Insurance: Initiatives of Government of India

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Abstract: *: Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies. Insurance Division of Department of Financial Services, Government of India is administratively concerned with the activities of life and non-life segments of the nationalized insurance industry and Insurance Regulatory and Development Authority (IRDA).This paper studies the Insurance, Insurance Policies and the functions and policies of Financial services of Government of India.*

Key words*:* Insurance, *Financial Services,* policy, Legislation

1. Introduction

Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An insurer, or insurance carrier, is a company selling the insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount of money to be charged for a certain amount of insurance coverage is called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. In insurance, the insurance policy is a contract (generally a standard form contract) between the insurer and the insured, known as the policyholder, which determines the claims which the insurer is legally required to pay. In exchange for an initial payment, known as the premium, the insurer promises to pay for loss caused by perils covered under the policy language. Insurance contracts are designed to meet specific needs and thus have many features not found in many other types of contracts. Since insurance policies are standard forms, they feature boilerplate language which is similar across a wide variety of different types of insurance policies.

The insurance policy is generally an integrated contract, meaning that it includes all forms associated with the agreement between the insured and insurer. In some cases, however, supplementary writings such as letters sent after the final agreement can make the insurance policy a non-integrated contract.

Insurance Division of Department of Financial Services, Government of India is administratively concerned with the activities of life and non-life segments of the nationalized insurance industry and Insurance Regulatory and Development Authority (IRDA). The Functions of Division are Policy formulation and administration of the following Acts of Parliament:-

- Insurance Act, 1938
- Life Insurance Corporation Act, 1956
- General Insurance Business (Nationalization) Act, 1972
- IRDA Act, 1999
- Actuaries Act, 2006
- Constant review and monitoring of the performance of the National Insurance Companies.
- Framing of rules and regulations in respect of service conditions of employees of Public sector Insurance Companies.
- Appointment of Chief Executives and Directors on the Board of Public sector Insurance Companies and on the IRDA.
- Implementation of government sponsored insurance scheme like Universal Health insurance scheme, Aam Aadmi Bima Yojana, Varisht Pension Yojana Etc.

2. Life Insurance Companies in India:

Public Sector life Insurance Company: Life Insurance Corporation of India- The Parliament of India enacted the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of Indian was established on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost. The main objective of the organization of the life insurance business was to spread the message of life insurance in the country and mobilize people's savings for nation building activities.

The Life Insurance Corporation with its Central Office in Mumbai and eight Zonal Offices at Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Kanpur, Bhopal and Patna operates through 109 Divisional Offices including one Salary Savings Scheme (SSS) Division at Mumbai, 2048 Branch Offices and 1004 Satellite Offices as at 31.3.2010.

Private Sector life Insurance Companies: Bajaj Allianz Life Insurance Company Ltd. Birla Sun-Life Insurance Company Ltd, HDFC Standard Life Insurance Co. Ltd; ICICI Prudential Life Insurance Co. Ltd; ING Vysya Life Insurance Company Ltd; Max New York Life Insurance Co. Ltd; MetLife Insurance Company Ltd'Kotak Mahindra Old Mutual Life Ins. Co. Ltd; SBI Life Insurance Company Limited ; TATA AIG Life Insurance Co. Ltd and Reliance Life Insurance Co. Ltd.

3. List of General Insurance Companies

Public Sector: New India Assurance Company Limited ,National Insurance Company Limited , The Oriental Insurance Co. Ltd; United India Insurance Co. Ltd; Agriculture Insurance Company of India Ltd.

Private Players: Bajaj Allianz General Insurance Co. Ltd; ICICI Lombard General Insurance Co. Ltd; IFFCO-Tokio General Insurance Co. Ltd; Reliance General Insurance Co. Ltd; Royal Sundaram Alliance Insurance Co. Ltd ; TATA AIG General Insurance Co. Ltd; Cholamandalam General Insurance Co. Ltd.

Public Sector Insurance Companies: Nationalised Insurance Companies; Life Insurance Corporation of India;

General Insurance Corporation of India; National Insurance Co. Ltd; Oriental Insurance Co. Ltd;New India Assurance Co. Ltd and United India Insurance Co. Ltd.

