GENERAL INSURANCE AS A FINANCIAL SERVICE IN THE CONTEXT OF LIBERALISATION

S V MONY

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THE A. D. SHROFF MEMORIAL TRUST
"Piramal Mansion", 235, Dr. D. N. Road,
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THE A. D. SHROFF MEMORIAL TRUST

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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 for the charitable object of education or such of the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit 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.

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 tribute 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."

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INTRODUCTION

Under the Trust deed, the A. D. Shroff Memorial Trust arranges every year, by rotation, Lectures on Banking, Industrial Finance and Insurance, the three areas to which the late Mr. A.D. Shroff had made a significant contribution.

We were fortunate to get for this year's Lecture, on Insurance, Mr. S.V. Mony, Chairman, General Insurance Corporation of India. This booklet incorporates the full text of his Lecture on "General Insurance as a Financial Service in the context of Liberalisation".

The Trust is grateful to Mr. Mony for preparing such a comprehensive and comprehending text which is highly educative for all those who are interested in insurance, and indicating the lines on which general insurance should be developed in order to serve the country.

The Trust takes pleasure in placing the Text for the benefit of the public in booklet form.

Bombay
24th June 1992

N. A. Palkhivala
Chairman
THE A. D. SHROFF MEMORIAL TRUST

General Insurance as A Financial Service in the context of Liberalisation

S. V. Mony

INTRODUCTION

It is an honour to be invited by the A.D. Shroff Memorial Trust, to deliver this lecture. For me it is of special significance and value. I started my career in 1957 with 'New India' and Shri A.D. Shroff was the Chairman of this pioneer insurance institution in Asia. All are well aware of the role played by 'New India' in developing insurance business and more importantly developing a large number of insurance experts over the years.

I am thankful that the topic selected by me i.e. "General Insurance as a Financial Service in the context of liberalisation" was readily accepted. The subject is topical. I have tried to structure the paper on issues as they relate to general insurance everywhere, with necessary reference to the Indian scene.

The Indian Economy has been a model of planned development, frequently portrayed as an example of how planning can contribute, towards overall growth of economy in a developing country. At the centre of the developmental process is the public sector originally conceived "to attain the commanding heights of the economy" contributing to growth in various sectors of the economy including the services sector. In the last decade, we have seen such an acceleration in the industrial growth rate, an improvement in productivity

*The Author is Chairman, General Insurance Corporation of India, and the text is based on the Annual Public Lecture delivered under the auspices of the A.D. Shroff Memorial Trust on 5th June 1992 in Bombay.

and a decline in poverty. We have also witnessed a serious balance of payments crisis coupled with double digit inflation. We are now in the midst of what is called a "Structural adjustment" with emphasis on a market economy internally and a process of liberalisation from the point of view of external trade and investment.

Whilst presenting the budget for 1992-93 in Parliament, Hon'ble Finance Minister defined his immediate task and medium term objectives as: "Our first and immediate challenge was to arrest the slide and restore India's credibility both domestically and in the eyes of the world. To achieve this objective, we had to take immediate measures to avoid default in international payments and also take steps to restore macro-economic balance of the economy with a view to controlling inflation and reducing the balance of payments deficit to a manageable level. Our medium term objective was to place the economy back on the path of high and substantial growth." The Statement of Industrial Policy on 24th July, 1991 dealt with assessment of both public and private sector and the role envisaged in the changed context. I quote, "After the initial exuberance of the public sector entering new areas of industrial and technical competence, a number of problems have begun to manifest themselves in many of the public sector enterprises. Serious problems are observed in the growth in productivity, poor project management, overmanning, lack of continuous technological upgradation and inadequate attention to R and D and human resource development. In addition, public enterprises have shown a very low rate of return on the capital invested. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that some public enterprises have become a burden rather than an asset to the government."

Relating to the private sector, the Statement of Industrial Policy notes: "major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneurs make investment decisions on the basis of their commercial judgement. The attainment of technological dynamism and international competitiveness requires that enterprises must be enabled to swiftly respond to fast changing external conditions that have become characteristic of today's industrial world. Government policy and procedures must be geared to assisting entrepreneurs in their efforts. This can be done only if the role played by the government were to be changed from that of only exercising control to one of providing help and guidance by making essential procedures fully transparent and eliminating delays. And further... government has decided to take a series of measures to unshackle the Indian Industrial economy from the cobwebs of unnecessary bureaucratic control."

Whilst addressing the National Development Council on 22nd May, 1992, the Prime Minister recognised the role of the market as a device for promoting efficiency in the light of the experience with public sector in India and abroad but observed that the market mechanism had its own limitations and the state role would continue.

This then is the beginning of liberalisation in the Indian context. The term "liberalisation" implies a certain progressivity. Such progressive liberalisation would have to achieve the objectives within the policy framework and priorities established by Government. Both public and private sectors will have to function more in the spirit of enterprise, combining commercial considerations with social purpose, laying emphasis on discipline, productivity, profitability, service and accountability. The Government, on its part, has promised to set up only need-based controls, remove bureaucratic interventions and allow a degree of freedom to manage any enterprise. There will be more of result-orientation through interplay of market forces and competition.

There is a general expectation that liberalisation will help economies achieve growth, competitiveness, and in the absence of protectionist policies, industry will provide better and more reasonably-priced goods and services, in order to stay in the business. Quality of products and services is expected to improve. The consumers would as a result, stand to benefit. By opening up the economy and bidding for a fair share of global markets, Indian products and services will have to now measure upto international standards. I shall subsequently refer to the role of services sector in general and financial sector in particular with focus on the role of general insurance. It is also necessary to highlight that financial sector liberalisation would not mean deregulation. Unlike in the case of trade in goods, liberalisation in services has necessarily to go hand-in-hand with objective regulations and strict enforcement thereof. In the financial sector, particularly, liberalisation allowing domestic and international competition could actually lead to a stricter requirement of regulation or Re-regulation. In modes of delivery through cross-border, regulation has to be strict.

Services Sector as a catalyst of socio-economic development

(a) *Services Sector in Economic Development*

Let us first consider the contribution of services to economic development. At one level, the services sector provides basic needs, directly in the form of education, health-care or housing and indirectly in the form of employment creation or income generation. At another level, it provides for material production in agriculture and industry, creates an infrastructure to meet national development on strategic needs, and serves as a catalyst in the development of markets. This perceived role is consistent with the meaning of development. To the extent the services sector also meets perceived social needs, say through social security or employment creation, and particularly if it reduces unemployment or poverty, it can contribute directly to an improvement in living conditions of the people. Services sector contributes to *resource mobilization* through financial services such as banking and insurance, to *resource utilization* through infrastructural services such as transport, telecommunications and informatics, and to *resource creation* through technological services that raise productivity or *generate new resources,* marketing services create demands and social services that develop human resources or raise productivity of labour.

