A

MANAGEMENT

RESEARCH PROJECT

ON

INSURANCE INDUSTRY

(Industrial Analysis)

Objectives and scope of the project

The insurance industry is one of the basic service industries in Indian economy, whose prospect is reflective of the economic resilience of the economy. With the globalisation of the economy, India has become the playground of major global insurance players.

As whole insurance industry is a very large field for research we have chosen life insurance industry of the booming segment of insurance industry, for research purpose.

The major objectives of the study are as below:

1. To find out how political, economical, socio-cultural, technological factors affecting this industry by PEST analysis.

2. To find out how the market condition and what level of competition is there by five force analysis.

3. To analyze driving forces and key success factors of the industry.

4. To analyze various threats and opportunities for the industry.

5. To focus on current trends and future of the industry.___

Research methodology

We have done exploratory research and for that purpose we had used secondary data.

We had collected this secondary data from various published materials like newspapers, magazines, books etc and from Internet web sites. From these various information and data we had done qualitative and quantitative analysis to find out impact of various forces, effect of macro environmental factors, major trends and future of the industry.

<u>Insurance at a Glance</u>

What is Insurance and How Insurance Work?

<u>"Insurance is a contract between two parties whereby one party called insurer Undertakes in exchange for a fixed sum called premiums, to pay the other party called Insured a fixed amount of money on the happening of a certain event."</u>

According to the U.S. Life Office Management Association Inc. (LOMA), life insurance is defined as follows: "Life insurance provides **a some of money** if the person who is insured **dies** whilst the policy is in effect".

Anybody who has knowledge about life insurance will be tempted to say "yes BUT…" In other words, surly this is far too brief an explanation for a financial service that provides a very sophisticated range of savings and investment products, as well as mere compensation for death.

'**Insurance**' is basically a sharing device The assets losses to resulting from natural calamities like fire, flood, earthquake; accidents, etc. are mate out of the common pool contributed by large number of person who is exposed to similar risks.
This contribution of many is used to pay the losses suffered by unfortunate few. However the basic principle is that loss should occur as a result of natural calamities or unexpected events, which are beyond the human control. Secondly insured person should not make any gain out of insurance.

It is natural think of insurance of physical assets such as motor car insurance or fire insurance but often we forget that creator of all these assets in the human being whose efforts have gone a long way in building up the assets. In that sense, human life is a unique image-generating asset. Unlike the physical assets, which decrease in value with passage of time, the individual becomes more experienced and more matured as he advances in age. This rises his earning capacity and the purpose of Life

Insurance is to protect the income in the event of his premature death. The individual himself also needs financial security for the old age or on his becoming permanently disabled when his income will stop. Insurance also has an element of savings in certain cases.

Suppose there are 1000 persons all aged 35 years and healthy lives. They are insured for one year against the risk of the death. Each person is insured for Rs.50, 000. If the past experience indicates that 4 out of 1,000 persons, at this age are expected to die during the year, expected amount of death claim to be paid to the family of four persons would come to Rs. 2, 00,000. The contribution to be paid by each of the 1,000 persons will come to Rs. 200 per year. Thus, all the 1,000 persons share loss caused to the 4 unfortunate families. 996 persons who survived till one year have not lost anything as they have secured peace of mind and a feeling of security for their family. While insurance cannot prevent accidents or premature death, it can help protect the family of the decreased against the loss of the death of the main breadwinner. In return for specified payments, insurance will provide protection against the incidents of an uncertain event- such as premature death. The business of insurance company called insurer is to bring together persons who are exposed to similar risks, collect contribution (premium) fro them on some equitable basis and pay the losses (claim) to the unfortunate few who suffer.

- **The story so far...**

Almost 4,500 years ago, in the ancient land of Babylonia, traders used to bear risk of the caravan trade by giving loans that had to be later repaid with interest when the goods arrived safely. In 2100 BC, the Code of Hammurabi granted legal status to the practice. That, perhaps, was how insurance made its beginning. . In 2100 BC, the Code of Hammurabi granted legal status to the practice. That, perhaps, was how insurance made its beginning.

As European civilization progressed, its social institutions and welfare practices also got more and more refined. With the discovery of new lands, sea routes and the consequent growth in trade, medieval guilds took it upon themselves to protect their member traders from loss on account of fire, shipwrecks and the like.

Since most of the trade took place by sea, there was also the fear of pirates. So these guilds even offered ransom for members held captive by pirates. Burial expenses and support in times of sickness and poverty were other services offered. Essentially, all these revolved around the concept of insurance or risk coverage. That's how old these concepts are, really.

In 1347, in Genoa, European maritime nations entered into the earliest known insurance contract and decided to accept marine insurance as a practice.

The first step…

Insurance as we know it today owes its existence to 17th century England. Infact, it began taking shape in 1688 at a rather interesting place called Lloyd's Coffee House in London, where merchants, ship-owners and underwriters met to discuss and transact business. By the end of the 18th century, Lloyd's had brewed enough business to become one of the first modern insurance companies.

Insurance and Myth...

Back to the 17th century. In 1693, astronomer Edmond Halley constructed the first mortality table to provide a link between the life insurance premium and the average life spans based on statistical laws of mortality and compound interest. In 1756, Joseph Dodson reworked the table, linking premium rate to age.

Enter companies...

The first stock companies to get into the business of insurance were chartered in England in 1720. The year 1735 saw the birth of the first insurance company in the American colonies in Charleston, SC. In 1759, the Presbyterian Synod of Philadelphia sponsored the first life insurance corporation in America for the benefit of ministers and their dependents. However, it was after 1840 that life insurance really took off in a big way. The trigger: reducing opposition from religious groups.

The growing years...

The 19th century saw huge developments in the field of insurance, with newer products being devised to meet the growing needs of urbanization and industrialization.

In 1835, the infamous New York fire drew people's attention to the need to provide for sudden and large losses. Two years later, Massachusetts became the first state to require companies by law to maintain such reserves. The great Chicago fire of 1871 further emphasized how fires can cause huge losses in densely populated modern cities. The practice of reinsurance, wherein the risks are spread among several companies, was devised specifically for such situations.

There were more offshoots of the process of industrialization. In 1897, the British government passed the Workmen's Compensation Act, which made it mandatory for a company to insure its employees against industrial accidents. With the advent of the automobile, public liability insurance, which first

made its appearance in the 1880s, gained importance and acceptance?
In the 19th century, many societies were founded to insure the life and health of their members, while fraternal orders provided low-cost, members-only insurance. Even today, such fraternal orders continue to provide insurance coverage to members as do most labs our organizations. Many employers sponsor group insurance policies for their employees, providing not just life insurance, but sickness and accident benefits and old-age pensions. Employees contribute a certain percentage of the premium for these policies.

Size OF INDUSTRY:

Insurance is an Rs.400 billion business in India, and together with banking services adds about 7% to India's GDP. Gross premium collection is about 2% of GDP and has been growing by 15 - 20% per annum. India also has the highest number of life insurance policies in force in the world, and total investible funds with the LIC are almost 8% of GDP. Yet more than three-fourths of India's insurable population has no life insurance or pension cover. Health insurance of any kind is negligible and other forms of non-life insurance are much below international standards.

