THE ROLE OF GENERAL INSURANCE AFTER NATIONALISATION

G. V. KAPADIA

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Published by

THE A. D. SHROFF MEMORIAL TRUST

235 Dr. D. N. ROAD,
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(Registered under the Bombay Public Trust Act, 1950)

OBJECTIVES

(i) Publication of one or more books in English, Hindi, and regional languages annually on some of the great builders of Indian economy aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to be chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits of the TRUST FUND for the TRUST FUND for the charitable objects of education or such other objects of general public utility not involving the carrying on of any activity for profits as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

INTRODUCTION

Banking, industrial finance and insurance were fields of economic activity in which the late A. D. Shroff excelled in his business career. It is, therefore, appropriate that this Trust which bears his name should honour his memory by arranging every year a public lecture on these three subjects, by turn, and educate the public on developments in these vital areas of the economy.

The Trust was fortunate in getting in 1979 an eminent insurance expert to review the progress and prospects of general insurance industry. In his lecture on "General Insurance After Nationalisation," Mr. G. V. Kapadia, Chairman of the General Insurance Corporation of India, reviewed the contributions of A. D. Shroff to the growth of insurance in India, the strides made by general insurance since it was nationalised and the new challenges before it in the Indian context, particularly in the rural sector.

The Board of Trustees has pleasure in presenting the full text of Mr. Kapadia's useful and instructive lecture to the public in book form. Our previous ten lectures were very much appreciated by the public, and I have no doubt that this one too will be well received for its educative value.

Washington, D.C.
April 20, 1979

N. A. PALKHIVALA
Chairman
Board of Trustees
The A. D. Shroff Memorial Trust

A. D. SHROFF

(1899-1965)

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid, the following tributes to A. D. Shroff:

"In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems."

Published by M. R. Pai on behalf of The A. D. Shroff Memorial Trust, 235, Dr. Dadabhai Naoroji Road, Bombay 400 001, and Printed by B. D. Nadirshaw at The Bombay Chronicle Press, Horniman Circle, Bombay 400 001.

THE ROLE OF GENERAL INSURANCE AFTER NATIONALISATION

G. V. KAPADIA

I consider it an honour and a privilege, to be invited by the A. D. Shroff Memorial Trust, to deliver the public lecture this year. Under the eminent chairmanship of Mr. N. A. Palkhivala, the Trust has been rendering a significant service, to perpetuate the memory of the late Mr. Shroff who, among other things, played an important role in the development of financial institutions in the country. In the words of Mr. George Woods, President of the International Bank for Reconstruction and Development, Mr. Shroff never relaxed the application of his great energies and wisdom to the always crucial search for the quickest way to expand India's economy. Everywhere he went, he spoke of India with the love and understanding of a great patriot. His wise counsel was always available to, and often availed of by the institutions he helped to bring into this world. His prodigious command of facts and figures made him a leader among bankers and businessmen in any society. His courage, his strength of mind, his passion for his countrymen, particularly for those who, like him, had roots in humble places, stirred admiration even among those, who often could not share his opinions.

The contribution of Mr. Shroff to the development of the Indian insurance industry was particularly notable. He was a director of the New India Assurance Co. Ltd., since 1937 and was its Chairman for almost twenty years from

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The author is Chairman of General Insurance Corporation of India, and is a well-known authority on insurance industry. This is the text of the public lecture delivered under the auspices of the A. D. Shroff Memorial Trust in Bombay on 14th February, 1979.

1946 till his death in October 1965. Under Mr. Shroff's dynamic leadership, the New India made rapid strides in all its operations achieving for itself an eminent position among insurance companies in India and a distinct reputation in the international insurance market. It was NEW INDIA's good fortune, that with Mr. Shroff as Chairman, it had Mr. B. K. Shah as General Manager from 1946 to 1955 and as Managing Director thereafter. Mr. Shah's singleminded devotion to the organisation and his unorthodox approach to various problems received great support and encouragement from Mr. Shroff and together they took NEW INDIA to a position of prominence in the world of insurance. During the five years immediately preceding nationalisation of life insurance business in 1956, the NEW INDIA increased its new life insurance business from Rs. 12.5 crores to Rs. 45.5 crores. The NEW INDIA's contribution to new life insurance business, written in India by all insurance companies, increased from 9.5% in 1950 to 19.1% in 1955. This was perhaps the highest growth rate achieved by any insurance company in India in such a short period. The NEW INDIA was able to accomplish this, whilst keeping its expenses of management under control, with a renewal expense ratio of only 11.5% in 1955. After nationalisation of life insurance business in 1956, the NEW INDIA had to start almost all over again, to build up its organisation and business in the general insurance field. Here again under the valuable guidance of the team of Mr. Shroff and Mr. B. K. Shah NEW INDIA introduced several new concepts both in the underwriting of direct insurance business as also reinsurance business. The company once again achieved an eminent position in the insurance market. The share of NEW INDIA in the total net general insurance premium income in India increased from 7.0% in

