

**NEW HORIZONS IN THE  
GENERAL INSURANCE  
INDUSTRY**

**V. C. VAIDYA**

**1982**

*Published by*

**THE A. D. SHROFF MEMORIAL TRUST**  
235 Dr. D. N. ROAD,  
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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
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## INTRODUCTION

The A. D. Shroff Memorial Trust arranges every year a public lecture to be delivered by distinguished speakers — by turn, on Banking, Insurance and Industrial Finance. These were the fields in which the late A. D. Shroff contributed so much to the country.

In February 1982 a thoughtful lecture on “New Horizons in General Insurance” was delivered by Mr. Vasant C. Vaidya. With his wide and practical experience, Mr. Vaidya has dealt with the subject in a very effective and thorough manner. A former Chairman and Managing Director of the New India Assurance Co. Ltd., Mr. Vaidya has made a comprehensive presentation of the achievements of the General Insurance industry. He has also taken note of its shortcomings (and which industry is free of them?) and the calculated risks it should take to expand its horizons and thereby play a more beneficent role in the economy.

The Board of Trustees has pleasure in publishing the text of Mr. Vaidya’s lecture for the benefit of the public, policy-makers and research students.

Sd/-

Bombay,  
June 7, 1982.

N. A. PALKHIVALA  
*Chairman*



## 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."

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# NEW HORIZONS IN THE GENERAL INSURANCE INDUSTRY

V. C. VAIDYA

The late Shri A. D. Shroff was well known and respected in the commercial and industrial world. He occupies an important place in the history of the General Insurance Industry in India. He joined the Board of the New India Assurance Co. Ltd. in 1937 and took over as Chairman of the Board in 1946. This position he occupied till his untimely demise in 1965. The New India, as you know, was the largest general insurance unit in the Indian Insurance market and it owed its pre-eminent position to the dynamic and innovative leadership provided by Shri A. D. Shroff, the Chairman, and Shri B. K. Shah, the Managing Director.

Shri Shroff was also the Chairman of the India Reinsurance Corporation Limited which was promoted by insurers operating in India — both

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*This is the text of the public lecture by Shri V. C. Vaidya, ex-Chairman-cum-Managing Director, New India Assurance Company Limited, under the auspices of the A. D. Shroff Memorial Trust, delivered in Bombay on 17th February, 1982.*

Indian and foreign. This Corporation was established to promote the local reinsurance market and reduce the Indian market's reliance on overseas reinsurance markets.

I therefore feel greatly honoured to have been invited by the Trustees of the A. D. Shroff Memorial Trust to speak before this distinguished gathering on the subject of, "New Horizons in the General Insurance Industry". The invitation came as a very pleasant surprise and I must thank the Trustees for selecting me to deliver this address under the forum of the Trust.

I joined the 'New India' in 1954 as a Company Secretary and had the privilege and opportunity to be associated at the Board and Company meetings which were so ably conducted by Shri A. D. Shroff. It was a very valuable experience to me to observe this financial genius at work and I did benefit from just observing him. It is fitting that this talk on "New Horizons in the General Insurance Industry" should be under the auspices of the A. D. Shroff Memorial Trust because when we visualise the future image of the General Insurance Industry in India we are doing so from a base which was soundly established under the leadership of Shri A. D. Shroff.

If we are to make a realistic projection of the challenges and opportunities that lie ahead for the General Insurance Industry in India and forecast its likely response to these challenges and

opportunities, it will be necessary to take a look at the present position of the Industry. I would, therefore, like to review briefly the record of the Industry in setting up an effective organisational structure and administrative system, developing its business and, improving its profitability. I would also touch upon the role it has played in the financial market, and, in discharging its social obligations. It may also be pertinent to refer to the operations of Indian General Insurance Industry in the overseas markets.

*Present Position of the Industry:*

The General Insurance Industry has now completed a decade of working under state control and ownership. If you look at the record of the Industry during this period you will find that it has to its credit many achievements.