To tap the vast insurance potential and to mobilize long - term savings we need reforms, which include revitalizing, and restructuring of the public sector companies, and opening up the sector to private players. A statutory body needs to be made to regulate the market and promote a healthy market structure. Insurance Regulatory Authority (IRA) is one such body, which checks on these tendencies. IRA role comprises of following three functions:

a. Protection of consumer's interest.

b. To ensure financial soundness and solvency of the insurance industry,

c. To ensure healthy growth of the insurance market.

An insurance policy protects the buyer at some cost against the financial loss arising from a specified risk. Different situations and different people require a different mix of risk cost combinations. Insurance companies provide these by offering schemes of different kinds. Unfortunately the concept of insurance is not popular in our country.

As per the latest estimates, the total premium income generated by life and general insurance in India is estimated at around a meager 1.95% of GDP. However India's share of world insurance market has shown an increase of 10% from 0.31 in 1996-97 to 0.34% in 1997-98. India's market share in the life insurance business showed a real growth of 11 % thereby outperforming the global average of 7.7%. Non-life business grew by 3.1% against global average of 0.20%. In India insurance spending per capita was among the lowest in the world at $7.6 compared to $7 in the previous year. Amongst the emerging economies, India is one of the least insured countries but the potential for further growth is phenomenal, as a significant portion of its population is in services and the life expectancy has also increased over the years.

The nationalized insurance industry has not offered consumers a variety of products. Opening of the sector to private firms will foster competition, innovation, and variety of products. It would also generate greater awareness on the need for buying insurance as a service and not merely for tax exemption, which is currently done. On the demand side, a strong correlation between demand for insurance and per capita income level suggests that high economic growth can spur growth in demand for insurance. Also there exists a strong correlation between insurance density and social indicators such as literacy with social development, insurance demand will grow.

BASIC INSURANCE TERMINOLOGIES

- **Insured:**

The person known as the policyholder, a person with insurance coverage.

- **Insurer:**

A company licensed to transact the business of insurance and issue insurance policies.

- **Policy:**

It's the written contract between an insurance company and its insured. It defines what the company agrees to cover for what period of time and describes the obligations and responsibilities of the insured.

- **Premium:**

It's the amount of money a policyholder pays for insurance protection.

- **Claim:**

It's the notice to the insurance company that under the terms of a policy, a loss maybe covered.

- **Indemnity:**

Legal principle that specifies an insured should not collect more than the actual cash value of a loss but should be restored to approximately the same financial position as existed before the loss.

- **Agent:**

A licensed person or organization who sells insurance and represents the insurance company to the policyholder.

- **Broker:**

An organization or person paid by the policyholder to look for insurance on their behalf.

- **Deductible:**

It's the amount of the loss, which the insured is responsible to pay before the insurance company pays the benefits.

- **Expiration Date:**

This is the date on which the policy ends.

- **Grace Period:**

A period (usually 30 or 31 days) following each insurance premium due date, other than the first due date, during which an overdue premium may be paid. All provisions of the policy remain in force throughout this period.

- **Limit:**

It's the maximum amount paid by the insurance company under the terms of a policy.

- **Underwriting:**

The process of classifying applicants for insurance by identifying characteristics such as age, gender, health, occupation and hobbies. People with similar characteristics are grouped together and are charged a premium based on the group's level of risk.

<u>Classification of Insurance:</u>

Insurance

- General Insurance
  - Health Insurance
  - Business Insurance
  - Automobile Insurance
  - Fire Insurance
  - Travel Insurance
- Life Insurance
  - Whole Life Assurance
  - Term Assurance
  - Annuities

Life Insurance: -

Policies protect individuals against he risk of life. Life 100 Insurance policies not only protects the insured's family against his death but also provides a good means to avail tax benefit, avail loans from banks and acts, as a good saving tool to meet future needs.

The different types of life insurance are:

- Whole Life Assurance Plans
- Term Assurance Plans

- Annuities

General Insurance: -

On the other hand protects the property and casualty by covering losses from disasters and accidents there by protecting from property damage and liability, providing the means for victims to resume their lives and businesses and contribute to the economy.

General Insurance is of five types. Those are:

Health Insurance:

Just like one looks to safeguard ones wealth, these policies ensure guarding the insurer's health against any calamities that may cause long term harm to ones life and even hamper ones earning ability for a lifetime. Some examples of this type of policy are mediclaim policy, personal accident, group accident, traffic accident, etc.

Business Insurance:

Risks of loss of profits/business, goods, plant and machinery are most profound in case of business. Under this head they cover the most widely used policies that cover a business from any loss of the above kind. Some of these policies are burglary insurance, shopkeepers insurance, key-man insurance, marine insurance, public liability insurance, workmen compensation insurance, air transit insurance, fidelity guarantee insurance etc.

Automobile Insurance:

Auto Policy is required to be taken to cover the risks that arise to the owner, vehicle and third party. This includes the Compulsory Vehicle Policy (In India, by the Motor Vehicles Act, every car owner is required to covered against Act risks) and the Comprehensive Vehicle Policy.

Fire Insurance:

This policy is required to be taken to prevent any loss of profits /property from incidental fire. E.g. fire insurance and fire consequential loss policy.

Travel Insurance:

Every year number of tourists die while traveling. They lose their baggages, passports etc are left stranded in unfamiliar environments. Medical attention in a foreign land while very expensive is also very difficult to find in foreign land. Travel policies are designed to take care of all the problems that generally occur while traveling, whether domestic or foreign.

BACKGROUND OF INSURANCE INDUSTRY

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.

A brief history of the Insurance sector Of India

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in
Calcutta.

Some of the important milestones in the life insurance business in India are:

- 1818: British introduced the Life Insurance to India with the establishment of Oriental Life Insurance Company.

- 1850: Non Life insurance company debut with triton insurance company.

- 1870: Bombay mutual life insurance society is the first India owned life insurer.

- 1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

- 1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

- 1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

- 1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

- 1993: M alhotra committee was constituted under the chairmanship of former R.B.I chief R.N. Malhotra to draw a blue print for insurance sector reforms.

- 1994: M alhotra committee recommended re-entry of private player.

- 1997: IRDA(Insurance Regulatory and Development Authority) was set up as a regulatory of the insurance market in India.

2000: IRDA started giving license to private insurers. ICICI prudential, HDFC were first player to sell an insurance policy.

2001: Royal Sundaram was the first non-life private player to sell an insurance policy.

2002: Bank allowed to sell insurance plans as TPAs enter the scene; insurers start setting non-life claims in the cashless mode.

Some of the important milestones in the general insurance business in India are:

- 1907: The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance business.

- 1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

- 1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.

- 1972: The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from 1st January 1973.

- 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a company.