According to the studies conducted by Professor Simon Kuznets* and D. Riddel, on role of services sector in World Development and also the UNCTAD Report on 'Trade and Development', it has been seen that in the early stages of economic development, share of agricultural sector in both output and employment is large. As industrialization proceeds, the share of agricultural sector falls, the decline being more pronounced in employment than in output, while the share of the manufacturing sector rises. Once countries have industrialized and reached an advance stage of economic development, the share of manufacturing sector declines, while the share of services sector rises. This observation of changes in the composition of output and employment at different stages of development, is

*Professor Simon Kuznets and Professor D. Riddel "ROLE OF SERVICES SECTOR IN WORLD DEVELOPMENT"
"SERVICE LED GROWTH" NEW YORK — 1986

derived from historical experience of industrialised countries. Available evidences from many developing countries suggest that structural changes in output and employment are characterised by a move from the first stage, where agriculture dominates to the third stage, where services dominate, without necessarily passing through the second stage, where manufacturing dominates. A large number of world economies — both developed and developing — are in fact economies dominated by services.

(b) *Development of Services Sector in India*

India made the transition from an agriculture economy to service economy in the late seventies. In India, services sector account for 41% of the GDP and has a great potential for growth. The importance of trade in the services sector in India's balance of payments is invaluable. It has been estimated that, of India's total export (both merchandise as well as invisibles), almost 40% is made up by trade in services. As a result of the net positive balance on services trade, net invisibles financed a good portion of India's total deficit. The high potential of services sector to earn foreign exchange, has now been widely recognized.

Being labour-intensive, the services sector is of crucial importance in the Indian economy. Studies have shown that employment elasticity (to GDP growth) in the services sector is higher than in the case of, both agriculture and manufacturing. Growth of the services sector will therefore help generate employment opportunities in the country. (Arun Ghosh)*

Further, this sector is also important in accelerating growth process in the economy as it provides services

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* Arun Ghosh
"EIGHTH PLAN: CHALLENGES AND POSSIBILITIES"
Economic and Political Weekly
February 2, 1991

complementary to agriculture and industry. For instance, an agriculturist or industrialist requires financial services to provide capital for his production facilities, communication and transportation service to reach the market and distribution and retail services to reach the consumers.

Services sector has emerged as the largest contributor to the country's gross domestic product, pushing agricultural sector to second place — about two-fifth of the country's Domestic Gross Product now emanates from the services sector (Annexure I).

Changes in the sectoral share in GDP were brought about by changes in the relative growth rates of the different sectors with industry and services sectors growing much faster than agricultural sector. The eighties saw a jump in GDP, mainly on account of the marked improvement in industrial and services sectors (Annexure II).

A brief word about Financial Services as a Sector. Financial Service Sector would encompass banking, factoring, lending of all types, acceptance of deposits, leasing, money transmission services, trading in money market instruments, foreign exchange, features and options exchange rate and interest rate instruments, securities, etc., underwriting, merchant banking, broking, asset management, portfolio, clearing services, depository services, financial information services and all categories of insurance — life and general.

In our system we have a combination of Government-owned Banks, private sector Indian Banks and Overseas Banks. Arising out of the new strategies, it is expected that significant changes will take place in the financial systems of the country. Many of these are reflected in the report of the Narasimham Committee. Implementation of these recommendations would bring a sea-change in the structure and the management of financial institutions.

Trade in financial services has expanded rapidly during the past decade. Between 1979 and 1989, for example, net international bank lending had an average yearly growth rate of 15%, a rate far in excess of 8.5% observed in the growth in volume of world trade. This trend was prominent in respect of developed market economies. Participation of developing country financial institutions in the world market for financial services has been small, and confined to financing of countries foreign trade. Financial services are now on the threshold of increased inter-nationalisation and this has important implications for developing countries both as hosts and as providers of such services. Many developing countries have been participants in this change. 41 Banks headquartered in developing countries ranked among 300 Banks in the world up from 22 at the end of 1975. Increasing participation of developing countries in international banking and security transactions can also be seen in the off-shore centres based in the developing countries. It has been reported that, of the world trade in the banking services which is the most important of financial services, developing countries' share of world liabilities is only 6%. This compares with the low figure of 5% which represents the developing countries insurance share in the world. The need is clear for developing countries to create structural and process mechanisms which will facilitate faster development of economies of scale and access to financial markets in the developed world.

(c) *General Insurance as a financial service*

Let us for a moment examine how far general insurance qualifies to be labelled as a financial service. It is indeed a financial service if seen from the point of view of filling the breach in the production cycle caused by fire, flood, breakdown, etc. These perils cause stoppage of work and result in loss of production and profits. General insurance provides necessary finance to enable industry to get back to its production level and thus close the breach caused by accident. Faster the replenishment, better the financial service.

Financing of imports and exports, projects, industries, housing etc. require that assets and factors of production are protected from uncertainties caused by accidents. General Insurance provides such protection and financial stability and thus is an essential part of the financial system.

Viewed from another angle, efficiency of the service also depends on the way general industry handles monies held by them between the commencement of insurance and occurrence of loss. Thus, in all parts of the world, insurance companies are a major investment resource. Maximisation of investment income with emphasis on yield, growth and security, is a prime objective of general insurance companies. In their efforts to achieve the above objectives a very dynamic and diversified policy is called for. Therefore, it is in the order of things that general insurance companies support and participate in activities such as housing, investments in mutual funds, stocks and shares etc. Through this mechanism, they enhance their yield and growth for the ultimate benefit of the policyholder.

Insurance is national and international in character. It is national, when its operations are within the national boundaries, covering local risks and such operations are localised, through public or private institutions. It is international, when it is constituted globally either in the form of direct insurance or reinsurance and plays its support role, in conduct of global trade in goods and services. The United Nations at its session in 1964 acknowledged that "a sound national insurance and reinsurance market is an essential characteristic of economic growth".

The Financial Services Group for Consumer Services Industry Incorporated, USA in their Position Statement before the Uruguay Round of talks have included "underwriting and all related insurance services, lending, leasing and financial services, etc." as financial services.

The primary purpose of insurance is to cover the risk of uncertain losses by providing individuals and organisations with financial protection through the collection of a payment (premium). As this requires the spreading of risks as widely as possible, there is a clear international dimension to the insurance industry. This applies in particular to international transport insurance and reinsurance. Very large risks may also be covered through joint participation by a number of companies where a major disaster (e.g. aircraft or nuclear power plants) could destabilise or destroy a single insurer. The underlying principle of non-life insurance is the mutulization of risks transferred by a wide range of insured persons or institutions.

I will now deal with the structure of insurance markets and the need to regulate.

(d) *Insurance regulation and market structure*

All Governments seek to supervise the activities of insurance and reinsurance companies to ensure protection of policyholders and beneficiaries. In a broad sense they also wish to assist in the fostering of sound competition and progress in insurance industry, Supervisory Authority would play a watchdog role to ensure:

Financial soundness and solvency
Fair trade practices and consumer protection
Maintenance of probity, honesty & transparency

Strengthening domestic markets
Creating an information base etc.

It is recognised that insurance business by its very nature has potential for a wide variety of misuse and irregularities. Apart from ensuring reasonable and prompt settlement of claims, it is also necessary to ensure that the funds in the hands of insurers are maintained and invested well to the advantage of policyholders and beneficiaries. All these have to be achieved within the framework of national policy which varies from State ownership, in one country to an open free competitive market in others. Prior authorisation to start life and non-life insurance business, financial requirement with regard to share capital and reserves, investments of funds allocated to technical reserves and shareholder funds, control and supervision of management and acquisition costs, supervision of limits of retention and reinsurance cessions, etc. are areas requiring attention. In addition, in many countries prior approval of premium rate is required. Recently, in the State of California, U.S.A., the Commissioner of Insurance intervened through administrative order and through Court to rescind the Motor rate increase implemented by general insurance companies.