4. **Life Insurance Corporation of India**

Insurance Regulatory & Development Authority (IRDA)

The insurance sector was opened up to private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. The Insurance Regulatory and Development Authority (IRDA) at present consist of the Chairman, 4 full-time members and 4 part-time members. The Authority is functioning from its Head Office at Hyderabad, Andhra Pradesh. The core functions of the Authority include: Licensing of insurers and insurance intermediaries; Financial and regulatory supervision; Control and regulate premium rates; and Protection of the interests of the policyholders.

Indian insurance sector since opening up, the number of participants in the industry has gone up from six insurers in the year 2000 to 52 insurers operating in the life, non-life and reinsurance segments.

(i) Amendment to Insurance Legislation:

The Insurance Laws (Amendment) Bill, 2008 introduced in the Parliament proposes to amend the Insurance Act, 1938, the Insurance Regulatory and Development Authority Act, 1999 and the General Insurance Business (Nationalization) Act, 1972. The amendments to the Insurance Laws (Amendment) Bill, 2008 proposes to raise foreign equity participation from 26% to 49%, have already been cleared by the Government and the official amendments to the bill is likely to be introduced in the forthcoming Parliament session. The Bill also provides to permit foreign re-insurers to open branches only for re-insurance business and entry of Lloyd's of London in insurance business in India etc.The amendments to the Insurance Act and the IRDA Act focus on the current regulatory requirements.

Government is also considering further initiatives to give fillip to the insurance industry in the country and expand the spread and penetration of life/non-life insurance. This includes faster approvals under use and file system for standard products and relaxations in investments in debt instruments and other issues relating to service and indirect taxation.

(ii)Portability of Health Insurance:

Insurance Regulatory and Development Authority (IRDA) has issued guidelines vide circular dated 9.9.2011 implementing portability of health insurance policies amongst non-life insurance companies w.e.f. 1.10.2011. The health insurance policy holder by virtue of the said circular can, at the time of renewal, switch:- i) from one insurance company to another insurance company of his choice; or ii) from one insurance plan to another insurance plan with the same insurance company. By the process, the policy holder will not lose the credits gained in terms of waiting periods for pre-existing conditions, time-bound exclusions, etc. The Health Insurance Policy Holder can at the time of Renewal of his/her policies can shift to another Insurance Company for a similar product, if he is not satisfied with the present Insurance Company for any reason, without losing the Credits gained, if renewed with the existing company.

(iii) Innovations in Health Insurance:

Eighty per cent of all health expenditure in the country is spent through personal resources. This is despite an increase in premium from Rs. 519 crore in 2000-01 to Rs. 9944 crore (19 times) in 2010-11. With increasing demand, the health insurance industry has introduced innovative products to enable the policyholder to plan comprehensive protection against health eventualities by combining hospitalisation indemnity products with supplementary covers or additional policies to meet specific needs of the policyholder. There are products available that provide Daily Hospital Cash benefit in the form of fixed daily allowance which could be used to cover the incidental costs associated with hospitalisation (like travel and stay costs of an attendant). These benefits are available either on standalone basis or as optional component of a packaged health insurance policy.

(iv) Micro insurance:

One of the main objectives of promoting financial inclusion packages is to economically empower those sections of society who are otherwise denied access to financial services, by providing banking and credit services thereby focusing on bridging the rural credit gap. The banking sector is focusing on financial inclusion on a priority basis. Vulnerability to various risk factors is one of the fundamental attributes of these sections of the society. The micro insurance regulations have been made effective from 2005. These regulations are in addition to the obligations for rural and social sector business to be done by all insurers on an annual basis.

There were 10482 (PY 8678) micro insurance agents operating in the micro insurance sector as at the end of 2010-11. The new business premium secured during the year was Rs. 130.40 core (Rs. 243.41 crore in 2009-10) on 36.51 Lakh lives (1.68 crore lives in 2009-10) in group category and Rs. 158.22 crore premium (Rs. 158.22 crore in 2009-10) on 1.53 crore policies (0.33 crore policies in 2009-10) in the individual category. An amount of Rs. 208.43 crore (Rs. 178 crore in 2009-10) was paid on 50805 claims (43463 claims in 2009-10) in group category and Rs. 17.04 crore (Rs. 8.19 crore in 2009-10) on 11391 policies (7508 policies in 2009-10) in the individual category during the year 2010-11.

