved.

Table 5. Number of Lives Covered in Social Sector by Life Insurers in India

| | 2001-02 | | 2002-03 | | 2003-04 | | 2004-05 | |
|---|---|---|---|---|---|---|---|---|
| Insurer | Target | Achieved | Target | Achieved | Target | Achieved | Target | Achieved |
| Allianz Bajaj | 2500 | 2528 | 7500 | 11111 | 10000 | 24052 | 15000 | 16355 |
| SBI Life | 3958 | Nil | 7500 | 37478 | 10000 | 80927 | 15000 | 1222572 |
| HDFC Standard | 7500 | 7556 | 10000 | 10490 | 15000 | 17184 | 20000 | 28432 |
| ICICI Prudential | 7500 | 7604 | 10000 | 17964 | 15000 | 15050 | 20000 | 20139 |
| LIC | | 754816 | 754816 | 761752 | 754816 | 1739722 | 754816 | 4212804 |

Source: www.indiastat.com

Thus looking at the number of lives covered by the insurance players in the social sector, it can be observed that the penetration in the social sector due to these players has increased at a CAGR of 153%. Besides this except SBI Life insurance in 2001-02, at all other times the insurers have not only met their target but have achieved much higher growth. Therefore through liberalization an additional 1468302 lives have been covered by 4 out of the total 15 private insurers in all. This number may seem insignificant considering the total size of the social sector in India nonetheless the effort is in the right direction and has been able to achieve desirable results.

Another important change that the Government wanted to implement with in the sector was to improve the servicing standards prevalent within the industry. A number of initiatives contributed towards achieving the same. For instance the Government mandated that no life insurer could operate without an Actuary and appointed after approval by IRDA. Besides this, to protect the interests of the policy holders the authority has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects. Another step in the same direction was that of ensuring that agents undergo a minimal training of 100 hours of course work before they make sales of insurance policies on behalf of the insurer to consumers. Having taken adequate safeguards to protect stakeholder interests, the government also set up Ombudsman cells to resolve the grievances of the customers. The percentage of cases resolved by this body has increased over the past few years indicating improvement in customer satisfaction, as shown in the figure below.

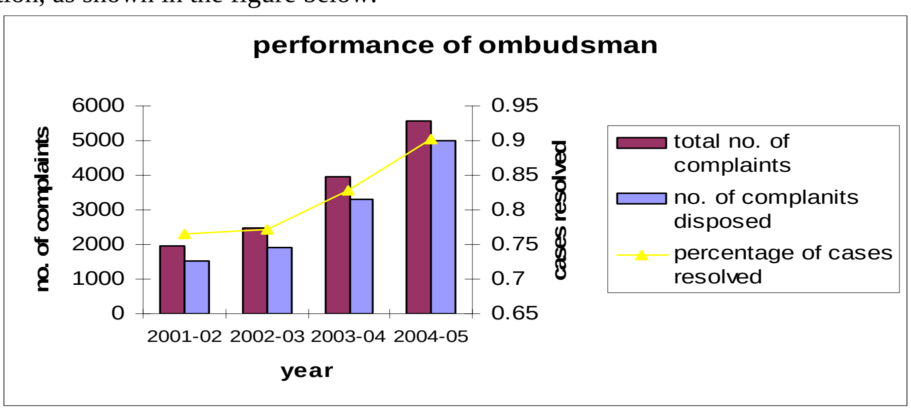


Figure 3 Number of complaints filed and disposed from 2001

Source: Compiled from www.irdaindia.org

Lastly the Government has also stipulated investment norms for insurers to facilitate efficient allocation of their resources. This has resulted in a significant enhancement in the insurers' efficiency ratios.

Table 6 Efficiency Ratios for Insurers in 2000-01 and 2004-05

| | Company | LIC | | ICICI | | HDFC | | SBI | | Bajaj Allianz | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| S.No. | Year/Ratios | 00-01 | 04-05 | 00-01 | 04-05 | 00-01 | 04-05 | 00-01 | 04-05 | 00-01 | 04-05 |
| 1) Operating efficiency | Operating Expense as % of Premium earned | .086 | .088 | .729 | .195 | 1.233 | .336 | .768 | .207 | 3.517 | .214 |
| 2)Operating efficiency | Commission expense as % of Premium earned | .091 | .087 | .124 | .033 | .198 | .106 | .013 | .039 | .329 | .146 |
| 3)Profitability measure | ROA (Net Operating Income / Total Assets) | .003 | .002 | -0.318 | -0.048 | -.127 | -0.77 | -.002 | -.011 | -.103 | -.035 |
| 4) Profitability measure | ROE (Net Operating Income / equity) | | | -.553 | -.229 | -.151 | -.281 | -.002 | -0.033 | -.105 | -.245 |
| 5) Actuarial efficiency | Benefits paid/ Premiums Earned | .35 | .4 | .0055 | .007 | .00089 | .2289 | | .0771 | | .056 |
| 6)Investment efficiency | Avg investment Assets / Net Investment Income | 23670 | 32793 | 8.387 | 100.4 | 5.078 | 98.91 | 9.052 | 90.562 | 10.75 | 43.475 |
| 7) Marketing efficiency | Premium earned per agent | 11.25 | 20.04 | 1.06 | 7.9 | 1.03 | 6.63 | 2.04 | 27.64 | 0.16 | 3.07 |