As with banking and securities-related services, insurance sector is subject to varied and stringent regulations. Two broad arguments are commonly used to support the large number of regulations found in the insurance sector, one concerning the need to protect consumers and the other relating to the wider role of insurance in an economy, particularly as a source of investible funds. When compared to direct insurance, reinsurance services have been traditionally much less regulated, both in domestic and international markets.

This has caused major problems in the recent past and countries are busy tightening their laws.

On grounds of consumer protection and management of domestic economy virtually all governments have imposed laws, regulations and practices, which restrict operations by foreign insurers. Several such measures specifically restrict the supply of insurance services by foreign entities through establishment or cross-border modes of delivery. Other measures indirectly limit provision of insurance services by foreign companies by making it more onerous for them to sell their services and costlier for nationals to buy them. Significant provisions in this regard pertain to, measures affecting cross-border trade, establishment, operating conditions and norms of competition, exchange control regulations, taxation policy etc. Among economic grounds for regulation of insurance sector, the primary concern of governments is to strengthen local capital markets by retaining funds generated through insurance operations. Mobilisation of capital by insurance companies is made possible as a result of the time lag existing between collection of premiums and settlement of claims, which in effect permits investment of insurance funds by companies. In most countries insurance companies are institutional investors managing large volumes of assets, holding equity in other companies, operating in stock markets and also acting as a major property owner. Invariably foreign firms are required to invest a good part of their funds in the country in which premiums originate. Another aspect of regulation of insurance activities is the granting of support to other sectoral activities. For instance, agricultural insurance can have significant indirect effects on the development of new farming techniques, diversification of crops and financing of rural activities.

(e) *Insurance Markets and position in economy of nations*

There are wide variations among national insurance markets, in terms of structure and composition. Markets of most industrialised countries are made up of a considerable number of domestic and foreign enterprises, although the main business segments tend to be dominated by a relatively small number of large domestic competitors.

In a number of developing countries, however, there are state owned insurance monopolies. In some countries foreign-owned enterprises are excluded from the domestic market or in some others they are allowed only in the form of locally incorporated subsidiaries with substantial local shareholdings.

The ratio of premium expenditure to gross national product is a measure which is commonly used as an indicator of the level of insurance development in a market. Ratios vary from under 1% in many developing countries to over 8% in some large industrial economies. Whereas in 1987 the United States accounted for 46% of total world non-life premiums and 30% of life insurance premiums, the share of developing countries together was around 5% for each in life and non-life. Annexures 4, 5, 6 contain certain information on insurance penetration in various countries.

The largest international insurance companies are concentrated in six countries and it is observed that larger the insurance markets greater the average size of the five leading insurers in that market. It is also worth noting that sixteen reinsurance companies from six countries share more than 50% of world reinsurance premium. Of these four from three countries had more than 50% of world premium in reinsurance. Such predominance of a few has significance for developing economies which embark upon liberalisation in the insurance sector. It is quite likely that countries will see one type of dominance or monopoly replaced by another from abroad.

Indian Insurance Industry

(a) *Historical perspective*

Prior to 1973 general insurance was transacted in India by several Indian and foreign companies. They catered mostly to industry and trade sections of society with profit as the main motive. Over a period, in all but a handful of enlightened companies, unhealthy business practices developed. There was reckless competition in rates and terms, fictitious appointments at various levels, lack of scientific management and underwriting, lack of safeguards in investments, excessive reinsurance abroad, preferential claim settlements, etc. In the small number of enlightened companies, scientific underwriting practices, training, development of people, opening up of overseas offices, *strict norms of investments* and financial accountability were maintained. It is a matter of credit that these companies, of which the 'New India' under the Chairmanship of Shri A. D. Shroff and led by Shri B. K. Shah played a dominant role, have been responsible for the development of market and wide spread developments of skills in insurance. The Indian Companies were mostly part of large industrial houses and functioned more or less as "captive" insurers. From their captive bases, they fanned out to capture market business through competition often unhealthy. These practices resulted in a weak and inadequate service sector and fuelled flow of cash into a parallel economy. *Above all, many of these insurers were inadequately capitalised.*

(b) *Nationalisation*

Government considered necessary to spread insurance protection to the rural sector and make covers available to the common man and the weaker sections of society. General Insurance was nationalised in 1972 "to serve better the need of the economy by securing the development of General Insurance business in the best interest of the community". In the context of the development path visualised for the country under the Five Year Plans, the industry was directed to pursue the following social objectives:

(a) Provide need-based and low cost general insurance covers to the rural population keeping in mind their low premium paying capacity,

(b) Operate crop insurance scheme to the benefit of farmers,

(c) Develop and introduce insurances with social security benefits,

(d) Develop marketing network throughout the country including areas with low premium potential with the objective of balanced regional development irrespective of cost considerations, but with the primary objective of making insurance available to masses.

(e) Channelise investible funds into socially oriented sectors and to provide resources for national development.

(c) *Progress and performance of nationalised general insurance industry*

(i) After nationalisation of general insurance, operations were consolidated into four subsidiary companies of the General Insurance Corporation of India, set up under the Nationalisation Act, 1972. The structure was such as to encourage competition and service to customers, while ensuring discipline in underwriting *and rating as per the Tariff System which has been in existence even during pre-independence days.*

An important move to make general insurance available to the common man was expansion of the organisational network. Today the industry operates through a network of over 4200 offices spread across the length and breadth of the country covering almost all districts including the hilly terrains and many inaccessible parts of the country and employs a manpower of over 82000. It is true that some of the offices may not have adequate business potential to make the operations commercially viable, but in view of the need to achieve the wider social purpose, the industry has ensured that no area is left uncovered by its network.

(ii) Growth of Capital and Free Reserves

From a share capital of Rs. 215 mn contributed by the Government of India in 1972, it has grown to Rs. 1075 mn. as on 31st March 1991, through successive bonus issues. The general insurance industry has consistently paid a dividend of 25% to the Government. Against Equity Capital of Rs. 1075 mn GIC's free reserves as on 31st March 1991 were Rs. 3680 mn. This is in addition to the four subsidiary companies' capital and free reserves amounting to Rs. 12920 mn. Thus the capital base of the industry, is currently, at Rs. 17675 mn. This compares favourably with many of the large insurers in other parts of the world.

(iii) Business Growth

The total premium generation in the industry has grown from Rs. 1840 mn. in 1973 to over Rs. 34000 mn in the year ended March 1992 thus showing a compound growth rate of 16.9%. Expressed as a percentage of Gross National Product, penetration of General Insurance has gone up from 0.32% in 1973 to 0.61%. The income elasticity of demand for insurance in India is 1.28, signifying that for every 10% increase in the Gross National Product premium increases by 12.8%. (Annexure 3)

In addition to traditional insurances, the general insurance industry has made good progress in the rural sector by providing need-based products for the vast rural masses and weaker sections of the community.

At the same time, the industry has adequately served the organised industry, trade and commerce. It has sought to upgrade technical expertise so as to be able to underwrite high technology risks including satellites, off-shore oil installations, etc. Fire Insurance rates have been reduced on two occasions and these now rank amongst the lowest in the world in certain categories. Our motor insurance rates are also amongst the lowest in the world. Thus, benefits of profitability have been passed on to the insuring public.