GROWTH OF LIFE BUSINESS IN INDIA: 1914-1948

Sr no		1914	1930	1940	1945	1948
1	**No of insurers**	**44**	**68**	**195**	**215**	**209**
(a)	Indian	44	68	179 (91.79)	200 (93.02)	189 (90.43)
(b)	Non-Indian	-	-	16	15	20
2	**Total No. of policies In force**	-	**748997**	**1628381**	**2714000**	**3016000**
(a)	Indian	-	513925 (68.61)	1371963 (84.25)	2376000 (87.55)	2791000 (90.15)
(b)	Non-Indian	-	220703	181247	261000	234000
(c)	Indian outside India	-	14369	75171	77000	202000
3	**Total business in force**	**22.44**	**258.42**	**304.03**	**573.07**	**712.76**
(a)	Indian (Rs. Crore)	22.44	84.89 (32.85)	225.51 (74.17)	459.43 (80.17)	566.38 (79.46)
(b)	Non-Indian	-	69.76	60.12	91.85	101.08
(c)	Indian outside India	-	3.77	18.4	21.79	45.3
4	**Total life funds (Rs. Crore)**	**6.36**	**20.53**	**62.41**	**107.4**	**150.39**

Post Liberalization Scenario

Under the recommendation of Malhotra Committee the Insurance Regulatory And Development Authority was set up to monitor and control the Insurance industry some of the initiatives taken by the government after Insurance sector reforms are:

- Government to have not more than 50 per cent stake in insurance companies.

- Insurance sector to be opened up for private companies and any number of insurance enterprises can operate.

- Private players with minimum paid up capital of Rs.1 billion should be given opportunity to do business.

- Foreign companies can enter Indian market through joint ventures with Indian companies.

PRESENT SCENARIO OF INSURANCE INDUSTRY

India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice. Consumers remain the most important center of the insurance sector. After the entry of the foreign players the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerization of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies. The insurance agents still remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present the distribution channels that are available in the market are listed below.

- Direct selling
- Corporate agents
- Group selling
- Brokers and cooperative societies
- Banc assurance

Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money back policies, which is not considered very appropriate for long-term protection and savings. There is lots of saving and investment plans in the market.

However, there are still some key new products yet to be introduced - e.g. health products. The rural consumer is now exhibiting an increasing propensity for insurance products. A research conducted exhibited that the rural consumers are willing to dole out anything between Rs.3,500 and Rs.2,900 as premium each year. In the insurance the awareness level for life insurance is the highest in rural India, but the consumers are also aware about motor, accidents and cattle insurance. In a study conducted by MART the results showed that nearly one third said that they had purchased some kind of insurance with the maximum penetration skewed in favour of life insurance. The study also pointed out the private companies have huge task to play in creating awareness and credibility among the rural populace. The perceived benefits of buying a life policy range from security of income bulk return in future, daughter's marriage, children's education and good return on savings, in that order, the study adds.

GROWTH OF INSURANCE SECTOR IN INDIA

Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. At the end of 2003, the Indian insurance market (in terms of premium volume) was the 19th largest in the world, only slightly bigger than that of Denmark and comparable to that of Ireland. This was despite India being the second most populous country in the world as well as the 12th largest economy. Yet, there are strong arguments in favour of sustained rapid insurance business growth in the coming years, including India's robust economic growth prospects and the nation's high savings rates.

The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. It has been shown that insurance penetration and per capita income have a strong non-linear relationship.4 Based on this relation and other considerations, it can be postulated that by 2014 the penetration of life insurance in India will increase to 4.4% and that of non-life insurance to 0.9%.

<u>Projection of life insurance and non-life insurance premiums, 2004-2014:</u>

Table 2.1

	Life insurance		Non-life insurance	
	INR m	INR m, constant 2004 prices	INR m	INR m, constant 2004 prices
2004	749 971	749 971	203 856	203 856
2005	871 672	834 136	234 323	224 233
2006	1 025 957	934 358	271 830	247 561
2007	1 201 425	1 042 105	315 522	273 680
2008	1 403 362	1 159 284	368 094	304 074
2009	1 667 814	1 312 134	429 750	338 101
2010	1 983 051	1 485 832	496 953	372 350
2011	2 366 576	1 688 756	572 727	408 690
2012	2 804 561	1 905 996	651 736	442 924
2013	3 326 543	2 153 072	734 778	475 578
2014	3 947 899	2 433 546	828 433	510 659

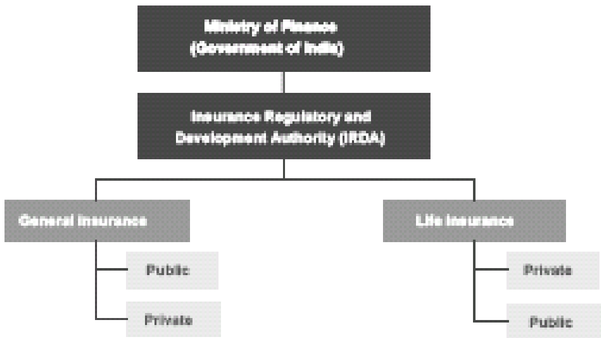
Average Growth Rate Between (2004-2014)	*18.1%*	*12.5%*	*15.1%*	*9.6%*

Industry Structure

Industry structure

Growing number of players

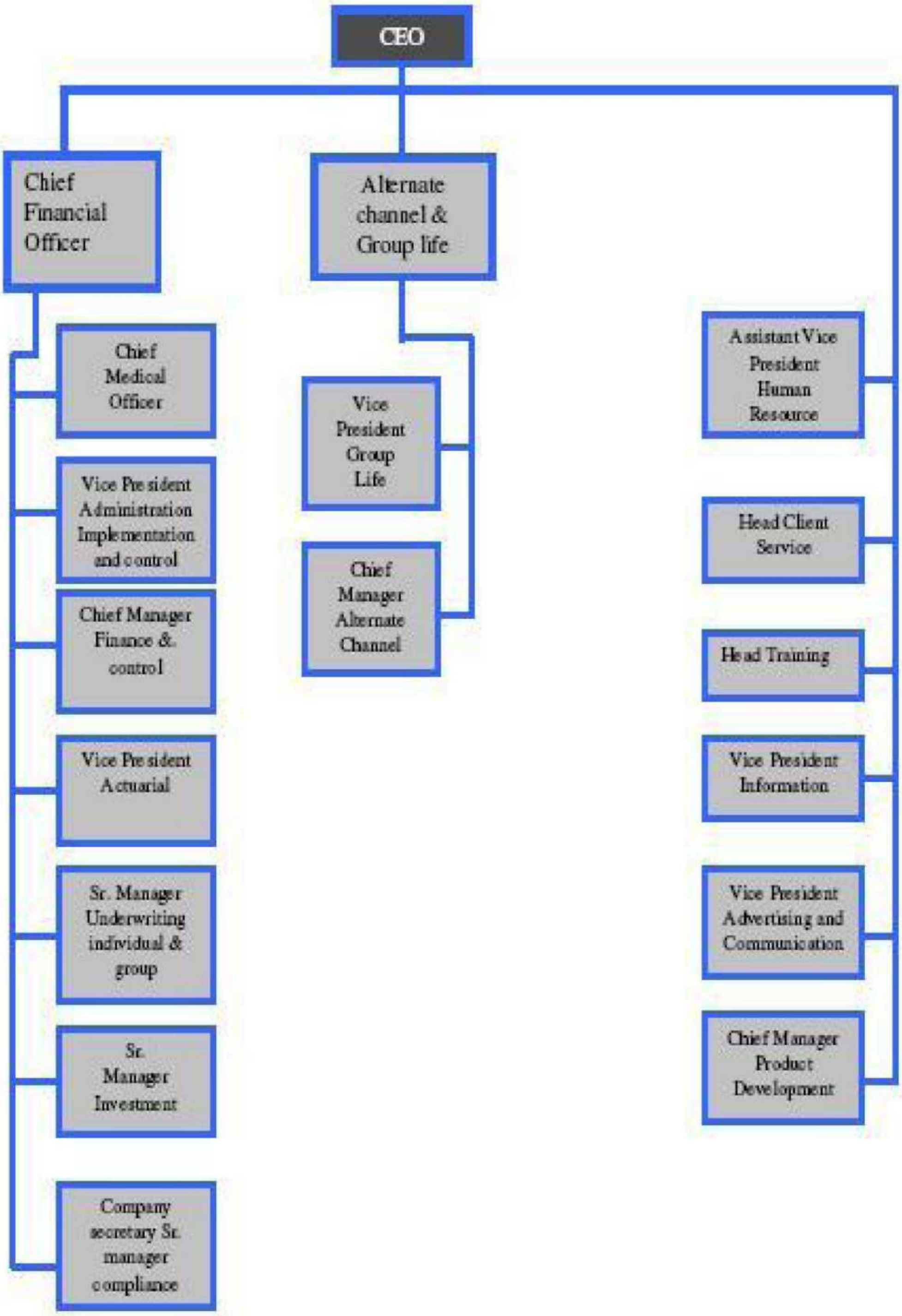
Life insurers	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public	1	1	1	1	1	1	1	1	1
Private	3	10	12	12	13	13	15	15	21
General insurers	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Public	4	4	5	6	6	6	6	6	6
Private	3	6	8	8	8	8	9	10	15
Reinsurer	1	1	1	1	1	1	1	1	1



