

Critical Study of Insurance Industry in India

Tanveer Alam^{1*} Dr. Geeta Verma²

¹ Research Scholar, Department of Commerce, Sri Satya Sai University of Technology & Medical Sciences, Sehore, M.P., Sehore

² Research Guide, Department of Commerce, Sri Satya Sai University of Technology & Medical Sciences, Sehore, M.P., Sehore

Abstract – The history of our Indian community shows that when an unfortunate accident happened to a person in the family, the joint family system provided financial cushion and also security. Our country's industrialization process culminated in the division of the joint family system into nuclear family units, and complete absence of funding for the joint family system. The insurance domain solves one of a logical human being's significant problems by building a corpus for an unknown future. The purchasing of a life insurance policy is one of the individual's prepared and structured decisions to reduce or even remove the potential loss arising from uncertainty, where possible. This gives him economic security and also gives him peace of mind as his family is sure to get relief from financial burden and pressure. Society in India is predominantly traditional. This paper reflect critical study of Insurance Industry in India.

Key Words – Insurance, Society, Distant, Policy, Collecting, Family

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1. INTRODUCTION

The life insurance industry in India has not been given due importance as life insurance is still regarded as a negative thought of 'widow's income' when the family's bread-winner is no longer there. The industry has a distinctly inauspicious connection with a case. The insured thinks the insurers pay the insurance premium is true. Still, only a distant subset is collecting demand proceeds from them. As a result, our society cannot carry out insurance in a constructive way. But it is generally considered by many to be a beneficial instrument for generating assets and income to the insured over a long period of time.

Insurance typically works on the assumption of an unpredictable future, and as such its promotion and growth depends primarily on the insurers' ability to determine the insured's real life uncertainties. Insurance offers coverage to individuals, families and business companies for unavoidable damages, allowing their operations to proceed smoothly following unfavorable and unfortunate incidents. Also, the life insurance industry plays a vital role in mobilizing household and corporate investments and encouraging investment activities.

This industry allows for the effective and successful allocation of capital resources, thereby allowing an economy to expand and develop. India is a nation

with a huge population and a greater proportion of that population live below the poverty line. Consequently, insurance is a major problem for our economy.

With LIC and 22 private sector players, the life insurance industry in India has been playing a major role in performing certain insurance functions for the society, particularly for the larger masses. The industry is complementing the efforts of the Government and taking over the national character. It is a major vehicle in contributing to growth, providing employment, promoting community development, developing infrastructure in addition to providing financial protection against individual uncertainties.

2. CONCEPT

The topic of the policy is human life span. "In the insurance sector, life insurance commands the greatest popularity and value because life is the most precious property of society or an individual". "Insurance's basic principle is to shield the few against the heavy financial impact of expected misfortune by spreading the loss among the many who are exposed to similar risk".

Insurance is an important financial mechanism in which the consumers pay the insurer a lower amount in the form of a premium to cover a greater

unknown risk that would occur if they did not take-out insurance. Insurance has neither prevented losses nor reduced the costs of losses. But, the principle of insurance states the loss of few is shared by many. The Oxford English Dictionary described insurance as "the act of securing payment of a sum of money through payment of a premium or premiums in the event of loss or harm to property, life, etc." The term insurance can also be described as "a social mechanism that offers financial compensation for adverse consequences, payments made from the cumulative contributions of all parties involved in the agreement. Therefore, the purpose of insurance is mutual risk-bearing because it includes risk pooling. It is also a social instrument or system in which citizens and even businesses are granted economic security and social protection. Insurance is a combination of promises and programs. It is a commitment to be made to be insured in the future in compliance with the provisions laid down in the insurance agreement to satisfy a specified obligation. It is also a service provided to the insured by the insurer when he is in need. Hence the life insurance industry's sustainability depends largely on the insured's ultimate good faith. In general, insurance is divided into two categories i.e. Insurance Life and Non-life.

Life insurance provides the insured with financial protection from the possibility of unpredictable and adverse happenings. Non-life insurance provides the insured with cover against injuries, property loss, burglaries and other liabilities. Insurance is made available to the public by contracts or legislation about insurance. Life insurance plans do not offer the risk of partial loss. Hence, all policies are purely full cash payment policies. If an unfortunate accident happens the insurer must pay the policy's guaranteed amount. Nevertheless, in the case of asset and liability policies, there is a partial risk.