1955 to 17% in 1971 when the Government took over the business. Late Sir Dorab Tata had said with great foresight that "THE NEW INDIA constitutes the commencement of a new and large commercial undertaking for India. It is not a Bombay Insurance Company, or a Company working solely in India, but may claim to be a WORLD-WIDE COMPANY .... It is anticipated that a very large proportion of the income, in future years will be obtained outside India. It will be necessary to see that our Company is run and our reserves are accumulated on lines which have been proved sound."

True to the prophecy, the NEW INDIA extended its operations through branches and agencies to over 50 countries by 1963. This period saw the emergence of national aspirations in several developing countries. These aspirations were reflected in the establishment of domestic companies. Notwithstanding the impact on its own operations in those countries, the NEW INDIA helped such new companies to establish and develop along sound lines. It lent management support, training facilities and reinsurance support to such companies. To quote only a few, the NEW INDIA has such friendly relations with the Union Insurance Board, Rangoon, South-East Insurance Co. Ltd., Bangkok, Mahajana Insurance Ltd., Colombo, First National Surety Assurance Co. Inc., Manila, Bimeh Asia Insurance Co. Ltd., Teheran, Zambia State Insurance Corporation, Lusaka, and so on. The NEW INDIA was also among the first few to establish very close relationship with the Japanese market immediately after the Second World War and is the only Indian insurance company to have a branch organisation in Japan.

Mr. Shroff was also closely connected with the establishment in 1956 of the India Reinsurance

Corporation Ltd., of which he became the Chairman and retained that position until his death. The India Re was collectively established by the Indian and non-Indian insurance companies operating in India. Although it was set up to act as a reinsurance company to absorb a part of the reinsurance being ceded out of the country, under the Chairmanship of Mr. Shroff it took on the more important role of bringing together the various Indian insurers operating in the market and helping them to achieve greater self-reliance and collective ability to handle difficult classes of insurance. It became the friend, philosopher and guide of every Indian company in dealing with various insurance and reinsurance problems. The nationalised insurance industry has benefited from these and other efforts of the past.

I have recounted these achievements, as my humble tribute to the memory of Mr. Shroff under whom I myself had the privilege to work.

What is termed as General Insurance Business in India is known as non-Life Business in Insurance parlance. Though called non-life insurance, there is, perhaps, maximum life and variety in general insurance business. Insurance of property against loss by fire, earthquake, cyclone, flood etc., insurance of ships and other vessels and aircrafts, insurance of motor vehicles and liability to third parties, insurance of cargo in transit by rail, road, air or sea are some of the better known classes of general insurance. But wherever there is a risk, an insurance cover can be created. Almost any contingency can be covered by insurance. For example, comedian Ken Dodd insured his protruding front teeth against damage at a premium of £ 25 per annum for a sum insured of £ 10,000/-. Among the small print clauses, for which the insurers are famous, was one which said that "he should not eat rock and he should clean his teeth three times a day." Then Mr. Alfred Burke paid a premium of £ 15 to insure against the risk of his wife giving birth to a second set of twins and he collected £ 300 from the insurance company. I also understand that it is quite common to buy insurance against rain spoiling an outdoor function or a holiday or against failure of key performers showing up at the performance. Moreover we have even heard of a case where a boy friend took out a policy of £ 1,000/- against the risk of his fiance falling for a handsome, swarthy Latin lover, whilst on a long holiday.

Since we have not yet ventured in the field of such fancy insurance covers, we will discuss at greater length the more mundane classes of general insurance business. We underwrite all forms of non-life business required by individuals, business-men and industrialists. The Indian insurance industry is over two centuries old. It started with the agency houses acting as agents for British insurers and providing insurance protection for the trade of their principals. The first Indian insurance company was established in Calcutta in 1850. The number of insurers operating in India grew steadily until nationalisation of life insurance business. It again recovered thereafter until some of the foreign insurers consolidated their operations in India by operating through one company of a group with others withdrawing. In May 1971 there were 64 Indian insurers and 43 non-Indian insurers operating in India. The Government took over management of general insurance business effective from 13th May 1971 and took over the assets and liabilities effective from 1st January, 1973. We now have four insurance companies operating all over India and abroad in competition with one another. These are National Insurance Co. Ltd., with head office in Calcutta, the New India

Assurance Co. Ltd., Bombay, the Oriental Fire & General Insurance Co. Ltd., New Delhi and United India Insurance Co. Ltd., Madras. The share capital of the four companies is held by the General Insurance Corporation of India which is an undertaking of the Government of India and as the holding company has been given the function of aiding, assisting and advising the subsidiaries. The Corporation also handles the aviation insurance of the public corporations and crop insurance.