(iv) Customer Relations

Customer satisfaction is the guiding philosophy of our business operations. Specific objectives for customer satisfaction are:

(i) Maintaining high ethical/professional standards to develop an organisational and cultural ethos conducive to courteous and cordial relationships with customers.

(ii) Enhancing customer service levels and decision making processes through introduction of modern technology.

(iii) Interacting with the Government to bring about necessary legislative changes so as to make the functioning of the general insurance industry more effective, efficient and purposeful in the interest of the customers.

(iv) Rationalise procedures and systems to reduce delays.

Our interface with the customers, is through a vast network of Agents, Development Officers and employees at Branch, Divisional and Regional offices and at the corporate level of the companies. There is also constant inter-action with organised trade and industry bodies at the GIC and the companies' corporate level. These help to identify issues requiring resolution, particularly in respect of rates and terms.

The Industry issues nearly 30 mn documents and settles nearly 2.5 mn claims every year. Nearly Rs. 24000 mn are paid out annually as claims. Documents and claims disposal ratios are key performance indicators to assess the performance of operating offices and these are closely monitored. In 1984, documents clearance ratio was 83.9% which improved to 90.0% in 1990-91. Further to improve customer service and availability of requisite management data, computer systems have been installed in the Industry.

To promptly handle customer complaints, Grievance Cells have been established at the Divisional, Regional and Head Office and also at GIC to ensure prompt disposal of grievances. On a designated day, any week/month the Branch incharge, the Division incharge, Region incharge and at the Head Office, the CMD/nominated General Manager, listen to grievances of policy holders and ensure redressal. Insurance Division of Ministry of Finance and the Director of Public Grievances monitor the disposal of customer grievances. There have also been Open House Sessions for quicker redressal of grievances. Open House Sessions have been held at many centres in the country and over 60% of the claims put up have been settled at the centres. Grievance Disposal Ratio is in the range of 82%.

A large number of motor third party claims remain pending with the Tribunals mainly for reasons beyond the industry's control. To accelerate settlement of such claims by conciliation, the forum of Lok Adalat has been extensively used in the industry over the last 5 years. Over 120000 claims have been settled with compensation relating to third party claims of Rs. 3200 mn. For better co-ordination, combined motor third party claims cell for the industry has been established at the metro centres with a view to taking a uniform approach and provide compensation to victims of accidents quickly. A pre-litigation scheme, known as Jalad Rahat Yojna, for motor accident victims, has also been launched recently. For hit and run road accident victims, GIC administers the Solatium Fund Scheme.

A lot more needs to be done in terms of providing efficient and courteous customer service. Efforts are under way to improve the quality of service in issuing policies and settling claims. There is room for improvement in the attitudes displayed by all levels of members of staff. Training for upgradation of skills is now being attended to in a major HRD initiative.

(v) INVESTMENTS

As per Government guidelines, 10% of annual accrual of funds are invested in socially-oriented sectors such as Central Government Securities, State Government and other approved securities, Bonds and Debentures of Public Sector Undertakings, Loans to State Governments for Housing and fire fighting, to HUDCO for construction of houses for weaker sections, Special Deposits with Government of India, etc. The General Insurance Industry is a catalyst in aiding economic and infrastructure development of the Indian economy through its investments in socially-oriented sectors besides commercial areas. Total investments made by the Industry stands at Rs. 50190 mn and income from investments has shown steady increase in terms of yield rates. Rs. 6040 mn income from investments during 1990-91 represents 22% growth over the previous year, the mean yield being 12.6%.

(vi) PROFITABILITY

Profits of the industry have registered a satisfactory increase since nationalisation from Rs. 140 mn in 1973 to Rs. 3340 mn in 1990-91. Results for year ending 31.3.91 indicate further improvement.

(vii) REINSURANCE

In reinsurance, Indian market functions from a position of strength. The collective capital strength of the General Insurance Industry is high and its technical expertise and trained manpower is respected in International reinsurance markets.

The objective of our reinsurance programme is to optimise retention of premium within India consistent with safety and prudence. This objective has been achieved consistently during the last 16 years. Nearly 89% of the premiums written are retained in India despite considerable technological advancement contributing to higher exposure to large losses. This has ensured conservation of foreign exchange to a good extent.

Reinsurance ceded abroad is also used as a means of obtaining reciprocal inward business through regular contact with almost all leading insurance and reinsurance companies. On behalf of the Industry the GIC underwrites a wide portfolio of reinsurance business from the world markets. The long-term goal is to establish India as a leading or quoting market in reinsurance business.

Reinsurance skills possessed by the Indian Insurance Industry have been utilised in setting up the Asian Reinsurance Corporation in Bangkok under the auspices of ESCAP. India is one of the nine founding members of this organisation, which plays a prominent role in the Asian Reinsurance market. This is a shining example of inter-governmental regional co-operation between third world countries.

(viii) International Profile

The Industry operates in 17 countries directly through branches and agencies in another 14 countries through subsidiaries and associate companies. Though the experience has been fluctuating, the profits have been satisfactory. The business has been rising continuously, and branch net premium for 1990-91 was Rs. 1159.5 mn which represents a growth of 15.7% over the previous year.

The GIC has a fully owned subsidiary company in Singapore known as "India International Insurance Pte. Ltd. Singapore" and two joint venture companies in Kenya and Malaysia, i.e. Kenindia Assurance Co. Ltd., and United Oriental Assurance Sdn. Bhd in Malaysia. Two aspects need to be highlighted. In the closed and difficult market in Japan, our Indian Company 'New India' has been operating successfully for over forty years. The then management had the vision to set up offices in several countries, many of which are still running well. Of these, operation in Japan continues to be the 'Crown Jewel' even today. The other point relates to our Subsidiary Company in Singapore. It has grown well and profitably. It is also now recognised as a 'quoting' company mainly for international Marine Hull insurance. I am citing this to show the level of expertise that Indian insurance has been able to generate both before and after Nationalisation. Given the right freedom, support and climate our people in insurance can achieve outstanding results. Government has now approved the setting up of a Subsidiary Company in U.K.

(ix) Other Activities

Besides provision of traditional insurance services, GIC had diversified into financial services by setting up a Mutual Fund and a Housing Finance Company. GIC is also promoting the concept of loss minimisation and safety to preserve the scarce national resources through Loss Prevention Association of India.

Though the Industry has adequate infrastructure to cater to the training need of all sections of employees, in collaboration with LIC, GIC have set up the National Insurance Academy, an apex level training establishment for middle and senior middle level management executives. The National Insurance Academy has also been the venue for international programmes on high tech risk and loss prevention besides conducting technical programmes for foreign participants. There is good scope and demand for our training services.

Liberalisation

(a) *Services Sector*

The term liberalisation is not synonymous with "deregulation" or "privatisation". Relationship between liberalisation and development, ultimately depends on the conditions under which the former is carried out. In the establishment of specific criteria for progressive liberalisation, conformity with the development objectives has to be kept in view.