For the validity of an insurance policy insurable interest is usually necessary. When no insurable value occurs, otherwise the contract is null and void. The termination of an insurable interest, however, does not affect the validity of the insurance contract where there was insurable interest at the time the policy was issued. Life insurance was historically considered solely a tax-saving tool and compensates for the inauspicious case.

Yet, at present, it is elevated to the level of a product of both investment and risk cover combination. When individuals, households, and corporate companies do not have access to the insurance system, they must retain comparatively greater amounts of money to cover their expected risks. This sum is in the form of idle cash or can be invested in securities holding highly liquid and low-interest. That implies inefficient capital use. Consequently, insurance allows for optimal use of the available money.

3. ORIGIN

The origin of the scenario of life insurance is as old as the history of human culture. Insurance was not directly addressed. Still, there were a lot of indirect references. "In India life insurance is traceable back to the Vedas. A type of insurance for the group flourished around 1000 BC and was practiced by the Aryans. During the Buddhist era some communities were found to help families build homes, protect widows and children. It was also stated in the manusmrithi, dharmasastra and arthasastra writings.

This concept later inspired the creation of large-scale health, land, and liability insurance company. Modern-form insurance emerged in the Mediterranean during the 13th century. The earliest insurance references were found in Babylon, the Greeks, and the Romans. The oldest form of insurance followed by fire insurance is marine insurance. The Renaissance and the Industrial Revolution were the two largest economic revolutions of human history. In India, the protection system had not been able to balance the waves in equal measure as opposed to the other developing world nations.

There were three broad types of insurance in the United States, that is, life insurance, health insurance, and liability insurance. Traditionally, the United States have dominated the world insurance market. The insurers sponsored organizations to avoid losses and offered inducements for individuals and companies to participate in programs to avoid losses and reduce losses. Smoke detectors, fire sprinklers, and driver training services also earned premium credits. Some lines of commercial insurance were specific to experience-rating credits. But life insurance did not flourish in the 18th century because of large death rate fluctuations. A certain active interest in developing insurance sector was seen after 1800. In England the life insurance always existed. William Gybbons' life policy on 18 June 1633 was the first life insurance facts.

The annuities were detected normal in England even before this. The first recorded office of life was the 'Hand-in-Hand Society' founded in 1696. With the advent of an industrial revolution, miscellaneous insurance such as accident insurance, fidelity insurance, liability insurance, and theft insurance has taken on the present form in the world. The primary insurance company was the Lloyd's Club. Through the growth of the social needs, the reach of non-life insurance became broader.

4. INDIAN LIFE INSURANCE SYSTEM

In India, the life insurance scheme has gradually developed through a variety of phases in its almost 200-year history. An important part of Indian

insurance scheme had been the institutions offering life insurance services. Indian life insurance industry's evolutionary growth went through several different stages, going from the private sector to nationalization and from nationalization to liberalization.

4.1 Early ERA and Pre-Independence

Calcutta founded the first insurance company in 1818. Later also in 1870 the Bombay Mutual Life Insurance Society began its business. Many other European life insurers have come to India to protect the lives of People. They also guarded higher income group Indian lives, that too, at a higher premium cost. This exercise of the foreign insurers greatly humiliated Indians and as such patriotic Indians felt the need for Indian insurance companies to serve Indian Public.

Later, the impact of Gandhiji's Swadeshi Movement was felt during insurance circles with the increasing support of clients to domestic companies. The Indian Mercantile Insurance company started purely with indigenous capital. Insurance company's numbers also grew with time.

As there was no legal framework to control or monitor the insurance business, the business did not develop appreciably. There were many instances that during this period, private insurance companies used to give rebate on premiums paid in order to induce policyholders to insure themselves as much as possible. They also struggled hard for giving as good a return as possible to the policyholders on the money invested by them in buying life insurance policies. Several complaints and frauds were noticed from 1920 to 1930 which disturbed significantly insurance sector in India. The business was mostly guided and governed by British Acts provisions.