Source: Compiled from IRDA Annual Report, 2000-2001 and 2004-2005

The Governmental reforms have thus tried to create a competitive environment in the industry and have at the same time attempted to instill consumer's confidence in the system. The measures described above have not only contributed towards removing inefficiencies in the system but has also made a positive impact on the citizens, industry and the nation.

Summing up all the sectors within life insurance, insurance premium per capita stood at Rs.590 (in 2004) as compared to Rs.280 (in 2000). The insurance premium as a percentage of GDP has increased from 1.2 (in 2000) to 2.3 (in 2004)[7]. This improvement in the insurance statistics is attributable to the strategy adopted by the Government to establishment a vibrant insurance market in the country. The move has contributed towards instituting a sound social security system. Thus more people today buy insurance policies for protection, investment purposes rather than for tax savings. As reported by some of the employees of the insurers, there is an increase in demand in December-March phase; however a change in consumer attitude is noticeable.

The progress has not only been at consumer level but also at the sector level. The shift in strategy has also contributed towards an increase in the size of the sector.

Lastly, the industry is also being recognized globally for its efforts. This can be concluded from the fact that majority of life insurers are partnerships of Indian and foreign firms. The foreign partners with a maximum of 26% are in the sector, surely because it has returned or shows promise of returning their investment manifold.

**Conclusion**

The Indian Government and policymakers have thus found themselves at cross-roads more than once. The large scale fraudulent practices, mismanagement of companies in the first half of the early twentieth century resulted in a major restructuring of the industry and caused the sector to transform from an unregulated to a highly regulated one. The industry functioned under a monopoly for several decades thereafter. However other problems surfaced such as limited reach and penetration of enterprise and deteriorating servicing standards. In 1991, with the Indian Government initiating liberalization of various other strategic industries, a possible change in strategy was supported by various committees and experts. A milestone was achieved when the nation decided to privatize the industry along with requisite regulations.

[7] Compiled from IRDA Annual Report, 2000-2001 and 2004-2005

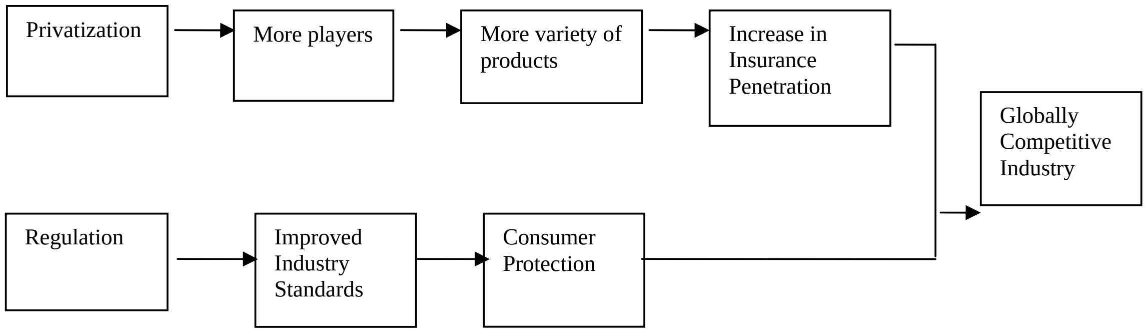


Figure 4. A Hybrid Model for a Globally competitive Insurance Industry

With this hybrid model, the industry was thus privatized along with market regulation of players who have the necessary financial strength to withstand the demands of a growing and nascent market, the necessity to have 'fit and proper' persons in-charge of businesses, the implementation of a solvency regime that ensures continuous financial stability, and above all, the presence of an adequate number of insurers to provide competition and choice to customers has led to the establishment of a regime committed to an overall development of the market in normal times.

Thus the firms, the industry and the nation are healthier than ever before having adopted this model.

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