In relation to the national and social policy objectives, it has been argued that sectors such as banking, insurance, shipping, transportation and telecommunications constitute the core of development process. In these strategically significant sectors, most developing countries wish to retain control, to ensure resource mobilisation and allocation. Consumer services are important. Reliance on foreign firms for producer services, may create an increased dependence on external forces and a reduction in the bargaining power of developing countries. However, in all these instances, sector-specific traits, policy objectives and conditions under which liberalisation can be conducive, or detrimental to development, need to be explored in detail and spelt out in clear terms. A simplistic approach to liberalisation is untenable. *In a liberalised environment, ownership is immaterial, as long as efficient performance is guaranteed.*

What are the ingredients of such demands of liberalisation across the globe? Discussion in the Uruguay Round Negotiations have highlighted the following as essential features:

(a) Transparency
(b) Market access
(c) Establishment
(d) Cross border provision of service
(e) Prudential Regulations
(f) Most favoured nation treatment (MFN)
(g) National Treatment (NT)
(h) Increasing participation of developing countries

While market access, MFN and national treatment are sought alongwith transparency in respect of regulations, countries allowing entry seek to preserve their right to enact prudential regulations. Discussions are still going on, and there is now a draft framework agreement for all services with an annexe setting out specificities in respect of financial services. During the several rounds of Uruguay Round discussions, in which I had the good fortune to participate, anxieties of developing countries came through clearly and ambitions of the developed countries were voiced without ambiguity. Apprehensions of developing countries centre round the fact that megasize Banks, Insurance Companies, Trading Houses, etc. who had built up enormous resources over the last 50 or 100 years and who have had the use of uptodate technology which helps to reduce costs and provides increased competitive edge would be able to dump services in developing countries. Once such services are made available at very low cost and clientele diverted, it is only a matter of strategy to revise terms later on. National financial institutions, whether in the public or private sector would find it hard to compete effectively against this dumping of services, for any length of time. In response to this voiced apprehension, developed countries state that their "establishment" in these markets would inject new products, new ideas, advanced technology, cost-effective methods of marketing, etc. They also add that domestic institutions would vastly benefit in the learning process from multinational companies. I do not have to outline how superficial this justification is. It is not at all in doubt that new technology etc. would be made available for the benefit of the consumer. In many of the countries, national institutions were set up with social objectives and making certain services available to the economically weaker sections. The question of unemployment, etc. was also an important factor. Whether in the context of liberalisation, one would be justified in allowing unrestricted entry of such international giants, relegating the wider national issues to a secondary position, is a matter deserving careful attention.

Developed countries also argued in the Uruguay Round that once the multilateral agreement is signed, institutions in the developing countries would find it possible to operate in the developed markets. It is somewhat theoretical because their conditions of entry require allocation of enormous capital and employment of local skilled labour at high cost, not to mention customer attitudes which border on hostility. It would require a miracle for the financial institutions of developing countries to make any meaningful inroads into the developed markets. On the other hand, it is easy to see how quickly the developed markets can capture the domestic sectors of the developing countries. Developing countries therefore, have started negotiating on the basis of "exchange of concessions". In whichever sector a developing country has a competitive advantage — which in the case of most countries is related to skilled/unskilled labour — negotiations take place for cross-sectoral exchange of concessions in respect of market access and operations. For instance, a developing country allowing more telecommunication companies or banks from a developed country to operate can have no hope of entry and operations in these very sectors in that developed country, but they would have the capability to move skilled or unskilled labour, in the sectors of construction, hospital services, Accountancy, Computer Software, etc. in which they have competitive advantage. It is a matter of regret that though negotiations are still going on, the Uruguay Round does not seem to be heading for a beneficial outcome for the developing countries, unless extreme caution is exercised.

The stated fundamental objective of the multilateral framework for trade in services is the economic growth of all trading partners and the development of developing countries. The expansion of such trade, under condition of transparency and progressive liberalisation, is simply the means and not the end. Consideration should be given to a balance of benefits between participants.

Balance of payment considerations would also have to be kept in mind at all times. Developing countries are particularly vulnerable in this aspect.

What I have stated above is not sector-specific to insurance, but applies to all service sectors. We have to view the problems arising from liberalisation in the context of what I have stated above.

(b) *Background to demands for liberalisation in insurance*

Demands for liberalisation in insurance have to be first seen in the context of global experience in insurance. During the last four years or so, general insurance companies in almost all countries have suffered losses for various reasons. Increasingly large industrial accidents, natural catastrophes, new types of pollution and liability claims, severe interpretation of product and public liability laws, large claims arising from major risks such as chemical plants, oil platforms, etc. have caused unprecedented outflow. Excessive competition in the international market resulting in thoroughly unrealistic and low premium levels have eroded heavily into profits, reserves and capital of several insurance companies in the developed markets. A large number of companies have stopped writing various classes of general insurance business in many countries. Similarly, reinsurance which is the backbone of insurance, has suffered enormous losses for the same reasons as above and reinsurance companies have either closed down, cut down their levels of acceptance or increased steeply their rates and terms. It is widely perceived that for losses consequent to unbridled competition prevailing among direct and reinsurance companies in major developed markets, substantial increases are being loaded on the reinsurance cost of companies from developing countries.

Be that as it may, in the light of these, some major insurance and reinsurance companies have started looking actively to other markets which had hitherto been denying entry or access to them. In the 60s, 70s and 80s, the then economic philosophies adopted by several of the developing countries centered around self-reliance in skills, capacity and financial management. During these three decades emerging developing countries adopted policies discussed at forums such as UNCTAD. In the insurance industry many countries restricted entry of foreign companies. Examples varied from total nationalisation as in India to countries restricting shareholding by foreign companies to a minority percentage and in many cases to the total exclusion of foreign companies in other countries. No doubt many of these developing countries still did not succeed in tackling the basic problem of lack of adequate capital. What they achieved through regulation of the insurance industry was partly offset by the need to seek larger reinsurance. Yet, the three decades saw the emergence of several countries with a better profile of skills, risk-bearing capacity and national institutions of insurance and reinsurance. It is a matter of satisfaction that among these newly emerging nations, in the field of insurance the record of the Indian insurance industry has been very good, though this was done through nationalisation. This fact is recognised by all our trading partners. Some of the distinctive features have been a well-trained, skillful manpower, very high capital adequacy, and a disciplined market based on sound technical consideration. In most markets, technical aspects of insurance have been totally ignored in succumbing to mindless competition. Japan and India are possibly the only two countries which still retain the basic technical values in rating etc. Following heavy losses other countries now appear to be waking up.

In the present context of countries seeking market access globally in all service sectors including insurance, institutions set up during the earlier context could be harshly judged. Insurance institutions of the developed countries now seek entry into and operation in the developing countries with a view to spreading their risk base and also perhaps improve their profitability in the process.

It is not as though only developing countries had erected barriers. Developed countries such as Japan, Korea, etc. have effectively built operational barriers shutting out all but few of the international insurance or financial services companies. In most of these countries, establishing new domestic companies was prohibited, thus enabling a small number of existing companies to grow larger and larger. Developed countries are seeking entry into such large markets as well and demanding national treatment on entry. For markets which had closed their borders to institutions from other countries, liberalisation would mean a quantum jump in competition. Many of the protected markets will, for the first time, taste benefits of competition. Whether it is fully nationalised or partly governmental and partly private sector, most of the developing countries had decided over the last twenty years to restrict new insurance companies, whether domestic or overseas. In all these countries, liberalisation could mean a new dimension in terms of costs and efficiency in the delivery of services.