Source: IRDA

ORGANISATION STRUCTURE OF INSURANCE SECTOR

Organization Structure



LIFE INSURERS	WEBSITE
Public Sector	
Life Insurance Corporation of India	www.licindia.com
Private Sector	
Allianz Bajaj Life Insurance Company Limited	www.allianzbajaj.co.in
Birla Sun-Life Insurance Company Limited	www.birlasunlife.com
HDFC Standard Life Insurance Co. Limited	www.hdfcinsurance.com
ICICI Prudential Life Insurance Co. Limited	www.iciciprulife.com
ING Vysya Life Insurance Company Limited	www.ingvysayalife.com
Max New York Life Insurance Co. Limited	www.maxnewyorklife.com
MetLife Insurance Company Limited	www.metlife.com
Om Kotak Mahindra Life Insurance Co. Ltd.	www.omkotakmahnidra.com
SBI Life Insurance Company Limited	www.sbilife.co.in
TATA AIG Life Insurance Company Limited	www.tata-aig.com
AMP Sanmar Assurance Company Limited	www.ampsanmar.com
Dabur CGU Life Insurance Co. Pvt. Limited	www.avivaindia.com
Sahara India Life Insurance Company Limited	www.saharalife.com

GENERAL INSURERS	WEBSITE
Public Sector	
National Insurance Company Limited	www.nationalinsuranceindia.com
New India Assurance Company Limited	www.niacl.com
Oriental Insurance Company Limited	www.orientalinsurance.nic.in

United India Insurance Company Limited www.uiic.co.in

Export Credit Guarantee Corporation www.ecgcindia.com

Agriculture Insurance Company of India Limited www.aicofindia.org

Private Sector

Bajaj Allianz General Insurance Co. Limited www.bajajallianz.co.in

ICICI Lombard General Insurance Co. Ltd. www.icicilombard.com

IFFCO-Tokio General Insurance Co. Ltd. www.itgi.co.in

Reliance General Insurance Co. Limited www.ril.com

Royal Sundaram Alliance Insurance Co. Ltd. www.royalsun.com

TATA AIG General Insurance Co. Limited www.tata-aig.com

Cholamandalam General Insurance Co. Ltd. www.cholainsurance.com

HDFC Chubb General Insurance Co. Ltd. www.hdfcergo.com

REINSURER	**WEBSITE**
General Insurance Corporation of India	www.gicindia.com

GLOBAL SCENARIO

Insurance not plays an important role in national economy but also in international economy. Marine cargo insurance provides risk coverage for shippers and the banks, which finance international trades. This role becomes all the more important in the context of an active government policy to encourage exports. Indian life insurer operates in more than 30 countries through agencies, branches, associates companies. These operations earn foreign exchange.

The insurance business is concerned with North America, Western Europe, Japan and Oceania. Together these region's accounts for about 91 % of the world annul premium.

By region's North America and western Europe are growing moderately while oceanic, Latin America, eastern Europe and Africa display growth above lone –term trends to a global context globalization of life insurance helps companies practices underwriting discipline in one regions globalization of the insurance industry received a big boost.

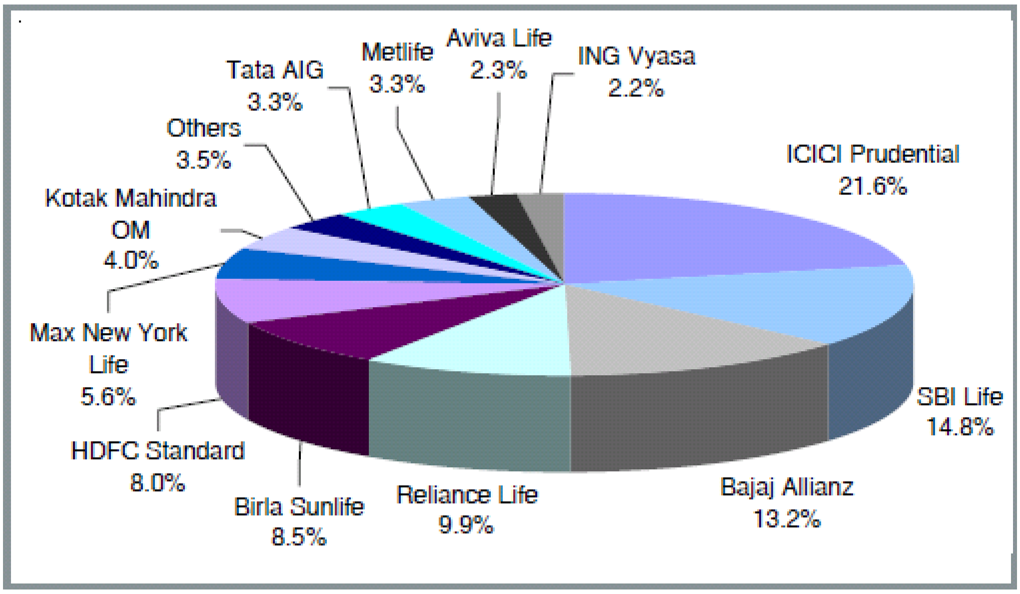
Countries	**Insurance Penetration (Premium as a % of GDP)**	**Insurance Density (Per Capita Premiums in USD)**
United Kingdom	***12.71***	***3028.5***
Japan	***8.70***	***3165.1***
United States	***4.48***	***1611.4***
South Africa	***14.04***	***392.9***
Australia	***6.04***	***1193.5***
South Korea	***9.89***	***935.6***
India	***1.77***	***7.6***
China	***1.12***	***9.5***
Malaysia	***2.13***	***86.4***
Indonesia	***0.54***	***4.0***
Brazil	***0.36***	***12.9***

