An Overview of General Insurance Policy in India

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Abstract – Fire, floods, accidents, man-made disasters, and theft are all covered by general insurance for your house, travel, car, and health (non-life assets). Motor insurance, health insurance, travel insurance, and house insurance are all examples of general insurance. A general insurance policy compensates the insured for losses sustained throughout the policy's term. The purpose of this article is to provide an overview of general insurance policies in India.

Keywords – General Insurance, Policy, Challenges;

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INTRODUCTION

Every kind of company is always exposed to a variety of hazards. Some dangers can be avoided, while others are unavoidable. The loss caused by the occurrence of such risks may be mitigated by purchasing insurance. Wherever there is uncertainty, there is risk, and when risk happens, there is property loss, which has an impact on the country's economic growth. As a result, individuals who are exposed to such risks must pool their resources and form an insurance fund. This is how insurance works

As a result, insurance is an agreement between an insurer and an insured in exchange for a premium, subject to a limit of a defined amount incurred by specified hazards covered against during a given time. The following triangle depicts the nature of an insurance transaction.

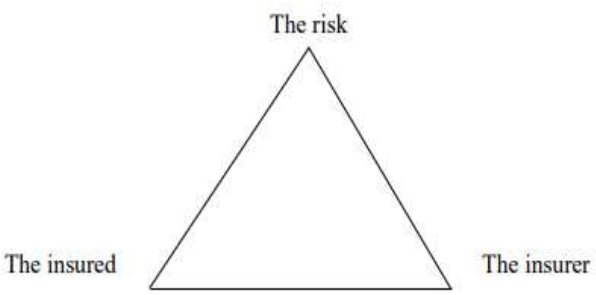

Fig.1 Insurance transaction

Insurance may be split into groups from a commercial standpoint, i.e.,

Life Insurance Business

Life insurance is distinct from other types of insurance in that the subject matter of the policy is the life of a human person. The insurer will pay the agreed-upon insurance sum at the moment of death or at the end of a certain term, whichever comes first. Because life is the most valuable property of a community or a person, life insurance now has a wide range of applications. Every single individual need insurance. This insurance protects the family in the event of a premature death or provides a sufficient amount in the old age when earning ability is diminished.

Because a specific amount is returned to the insured at the end of a term or to his nominee upon his death, life insurance is more than just a kind of protection (Garg, 2004).

General Insurance Business

Property coverage, liability insurance, and other types of insurance are included in general insurance. Property insurance include fire and marine insurance. To some degree, liability insurance includes motor, theft, fidelity, and machine insurance (Garg, 2004). As a result, general insurance comprises marine insurance, which protects against maritime risks, fire insurance, which covers five hazards, and miscellaneous insurance.

Social Insurance Business

The purpose of social insurance is to safeguard the less fortunate members of society who are unable to afford sufficient insurance. Social insurance includes pension schemes, disability benefits, unemployment benefits, illness insurance, and industrial insurance. Social insurance is an obligatory responsibility of the country under socialist concepts of insurance. A country's government must offer social insurance to its citizens.

HISTORY OF GENERAL INSURANCE

General insurance has a long history dating back to the dawn of civilization. Losses became more common as civilization developed, giving birth to the idea of loss sharing. Through their local co-operatives, the Aryans practiced loss of profit insurance. In the 14th century B.C., it was also done by Mediterranean merchants via the issuance of Bottomry Bonds. According to Manu's code, there existed a practice of maritime insurance among Indian merchants with those from Sri Lanka, Egypt, and Greece (Bodla, 2003).

The first insurance transaction, as we know it now, took place in Italy in the 14th century A.D., when only ships were insured. The practice of maritime insurance eventually extended to London, and it became entrenched in commercial operations throughout the 16th century. The genesis and development of the Lloyds ship owners are intertwined with the history of marine insurance (Khan, 1988). Captains and merchants used to meet at a coffee shop to discuss their issues. Individual merchants began to incorporate maritime hazards into their other lines of business. The coffee shop achieved significant success in individual endeavors, and as a result, this practice increased in popularity (Rajesham, 2006). The Lloyds Act was enacted to provide the Lloyds the authority to conduct additional types of insurance. Lloyds is now recognized as the world's biggest insurance insurer (Bodla, 2003).

History of insurance development in India

The Oriental Life Insurance Business, a British company, was the first to provide insurance to India in its current form in 1818, followed by the Bombay Assurance Company in 1823, and the Madras Equitable Life Insurance Society in 1829. They provided insurance to Europeans residing in India. The Bombay Mutual Life Assurance Society, which began selling policies to Indians in 1871, was followed by the Oriental Government Security Life Assurance Company in 1874.

