ISSN - 2249-555X
IMPACT FACTOR:0.8215

Peer Reviewed & Referred International Journal

# INDIAN JOURNAL OF APPLIED RESEARCH

Journal for All Subjects

Indexed with International ISSN Directory, Paris

www.ijar.in

VOLUME : 3 | ISSUE : 9 | Sept 2013

₹ 250

# INDEX

Volume : 3 | Issue : 9 | Sept 2013 | ISSN - 2249-555X

# Inspecting Insurance Companies

KEYWORDS: Insurance, Liberalization, Privatization, Globalization, Performance, Productivity, Investment Portfolio

**Dr. Sangeetha Natarajan**

Associate Professor, Vivekananda Institute of Management Studies(VIMS) Karuvalur Road, Off Sathy Road, Coimbatore, Tamilnadu, India.

**ABSTRACT** *In a period of half a century and less, the insurance sector in the country has come a full circle, from being an open competitive market to full nationalization and then back again to a liberalized market, in which private players and public sector companies are on a level of playing field. Out of the significant events occurring in the US and other developed economies, there arise the need for policy makers of India to rethink their economic strategy, as this has been a period of two decades of globalization of finance. The global financial turmoil witnessed today should be considered to safeguard the interest of Indian financial system. At this juncture it becomes imperative to inspect the performance and progression of Indian insurance companies, for which determinants are identified and listed.*

## 1. REVIEW OF INSURANCE IN INDIA

According to 1995 statistics, India has the highest number of life insurance policies in force and the total investible funds with LIC were almost 8% of GDP. The LIC employs more than one lakh employees who in turn supervise through 200 branches and more than five lakh agents. Yet these numbers believe the fact that life insurance in India is spread very thinly and shallowly and its role as a mobiliser of long –term savings is under developed.LIC largely remains a slow moving, overstaffed behemoth.

The phased globalization of the Indian economy that started in the early 1990s began to have its impact on the monopolistic structure of the Indian Insurance industry. The liberalization of insurance market was among the objectives of the Uruguay round negotiations conducted under the auspices of General Agreement on Trade and Tariff (GATT). However, LIC was put on its toes when in 1993, the Government of India appointed a committee headed by Shri.R.N.Malhotra (Report of Malhotra Committee,1994) to examine the reforms required in the insurance sector. The Government with the committee came out with the following arguments in justification of liberalization:

1. Insurance penetration and density in the country is low.
2. The country needs massive investments in infrastructure and liberalizing insurance and pensions will help mobilization of long term funds.
3. Allowing foreign companies would help them bring a substantial portion of their world wide premium funds into Indian infrastructure and
4. India is a large economy and a big market with ample space for both private and public sector.

## 2. APPRAISAL OF INSURANCE INDUSTRY IN INDIA

### 2.1 Opening of Insurance market:

In a period of half a century and less, the insurance sector in the country has come a full circle, from being an open competitive market to full nationalization and then back again to a liberalized market. For almost four decades LIC has been sole player with virtual monopoly in the life insurance sector. In the early 90's the government of India ventured into the policy of liberalization, privatization and globalization. This policy envisaged opening up of the economy along with most of its core sectors to the private entrepreneurs. Along with this the entry of international corporations into various business and services sectors was also planned. This attracted some private and international players in the insurance sector also.

### 2.2 Liberalization Justified:

The decision to open up the insurance sector witnessed great public debate. There were arguments against opening up of the sector on the basis of the unhappy experiences of the privatization days. The government went ahead to liberalize the insurance sector on grounds of justification that insurance penetration and density in the country is low, country needs massive investments in infrastructure and liberalizing insurance will help in mobilization of long term funds. Allowing foreign companies would help in bringing substantial portion of worldwide premium funds into Indian infrastructure and India is a large economy and a big market with ample space for both private and public sector.

### 2.3 Re- entry of Private/Foreign Companies:

Consequently by the year 2000-01, 12 private players entered the life insurance sector. The Indian insurance industry has registered impressive growth in the past one decade. Many private players entered the market and most of the companies have entered as joint ventures with participation of a foreign partner holding 26% of the total paid-up equity capital. While four private sector companies had underwritten life business during the financial year 2000-01, the number of private players competing for business during the year 2001-02 alone increased to eleven. The life insurance grew at a very fast pace with new business premium touching Rs.75347.27 crore as at 31st January 2010, similarly the total premium income increased from Rs. 221791 crore in 2008-09. The total assets under management rose to Rs. 931000 crore as at the end of 31st March 2009 (Finance Minister, Pranab Mukerjee, 2010).

### 2.4 Threats Faced:

The happenings of the world during the year 2008 brought a new experience that also has to be taken into consideration. The crisis which has engulfed the financial sector of the US has far reaching implications both for the international economic order underlying globalization especially the global financial architecture as well as the policy regimes in developing countries. Countries like India were told to emulate the US financial system and integrate with the international financial markets in order to benefit from the globalization of finance.

At this juncture happened the first jolt in the US economy, the stock market crash and collapse of the IT boom in the year 2000.This led to the recession in the US in 2001 which caused a global slowdown. Liberalized rules for banks coupled with