The starting of regulation over the insurance business was taken place only with the Indian Life Insurance Companies Act of 1912, and the Provident Fund Act of 1912 were passed. The Government started publishing insurance company returns in India in 1914. A new Indian Insurance Companies Act was later promulgated in 1928. Yet the first detailed enactment was the 1938 Insurance Act providing for strict state regulation over insurance companies. The 1938 Insurance Act, which entered into force on 1 July 1939, was a milestone in the conduct of insurance business in the country and was pursued even after the monopoly players had nationalized the insurance sector and liberalized it. The value of the Act was that it put the entire company under a single system of controls and regulations. In 1938, the nation had 176 insurance companies operating. Under the provisions of the 1938 Insurance Act, the government set up the Insurance Institute 10 together with a separate department to oversee and regulate insurance business in the country. The headquarters of this

Department were located in Kennedy Cottage, Simla. As the regulator, the Controller of Insurance, was located in a far away place and he was not adequately staffed to monitor and supervise the well-dispersed industry. By 1947 domestic industry regulated 50 per cent of premiums in the life insurance market. This sector was established in competition with the international insurance industry, which was primarily dominated by British Insurance Firms, whose contribution to the growth of insurance expertise in Indian subcontinent markets must also be properly recognized.

4.2 Post-Independence and Nationalization

Post-Independence and Nationalization After Independence, Indian insurance industry expanded at a faster pace as rivalry among Indian companies increased and Indian Life Companies dislodged the non-Indian insurers. The insurance industry remained an urban trend, despite the Indian companies' strides. There was enormous potential in the country for the further expansion of life insurance. Moreover, several malpractices involving misuse, and regular liquidation of insurance firms, have marked this limited growth. It shook public confidence and robbed policyholders of their savings and security.

In the 1950s, things were very different. Though prudential norms were introduced, the life insurance sector was operated in a casually regulated environment and operated on a varied basis. Some companies were doing famously well, making profits and serving their customers properly. But, there were many others who were on the verge of sickness and incurring losses. However, the Government was also pursuing public programmes that needed captive funding and saw the life insurance industry, with its heavy amount of life funds, as a good source.

The Insurance Amendment Act, 1950 demolished principal agencies. There were a huge number of insurance firms and they had a high degree of rivalry. This has also been alleged that several firms resorted to unfair trade practices. Life insurance business during this period was slow and restricted mostly to urban areas and upper class population. The insurance needs of the population in rural areas and low net worth individuals were completely neglected. Insurance was considered only an unfulfilled dream too many and the idea of nationalization was thought off by the Government. The nationalization of the life insurance industry in India was also the product of the 1956 Industrial Policy Resolution which provided a policy structure for extending state control over at least 17 sectors of the economy, including life insurance.

On the eve of the nationalization of life insurance in India, Pandit Jawaharlal Nehru, then Prime Minister, advocated that the nationalization of life

insurance is an important step in our march toward a socialist society. The aim is to serve both the person and the State. Life insurance has to spread rapidly across the world, and provide citizens with a measure of protection.

To this end, the Central Government promulgated an ordinance on 19 January 1956. A Bill was subsequently introduced in Parliament and passed in 1956 to an Act. This received the President's assent on July 1, 1956. With the merger of 245 private life insurance firms, i.e. 154 Indian, 16 non-Indian and 75 provident societies, the life insurance company was nationalized in 1956.

All the 245 companies lost their identities and were merged into the LIC as of 1 September 1956, the day on which India's Life Insurance Corporation was established. The LIC has taken over all of those companies' assets. With 5 Zonal offices, 33 Divisional offices and 212 branch offices, the Company began its operations.

In 1971, India's political and economic growth took place in another historic occurrence. The then Prime Minister Mrs. Indira Gandhi's Government took the decision of turning India's mixed economy into the Socialist Republic of India. Mrs. Indira Gandhi also mentioned that Life Insurance is the ideal form of saving, both from the direct interest of individual and from the interest of the nation. LIC has done notable work in promoting the saving habit. During this time, the Indian life insurance market mainly catered for the planned economy's needs and obligations based on a mixed economic structure in which the LIC public sector held a monopoly role in the life insurance industry. Table 1.1 presents the major historical events of the Indian life insurance system which provided a foundation for the present well-structured and well-organized life insurance industry. Table 1.1 Indian Life Insurance Policy-Major Historical Events Year Major Historical Event 1818 Oriental Life Insurance Company Establishment in Calcutta. 1870 Bombay Mutual Life Assurance Society has commenced its activities.