On the basis of public opinion and our own assessment, the nationalised insurance companies have been able to maintain their efficiency in service at a level comparable with the better managed insurance companies before nationalisation. Premium written direct in India has grown from Rs. 147.5 crores in 1971 to over Rs. 340 crores in 1978, registering a growth rate of 130%. This has been achieved without any increases in insurance premium rates despite increasing expenses and larger size of claims. At the same time, by efficient handling of claims and the re-insurance programme, it has been possible to maintain the underwriting profit at a satisfactory level. Together with investment income the gross profit before tax of the general insurance companies in 1977 was about Rs. 106 crores. The General Insurance Corporation of India has paid a dividend of 25% on the equity capital to the Government for the years 1976 and 1977 as compared to 20% for 1975 and 12% for 1974. I am sure that Mr. Shroff would have been happy to note these achievements.

The four insurance companies which are now writing business were created by grouping 107 insurance companies and Indian branches of foreign companies then operating in India into four more or less equal groups and merging them into the named companies. In practice, this involved a very complicated exercise of bringing together the development and administrative staff of individual companies into one cohesive group, merging of individual offices and giving a new unified personality to each group. I am glad to say that we have been able to achieve this formidable task without at any time slackening the service to clients or affecting the development of business. The four insurers have among them a network of over 870 Branch and Divisional offices. The salaried employees in the general insurance industry now exceed 31,200.

At the first meeting of the Board of Directors of the General Insurance Corporation of India, the then Finance Minister had said that the success of the working of the Corporation will be judged by the country, on the basis of its leadership in achieving a wide geographical spread of insurance services, extensive and intensive coverage of new economic activities and an efficient personalised and improved service to the customers. We have borne this thought in mind in all activities. We have been alert to criticism and have zealously guarded our reputation for efficiency and business-like approach. Insurance services are still carried to the door-steps of the clients. There is the same keenness to sell insurance and the same enthusiasm to protect the client's interest. Speed in settlement of claims is kept under constant review and immediate action is taken wherever a slackening in efforts is noticed. It is not only the speed but also the approach in dealing with claims that has been kept in view. In fact, there is a greater earnestness to pay than was observed in respect of some of the insurers in the past. There has been no increase in the proportion of claims going to court or for adjudication. We are paying particular attention to the problems of delay in settlement of motor third party claims. We are currently examining various alternative procedures to simplify and speed up the payment of such claims. Recently we extended the delegation of authority to settle claims to the Branch Offices. This would help further to speed up the settlement of claims.

Realising the supreme importance of prompt relief, particularly when a natural calamity causes loss to a large number of individuals, we have taken special measures to ensure expeditious processing and settlement of claims. We have established special co-ordinating committees with representatives of the insurance companies charged with the responsibility of taking immediate action and decisions on all matters arising out of the claims. Such committees were appointed to consider losses following cyclones in Andhra Pradesh and Tamil Nadu in 1977 and floods in West Bengal in 1978. In order to ensure the highest quality of service and efficient survey and assessment of claims we are also paying attention to building up of proper standards of expertise and conduct among surveyors and loss assessors.

As a public sector undertaking, we are particularly exposed to criticism. We have, therefore, been subjecting our existing systems to a close scrutiny. You will appreciate it is not possible for any organisation to change over totally from an existing system to a new one, overnight. We are, however, continuously improving our system in every field and making it more objective and based on firmer technical logic. As a first step in the rationalisation of fire premium rates, a new All-India Fire Tariff was introduced effective from 31st December, 1978, under which the lowest of the four regional rates was used as the basis for a new All-India tariff rate, with a few exceptions. Similar action in respect of Riot and Strike insurance premium rates was taken effective from 1st July 1978. The impact of these measures is an average reduction of about 20% in the total fire insurance premium, i.e., about Rs. 30 crores estimated reduction in premium during 1979. Keeping in line with the Government's direction to bring down the prices, this is the humble contribution of the General Insurance Industry. There were two major fires in warehouses in Bombay in 1974. A problem arose in processing claims where insurances were not endorsed to cover explosion because these fires had originated from or been aggravated by explosions. In order to safeguard the insuring public against such a contingency arising in future, we extended the fire insurance cover also to cover fire following explosions without requiring payment of any additional premium. The Indian Merchants Chamber has taken up a major project to set up warehouses for chemicals on Antop Hill in Bombay and we expect to play a useful role in advising it on the layout design and fire protection provisions.