Keeping in view the requirement of financial inclusion program accordingly a draft of the regulation is put by IRDA in public domain for seeking comments.

(v) Investments by the insurance sector:

The total funds invested by life insurers as on 31st March, 2011 was Rs. 1430118 crore (Rs. 1205155 crore in 2009-10), of these Rs. 399116 crore (27.91 per cent of total funds) represents ULIP funds and the remaining Rs. 1031002 crore (72.09 per cent) is the contribution by traditional products. Non-Life insurers have contributed around 5.45 per cent of total investments made by the insurance industry. The total amount of investments made by the sector, as on 31st March, 2011, was Rs. 82520 crore (Rs. 66372 crore as on 31st March, 2010). During 2010-11, the net increase in investments by the non-life industry stood at Rs. 16148 crore (24.33 per cent growth over previous year).

5. Insurance Ombudsmen

One of the major areas of concern of the Government has been the efficient customer services in the insurance sector.

With a view to ensure expeditious redressal of public grievances relating to the settlement of the claims, the Government has introduced a system of Ombudsman in the Insurance Sector with effect from 11th November 1998. Insurance Ombudsmen are currently located in 12 cities. Each Ombudsman is empowered to redress customer grievances in respect of insurance contracts on personal lines where the insured amount is less than Rs.20 lakhs.

6. Government Sponsored Socially oriented Insurance Schemes

Aam Aadmi Bima Yojana(AABY)

AAM ADMI BIMA YOJANA, a Social Security Scheme for rural landless household was launched on 2nd October, 2007 at the hands of the then Hon'ble Finance Minister at Shimla. The head of the family or one earning member in the family of such a household is covered under the scheme. The premium of Rs.200/- per person per annum is shared equally by the Central Government and the State Government. The member to be covered should be aged between 18 and 59 years.

Janashree Bima Yojana

Janashree Bima Yojana (JBY) was launched on 10th August 2000. The Scheme has replaced Social Security Group Insurance Scheme (SSGIS) and Rural Group Life Insurance Scheme (RGLIS). 45 occupational groups have been covered under this scheme. It provides life insurance protection to people who are below poverty line or marginally above poverty line. Persons between aged 18 years and 59 years and who are the members of the identified 45 occupational groups are eligible to be covered under the Scheme

Shiksha Sahayog Yojana (SSY) as add-on Benefit

The scheme was launched on 31st December, 2001. Scholarship as a free add-on benefit is provided under both Janashree Bima Yojana and Aam Admi Bima Yojana to maximum of two children of the beneficiary studying between 9th to 12th standard (including ITI courses) @ Rs. 100 per month for each child payable half yearly on 1st July and 1st January, every year. The benefit is without any additional premium.

For meeting the expenditure on Scholarship benefit under Aam Admi Bima Yojana a separate Fund has been set up by Govt. of India called "Aam Admi Bima Yojana Scholarship Fund. Fund is maintained by LIC of India. For Jana Shree Bima Yojana scholarship expenditure is paid out of Social Security Fund. Apart from above two schemes, the earlier old Social Security Schemes namely Social Security Group Scheme, Integrated Rural Development Programme (IRDP), Swarnjayanti Gram Swarojar Yojana(SGSY) for the existing lives continued to be administered by LIC. These schemes are closed for the new lives from the year 2000 onwards.

Micro-Insurance Products

"Jeevan Madhur" a simple savings related life insurance plan for low income persons was launched in 2006. On surviving to the date of maturity, sum assured is paid alongwith vested bonus if any. On death of the policy holder, death benefit amount equal to the total premiums payable during the entire term of the policy will be paid alongwith vested bonus if any. "Jeevan Mangal", LIC's second Micro Insurance product, was launched in 2009. It is a term insurance plan with return of premiums paid on maturity, provided the policy is in force. On death during the term of the policy, the sum assured under the basic plan is payable, provided the policy is in force.