Important landmarks in India's general insurance sector

Triton Insurance Business Limited, headquartered in Calcutta, became the first general insurance company in India in 1850. Indian Mercantile Insurance Firm Limited was founded in 1907 as the first company to deal in all types of general insurance. The General Insurance Council, a branch of the Indian Insurance Association, drafted a code of conduct in 1957 to ensure fairness and good business practices. The Insurance Act was modified in 1968 to control investments and establish minimum solvency margins, as well as the establishment of the tariff advisory committee (TAC). With effect from January 1, 1973, the General Insurance Industry (Nationalization) Act, 1972 was enacted to nationalize the general insurance business in India. Finally, in 1999, the Insurance Regulatory Development Authority (IRDA) Act was enacted, allowing private involvement in the insurance industry (both life and non-life).

The Indian Life Assurance Businesses Act of 1912 was the first act to regulate insurance companies. When a new insurance Act was enacted in 1938, it placed all insurance firms under regulation. It applied to both life and non-life insurance firms. It explicitly defined the terms "life insurance" and "non-life insurance." Deposits, insurance company oversight, investments, fees of agents, and directors chosen by policyholders were all covered by the legislation. After the insurance industry was nationalized in 1956 (life) and 1972 (non-life), this piece of law became obsolete. When the insurance market was reopened to private involvement in 1999, the 1938 Insurance Act was restored as the backbone of contemporary insurance company law, with the IRDA Act of 1999 overlaid atop the 1938 Insurance Act.

By the middle of 2008, India's general insurance industry had grown to 21 firms. Six are public businesses, four of which were former GIC subsidiaries that functioned as nationalized firms, while the other two are the Export Credit Guarantee Cooperation Limited and the Agriculture Insurance Company of India Limited. The remainder are businesses in the private sector. The majority of these private sector firms have foreign partners with a maximum stake of 26%, although there are some pure local firms (e.g. Reliance General Insurance Company Limited).

It's also a positive indication that regulators are willing to accept a wider range of business channels for insurance sales. At the same time, Indian banks shared the domestic equity part of a few joint ventures with other non-banking companies. It's yet unclear how this new kind of business collaboration will evolve.

Nationalization of General Insurance Business

“Prior to nationalization, the general insurance business in India was transacted by 107 companies (63 domestic and 44 foreign). Under the general insurance business Nationalization Act, 1972, these were amalgamated and grouped into four operating companies; National Insurance Company Limited head office New Delhi, the New India Assurance Company Limited head office Mumbai and United India Insurance Company Limited head office Chennai. They become subsidiaries of holding company, namely General Insurance Corporation of India which came into being on January 1st 19734 (Cheturvedi, 2006)".

Objects of GIC

Setting up this framework has many goals, which may be stated as follows: to establish standards of behavior, good procedures, and efficient customer service in the general insurance industry. The purpose of the GIC was to aid in the management of the subsidiaries' expenditures. It was for the purpose of assisting with the investment of money for the company's four subsidiaries. Its goal was to provide general insurance to India's rural regions by spreading business to four subsidiaries, each of which operated in different parts of the nation. GIC was also named as the country's re-insurer. All domestic insurers were required by law to provide the GIC 20% of their direct gross premiums in India. The goal was to keep as much danger at home as possible. This was prompted by the intern's desire to save money on foreign currency. Each of the four subsidiaries was intended to be in competition with the others.

Why Nationalization was initiated

The nationalization of the insurance industry was justified on three grounds: it was believed that private companies would not promote insurance in rural areas; the government would be better able to channel resources for saving and investment if it took over the insurance business; and life insurance company bankruptcies had become a major problem (at the time of takeover, 25 insurance companies were already bankrupt and another 25 were on the verge of bankruptcy). The events over the following four decades would change people's minds (Sinha, 2002).

Objectives of Nationalization

The primary goals of nationalization were to guarantee that the general insurance industry developed in accordance with the greatest interests and benefits of the country, to encourage economic competition, and to avoid wealth concentration to the disadvantage of the general public. To extensively extend their operations over a geographical region in order to develop new goods that suit the needs of many sectors of the population, as well as to achieve social goals by creating policies for the most vulnerable members of society (Bodla, 2003).