Table 1.1 : Indian Life Insurance System - Major Historical Events

Year	Major Historical Event
1818	Oriental Life Insurance Company Establishment in Calcutta.
1870	Bombay Mutual Life Assurance Society has commenced its activities.
1912	As the first legislation to control the life insurance industry, the Indian Life Assurance Companies Act was adopted.
1914	In India, the government started publishing insurance company returns.
1928	The Indian Insurance Companies Act was enacted to allow the Government

	to collect statistical information on life insurance and non-life insurance.
1938	Earlier law has been revised and amended by the 1938 Insurance Act to protect the interests of the insured public. 1950 Principal Companies were dissolved by Insurance Reform Act.
1950	The Insurance Amendment Act, 1950 abolished Principal Agencies.
1956	245 The central government took over Indian and international insurers and the provident societies, and the insurance company was nationalized. The LIC was created by a Legislative Act, i.e. LIC Act, 1956
1968	To control investments and set minimum solvency margins, the Insurance Act was amended. There was also formation of the Tariff Advisory Committee
1983	An Amendment Bill to the LIC Act, 1956 was drafted to split the LIC. Various government-constituted commissions were not in support of the split
1997	India's government cleared off plans to grant LIC greater autonomy.

While the nationalized industry strengthened its network and profitability status by virtue of its monopoly existence, the lack of competition led to low market awareness, low rates of insurance penetration, high insurance product prices, sluggish service delivery and poor customer service. Despite this, the Company has gone through many developmental stages throughout its long career as a monopoly. The organisation's performance was benchmarked by the growth of other financial services sector segments.

4.3 Insurance Sector Reforms

A Committee on Insurance Sector Reforms (CIRS) led by R.N. proposes insurance reforms and studies the workings of the insurance industry.

Malhotra, the former Secretary of Finance and Governor of Reserve Bank of India, was founded by the Government of the Union in 1993. In 1994 the Committee published its report recommending that the insurance market be opened up to private entrepreneurs. The Committee's key recommendations included allowing private companies with a minimum paid-up capital of Rs.100 crores to enter the industry, banning hybrid insurers and enabling international companies to enter the industry in the joint venture mode with domestic firms, and granting all insurance firms greater freedom to operate on the insurance market. The other recommendations were introduction of alternative distribution channels for increasing the insurance penetration levels, the

setting up of an insurance regulatory body and making the Controller of Insurance independent and also amendments to the Insurance Act, 1938.

The Committee had also highlighted the issues of marketing of insurance products like large untapped potential, low insurance awareness among the general public, excessive lapse ratio of policies and poor marketing, in-efficient and untrained field force and high turnover of agents. It made necessary recommendations wherever necessary.

The Committee was also required to examine the issue of increasing the spread of insurance industry and improving the customer service. The Government reacted favorably to the recommendations, creating an Interim Insurance Regulatory Authority (IRA) via an Executive Order in January 1996. IRA office was based in New Delhi. This was an interim body that later became Insurance Regulatory and Development Authority when the IRDA Act was passed in 1999. The Committee Report was a significant document that introduced a bold, new age of possibilities and potentials to a newly liberalizing economy, looking with bright eyes at the new opportunities that had been instantly created.

As India was a signatory to the agreement of the World Trade Organization and as a way of upholding its pledge, it took steps to open up the banking and insurance sectors to private and foreign businesspeople. Insurance reforms were introduced with the development of an IRA in India's insurance sector. Nevertheless, the introduction of the reforms in the insurance industry and the opening up of the insurance company to the private sector in 2000 were followed by a few years of hectic action and preparatory work on the part of the government at both the debate and legislative level. In consonance to the Budget Speech in July, 1996, the then Finance Minister, Shri P.Chidambaram under the United Front of Government which is headed by Shri H.D.Deva Gouda, introduced the IRA Bill, 1996 on 20th December, 1996.

The Bill was mentioned to the Standing Committee. The Standing Committee given its report on 9th May, 1997. The Bill was taken for consideration after incorporating the recommendations of Standing Committee. But, the Bill was withdrawn by the then United Front Government which is headed by Shri I.K.Gujral due to strong resistance from B J P and Left parties. However, it was strange enough to observe that the same BJP when it came to power at the Centre showed a strong inclination to insurance liberalization and also to establish a Regulatory Authority.