Developing countries in particular, whose institutions could be vulnerable, would be required to exercise vigilance against external intervention or domination. It would appear both inevitable and a waste of resources to undertake multilateral negotiations to liberalise trade in services if such liberalisation would only serve to strengthen the position of already dominant firms from a limited number of countries and to increase the already high share such firms enjoy in the world economy. It may be recalled, earlier I had referred to the dominance of a limited number of companies and countries in the field of insurance and reinsurance. Therefore, any approach to liberalisation particularly in financial services including insurance would have to be tempered by a recognition of the policy objectives including Government's own assessment of the strategic role any services would play in relation to national priorities.

In this context, I would quote from an article written by Mr. J. Francois Outreville in an United Nations publication called "TRADE IN SERVICES" Sectoral issues.

> "It is important that market access in insurance services be consistent with market-access provisions developed for other related services. Financial

services must, of course, be supplied in accordance with the legal framework of the country receiving the service. The concept of global services approach should not be substituted to the concept of separation of activities. This may allow for a different pace in the degree of liberalisation."

In countries which are yet to adopt technology, either due to shortage of capital or due to attitude of labour, such high-tech competition would pose a severe threat except to companies which have already taken steps to upgrade their factors of services. In order to upgrade services and also to come through as a satisfactory and strong insurance company comparable to the external competitor, new capital adequacy norms will have to be evolved. External companies, coming in from developed countries, which have strong currencies, will find it easy to set apart the required capital but the domestic companies would find this a definite handicap to be solved only over a period of time. Whether insurance will remain exclusively in the hands of government-owned companies or not, is a matter of policy. These are considerations of sovereignty of state and are not negotiable in any forum, multilateral or otherwise. Changing policy is the prerogative of the Governments, in their own way and in their own time.

Without getting into the controversy of matters pertaining to government policy, I would like to briefly examine what could be the *strategies* of such insurance companies, in the light of liberalisation. These companies can use this opportunity, to emphasise the importance of productivity, to achieve competitiveness and efficiency.

Ability of countries to produce a high and rising standard of living depends on the productivity, with which labour and capital are employed. It depends on both the quality and features of products/services, which determine the prices that they command and the efficiency with which products and services are delivered. Productivity is the root cause of a country's per capita income and it should determine employees' wages. It should also determine the return on capital for investors.

Professor Michael E. Porter of the Harvard Business School in an article on "The Competitive Advantage of Nations" based on an empirical study of 10 important trading nations says "national prosperity is created not inherited". It does not grow out of the country's natural endowments, its labour pool, its interest rates or its currency value, as classical economists insist. A nation's competitiveness depends upon the capacity of its industry to innovate and update. There are striking differences in the pattern of competitiveness in every country. No nation can or will be competitive in every or even most industries. Ultimately, nations succeed in a particular industry because their home environment is more forward looking, dynamic and challenging. Ultimately Professor Porter concludes that the essence of competitive advantage is productivity.

(c) *Challenges and Strategies*

Instead of viewing liberalisation as a threat to established positions, I would recommend it being used as an opportunity to upgrade levels of productivity and service. Any threat of external competition will then seem much less intimidating. In the present world scenario, I feel liberalisation and removal of barriers is somewhat inevitable. When customers, who were exposed to a single source of service, are exposed to products and service from countries where competition prevails, they cannot be blamed if they seek comparable domestic services. If the existing institutions would do some introspection and tone up their attitudes, work culture, productivity and discipline, I believe no customer is going to insist that he should be served by an overseas service-provider.

Liberalisation of the Indian economy is expected to place economic development of the country on a fast track. Availability of adequate insurance protection is a pre-requisite, for successful development of the economy. The General Insurance Industry therefore takes the current liberalisation moves as an opportunity and has initiated steps to face challenges that lie ahead. I shall briefly discuss the challenges and the strategies to meet them.

(i) With the progressive improvement in insurance awareness on the one hand and the development of high technology on the other, general insurance will register high growth. Insurance community will broadly consist of the following segments:

(a) Rural/Agriculture
(b) Urban — Personal lines
(c) Urban — Consisting of traders, shopkeepers, small scale operators etc.
(d) Urban — Professionals, Specialists, etc. whose occupation is based on individual skill and expertise
(e) Industrial/Commercial Groups
(f) Activities which are sophisticated and/or high exposure oriented such as atomic energy, power, offshore oil drilling, satellites, Aviation, petrochemical complexes, etc.

In each of these groups, consumer consciousness is growing. Providing satisfaction to each of these segments will be a challenge the general insurance industry will have to face in the future.

(ii) General Insurance in India, by the turn of the century is likely to generate an annual premium of the order of Rs. 12000 crores, service nearly 100 mn. policyholders annually, pay nearly 10 mn. claims involving an outgo of approximately Rs. 7000 crores per annum. Management of the vast product range with thrust on customer satisfaction is indeed a challenge.

The three key areas to be tackled in this respect are:

(a) Speedy and correct issuance of documents — Quality assurance

(b) Expeditious disposal of claims — Efficiency

(c) Proper building up of accounts and statistics — Systems

These cannot be achieved without introduction of technology, computers etc. M.O.U. with Unions is under discussion. Obviously the massive volume of the countrywide spread of business will need a greater decentralisation of authority, review of the organisational infrastructure, systems and procedures, innovativeness in product development, simplification of policies and procedures, requisite marketing strategies and delivery systems. Greater emphasis will have to be laid on human resource development and computerisation. Accent will be on development of professional and managerial skills in an environment of improved discipline, productivity and accountability.

In the course of its day to day operations, the industry utilises the services of outside professionals *such as surveyors and advocates.* There is a perceived need for better interaction and development of their skills so that the customer gets quicker and better service. The industry will have to respond more vigorously and maintain constant interaction with various groups in trade and industry and other consumer groups besides regulatory bodies. Managers at all levels will have to work in a spirit of enterprise and all categories of employees need to be more responsible and courteous to customer requirements and expectations. At all levels, members of the industry have to cast off their 'inward' looking attitude and adopt an 'outward' looking attitude. For functionaries accustomed to placing a higher priority on improvement of terms of employment shifting their focus to customer would not be easy. This would be achieved through training/HRD efforts. Major initiatives are already underway in these areas. For instance the general insurance industry is holding a series of collective meetings with leaders of unions at all levels — Staff, Officers, Development Officers — across affiliation of any kind. In the first meeting of its kind held recently all Unions, Association leaders appreciated the position and assured their support to measures initiated to improve discipline, productivity and accountability.

(iii) In its efforts to manage class business, i.e. business emanating from high technology industries as well as specialised covers, the industry will have to lay greater emphasis on risk management techniques and would be called upon by trade and industry to advise on areas of risk retention and risk transfer. There is an All India Risk Management Association with membership from trade, industry and commerce which is doing sterling work in promotion of risk management. The industry would have to step up its efforts on research and development, so that characteristics of each socio-economic group, identification of risk exposure and their implications for each sector of society would be studied leading to product innovation and product redesign. Other crucial areas such as pricing of products, policy wordings, loss behaviour pattern, methodology of claim settlement, recent trends in legal interpretations, loss control, etc. will require continuous study and updating. Well organised Research and Development Units would be an essential support service for the management.

(iv) Trends in international markets in regard to products, rates and terms have to be constantly assimilated particularly by those who are in charge of these affairs in our rating body viz. Tariff Advisory Committee. An Ostrich-like approach would have to be discarded.