There is still more work to do in the matter of review of premium rates and rating structure. We are making a detailed technical appraisal of the rationalised Fire tariff to make sure that there are no inconsistencies in rating under the new tariff. The basis of rating Consequential Loss insurance following fire is also being examined. Although the cost of repairs and the level of Motor Third Party claims awards have been going up very considerably, we have not increased premium rates. We are now undertaking a comprehensive review of our tariffs for motor and Workmen's Compensation insurance business. The special measures which have been taken for rating of Marine Hull insurance and Engineering insurance business within the Tariff Advisory Committee have proved sufficiently responsive to the developments in the market and the claims experience and are, therefore, working very satisfactorily.

We recognise that service to the public should extend well beyond the issue of policies and other documents and settlement of claims. We are taking various steps to provide technical advice and guidance to our clients. We now employ over 130 engineers to assist our clients in inspection of risks and assessment of hazards and advise them on fire protection. We are also examining possibilities of providing encouragement for improvements in safety through suitable discounts in rates. We are also busy on the loss prevention side. After organising largely attended seminars on Fire Loss Prevention in February 1976, Cargo Loss Prevention in February 1977 and Risk Management in August 1977, we have established the Loss Prevention Association of India Ltd., in January 1978 to continue these efforts in a sustained manner. The Association is financed by contributions from the general insurance companies. Its impact will be felt in the years to come as its activities gather momentum. The insurance companies have also established Cargo Loss Minimisation Cells at Bombay, Calcutta and Madras to arrange supervision of discharge and clearance of sensitive or valuable cargo and to trace cargo which has landed but is not traceable for delivery. The Cell at Bombay handled supervision of about 2,000 consignments during 1978 and was successful in tracing 11,180 missing packages.

Indian exporters were plagued with problems caused by tramp vessels of dubious operators which lifted cargo for Nigeria and West Asia and subsequently disappeared with the cargo or caused other problems during the voyage. At one stage in 1976 the problem had become really grave with a new incident being reported every few weeks.

You would, no doubt be familiar with hijacking of aircrafts. But there was a case in 1977 when a cargo of tea was hijacked by the owners of a tramp vessel who loaded tea for Port Sudan, but sailed with the cargo for Singapore and changed the name of the vessel in the high seas. The cargo of tea was improperly off-loaded for sale at Singapore. After the matter came to light and was taken up with the Foreign Affairs Ministry in Singapore, the police seized the tea stocks in warehouses in Singapore and Malaysia. There was no regulatory agency which was in a position to prevent such losses on Indian exports. The general insurance companies took the lead in an unorthodox manner by introducing a system of verification of *bona fides* of tramp vessel operators wanting to lift cargo from Bombay port. There was no legal sanction to back such action and the only lever was the ability to deny cover or to make insurance expensive. Being in the nationalised sector we were very careful not to deny cover altogether but only to put a surcharge on premium for shipments by an unapproved vessel. We learnt by experience, until we evolved a system to regulate approvals which seems to be operating satisfactorily. Between 1st August 1977 and 31st October 1978 we had examined and approved 234 vessels and there has been no problem with cargo shipped by any of these vessels.

It has to be admitted that General Insurance has developed in India in close association with trade and industry and it sells traditional covers to them. Consequently, not much effort had been made to carry insurance to the vast rural community or to devise covers specially suited to the needs of the weaker sections of the society. The primary objective of nationalisation of general insurance was to make it meaningful to the common man, to carry its message to the remotest corners of the country and to give it, its rightful place in the economy of the country. We made a beginning in this direction by introducing schemes of cattle insurance, Janata Personal Accident insurance and insurance for agricultural pumpsets. Sale of cattle insurance policies is gathering momentum. We covered over one million heads of cattle during 1978. The first Operation Flood Project launched on 1st July 1970 will be completed by 30th June, 1979. Operation Flood II will build on the foundation thus created and modern milk marketing will now be organised in 144 cities in the country, over and above the four metropolitan cities, covered under Operation Flood I. In all about ten million milk producers based in rural areas of 155 Districts will be benefited from this programme, and they will be enabled to rear a National Milch Herd of some 14 million cross-bred cows and upgraded buffaloes by mid-1986. At present Spearheads teams of NDDB are working in 36 districts out of the total of 155 districts. General Insurance Industry has finalised plans to actively collaborate with NDDB's Spearhead Teams for Operation Flood II to devise suitable covers for insurance of cattle under Operation Flood II. Further, Janata Personal Accident soon caught the imagination of the masses and we sold over 1.7 million policies within the first 9 months in 1976. However, the enthusiasm could not be sustained. We are currently examining what changes in approach are necessary to make a breakthrough in selling general insurance protection to the common man and also the rural communities. Our research extends not only to specially designing the covers to fit into their system but also to fashion the administrative machinery and marketing system in a manner suited to propagation and selling of general insurance to this clientele.