Benefits of Liberalization

The following are some of the advantages and possibilities that come from the liberalization and privatization of the insurance sector: It will foster competition, which will lead to a better knowledge of customer needs, resulting in more tailored goods for the market. There will be cutting-edge technology and new inventive items tailored to Indian requirements. The rivalry will boost market growth by bringing strong consumption. Customers will benefit not just from improved efficiency and service quality, but also from a broader range of pricing options and a larger market.

Managerial and financial skills from the world's top insurance markets will be brought in. Furthermore, the responsibility for educating customers will be shared by a number of parties. The adoption of sophisticated marketing methods with an international flavor will propel the industry to new heights. By adopting the finest global practices, foreign businesses will assist in the development of world-class knowledge in the local market. Rural coverage will be enhanced by regulatory standards requiring mandatory social responsibilities at cheap and acceptable rates; otherwise, there is a huge potential and virgin market that competitors would eagerly pursue. Our country's innovative and cost-effective insurance products will integrate into the global economy. Client segmentation and product diversification techniques are expected to be used by private players, resulting in more creative and adaptable goods and services. The entry of banks into the insurance market will bring a new level of competition. New competitive criteria would enhance consumer value and raise insurance knowledge. India's insurance liberalization is anticipated to bring in a broader range of key commercial insurance coverages, such as fire, export credit, and product liability, among others.

IN INDIA, SEVERAL TYPES OF GENERAL INSURANCE PLANS

Fire, floods, accidents, man-made catastrophes, and theft are all covered by general insurance for your house, travel, car, and health (non-life assets). Motor insurance, health insurance, travel insurance, and house insurance are all examples of general insurance. A general insurance policy compensates the insured for losses sustained throughout the policy's term.

Because of the many advantages that general insurance provides, it is important to understand the various kinds of general insurance available today. Continue reading to learn more about them:

Home Insurance

Because your house is a precious asset, it is critical to protect it with a comprehensive home insurance coverage. Home and household insurance protect your home and its contents. A house insurance coverage basically covers damage or loss caused by both man-made and natural events.

Motor Insurance

Motor insurance protects your car against damage, accidents, vandalism, and theft, among other things.

It is available in two varieties: third-party and comprehensive.

When your vehicle is at fault in an accident, third-party insurance pays for the damages caused to others. You must keep in mind, however, that it does not cover any of your vehicle's damages. It's also worth noting that, under the Vehicle Vehicles Act of 1988, third-party motor insurance is required.

A comprehensive insurance coverage protects your car against things like fire, earthquakes, theft, and impact damage. It also protects you against third-party responsibility in the event of property damage, physical injury, or death to a third-party.

Travel Insurance

A travel insurance coverage protects you when you travel abroad and lose money due to luggage loss, trip cancellation, or airline delays. If you are hospitalized while traveling, you may be given cashless hospitalization.

Health Insurance

Health insurance is an important risk management tool that may assist you in dealing with medical crises. A health insurance policy pays for hospitalization costs up to the policy's limit. When it comes to health insurance, one may choose between a solo policy and a family floater plan that covers everyone in the family.

Health insurance products available in India

Different types of policies and programs for risk coverage are available from both public and private sector insurance firms with the aim of avoiding the risk of health problems. Individuals, families, and groups of people are protected by the financial products provided by these businesses in the area of health insurance. The following are the many kinds of insurance plans that have been explored:

Individual health insurance plan

This plan covers an individual's risk of hospitalization and other incidental costs during their stay in the hospital, up to the amount covered. This insurance allows you to purchase separate coverage for each family member. These policies are essentially indemnity plans that are often provided without cash.

Family floater health insurance plan

A single sum insured insurance protects all members of the family in one policy. During the policy's term, the amount guaranteed is accessible to any one member or all members in the event of an unforeseen occurrence. When compared to separate Mediclaim insurance for each family member, the premium amount paid under this coverage is usually cheaper.

Group medical plan

These plans are often used by company owners, private businesses, government companies, and departments to offer financial protection to their workers and dependent family members by deducting a little amount from their income to cover premiums.

Unit linked health plan (ULHP)

The insured receives the advantage of investment as well as health care coverage under this kind of health insurance. In this plan, a portion of the payment is invested and the remainder is utilized to purchase health insurance. The return allows the insured to cover medical costs in excess of the amount guaranteed. These types of programs are very new in India, and they are still in the early stages of development. The performance of the stock market determines the ULHP's returns.

Critical illness plan

Critical illness insurance covers the costs of treating life-threatening illnesses such as cancer, organ failure, lifelong paralysis, and so forth. On the diagnosis of any of the severe illnesses listed in the insurance agreement, the insured receives a lump sum payment.