(v) General Insurance Industry has emerged as a large investment institution in the country and its role is likely to grow stronger in the years to come. Its responsibility to fund the socio-economic development in the country will be more pronounced. It calls for a strategic approach to fund management. In the liberalised regime, claim payments will have to be faster to ensure quicker restoration of the financial position of any enterprise after a loss. We shall have to foresee the requirements and manage our operations in a manner consistent with our commercial obligations and social purpose. It would be necessary to streamline our funds flow through the use of modern technology like networking of computer systems so that our investment income gets enhanced and money is handled more efficiently.

Greater control will have to be exercised on loss minimisation and generation of underwriting profits.

Further diversification into financial activities have to be considered.

(vi) Reinsurance is an integral part of the insurance industry. Even though in this stage in this area the general insurance industry has strength it has to be fully geared to meet the new challenges in the fields of reinsurance that affect developing countries, mainly in their capacity as buyers of reinsurance from abroad. With the growing volume of business, particularly in the high technology areas, natural catastrophes, insurance liability, hull, aviation, etc. reinsurance operations will be under pressure. We are perceived as a industry with requisite professional skills, trained manpower, strong capital base with ability to pay claims. We need to further develop in these areas so as to continue playing vital role in international insurance and reinsurance market.

In future, the General insurance industry will have to use multiple delivery systems. To continue growing, companies will need the flexibility to ascertain and respond to customers' needs. Insurance services will no longer be just bought, it will have to be sold in a buyers' market; new channels of marketing personal insurances, like over the counter covers, will have to be devised. The insurance industry cannot afford to lose sight of its ultimate raison d'etre — service to a public in need of an efficient competitive method of protection against unforeseen losses.

Conclusion

General Insurance has played its role designated to it at the time of nationalisation. GIC and Subsidiaries render service to weaker sections through a combination of commercial business goals with social responsibility, besides serving the traditional, industrial, commercial, financial and household sectors of the economy. The industry offers a wide mix of traditional and non-traditional insurance schemes. With growing revenue and proper deployment of investible funds GIC has emerged as a large investment institution in India, besides making a handsome contribution to the national exchequer, by way of corporate tax and dividend to Central Government. With mobilisation of savings through GIC Mutual Fund and Housing Schemes of GIC Grih Vitta Ltd., the industry offers a range of financial services to the Indian public. General insurance industry in India, I believe, has emerged as a organisation of significance in serving the Nation.

It may be argued that the above performance of the Industry has been achieved in a monopoly situation and that such concentration of ownership has caused restrictive practice in the light of non-existence competition. This would be a superficial assessment. Arising from previous experiences, Government set up GIC as a holding company with four subsidiaries to compete for their share in the market. By and large, competition has benefited the insuring public. The large industries and even the smaller ones use one company against another for better services and through their exacting demands keep the Branch Managers and Divisional Managers on their toes.

I am mentioning these to reiterate that despite perceptions to the contrary, General Insurance Industry has achieved the Government's policy objectives. The context in the world scene has now changed. So have our Government's policies. It does not necessarily follow that what was done under different set of circumstances was either irrelevant or futile.

Perhaps, the weight of excessive rules and regulations, intervention from several investigating agencies, employees' awareness to rights rather than responsibilities, deteriorating climate of discipline, multiplicity of layers of controls, etc. may have resulted in the perception and feeling that things could be better. Despite all these, consistent growth, profits increasing strength, playing a social role, etc. have indeed been achieved. The industry continues to be professionally managed and is determined to improve its performance in terms of customer service.

Liberalisation will expose insuring public to international practices. Even though direct competition within India is not brought about, clients would seek a more dynamic customer-oriented approach from insurers and their employees. The present insurers are certainly capable of meeting these challenges. But they would need the support of Government and the bureaucracy in ensuring operational freedom without diluting accountability. In this context I would like to quote from a press report on the recently held open session of the 72nd annual general meeting of the Employers Federation — Southern India on Globalisation of Indian Industry — role of bipartism, "There should be minimum of Government role and legal intervention and employers and employees should be allowed and encouraged to work together and solve common problems of industry. There was need for a change of old attitudes on the part of Management, workers and Government". Further the outgoing President of EFSI said "since the economy had ceased to be sheltered with the advent of the new policy, it was in the interest of survival of both management and workers to avoid strife". (The Hindu 29-5-92)

These are not insurmountable, but efforts to improve can succeed only with all-round support from owners, clients and employees. *Liberalisation is an opportunity to be exploited, not necessarily a threat.* Customer has to reign supreme. All other considerations have to be relegated. The coming months and years will test the industry's will and ability.

I can do no better than conclude with Shri Palkhiwala's quotation from his lecture at Trinity College, Cambridge, November 1990:

> "Generally speaking, we are a sloppy nation. But there is one surprising thing. If you insist upon nothing but the best, you often get it in India, comparable to world standards. India can and does respond to uncompromising insistence on quality."

Let us then, insist on quality in insurance service.

ANNEXURE - I

SECTORAL SHARES OF GDP

(Per cent)

	Agriculture	Industry	Services
1950-51	55.8	15.2	29.0
1960-61	45.8	20.7	33.5
1970-71	45.2	21.9	32.9
1980-81	38.0	25.9	36.1
1989-90	32.4	28.1	38.5

(Source: CMIE, Basic Statistics relating to the Indian Economy, Vol. 1, August 1991)

ANNEXURE - II

SECTORAL GROWTH RATES

(Per cent)

	Agricultural Sector	Industrial Sector	Services Sector	Total GDP
1950-51 to 1960-61	3.0	6.2	4.1	3.9
1960-61 to 1970-71	2.3	5.4	4.6	3.7
1970-71 to 1980-81	1.5	4.0	4.3	3.1
1980-81 to 1989-90	3.5	6.7	6.4	5.5
1950-51 to 1975-76	2.2	5.3	4.2	3.4
1974-75 to 1989-90	3.2	6.0	5.8	4.9
1950-51 to 1989-90	2.5	5.6	4.8	4.0

(Source: CMIE, Basic Statistics relating to the Indian Economy, Vol. 1, August 1991)

ANNEXURE - III

PERFORMANCE AT A GLANCE — GENERAL INSURANCE INDUSTRY

(Rupees in Crores)

Indicator	1975	1986	1987	88/89	89/90	90/91	Remark
1. Capital — Equity: GIC	20	64	64	64	64	108	Third Bonus issue of 2:3 made in 1990
: Subsidiary Cos	14	104	104	104	104	160	
: Total	34	168	168	168	168	268	Total Asset base
2. Gross Direct premium (in India)	254	1361	1565	1798*	2174	2796	Average annual growth rate of 17 per cent recorded since 1975
3. Percentage increase over previous year	15.3	17.5	15.0	14.9*	20.9	28.6	There is substantial increase in business in 1990/91 due to upward revision in Motor Tariff.
4. Gross Direct Premium as percentage of GNP	0.36	0.53	0.54	0.52	0.55	0.55	Insurance penetration shows a gradual increase
5. Ratio of Net Claims to net premium (%)	48.5	66.2	63.8	74.3	68.7	69.2	
6. Percentage of expenses commission etc. to net premium	28.4	24.2	24.2	26.7	26.6	23.8	
7. Investment Income**	38	289	338	390*	494	603	**Investments are made as per Govt. guidelines which stipulate deployment of 70 percent accretion in socially oriented sectors

Indicator	1975	1986	1987	88/89	89/90	90/91	Remark
8. Yield on Investment income (%)**	7.9	11.6	11.6	11.5	12.5	12.6	There is steady increase in yield
9. Profit before Tax	79	318	400	271*	371	482	
10. Profit after Tax	29	185	229	183*	258	334	
11. CONTRIBUTION							
(a) Dividend							
Paid to Govt. by GIC	5.23	16 13	16.13	20.16	26.87	26 87	
Paid by subsidiary Cos to GIC	3.73	35.02	36.32	45.40	36.32	56.00	
(b) Income Tax paid	48	133	171	88*	114	148	
(c) Socially oriented Investment (for the year)**	38	235	244	375*	308	390	
12. ORGANISATIONAL GROWTH	789	3089	3489	3730	4025	4181	
(a) No. of Offices	27033	55727	63443	70940	75422	80192	
(b) No. of Employees							

* 1988/89 covers the 15 months period from 1-1-1988 to 31-3-1989. However the figures in asterisk have been annualised to facilitate comparison.