GROWTH OF LIFE INSURANCE SOME FACTS (MAY 2008):

HOW THEY STACK UP Premium income of life insurers in Rs crore				
	April - June		Growth %	Total Share (%)
	2007	2008		
LIC	8580.84	7524.56	-12	52.55
ICICI Prudential	1056.45	1,590.27	51	11.11
Bajaj Allianz	731.85	829.24	13	5.79
SBI Life	426.39	1,148.67	169	8.02
HDFC Standard	355.93	490.40	38	3.42
Max New York	289.74	501.16	73	3.50
Reliance Life	204.10	557.33	173	3.89
Birla Sun Life	174.63	501.53	187	3.50
Total Private	3930.95	6,795.64	73	47.45
Total Market	12511.80	14,320.20	14	100.00

MARKET SHARES OF PRIVATE PLAYER OF LIFE INSURANCE IN 2009

YTD FY2009 market share—private players



Global Industry Statistics

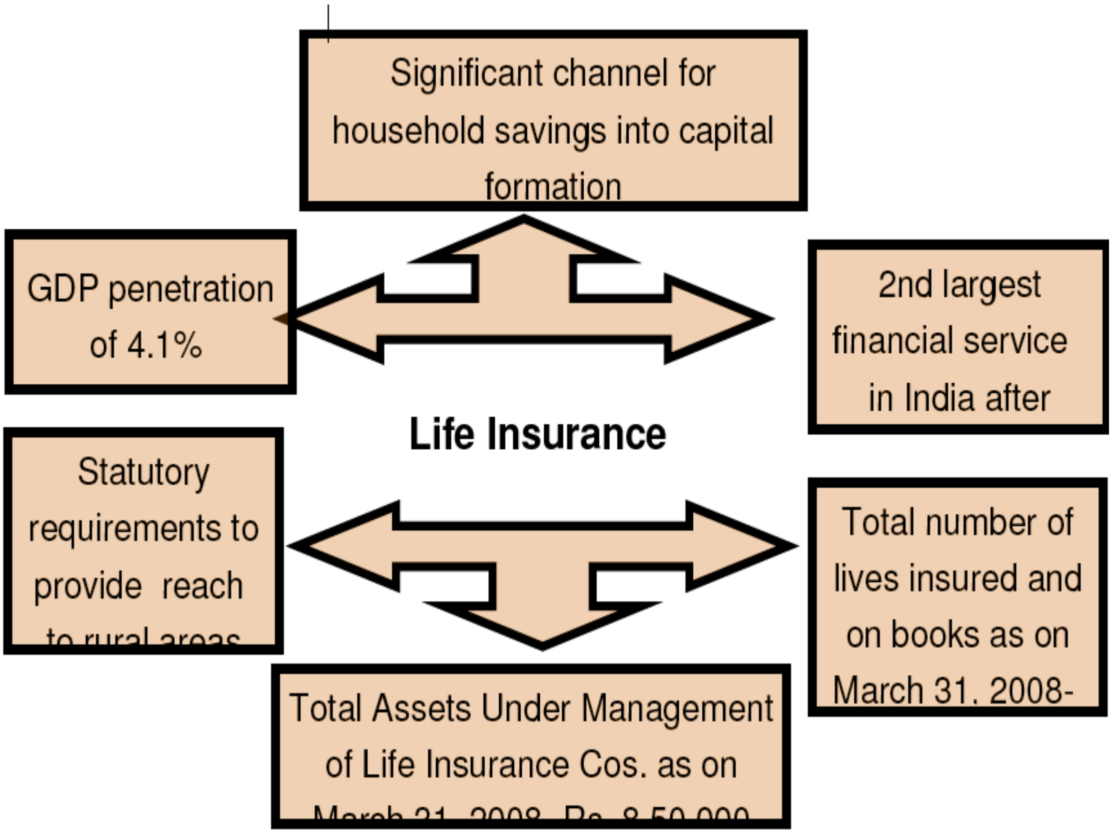
Emerging Markets

(Total Premium, figures in $billion)

Taiwan	17.3
China	13.4
India	**7.2**
Hong Kong	6.1
Israel	5.8
Singapore	5.0

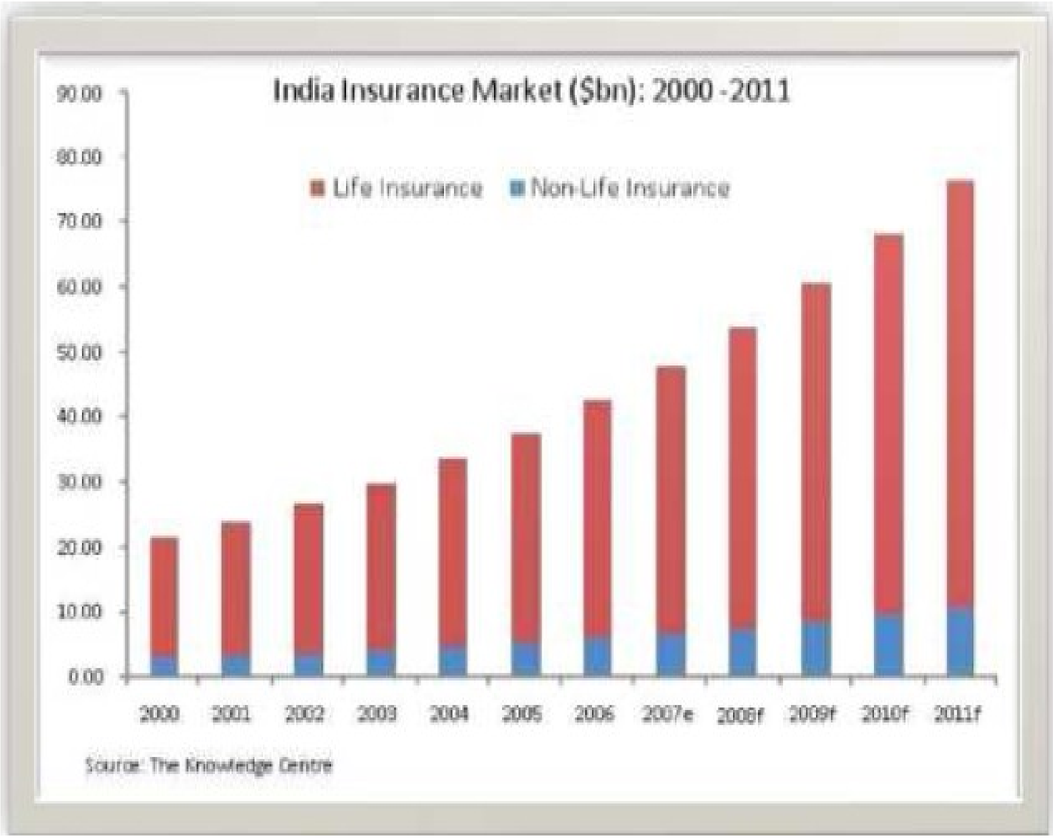
Globalization of Life Insurance Market

SOME GENERAL INFORMATION ABOUT LIFE INSURANCE IN INDIA



PAID UP CAPITAL OF LIFE INSURER

INSURER	March 31, 2007	Additions during 2007-08	March 31, 2008
LIC	5.00	0.00	5.00
Private Sector	8119.41	4172.01	12291.42
TOTAL	8124.41	4172.01	12296.42