At the time of Nationalisation a policy decision was taken that the General Insurance Industry would not operate as a single monopoly undertaking, but, as four Companies freely competing with one another. Accordingly, the 107 units transacting General Insurance Business in India — both Indian and Foreign — were amalgamated into four Subsidiary Companies on a four-tier organisational structure — Head Office, Regional/Area Office, Divisional Office and Branch Office. These Companies — the National Insurance Company Limited with Head Office at Calcutta, The New India Assurance Company Limited with Head Office at Bombay, The Orien-



tal Fire and General Insurance Company Limited with Head Office at Delhi and the United India Insurance Company Limited with Head Office at Madras — operate under a holding company, namely, the General Insurance Corporation of India.

The merger of 107 units, each with its own system of working, into a new organisational set-up was accomplished without serious disturbance to organisational growth. The four Companies have been well-established and are steadily extending their representation by opening Branches throughout India. The number of Branch Offices established have grown by 70% in the past five years. Branch Offices have been established in many new areas. At present, the number of offices in India exceed 1250. Each of the companies write business in India of over Rs. 100 crores a year. The concept of four Companies operating side by side has been very beneficial to the General Insurance Industry as it has provided incentive for performance through competition and helped to evolve standards by which performance can be judged in the matter of growth and service.

#### *Business Growth:*

The business progress of the General Insurance Industry in the post-nationalisation period has been quite remarkable. The gross direct premium written in India has risen from Rs. 161 crores in 1972 to Rs. 580 crores (estimated) in 1981. This means an average annual increase of around

15%. It is significant that this increase was achieved inspite of two beneficial measures taken by the Industry during this period. Firstly, the fire tariff rating structure was rationalised resulting in reduction of fire premiums by nearly 20%. Secondly, the agency commission structure was revised, whereby, major clients received benefit of reduction in gross premium by approximately 3.5%.

In the traditional field, the Industry has made good progress. In addition to evolving an All India rating structure for fire business, market agreements have also been formulated in certain classes of business like engineering, bankers' indemnity, and personal accident which has resulted in better risk evaluation for the purpose of premium rate fixation. The screening of vessels and loading of premium rates on shipment by vessels flying flags of convenience has helped in reducing unhealthy practices in the movement of tramp cargo. The engineering services provided by the Industry have been strengthened and the Industry employs over 140 Engineers to provide technical guidance to its customers.

The growth has been particularly satisfactory in non-traditional lines of business. Some of the notable insurance covers in this sector have been cattle insurance, agricultural pump set insurance and the Janata Personal Accident Insurance. Cattle Insurance in particular has shown a spectacular rise, the premium rising ten-fold from Rs. 1.30

crores to Rs. 13 crores during the period 1976-1980. Pumpset Insurance Premium during the same period has risen from Rs. 10 lacs to Rs. 50 lacs and sales of Janata Personal Accident Policies have reached the Rs. 1.50 crore mark. Crop Insurance is being undertaken by the General Insurance Industry on a pilot basis and the lessons learned in conducting the pilot projects will be of immense value to the Government for formulating a comprehensive crop insurance scheme throughout the country.

*Claims:*

The claims position as a whole for the Industry is satisfactory. The disposal of claims has improved inspite of increase in inflow of claims and the Industry now settles over 6 lac claims annually as against  $4\frac{1}{2}$  lac claims at the beginning of the decade. As a result the ratio of number of outstanding claims to annual inflow of claims has fallen from 80% to 66%. The claims ratio has risen from around 49% in 1972 to about 60% currently. This I feel is a healthy position because a very low claims ratio means premium rates are being over-charged. The higher ratio means the Industry offers a better return to the client for the premium paid. As a result of the increase in the claims ratio, underwriting profits have not risen significantly, but overall profitability has been maintained due to rise in income from interest and dividends on the growing investment of funds.

*Profitability:*

The Government at the time of nationalisation had paid out Rs. 38.05 crores by way of compensation for the Companies and Undertakings it has acquired. The Government had also made a contribution of Rs. 50 lacs towards share capital of G.I.C. Thus the paid-up capital of the G.I.C. stood at Rs. 38.55 crores including Rs. 19.05 crores of preference capital. As against the total outlay of Rs. 38.55 crores by the Government, the contribution of the General Insurance Industry to the national exchequer during the period 1974 to 1980 has been nearly Rs. 445 crores — Rs. 407 crores by way of direct taxes and nearly Rs. 38 crores by way of dividends on the share capital. Besides the total preference capital of Rs. 19.05 crores originally subscribed by the Government has now been fully redeemed. This record of the General Insurance Industry therefore stands out in the Public Sector.