Super top up plan

These plans offer extra coverage to an insured over and beyond the standard policy, allowing the amount insured to be increased. Only when the amount guaranteed in the basic insurance has been depleted may super top up plans be purchased.

Senior citizen health insurance plan

Health insurers must offer health insurance policies to people up to the age of 65, according to IRDA rules. As people become older, they develop a variety of health problems that need costly treatments. In light of this, health insurance firms have created specific health insurance policies for seniors over the age of 65. When compared to other insurance policies, the premiums for senior citizen health insurance plans are usually higher.

Hospital daily cash benefit plan

As the name implies, this kind of insurance pays a set amount for each day of hospitalization, regardless of the actual cost spent by the insured.

Maternity insurance plan

These programs are tailored to women who are intending to have a child or who are already expecting one. This insurance covers all costs associated with pregnancy, including prenatal and postnatal care, delivery, breastfeeding, and consulting. A congenital or serious illness identified in a newborn kid is also covered by the insurance.

Personal accident plan

Personal accident insurance coverage pays for medical care for injuries sustained as a result of an accident. This insurance provides coverage for three types of events: complete disability, partial disability, and death. These policies are available for both individuals and groups.

KEY CHALLENGES

Households are investing less on insurance goods

The typical Indian household has 77 percent of its assets in real estate19, 7% in other durable items, 11% in gold, and 5% in financial assets (deposits and savings accounts, publicly traded shares, mutual funds, life insurance, and retirement accounts) (Household Finance Committee, 2017). Advanced-economy counterparts have a higher proportion of financial assets. Non-institutional debt is used to replace this low-cost, imperfect type of insurance, as it acts as a “high-cost, imperfect form of insurance” (Household Finance Committee, 2017). A noteworthy result in the Indian example is that there is a significant negative connection between insurance activities and the frequency of non-institutional debt, indicating that families are reducing risks via ex-post high-cost borrowing rather than ex-ante risk insurance (Household Finance Committee, 2017). This contributes to the poor adoption of insurance, which in turn keeps penetration rates low.

Inadequate insurance product availability

Uninsured rural regions and the urban poor must be brought within the umbrella of insurance coverage in order to improve penetration rates and density. In this respect, increasing the accessibility of insurance products will be critical. Insurance product accessibility is determined by the product's cost and understanding. The insurance industry's emphasis is gradually moving toward making low-cost, basic insurance products, particularly those that may be offered online, more accessible (IMF, 2018). Authorities will need to put in a parallel effort to create trust, raise awareness, and promote financial literacy at the same time. In this context, government insurance programs including the Pradhan Mantri Jan Arogya Yojana, Pradhan Mantri Fasal Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Pradhan Mantri Jeevan Jyoti Bima Yojana play a significant role in increasing insurance coverage.

Up to December 31, 2018, the Pradhan Mantri Jeevan Jyoti Bima Yojana had 5.67 million enrolments and had disbursed Rs 2488.44 crore (PIB, 2019). Over 47.9 million farmers benefited from the Pradhan Mantri Fasal Bima Yojana in 2017-18. (IBEF, 2019). The scheme's risk coverage was expanded to include protection against hailstorms, agricultural fires, animal damage, landslides, and rainstorms (IBEF, 2019). These programs also aid in the dissemination of insurance product knowledge to previously underserved sectors of the public. In the midst of India's fight against the COVID19 pandemic (Sharma, 2020), the central government's decision to extend the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PMJAY) to migrant workers is likely to increase non-life insurance penetration and improve awareness and perception of insurance products among the uninsured and isolated segments of the population.

The health of insurers is deteriorating

The life insurance industry's earnings dropped somewhat from the previous fiscal year, to Rs 8,435.81 crore in 2018-19 from Rs 8,511.99 crore in 2017-18. (IRDAI, 2019c). While LIC's earnings increased somewhat, private sector insurers' profits decreased slightly.

However, LIC's financial picture is beset by variables such as exposure to downgraded debt instruments, rising non-performing assets (NPAs), and declining investment return. According to LIC's official declaration, their NPAs were 6.10 percent during April to September 2019. In addition, LIC has raised its provision for doubtful assets by 30%. 21 LIC also has exposure to debt instruments that have been downgraded to default status by credit across platforms including life funds, pension funds, and unit-linked funds. According to LIC's official report, its investment yield fell to 7.59 percent in 2018-19 from 7.71 percent the previous year, adding to the worrying financial picture. Given LIC's large proportion of the life insurance market, the state insurer's shaky finances may throw a shadow over the whole industry's financial stability.