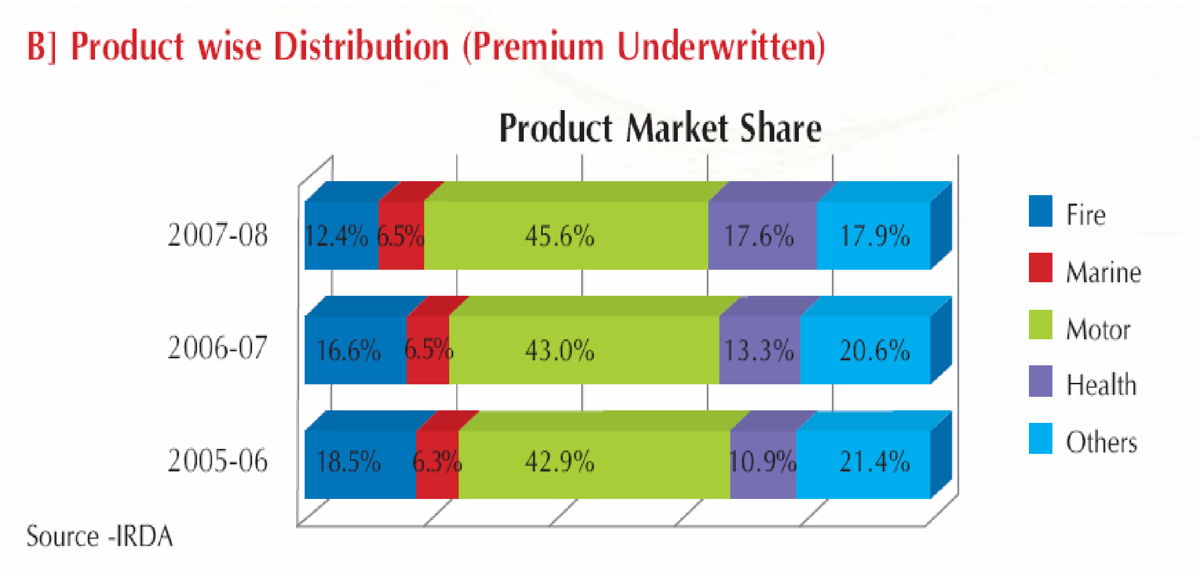


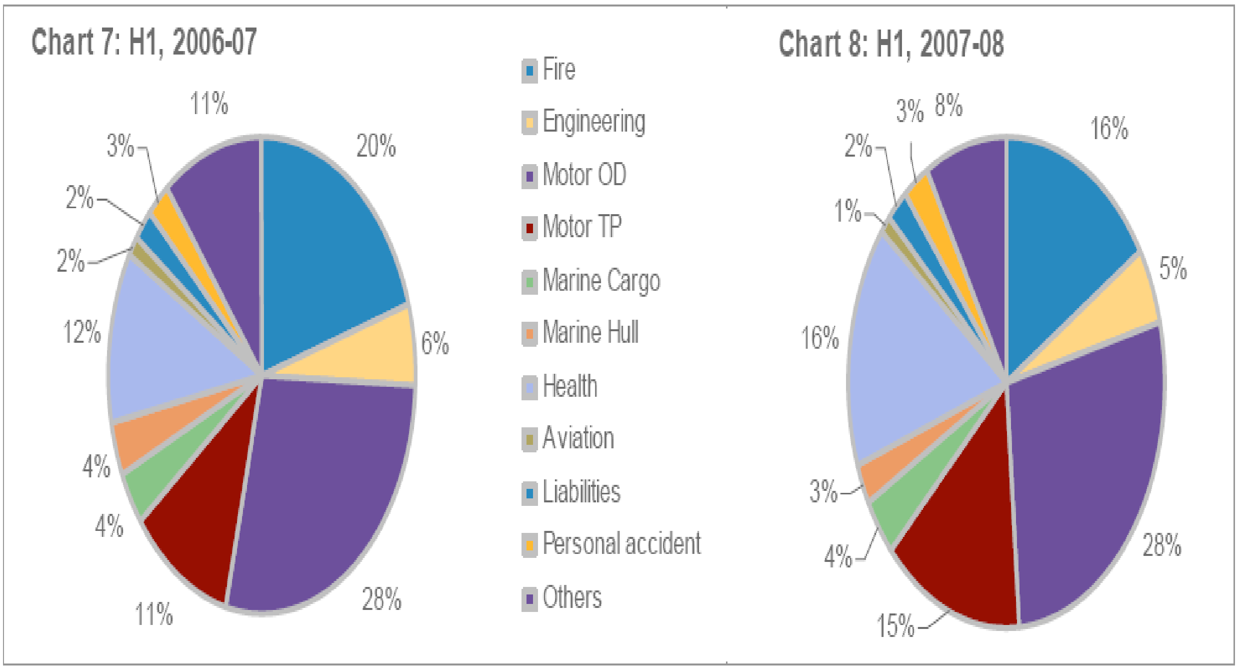
MARKET SHARE OF GENARAL INSURANCE INDUSTRY

Gross Premium Underwritten (Rs Cr)			Market Share	
Period (April to February)	**2008-09**	**2007-08**	**2008-09**	**2007-08**
New India	4,982.2	4,759.4	18.0%	18.7%
National	3,867.9	3,641.0	14.0%	14.3%
United India	3,808.1	3,369.0	13.7%	13.2%
Oriental	3,564.6	3,506.7	12.9%	13.8%
Total PUBLIC	16,222.8	15,276.1	58.5%	60.0%
Royal Sundram	728.1	627.7	2.6%	2.5%
Tata-AIG	813.2	740.3	2.9%	2.9%
Reliance	1,776.6	1,809.7	6.4%	7.1%
IFFCO-Tokio	1,257.7	1,028.3	4.5%	4.0%
ICICI-lombard	3,255.6	3,142.9	11.7%	12.3%
Bajaj allianz	2,407.5	2,150.5	8.7%	8.4%
Cholamandalam	644.0	479.4	2.3%	1.9%
Others	616.4	210.2	2.2%	0.8%
Total PRIVATE	11,499.0	10,189.0	41.5%	40.0%
GRAND Total	**27,721.8**	**25,465.1**	**100.0%**	**100.0%**

Source -IRDA

PRODUCTWISE DISTRIBUTION OF GENERAL INSURANCE PRODUCT





Investment Profits

The general insurance companies have to follow overall investment policy as prescribed by IRDA (Insurance Regulatory body). IRDA guidelines require the appreciation in Equity investments (vis-à-vis the acquisition cost) to be parked in a separate Fair Value Change account, to be accounted in Profit and Loss account only on realization. The Fair Value Change account is thus an indicator of the additional realizable profits of the insurance companies.