ANNEXURE - IV

WORLD TOTAL INSURANCE PREMIUMS 1989

	All Insurance		Non-life Insurance		Life Insurance	
	Total Premiums (dollars)	World Share (%)	Total Premiums (dollars)	World Share (%)	Total Premiums (dollars)	World Share (%)
North America	482,486	39.87	279,887	48.57	202,599	31.97
Latin America	7,072	0.58	5,356	0.93	1,716	0.27
Europe	375,224	31.01	192,810	33.45	182,414	28.79
Asia	310,803	25.70	82,535	14.32	228,268	36.02
Africa	13,202	1.09	5,192	0.90	8,010	1.26
Oceania	21,213	1.75	10,520	1.83	10,693	1.69
World Total	1,210,000	100.00	576,300	100.00	633,700	100.00
OECD	1,105,859	91.39	531,289	92.19	574,570	90.87
Group of Seven[1]	986,772	81.55	467,935	81.20	518,837	81.87
EC	290,380	24.00	152,951	26.54	137,429	21.69
EETA	46,692	3.86	21,962	3.81	24,730	3.90
Eastern Europe[3]	36,962	3.05	17,081	2.86	19,881	3.14
Asean[2]	4,566	0.38	2,360	0.41	2,206	0.35

1. Germany Fed. Rep., Canada, United States, France, Great Britain, Italy, Japan.
2. Indonesia, Malaysia, Philippines, Singapore, Thailand.
3. East Germany, Yugoslavia, Poland Romania, Czechoslovakia, USSR, Hungary.

Source: Swiss Reinsurance Company, **Sigma** February, 1991.

ANNEXURE - V

PREMIUM DENSITY AND SHARE OF GDP IN SELECTED COUNTRIES, 1989

Country	World Ranking (Total Premiums per capita)	Total Premiums per capita (dollars)	Non-life per capita (dollars)	Life per capita (dollars)	Total Premiums/GDP (%)	Non-life/GDP (%)	Life/GDP (%)
Developed Countries							
Switzerland	1	2376	1019	1357	8.43	3.62	4.81
Japan	2	2150	533	1617	9.71	2.41	7.30
United States	3	1817	1062	755	8.78	5.13	3.65
Finland	4	1418	505	913	5.75	2.05	3.70
Sweden	5	1385	563	822	6.00	2.44	3.56
United Kingdom	6	1336	485	851	9.38	3.41	5.87
Netherlands	7	1281	677	604	7.67	4.05	3.62
Germany, Fed. Rep.	8	1242	771	471	5.81	3.61	2.20
Australia	9	1158	580	579	6.88	3.44	3.44
Norway	10	1140	703	438	5.08	3.13	1.95
Developing Countries							
South Korea	21	504	92	412	10.19	1.85	8.34
Singapore	24	329	152	177	3.03	1.40	1.63
Malaysia	33	64	35	28	2.88	1.60	1.28
Hungary	35	45	32	13	1.76	1.26	0.50
Mexico	41	28	18	10	1.26	0.83	0.43
Yugoslavia	53	11	11	00	2.79	2.77	0.02
Egypt	54	11	9	2	1.02	0.84	0.18
Argentina	55	10	10	1	2.06	1.92	0.14
Brazil	56	8	8	1	1.01	0.91	0.10
India	59	5	2	3	1.50	0.49	1.01
Nigeria	64	2	2	0	1.05	0.89	0.16

Source: Swiss Reinsurance Company, **Sigma**, February, 1991.

ANNEXURE - VI

TOTAL INSURANCE PREMIUMS IN SELECTED COUNTRIES, 1989

	World Ranking (Total Premiums)	All Insurance		Non-life Insurance		Life Insurance	
		Total Premiums (dollars)	World Share (%)	Total Premiums (dollars)	World Share (%)	Total Premiums (dollars)	World Share (%)
Developed Countries							
United States	1	453,201	37.45	264,914	45.97	188,287	29.71
Japan	2	264,703	21.88	65,625	11.39	199,078	31.42
Germany, Fed. Rep.	3	76,537	6.33	47,531	8.25	29,004	4.58
United Kingdom	4	76,401	6.31	27,751	4.82	48,650	7.68
France	5	63,271	5.23	29,527	5.12	33,744	5.32
USSR	6	29,522	2.44	12,650	2.20	16,872	2.66
Canada	7	29,285	2.42	14,973	2.60	14,312	2.26
Italy	8	23,374	1.93	17,614	3.06	5,760	0.91
South Korea	9	21,343	1.76	3,883	0.67	17,460	2.76
Australia	10	19,472	1.61	9,745	1.69	9,727	1.54
Developing Countries							
India	23	3,901	0.32	1,276	0.22	2,625	0.41
Mexico	27	2,342	0.19	1,536	0.27	806	0.13
Brazil	31	1,224	0.10	1,101	0.19	123	0.02
Malaysia	32	1,082	0.09	601	0.10	481	0.08
Singapore	35	883	0.07	408	0.07	475	0.08
Egypt	42	599	0.05	496	0.09	103	0.02
Hungary	45	480	0.04	343	0.06	137	0.02
Argentina	50	324	0.03	302	0.05	22	0.004
Yugoslavia	52	266	0.02	264	0.05	2	0.001

Source: Swiss Reinsurance Company, Sigma, February, 1991.

ANNEXURE - VII

TEN WORST CATASTROPHES IN 1990

Insured Damage (In US$ MLN.)	Event	Country
4,600	Winter Storm "Daria"	Ireland, France, Great Britain, Benelux, Germany Denmark
3,200	Winter Storm "Vivian"	Ireland, Norway, Great Britain, Sweden, Finland, Denmark, France, Benelux, Germany, Switzerland, Austria
850	Winter Storm "Herta"	France, Luxembourg, Germany
770.	Winter Storm "Wiebke"	Great Britain, France, Switzerland, Germany, Austria, Netherlands, Italy
625	Storm, hail, tornado (Catastrophe No. 45)	USA, Colorado
400	Snow, Cold, Hail, Tornados	USA, 20 States
389	Hailstorm	Australia
350	Winter Storms "Ottilie" & "Polly"	France, Benelux, Germany, Switzerland, Alpine Countries
300	15 aircraft of Kuwait Airways siezed by Iraq.	Kuwait
270	Typhoon, "Flo" Flooding.	Japan

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