In 2018-19, earnings in the general insurance business fell, with public sector general insurers reporting losses and their private sector counterparts reporting a small drop in profits compared to 2017-18. While premiums continue to rise, the general insurance sector is losing money on underwriting. General insurers' underwriting losses rose by 45.49 percent in FY19 compared to the previous year (IRDAI, 2019c).

The weak National Insurance Company's financial condition is causing worry among public sector general insurers. At all times, the insurer failed to satisfy the solvency requirement of a surplus of 1.5 times its liabilities. According to the IMF's technical report on India's insurance industry regulation and supervision, state-owned insurers are the weakest, failing to satisfy basic solvency criteria. This necessitates IRDAI focusing its efforts on ensuring that these businesses remain solvent (IMF, 2018). Despite the fact that the government of India has already invested Rs 2,500 crore in National

Insurance, Oriental Insurance, and United India Insurance through first supplementary demands for grants for 2019-20, these insurers require an additional Rs 10,000-12,000 crore to meet the required solvency margin. This cash infusion will help the company's ailing finances as well as facilitate the previously planned merger.

These indications may be early warning signs that India's insurance industry is falling to the same malady that afflicts banks and NBFCs. A shift to economic value for financial statements would help with the adoption of International Financial Reporting Standards (IFRS) beginning in the fiscal year 2020-21, where India is an outlier for not doing so (IMF, 2018). The IMF has urged that a strategy, plan, and timeline for modernizing the solvency framework be developed as soon as feasible (IMF, 2018). Poor underwriting discipline in non-life insurance must also be addressed, since many insurers rely on investment revenue to compensate for poor underwriting outcomes (IMF, 2018). Furthermore, liberalization may help in this situation since it will encourage insurers, both public and private, to improve their competitiveness and financial strength.

Public sector dominance and little private sector involvement

The dominance of state-owned insurers in the insurance industry is causing anxiety among private and international insurers. Private sector insurers are improving their performance, and with the appropriate amount of encouragement (in terms of alleviating the insurance industry's regulatory problems), they may do even better. A variety of actions may be used to decrease public sector organizations' dominance by reducing the benefits provided to public sector insurers. The Financial Sector Legislative Reforms Committee has recommended that the government guarantee of LIC liabilities be removed and the firm be converted into a Companies Act company (IMF, 2018). The ramifications of the three public sector general insurers' planned merger are likewise unknown. Even while it may synergize the system to some degree, it may have the unintended consequence of consolidating power in the hands of a few public insurers. After the merger, the future of general insurance in India will be determined by how well it is implemented and how efficient it is.

Lack of capital

Insurance is a capital-intensive financial industry by its very nature, and expanding insurance firms need on-demand financing. India's insurers are cash-strapped. Some insurers are at the other end of the spectrum23, failing to satisfy even their own solvency requirements, as mentioned earlier. Furthermore, the RBI's decision to limit banks' ownership in insurance firms at 30% in order to boost credit growth and protect banks from nonbank risks would deprive insurers of critical bank capital and will impact its distribution via banks. A potential side consequence of this low capital level is the emergence of new hazards, which make it difficult for insurers to meet the challenge of new risks.

Aside from the demand side problem of low insurance product take-up, slow moving insurance penetration and density in India may be ascribed in part to insurers' lack of capital, which makes it difficult for them to advance further. A first empirical evaluation of this claim using a regression exercise25 reveals a positive and substantial connection between insurance penetration and insurers' equity capital in the case of life and non-life insurance in India from 2001-02 to 2018- 19. The connection is favourable but negligible in total insurance. Furthermore, by introducing an interaction term of the liberalization year dummy and the equity share capital, the hypothesis of whether liberalization (increase in FDI cap in 2015) of the insurance sector influences the relationship between equity share capital and insurance penetration has been investigated. The findings show a positive and significant coefficient of the interaction term in total and non-life insurance, indicating that the positive connection between penetration and equity share capital for these two sectors is greater in the years after the FDI cap increase than in previous years. The interaction term coefficient in the life insurance equation is positive but negligible. The aforementioned study also offers a justification for liberalizing the FDI limit for the insurance sector, since it gives money to insurers, which has a favourable effect on the insurance penetration rate, and the sector's liberalization strengthens the positive connection between the two variables.

CONCLUSION

To summarize, general insurance plans protect us against a variety of risks, allowing us to safeguard the things we love, such as our cars, homes, health, companies, and so on. We may remain prepared for unforeseen dangers by having sufficient insurance.

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