(Rs Cr)

	2005-06		2006-07		2007-08	
	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector
Gross Investment	53674.3	3448.2	53176.9	5534.4	62922.0	8105.2
Fair Value Change Account	30692.1	64.8	26734.9	(2.37)	33920.9	(30.7)
Investment Income	5610.2	269.7	5784.3	415.0	6247.5	742.1

Source -IRDA

Solvency Ratio:

Solvency margin is the excess of assets over liabilities that an insurance company has to maintain as a safety margin. All insurance companies are required to maintain the minimum solvency ratio of 1.5 at all times as per IRDA norms. IRDA has recently introduced the quarterly reporting of Solvency Status for all the Insurers.

Solvency Margin (times)

FY	2008	2007
PRIVATE		
BAJAJ Allianz	1.6	1.6
CHOLAMANDALAM	1.9	2.6
HDFC Standard	2.0	1.7
ICICI Lombard	2.0	2.1
IFFCO Tokio	1.5	1.7
RELIANCE	1.6	2.0
ROYAL Sundaram	1.6	1.6
TATA AIG	1.9	1.9
FUTURE Generali	2.6	-
UNIVERSAL Sompo	4.6	-
PUBLIC		
NEW India	4.0	3.6
UNITED	3.2	3.0
ORIENTAL	1.9	2.2
NATIONAL	1.8	1.8
SPECIALIZED Insurer		
ECGC	18.9	11.4
STAR Health	2.0	1.9
APOLLO DKV	1.4	-
AIC	3.3	2.1
GIC	3.4	4.1

Source -IRDA

INSURANCE MARKET ENABLERS

ENABLER	ROLE	SUPPORTING EVIDENCE
Legal framework	• Protect the rights of policyholders, regulate the activities of market participants, and ensure the financial health of the sector	• Existence of an insurance law appropriate to existing market conditions • Existence of insurance regulations/ implementing guidelines
Regulatory bodies	• Oversee and supervise the sector and ensure the enforcement of laws and regulations	• Existence of an insurance regulator • Evidence of regulatory processes being applied • Evidence of an insurance judicial authority
Nature of competition	• Drives innovation, competitive pricing, and the adoption of best practices	• Evidence of foreign insurers and the extent to which foreign ownership is allowed • Extent of private- sector involvement—market share of private vs. public insurers • Extent to which large, well-capitalized insurers exist
Skills and training	• Assess the risks to be insured • Provide customers with the appropriate products/services • Ensure the availability and development of local skills	• Availability of skilled professionals • Availability of training programs, training institutes, and accreditations
Market-led initiatives	• Drive self-regulation and the development of the industry at the country and regional levels	• Existence and application of insurance standards • Availability of insurance statistics and market data • Existence of professional associations • Existence of industry-level programs to create awareness • Existence of regional forums

Source: Booz Allen Hamilton analysis.

Investment of Indian household savings (as a % in different sector)

BANK DEPOSITS	**39%**
CORP. BANKS	**2%**
SHARES AND DEBENTURES	**1%**
MUTUAL FUNDS	**2%**
NBFC'S	**3%**
GOVT. BONDS	**13%**
INSURANCE	**13%**
PF/ RETIRE FUNDS	**21%**
CURRENCY	**6%**

Source: - www. avivaindia.com

Role of the government:

As insurance is an important service sector, hence it is highly regulated by government. Since 1956 insurance sector was highly regulated by government of India. On March 16, 1999, the Indian cabinet approved on Insurance Regulatory Authority Bills that was designed to liberalize the insurance sector.

Two governments in India have fallen over the issue of liberalization of the insurance sector (which was nationalized in 1971). But the government of A.B. Vajpayee as gone ahead to announce the liberalization of this sector announcement was made in November 1998.

Government's objectives for liberalization of insurance: -

The main objective of opening of insurance sector to the private insurers is as under:

1. To provide better coverage to the Indian citizens.

2. To augment the flow of long-term financial resources to finance the growth of infrastructure.

BODIES THAT REGULATE THE SECTOR:

For better regulation purpose of the insurance sector the government has established following bodies:

1. IRA: Insurance Regulatory Authority.

2. IRDA: Insurance Regulatory and Development Authority.

3. TAC: Tariff Advisory Committee.

INVESTMENT PORTFOLIO OF INSURANCE

Insurers are required to fulfill certain social commitments as well. As many of the social welfare measures companies are not just regulated, but have been mandated to hand over a portion of their funds to the state for investment in infrastructure and for social development through government bonds and securities. In India, the pattern was, accordingly, prescribed in great detail by the government. This was not in the form of guidelines, but as a legal obligation under the insurance Act, 1938.

Pattern of investment specified for life insurance:

Type of investment	Percentage
(1) Government Securities	25%
(2) Government securities or other approved securities	Not less than 50%
(3) Approved investments	
(a) Infrastructure and social sector	Not less than 15%
(b) Other govern by exposure norms	Not exceeding 35%

INVESTMENT PORTFOLIO OF GENERAL INSURANCE OF RECENT TIMES:

	Public Enterprises			Private Entities		
	2006-07	2005-06	2004-05	2006-07	2005-06	2004-05
Government of India Securities	34.3%	35.3%	34.2%	29.6%	37.4%	41.9%
Other Bonds	16.0%	15.1%	14.7%	44.8%	38.8%	36.6%
Equity/Preference Shares/ MFs	11.9%	11.5%	12.5%	7.1%	9.0%	6.5%
Cash & Bank Deposits	19.0%	19.0%	18.7%	15.9%	11.3%	10.6%
Other Approved Securities	1.3%	1.9%	1.1%	0.0%	0.0%	0.0%
Other than approved securities	11.5%	9.8%	9.7%	2.6%	3.5%	4.4%
Loans	6.0%	7.4%	9.1%	0.0%	0.0%	0.0%

INVESTMENTS OF INSURERS

(Rs.Crore)

INSURER	Life		Non-Life		Total	
	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08
Public Sector	559201	674475	44171	47216	603372	721691
		(20.61)		(6.9)		(19.61)
Private Sector	44979	87566	6212	9064	51191	96630
		(94.68)		(45.91)		(88.75)
Total	**604180**	**762041**	**50383**	**56280**	**654563**	**818321**
		(26.13)		**(11.70)**		**(25.02)**

Recent initiatives taken in the insurance Sector:

During the year 2008-09, the process of reforms in the insurance sector was carried forward through a series of policy initiatives. Some of these included:

1. Promoting micro-insurance as a viable business opportunity and integrating the same with the poverty alleviation programmes of the State Governments. During 2007-08, 3,275 micro-insurance agents were allowed to offer composite covers or packaged products to cater to the needs of the poor, taking the total number of micro-insurance agents to 4,584 at end-March 2008.

2. Introduction of two bills in the Parliament viz., Insurance Laws (Amendment) Bill, 2008 and Life Insurance

Corporation (Amendment) Bill, 2008 aimed at bringing about improvement and revision of laws relating to the insurance business.

3. Institutionalizing the process of a self-regulatory mechanism by IRDA for enforcement of market discipline and initiating steps to ensure that the life insurance council and the general insurance council become self-regulatory organizations.