*Investments:*

The investible funds of the General Insurance Industry have grown substantially from Rs. 360 crores in 1973 to Rs. 1100 crores. The annual accretion of funds generated by the Industry, which was around Rs. 60 crores at the beginning of the decade, now exceeds Rs. 100 crores. The General Insurance Industry is considered as a major financial institution in the Indian capital

market and has been playing an effective role as an All India Financial Institution. The Industry has played an important role in providing support to the capital market and the development of primary and secondary debenture market.

As far as preference capital is concerned the General Insurance Industry is perhaps the main support for preference share issues. The GIC and its four subsidiaries have been declared as an All India Financial Institution in 1978 under the Companies' Act and the General Insurance Corporation has joined the All India Consortium for Financial Institutions in 1976. The GIC takes the opportunity of monitoring jointly with other institutions the industrial climate and financial position of the corporate sector to some extent. Along with other financial institutions, the GIC nominates representatives on the Boards of some assisted concerns. I could cite a few cases where active intervention of the Institutions has not only saved the units from total 'sickness', but also brought back the Companies to normal and healthy position.

The Industry is a major source for providing funds to State Governments and HUDCO in their programme for providing housing to the economically weaker sections in rural and urban areas. More than Rs. 150 crores have gone in the EWS housing sector during the last three years. The cost of a house as defined under the guidelines

should not exceed Rs. 8000/- and on rough calculations therefore more than one and a half lac houses have been financed by the General Insurance Industry during the past three years. These loans are mostly on softer terms and for long periods. The General Insurance Industry is also making available loans on easy terms to State Governments for purchasing fire fighting equipment.

*Staff Position :*

The General Insurance Industry which employed nearly 22,000 staff at the time of nationalisation, now employs over 41,000 as full time employees, apart from the large number of agents who work on part-time basis for the Industry. The Industry has been steadily recruiting manpower to service the growing business and has emerged as a major source of employment on the Indian labour scene. The employees working in the 107 units prior to the merger under the new organisational set worked under widely differing service terms and conditions. The salary scales have now been rationalised and comprehensive uniform service terms and conditions formulated for all categories of staff.

Training facilities have been expanded during the past decade, as, it is recognised that in a service industry manpower constitutes the plant and equipment on whose efficiency depends the performance. Training Centres have been established by the Companies in principal

cities to impart basic training to new recruits. Refresher training programmes have been also held for existing staff. With growing specialisation in the Industry, specific courses have also been devised which are job oriented. The services of professional training establishments have been taken to develop management skills at higher levels. A few officers have also been deputed overseas to familiarise themselves with the latest techniques in the Insurance world. The progress made in the training sector has received international recognition and India has been chosen as a Regional Training Centre for imparting Insurance and Management training by the UNCTAD. This country has emerged as a leader in the area of Insurance training among developing countries. Our training establishments have received many students from overseas and our lecturing faculty is in great demand at training establishments in the Third World. The establishment of the National Insurance Academy to conduct research in management development programmes for the General Insurance Industry will give a boost to training activities.

#### *Foreign Operations:*

The foreign operations of the Indian General Insurance Industry can be broken up into three categories:

- (1) Direct business operations through branches/agencies.

- (2) Promotion of Subsidiary/Association/Joint Companies with local participation.
- (3) Reinsurance exchange operation.

Direct business operations carried on in 28 countries have yielded a premium of Rs. 34 crores in 1980. Foreign business has not expanded at the same rate as Indian business as the emphasis here is more on developing a balanced portfolio. The potential for direct business growth is also limited in view of growing sentiment to encourage local companies.

The General Insurance Industry has, therefore, been paying increasing attention to promotion of local Companies with local participation. The Industry has Subsidiary/Associate Companies in four countries. In addition, in collaboration with L.I.C. and local interests it has promoted joint insurance ventures in two other countries. The reinsurance operations have been aimed at maximising the retention capacity of the Indian General Insurance Industry and to obtain better trading reciprocity. The Industry has made quick progress in this regard and at present retains 86.9% of the gross direct premium written in the country. In keeping with the needs of the developing countries of Asia for increased co-operation in the field of reinsurance, the United Nation's ESCAP have set up the Asian Reinsurance Corporation. India has been actively and closely associated in setting up this Corporation.