The then Finance Minister, Shri Yashwant Sinha, made this clear in his Budget speech. Accordingly, on 15 December 1998 the IRA Bill was introduced in the Lok Sabha. The Bill was generally referred on 4

January 1999 to the Standing Committee on Finance, headed by MP Shri Murali Deora of the Congress Party. The Committee had proposed several changes when proposing the Act. Such amendments were approved by the Government and circulated on March 18, 1999, certain amendments to the Bill. However, due to the dissolution of the Lok Sabha in April 1999 the Bill could not be taken into consideration in Lok Sabha.

It is pertinent to note that at the last stage the word 'Growth' was inserted in the Bill because the legislators were very concerned that the regulator and the regulated could lose sight of developing the insurance market in India with competition among the insurers. This has thus of course undermined the primary goal of insurance liberalization and the opening up of the market. The newly drafted Insurance Regulatory and Development Authority (IRDA) Bill, 1999 was again founded by the BJP Government in October, 1999 in Lok Sabha.

The Congress which appeared to differ till the last moment in supporting the Bill, finally agreed with four amendments as described below:

- Indian insurance companies have to discharge their obligations to provide cover to people in the rural areas.
- Priority to the grant of license to those companies keen to enter exclusively in the health sector.
- Specific direction for investment to new companies in infrastructure projects.
- Imposition of heavy penalty for non-fulfillment of the provisions by the insurers. Thus, the IRDA Bill, 1999 was sanctioned by Lok Sabha and Rajya Sabha on 30th October, 1999 and on 5th November, 1999 respectively.

On 25 December 1999, the Bill obtained the assent of president. The key features of the IRDA Act are:

- Establishing IRDA as a corporate entity to oversee the country's insurance business;
- Establishment of insurance advisory committee with not more than 25 members;
- IRDA has to make rules and give guidance to the smooth functioning of the insurance sector;
- Allowing the private players to enter; and

- Fixing a cap of 26 per cent for foreign equity.

The rationale for insurance reforms was to convert the insurance of classes to the insurance of masses. Insurance reform measures in India were sequenced mainly to enable insurance players for creating a congenial environment for overcoming the external constraints and operate with greater flexibility and transparency. "The task of implementing reforms in a democracy remains complex. The support for reforms today, though far from universal, is fortunately much stronger than it was ten years ago".

The greatest change for the last 10 years is the attitude towards reforms. Whereas the supporters of reforms within India were rare during the 1980s, virtually every political party today recognizes the need for continued reforms. "Insurance reforms have improved the quality of customer satisfaction besides increasing insurance penetration, bringing hitherto untapped section of the population under the insurance net.

The insurance sector reforms created radical changes in the insurance market. Before the entry of private insurance players, the public sector LIC had complete monopoly over the market. After the opening up of the insurance market to private players, stiff competition amongst units arose and hence the LIC started thinking about retaining its market share. The private players were trying to get a part of the market share of the LIC.

In our country the success of insurance reforms depended largely on how the regulatory provisions were enforced. The positive results appeared to be a result of changes encompassing a series of steps that contributed to change spread across all economic sectors. This transition brought greater degree of complexity and organizational efficiency. In addition, the domestic economy has become much more integrated with the rest of the world, which has been noticeable not only in terms of rising market volumes, financial flows from and to the outside world which have also been steadily increasing.

Table 1.3: Insurance Sector Reforms - Some Important Events

Month and Year	Important Event
April, 1993	A Committee on Insurance Sector Reforms headed by Sri R.N. Malhotra was set-up by the Government.
January, 1994	Malhotra Committee submitted its Report to the Finance Minister.
September, 1996	Interim Regulatory Authority (IRA) was established.
December, 1996	IRA Bill was introduced in Parliament and referred to the Standing Committee.

May, 1997	The Standing Committee submitted its Report.
August, 1997	IRA Bill was withdrawn following opposition to foreign participation.
June, 1998	Union Budget announced the opening up of insurance sector.
January, 1999	The IRA Bill was referred to Standing Committee on Finance for examination and report.
March, 1999	Standing Committee submitted its Report with some amendments to the Bill and those were circulated.
October, 1999	The newly drafted IRDA Bill with FDI cap of 26 per cent was introduced in the Parliament and the Bill was passed by Lok Sabha.
November, 1999	The Bill was passed by Rajya Sabha.
December, 1999	The Bill received Presidential assent and became an Act.
April, 2000	IRDA was given statutory recognition.
July, 2000	The Advisory Committee was constituted and in consultation with the Committee, IRDA notified 11 regulations.
October, 2000	Private insurance companies came back.