4. Establishment of a separate health section in the authority with specialists. Stipulation by IRDA of the rural and social sector obligations of private insurers up to the tenth year of operations. Under the rural sector obligations, life insurers are required to expand their rural coverage from 7 per cent of the total policies written direct in the first financial year to 20 per cent in the tenth financial year. The non life insurers in the private sector are required to reach the target commencing from 2 per cent of total gross premium income written directly in the first financial year to 7 per cent from the ninth financial year onwards. Under the social sector stipulations, all insurers would have to cover 5,000 live in the first financial year to 55,000 lives in the tenth financial year.

5. IRDA issued instructions on the interpretation of pre-existing conditions in health insurance, which came into effect from June 1, 2008. The standardization of terminology would help the insured by increasing clarity and ensure comparability of health insurance products across insurers; and in resolving operational constraints in the area of claims settlement in health insurance.

Penetration and density

Insurance Penetration and Insurance Density are two important indicators of the potential and performance of the insurance sector. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP), while insurance density is as measured the ratio of premium underwritten in a given year to the total population. The life insurance penetration in India increased from 1.77 per cent in 2000 to 4.10 percent in 2006, before declining to 4.0 percent in 2007. The general insurance penetration increased from 0.55 per cent in 2000 to 0.60 percent in 2006 and remained at the same level in 2007. The life insurance density which is premium per capita in US$ terms stood at US$ 40.4 in 2007 as against US$ 33.2 in 2006 and US$ 7.60 in 2000. The general insurance density was; however, lower at US$ 6.2 in 2007 (US$ 5.20 in 2006 and US$ 2.30 in 2000).

In the table below we show the Penetration & Density of the world:

Country	2007			2006			2005			2004			2003
	Total	**Life**	**Non-Life**	**Total**	**Life**	**Non-Life**	**Total**	**Life**	**Non-Life**	**Total**	**Life**	**Non-Life**	**Total**
Developed Countries													
United States	4086.5	1922.0	2164.4	3923.7	1789.5	2134.2	3875.2	1753.2	2122.0	3755.1	1692.5	2062.6	3637.7
United Kingdom	7113.7	5730.5	1383.2	6466.7	5139.6	1327.1	4599.0	3287.1	1311.9	4508.4	3190.4	1318.0	4058.5
Switzerland	5740.7	3159.1	2581.7	5561.9	3111.8	2450.1	5558.4	3078.1	2480.3	5716.4	3275.1	2441.3	5660.3
France	4147.6	2928.3	1219.3	4075.4	2922.5	1152.9	3568.5	2474.6	1093.9	3207.9	2150.2	1057.7	2698.3
Germany	2662.1	1234.1	1427.9	2436.8	1136.1	1300.7	2310.5	1042.1	1268.4	2286.6	1021.3	1265.3	2051.2
South Korea	2384.0	1656.6	727.3	2071.3	1480.0	591.2	1706.1	1210.6	495.5	1419.3	1006.8	412.5	1243.0
Japan	3319.9	2583.9	736.0	3589.6	2829.3	760.4	3746.7	2956.3	790.4	3874.8	3044.0	830.8	3770.9
Developing Countries													
Brazil	202.2	95.3	106.9	160.9	72.5	88.4	128.9	56.8	72.1	101.1	45.9	55.2	82.6
Russia	209.4	6.1	203.3	150.9	4.0	146.9	122.8	6.3	116.5	114.4	24.8	89.6	98.2
Taiwan	2628.0	2165.7	462.3	2250.2	1800.0	450.3	2145.5	1699.1	446.4	1909.0	1494.6	414.4	1433.3
Hong Kong	3373.2	3031.9	341.3	2787.6	2456.0	331.6	2544.9	2213.2	331.7	2217.2	1884.3	332.9	1832.6
Malaysia	332.1	221.5	110.6	292.2	189.2	103.0	283.3	188.0	95.3	256.5	167.3	89.2	227.0
Singapore	2776.0	2244.7	531.2	1957.7	1616.5	341.2	1983.4	1591.4	392.0	1849.3	1483.9	365.4	1620.5
Thailand	129.7	70.8	58.9	110.1	60.0	50.0	99.0	54.6	44.4	92.1	50.8	41.3	79.6
India	**46.6**	**40.4**	**6.2**	**38.4**	**33.2**	**5.2**	**22.7**	**18.3**	**4.4**	**19.7**	**15.7**	**4.0**	**16.4**
PR China	69.9	44.2	25.5	53.5	34.1	19.4	46.3	30.5	15.8	40.2	27.3	12.9	36.3
Sri Lanka	24.9	10.2	14.7	21.3	8.5	12.8	16.3	6.9	9.4	14.1	6.2	7.9	12.5
Pakistan	6.5	2.6	3.9	5.9	2.3	3.6	4.6	1.9	2.8	3.7	1.5	2.2	2.9
Bangladesh	2.9	1.9	0.9	2.6	1.8	0.8	2.5	1.7	0.8	2.3	1.5	0.8	2.1
South Africa	878.5	719.0	159.5	855.8	695.6	160.2	714.6	558.3	156.2	686.5	545.5	141.0	583.9
Australia	3000.2	1674.1	1326.1	2580.8	1389.0	1191.9	2569.9	1366.7	1203.2	2471.4	1285.1	1186.3	2041.4
World	**607.7**	**358.1**	**249.6**	**554.8**	**330.6**	**224.2**	**518.5**	**299.5**	**219.0**	**511.5**	**291.5**	**220.0**	**469.6**

Source: Swiss Re, Sigma various volumes

Strengths/Opportunities

1.The intense competition brought about by deregulation has encouraged the industry to innovate in all areas; from underwriting, marketing, policyholder servicing to record keeping.

2.Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products.

3. Competition in a deregulated environment will allow market forces to set premiums that are appropriate for exposures and push insurers to differentiate their products and services.

4. Innovations in distribution and improvements in market penetration will follow as public and private insurers compete to market their products.

5. Allowing insurers to issue their own policy wordings and set their own rates will enable underwriters to tailor products to meet client needs.

6.The existence of stringent licensing requirements ensures that only adequately capitalized and professionally managed companies are eligible to carry out insurance and reinsurance.

7. The Insurance Regulatory Development Authority of India's (IRDA) emphasis on quarterly reporting/monitoring of insurer solvency will enhance capital adequacy and transparency.

8.Licensed brokers are very much part of the intermediary structure and only those with adequate capital, professional experience and expertise will be licensed by IRDA.

Weaknesses/Challenges

1. Premiums rates will remain under pressure due to intense competition on the more profitable lines.

2.Falling premium income -- without a corresponding reduction in claims -- is likely to drive down profits.

3.Reinsurance is likely to cost more as treaty reinsurers reduce ceding commissions to compensate for the lower rates following deregulation.

4.Public and private sector insurers' greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.

5.Private insurers need to raise more capital; otherwise growth could be constrained since reliance on reinsurance for capital relief is not always viable or available.

6.Traditional distribution channels, especially tied agents, need to be improved to match the new product offerings.

7.There is general lack of transparency as financial and operational data for insurers are not readily available as none of India's insurers are directly listed on stock exchanges.

8.Like all developing economies on a fast track, the shortage of trained insurance professionals and technicians at all levels cannot be remedied in the short term.

9.Natural catastrophes will always be present; the Indian sub-continent is vulnerable to cyclones, floods, hurricanes and earthquakes, and until there is a national capacity (similar to the terrorism pool) to manage losses, dependence on overseas reinsurers will continue.