To begin with we experimented with a few pilot schemes but came to the conclusion that the experience gathered was not very helpful for the introduction of schemes on a large scale. We then sponsored a statistical research project to establish the basis for a large scale scheme. Based on the research report, the GIC has evolved a scheme of crop insurance requiring State Governments' participation in the premium and claims. This matter is now under the examination of the State Governments.

Crop insurance is one class of business that has so far defied solution in a form that can be adopted by a commercial insurance organisation.

Another important facet of general insurance is investment of its funds consistent with its social obligations on the one hand and desirability of maximising returns on the other. General Insurance business generates funds in the form of underwriting reserves, other reserves, undistributed profits and investment income. The importance of active and efficient management of the investment of these funds was appreciated by Mr. Shroff as early as in 1959. He felt that consistent with a conservative policy in regard to the security of the funds and the need to earn a reasonable return on them, the Company should make its contributions towards the development and expansion of industries in the country. This involved the creation of a specialist department to closely watch the working of the economy in general and of the industries in particular. Mr. B. K. Shah, the then Managing Director of the New India Assurance Co. Ltd., under the able guidance of the late Mr. A. D. Shroff, took keen interest in the setting up and development of the Investment Department in 'New India'. The investment department was directly under his charge and he took great pains to introduce scientific methods of portfolio management, utilisation of modern and sophisticated tools for appraisal of proposals for cash-flow and budget forecasting, for on-the-spot studies of companies and for successful market operations. Right from inception of the setting up of the Department, he laid great emphasis on providing sound training and skills to the Officers and Executives of the Department. With a view to fulfilling this objective, correspondence courses were arranged with outside Agencies and the personnel were subjected to intensive training by Faculty from various institutions of India. Under the mature and sagacious stewardship of the late Mr. A. D. Shroff, Mr. B. K. Shah's contribution to development of sound and up-to-date Investment Department in 'New India' can be considered very great. After nationalisation of general insurance we have benefited from these very sound investment techniques in handling the considerably larger size of funds. We have no doubt modified the approach to investments in the light of social priorities under the guidance of the Government.

The total investible funds of the GIC and its subsidiaries as at 31st December 1977 was over Rs. 615 crores. Of this, about 31% was invested in Central and State Government securities, about 32% in debentures, preference shares and ordinary shares, about 31% in different types of deposits with banks and balance 6% in housing loans and immovable properties. Of the fresh accruals of funds, about 35% is invested in Central and State Government securities and approved securities of financial institutions, Electricity Boards and Government corporations. Another 35% is invested in housing loans and the balance 30% is invested in the industrial sector including bank deposits. The increasing interest of the general insurance companies in development of housing will be immediately apparent. We are now exploring new avenues of financing housing through mortgage insurance schemes and creation of secondary mortgage markets and similar refinance schemes.

Our interest in investment in the industrial sector continues to be considerable. We have a dominant role in sustaining the market for preference shares and lend strong support to initial issue of debentures. Notwithstanding the gestation period which can run upto 5 to 7 years when no dividends would be paid, the general insurance industry has maintained support for good new issues of shares. The investment departments follow an active policy of investment management based on financial analysis, on the spot visit and other special studies.

I ,would also like to deal with manpower planning aspects in the nationalised General Insurance Industry. Although a developing country, insurance techniques have advanced quite appreciably in India. We have 858 qualified Fellows and 2,591 Associates of the Federation of Insurance Institutes. Besides the training facilities available within the companies, we have a College of Insurance which organises several general and special training courses for the staff of the insurance companies and for the insuring public. The College has established a reputation for itself and it is already well known in developing countries of Asia and Africa. We are currently planning further extensions of the training facilities by the establishment of a National Insurance Academy which would provide extensive training facilities and also research facilities on various subjects of life and general insurance. The UNCTAD is examining the creation of training facilities within the ESCAP region and considering the position we enjoy in the insurance world among developing countries, we would be playing an important role in the emerging projects.