Varishtha Pension Bima Yojana (VPBY)

VPBY meant for senior citizens aged 55 years and above was launched on 14.7.2003. Under the scheme the pensioner gets an effective yield of 9% per annum on the investment. The difference between the effective yield of 9% paid to the pensioner and that earned by LIC is compensated as subsidy to LIC by the Government of India.

Universal Health Insurance Scheme (UHIS)

The scheme provides for reimbursement of medical expenses upto Rs.30,000/- towards hospitalization floated amongst the entire family, death cover due to an accident @ Rs.25,000/- to the earning head of the family and compensation due to loss of earning of the earning member @ Rs.50/- per day upto maximum of 15 days. The Universal Health Insurance Scheme (UHIS) has been redesigned targeting only the BPL families. The premium subsidy has been enhanced from Rs.100 to Rs.200 for an individual, Rs.300 for a family of five and Rs.400 for a family of seven, without any reduction in benefits.

National Agricultural Insurance Scheme (NAIS)

The Government of India introduced the scheme from Rabi 1999-2000 season to protect the farmers against losses suffered by them due to crop failure on account of natural calamities. The scheme is currently implemented by Agriculture Insurance Company of India (AICIL). The scheme is available to all the farmers, loanee and non-loanee, irrespective of size of their holding. The scheme covers all food crops (cereals, millets and pulses) and oil seeds and Annual commercial/ horticultural crops. At present, 10% subsidy on premium is available to small & marginal farmers. NAIS is presently being implemented in 24 States and 2 Union Territories except in States of Punjab & Arunachal Pradesh. Nagaland has given consent to implement the scheme and Rajasthan has decided to implement WBCIS in place of NAIS. Since the inception of the scheme and until up to 31.03.11 about 176 million farmers have been insured, covering an area of 269 million hectares for a sum insured value of Rs. 2,21,213 crore, against a premium of Rs. 6589 crore. Claims to the tune of about Rs. 22190 crore have been reported so far benefiting nearly 47.6 million farmers representing a claim ratio of 1:3.37.

Pilot Modified National Agricultural Insurance Scheme (MNAIS)

Pilot MNAIS was launched for implementation in 50 districts during Rabi 2010-11 seasons. AIC implemented MNAIS during Rabi 2010-11 in 32 Districts across 12 States. More than 3.45 lac farmers were covered for a sum insured of Rs. 69193 lac. The gross premium was Rs. 45.20 crore, of which premium collected from farmers was Rs. 2293 lac. Claims of Rs. 22.45 lac due to localized calamity i.e. hailstorm have been paid to 3842 farmers in Uttar Pradesh while losses reported in Andhra Pradesh are being assessed and would be paid soon. The final claims due to yield loss shall be paid after receipt of yield data from the State Governments.

Pilot Weather based Crop Insurance Scheme (WBCIS)

Weather Based Crop Insurance Scheme (WBCIS) aims to mitigate the hardship of the insured farmers against the likelihood of loss on account of anticipated crop loss resulting from incidence of adverse conditions of weather parameters like rainfall, temperature, frost, humidity etc. AICIL implemented the pilot scheme on Weather Based Crop Insurance Scheme (WBCIS) during 2007-08 in 5 States spread over 190 Tehsils / blocks of 30 districts and covered about 6.71 lakh farmers growing in about 10.35 lakh hectares of crops.

Pilot Weather based Crop Insurance Scheme (WBCIS)

During the 2008-09 year, the scheme was implemented in 14 states, over six lakh farmers' crops grown on over 10 lakh hectares were insured for a sum insured of Rs. 1757 crore. During the year 2010-11, the Scheme was implemented in 17 States namely Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Orissa, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttrakhand, Uttar Pradesh and West Bengal spread over 1010 Tehsils / blocks of 118 districts for the major crops during Kharif and 911 Tehsils / Blocks of 115 districts during Rabi crop season and covered more than 67 lakh farmers, grown crops on over 95 lakh hectares for a sum insured of Rs. 9636 crore.

Conclusion:

The insurance policy is generally an integrated contract, meaning that it includes all forms associated with the agreement between the insured and insurer. In some cases, however, supplementary writings such as letters sent after the final agreement can make the insurance policy a non-integrated contract. Now in India, insurance sector is one on the important brances of the service sector.

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