4.4 Insurance Regulatory and Development Authority (IRDA)

The birth of IRDA was glorious and memorable in the history of Indian life insurance industry. The IRDA was established on 29th December, 1999 with an objective to protect the interests of the insurance policy holders and to ensure an orderly growth of insurance industry in the post-reform period. The IRDA comprises a chairperson and not more than nine permanent and temporary members. The IRDA shifted its headquarters to Hyderabad. IRDA played a dual role of a regulator and a developmental authority. In these roles, it aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy.

The regulations of the IRDA had helped the insured to have transparency in the activities of the insurers relating to sales, documentation, customer servicing and grievance redressal. These regulations had been the vehicle for important innovation in the sector. A joint effort of both public and private sector insurance players was needed to go forward with increased sharing of information

and increased co-ordination in future research efforts, workshops and experimental projects to identify the best practices in life insurance business.

The purposes of insurance regulation were to promote insurer solvency, balance the inequality of knowledge between the insurers and the insured, deal with a unique pricing problem requiring some limits on free and unrestrained competition and promote certain related goals. Insurance regulation provides the insurance market with direction, management control and correction.

5. INSURANCE LIBERALIZATION

The Indian life insurance industry entered a new phase of transition following liberalization. The liberalization gave an opportunity to the entry of transnational competitive insurance companies into the insurance market. The biggest representatives from each of the matured insurance markets joined the life insurance sector of our country. Till the year 2000, the insurance industry was a government monopoly. But now it is facing intense competition because many players have entered the Indian market in the form of joint ventures with private-sector Indian partners.

The government attempted small administrative improvements during the long monopolistic period, without going into the root cause. The legalization requires substantial improvements in the industry's structure and basic policies. Globalization's underlying principle has opened up new business markets to create new incentives for the countries to increase trade and economic development.

The entrants who wish to lead the new world effectively must inevitably be traveled on the continuous innovation and assessment network. The life insurance industry is likely to fight for success amongst players. In the crowded insurance market the players fight for the space. In this increasingly dynamic and complicated market climate, it is imperative that professionals concentrate primarily on generating value through a continuous improvement of their productivity and level of expertise.

Through liberalization and insurance reforms, even the insurers have become very important to preserving the current market and so insurers must be the precursors in their success and quality. In India the insurance sector is going through a paradigm change. This is greatly influenced by the external environment dynamics that includes new regulatory structure, a range of new products, new marketing and distribution networks, new underwriting strategies, claims management, and increased use of the latest technologies.

The liberalization of insurance makes India's acquisition of insurance industry an important place and role to play in the Indian economy's financial sector and even globally.

Table 1.4: Indian Life Insurance Industry - An Overview

Growth Variables	Year	
	2000-01	2018-19
Number of Players	1	24
Capital Employed (Rs. in crores)	5	21015
Number of Branches	2199	11279
Number of Employees (in lakhs)	1.16	2.70
Number of Agents (in lakhs)	1.15	21.00
New Business Premium (Rs. in crores)	9707	109894
Renewal Premium (Rs. in crores)	27462	155556
Total Premium (Rs. in crores)	34898	265450
Insurance penetration as a percent of GDP.	1.39	3.7
Insurance Density as a premium to population (US\$)	7.60	74.00

6. INSURANCE PENETRATION AND DENSITY

The insurance operation level of any country is measured by the insurance penetration and the insurance density principles.

The penetration of insurance indicates the amount of insurance premium paid on various insurance products as a percentage of Gross Domestic Product of the country. Insurance density for the entire population is calculated as a percentage of insurance premiums. India is a country of highly diverse population mix in terms of social, economic, religious and cultural conditions. These characteristics of population contribute to diverse risk behavior. A large section of the population is not interested in eliminating risk through proper risk cover. Awareness levels about the ways of eliminating their risk are also very low. The spending patterns of the people are evolving and huge resources are needed for consumption. The average individual is spending a very little percentage of disposable income on insurance cover over a life time. All this has resulted in low insurance penetration and also density. However, economic transition is very clear from the visible changes that have taken place in the sectoral composition of production. With corresponding decreases in the contributions of agriculture and

industry over the years, the share of services in the national income has been gradually growing.

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Corresponding Author

Tanveer Alam*

Research Scholar, Department of Commerce, Sri Satya Sai University of Technology & Medical Sciences, Sehore, M.P., Sehore