In matters of general insurance coming up for discussion in the international forums, India is in the forefront in the formation of common thinking on the problems of the developing countries. Indian insurance executives have served as experts on various study groups of UNCTAD. We are often called upon to provide technical and managerial assistance to other developing insurance markets and companies. We have also responded positively to national aspirations in other countries by converting our branch organisations into locally established insurance companies, if required with majority local participation. Such insurance companies established by us, derive the fullest advantage of their links with the Indian market and the ready-made portfolio of good quality business which they take over. We have also supported regional projects designed to increase the collective self-reliance of the developing countries of the region. In terms of this policy we have extended support to the project to establish an Asian Reinsurance Corporation for the developing countries of the ESCAP region.

We have also advanced well in the field of reinsurance operations. We have already reached the optimum levels of retention on our business. We retain 84% of the premium written in India in the Fire Department, 90% in Marine Cargo Department, 100% in Motor, 46% in Marine Hull, 14% in Aviation and 80% in Miscellaneous. We use the surplus reinsured abroad to secure a share in similar reinsurance business of other companies wherever such trading is customary. We are also actively accepting shares in reinsurance business placed by other insurance companies through the international markets. In course of time such accepted reinsurance business will be a source of foreign exchange income for the country.

So far we have reviewed the position with regard to general insurance business in India. Let us also look at the picture in the international perspective and think aloud for the future. The general insurance premium in India is about 0.4% of the Gross National Product as against 4.6% in USA, 2.8% in U.K., and 1.5% in Japan. Using another yardstick, the *per capita* general insurance premium in India is about Rs. 5.2 as against Rs. 2,600 in USA, Rs. 800 in U.K., Rs. 540/- in Japan and Rs. 76 in Brazil. The general insurance premium of the Indian market constitutes less than 1/40% of the world general insurance premium. These indicators would show that there is an enormous potential for the growth of the general insurance industry in India. In the past, the general insurance companies were basically motivated by the expectation of profit in relation to the efforts put in. Consequently there was less interest towards innovation of new covers and development of new avenues of business from the long-term point of view. Perhaps one reason why the *per capita* non-life premium in India is low could be that at the level of income obtaining in India the priority given to expenditure on insurance is not high enough. As a result, it is very difficult to sell general insurance protection to individuals. Hence by the cost benefit logic, the development organisation and staff have not consciously attempted to canvass for general insurance with individuals. A more important reason is that the Indian agricultural sector contributes nearly one-half of the national income and provides livelihood to about three-fourths of the population. The involvement of the general insurance companies with this large segment in the past has been very limited.

The time is now opportune to enter the rural economy in a big way by providing adequate coverage to the rural community and develop a large premium from this source. This requires identification of the activities where general insurance protection can be offered. We then have to design suitable insurance covers to fit into these activities smoothly. In so doing we have to take note of the environment and the general views of the rural population so that we can convince them of the advantages of taking insurance and the economic benefits arising therefrom. As mentioned earlier, we have met with some success in selling cattle insurance because cattle provide a tangible financial earning to the owner and he can readily see the advantages of cattle insurance. In so far as other classes of insurance are concerned, we may not meet with the same degree of success unless we are able to make the population see the value of insurance protection by specific demonstration of how it operates to protect them against financial misfortune following various events. Until such time, development of insurance in the rural areas can make good progress only by making it a part of the package of financial schemes offered to the population. General insurance can provide a very useful form of collateral security and thus improve the creditworthiness of the weaker section of the rural society. The various development schemes for rural areas will require to be analysed to assess the exposures to loss and insurance plans will have to be specially designed to provide general insurance protection against such exposures. I am happy to inform you that we are actively engaged in the exercise and before long we will formulate plans to effectively harness the insurance potential in the rural areas.

An insurance cover is an instrument of financial security and must function as such.

Wherever one feels the need for protection against an unpredictable contingency, a suitable insurance cover should be available. Thereafter we have to organise active sale of such covers. Selling insurance is an art and here again, the methods which are appropriate to the urban population are not necessarily the most effective with the rural population. This requires an effort to study and understand the aspirations and the relative sense of value of the urban and rural population so that the insurance plans can be presented in a form easily understood and appreciated by the population. It is quite often easy by salesmanship to sell a cover, but as has been proved in the Janata Personal Accident insurance, it is difficult to sustain the interest of the clients at the renewal. Here, considerable study of the psychology of the people who buy such covers and the motivation which can ensure continuation of cover at renewal will require to be undertaken. We are dealing with a population which is not very conversant with the manner in which an insurance contract operates and often believes that once insured, regardless of policy conditions, any loss arising thereafter should be paid. Admittedly, the insurance policy is a legal contract and in fairness to both the parties, the terms of the contract should be adhered to by both. Further, it is no part of the duties of an insurance company to pay ex-gratia claims because it is not a philanthropic institution. The contract of insurance is one of the utmost good faith and where there is no doubt about the good faith, the insurance company has to view the claim with the greatest sympathy. It is, therefore, important for the insurance contracts to be as comprehensive as reasonably possible and to explain very clearly what is covered and what is not covered. Bearing in mind the general level of understanding among the public, the policy contracts have to be drafted in simple language which should at the same time be precise enough to avoid disputes and safeguard against fraud.

Even in respect of urban population, it has been observed that quite a large section does not appreciate the protection available through general insurance. Very often insurance is purchased purely because the lending banks or financial institutions insist on the insurance being taken. The moment the loan is repaid, insurance is discontinued. We have to bring home to the people engaged in trade and industry the advantages of securing insurance protection. Even those who do have insurance protection often do not have complete protection that is necessary. Either the sums insured are not adequate or all the perils to which the risk is exposed are not safeguarded and applied in India. It is here that the concept of Risk Management assumes special significance.

Risk Management can be broadly defined as the skill of protecting assets, earnings, liabilities and people against risk with maximum efficiency and minimum cost. As a general management function, risk management has been practised by entrepreneurs for several decades but in recent years attention has focussed on this subject as a skilled activity of a professional. Risks fall into two broad categories, viz., the speculative risks which can result in a profit or loss and the pure risks which can only result in a loss. Risk Management deals with pure risks only and comprises of identification, analysis, evaluation and protection. Protection can be either by avoidance (e.g. liability to clients etc.), assumption (such as self-insurance), reduction (through safety measures) or transfer (through insurance or through contract).

The general insurance industry owes an obligation to the insuring public to make it familiar with the nature and scope of insurance and provide objective advice on the approach to securing full and proper insurance protection. There are several classes of insurance business taken customarily in the developed countries which are still not thought by the majority of industries in India. To quote only a few, I would mention insurance of machinery breakdown risks, Consequential Loss insurance following fire or Machinery Breakdown and Products Liability and Public Liability risks of the industrial units. However sound the management of a company may be, if insurance is not taken properly, one unfortunate loss can drive the unit out of business. The security of the property for any loans or advance will not be sufficient to ensure repayment of the loan if the repayment capacity is destroyed by not having proper insurance against other exposures and the unit concerned will be really out of business. Once the insurance industry is able to demonstrate the value of general insurance protection it should be possible to increase the insurance in the urban areas as well.

Increasing industrialisation has seen the establishment of more and more industrial complexes. Some of the insured properties now have enormous sums insured at one location. Illustratively, the largest petro-chemical complex is insured for about Rs. 300 crores, the off-shore oil installations for about Rs. 150 crores, the large crude oil vessels for Rs. 45 crores and the Jumbos for about Rs. 40 crores material damage besides substantial insurance for liabilities. Insuring such properties is not merely a book-keeping exercise. The insurance companies in developed countries are getting increasingly involved in the safety aspects of the operation of the industrial units which they insure. We have only recently entered this field in India and there is a great deal of work we can do in the field. Our engineers can provide very useful information to the industrial clients based on their experience of insurance of risks all over the country. Such experience can be extremely valuable in loss prevention measures to be adopted by the industrial unit, the benefits of such effort will flow directly to them. If we keep the quantum of loss under control, we should be able to keep the premium under control as well.

Unlike several developing countries, India does not control the terms on which Indian importers and exporters handle the cargo insurance of their business. Thus, it is open to the traders to pay for the insurance of their cargo abroad if they wish by suitably altering their contract. Insurance companies have to be sensitive to the needs of the clients. During the recent past we created special facilities for insurance of export of diamonds from India at rates of premium which were considered very reasonable. This class of business is subject to severe competition and the position is kept under continuous review. Similarly, attention is paid to specific commodities and specific trades where a detailed analysis and review of business is desired.

My foregoing remarks indicate the potential for business we can see before us and the direction of our further efforts. Having identified the potential for business we have to use our technical expertise to devise covers to match the needs. Here it is not possible to adopt covers sold abroad or level of premium rates quoted abroad, as they are. We will have to develop the technical and statistical basis of our business in greater depth. Identification and quantification of hazards would be very important determining factors in derivation of premium rates. A proper analysis and interpretation of statistical data relating to past experience will be the basis for review of premium rates. The underwriting of the future will be much more technical than we have witnessed over the past. This would imply extension of tariffs to more classes of business. But flexibility in individual rates would have to be retained in order to provide encouragement for risk improvements, safety and loss prevention. Where these factors are dynamic this requiring greater reliance on experience rating, a largely non-tariff system would have to continue. The concept of four competing companies and separate tariff organisation will ensure that there is sufficient incentive to be alert to the requirements of the insuring public while at the same time for not permitting unjustified rate-cutting.

The potentialities of the insurance companies to provide service are not being fully exploited. Very few clients think of the insurance company except at the renewal time or when a claim arises. Consequently, the importance attached to lowest premium rates is exaggerated. In tariff classes of business, selection of the insurance company is sometime based on extraneous considerations. Except for a handful of professional insurance agents, there has been no professional service rendered by agents except as contact men. Consequently we dispensed with payment of agency commission in respect of the insurance business of the larger institutions so that anyone providing professional advice would be remunerated by fees. The benefit of agency commission saved is passed on to the client so that he can pay the professional fees out of such saving. Our most important task in the circumstances is to give a more meaningful definition of service and make the clients appreciate the advantages of real service as against the lowest rates. This will automatically ensure continuous attention within the insurance companies to maintaining a professional approach to service to clients.

We realise and appreciate that the main consideration guiding our decisions should be that general insurance is a service, and that proper and efficient service is due to the policy-holder as a matter of right. The GIC exists, the subsidiaries exist, and for that matter the entire organisation exists for the benefit of the policy-holder. If he is not given a fair deal, we cannot be considered to have discharged our duty properly.

We have thus endeavoured to focus our attention consciously on improving customer service. To my mind service to clients can be classified into four main areas:

(1) First comes professional advice. Such advice should cover an exercise in risk management and identification of insurance requirements. It should then extend to negotiation of suitable insurance covers and the proper rates of premium for the covers. This work would involve inspection of the client's properties and continued advice would require periodic reinspections.

(2) Second is prompt and accurate documentation. Although this may appear to be little more than clerical work, documents form the basis for the contracts and it could be very embarrassing if errors in documentation be noticed after a loss occurs. An important requirement at this stage is the proper determination of sums insured. Those of you who had the responsibility to buy insurance protection will be aware of the problems this poses. An error can result in under-insurance or excessive insurance. While an insurance company cannot obviously make decisions for the management, it can offer sound advice.

(3) The third area of service is advice on loss prevention. Fire protection and improvement of safety are not only useful to bring premiums down but also ensure continued financial health of the unit. As I mentioned before, we are adding to our skills in these areas and can offer a very valuable source of external reference for the management's efforts in the field.

(4) Finally comes prompt and sympathetic processing of claims. I do not mean to suggest payment of claims which are clearly not payable or making generous settlements of claims. Enlightened clients only expect prompt attention to the claim and a fair settlement. The general attitude should be one of helpfulness to the maximum extent in terms of the contract. As more and more clients start assessing the quality of service by these yardsticks, they will ensure the development of the insurance companies along sound technical lines.

Such efforts at improved service can succeed only if our officers at the operating units dealing with the public are trained sufficiently in the technical and service professional aspects of the business. Insurance is a purely service industry and the skills and efficiency of our manpower represent our plant and machinery. We have therefore to undertake continuous studies and training programmes. Recently, we trained all our senior managers at specially designed courses at the Administrative Staff College, Hyderabad. We also send our personnel abroad for specialised training where required. We are continuing to give close attention to this matter. Service to the individual clients will have to be supplemented by service to the public in a general manner to ensure ready availability of various covers at proper rates and efforts to devise tailor-made covers to meet new requirements. Each of the insurance companies and the General Insurance Corporation would have to develop a monitoring system to ensure this.

As a public sector enterprise, general insurance industry has to pay particular attention to serving social objectives. This would imply greater attention to the needs of society rather than to expected profitability of the particular plan of business. I can illustrate by quoting the Janata Personal Accident insurance policy. If one takes note of the cost of documentation and administration of the business, a premium of Rs. 12/- *per annum* would not be acceptable. However, considering the very useful protection offered by this policy, we have to innovate in the matter of documentation and procedures to cut cost and make it economic. Besides, simplification of these, we may have to actively work for mass marketing of such covers through Group schemes. Another illustration relates to motor third party claims. We are now engaged in examining various alternatives to ensure prompt and reasonable relief to victims of motor accidents and hit-and-run cases. The solution ultimately adopted could well be a departure from the traditional basis of writing such business. We are evolving special package insurance policies covering the different insurance needs of house-holds, shop-keepers, farmers, etc., where the premium can be brought down by saving on administration.

In conclusion, I would like to say that the Indian general insurance industry has already reached a good degree of maturity and is positioned for a major breakthrough in the fields of Risk Management, Loss Prevention, Insurance Education and last but not the least, insurance for the rural population. At the same time for the success of our efforts to keep general insurance competitive and economic we require the wholehearted support and encouragement of the public and dedication from employees at all levels.