*Social Obligations:*

The General Insurance Industry has been very conscious of its national obligations as public sector undertaking. Reservations and concessions have been provided in the recruitment policies for SC, ST, Physically Handicapped and Ex-Servicemen. One of the most notable steps taken by the Industry has been its pioneering role in promoting the campaign for prevention of loss and reduction of wastage. The Industry has sponsored the Loss Prevention Association of India for promoting Loss Prevention activities. The Association had done valuable work in providing advisory and consultative service to the Industrial organisations. The Industry has also set up Cargo Loss Minimisation Cells at many major Indian ports to help in reducing loss in cargo handling. In keeping with emphasis placed currently on vocational training in education, the Industry has offered facilities and other assistance for introducing insurance as a subject for study at secondary school and college education.

It may assist in appreciating the present set-up of the Industry if I project a few pertinent figures pertaining to the Industry. (See pages 13 and 14).

*Problems and Prospects:*

We may, therefore, conclude that the nationalised general insurance industry has, during the

*GENERAL INSURANCE INDUSTRY IN  
INDIA — Figures for 1980*

1. *Organisational Set-up:*

Regional/ Area Offices	Divisional Offices	Branch Offices	Total
22	368	882	1272

2. *Indian Business Premium:*

Fire Department	...	Rs.	141.43 crores
Marine Cargo Deptt.	...	Rs.	100 14 crores
Marine Hull Deptt.	...	Rs.	32.47 crores
Motor and Miscellaneous Deptts.	...	Rs.	195.35 crores
Total	...	Rs.	469.39 crores

3. *Claims Ratio:*

Fire Department	...		30.5%
Marine Cargo Deptt.	...		68.4%
Marine Hull Deptt.	...		68.9%
Motor and Miscellaneous Deptts.	...		72.2%
Total	...		59.3%

4. *Staff Strength:*

Class I (Officers)	...	5,705
Class II (Development Staff)	...	9,385
Class III (Clerical Staff)	...	21,625
Class IV (Subordinate Staff)	...	4,088
Total	...	<u>40,803</u>

5. *Investment:*

(a) Central Govt. Securities and Special deposits with Government	...	Rs. 242.19 crores
(b) State Govt. Securities and other approved securities	...	Rs. 104.30 crores
(c) Housing Loans and Fire Fighting	...	Rs. 107.83 crores
(d) Shares/Debentures of Companies	...	Rs. 280.87 crores
(e) Term Loans	...	Rs. 46.64 crores
(f) Immovable properties	...	Rs. 11.87 crores
(g) Participation Certificates, Bills Rediscounting, Fixed deposits	...	Rs. 248.82 crores
Total	...	<u>Rs. 1042.52 crores</u>

past decade, firmly established itself on a sound footing and can be geared up to seek new horizons. Even if the Industry maintains its current pattern of growth, the future looks bright. The share of the General Insurance Industry in the Gross National Product of the country is around 0.4%. In the VIth Plan period, it is expected that the Gross Domestic Product will grow by 5.2%. Assuming that inflation during the period will run at about 15% and, that, the General Insurance Industry will be able to maintain its recent growth rate, I expect that general insurance premium by 1985, will reach Rs. 1200 crores mark.

#### *Business Projection:*

The Fire Department's share in the overall general insurance portfolio had slightly declined following the reduction in premium rates. However, with the proposed massive investment outlays in the industrial sector by the Government, expansion of private sector, and, the increasing values of current industrial assets, I foresee that Fire business will grow steadily and the department will write a premium of over Rs. 350 crores by 1985. The claims position continues to be satisfactory inspite of reduction in premium rates but I do not foresee any further premium reduction in the immediate future.

In the Marine Department, the business growth may not be exceptional. The main problem

in the immediate future will be to keep the claims ratio under control. The cargo losses have been rising steadily and if the trend continues, the Industry may be forced to raise its rating structure. Fortunately, in the Marine Hull Sector, loss ratio appears to have stabilised but if there is further deterioration, increase in rates will be inescapable.

The Motor Department has been plagued by a very high loss ratio. The Industry has this year, raised its premium rates substantially. I am apprehensive that this department should see a cycle of claims chasing premium rates upwards. Motor claims ratio has been rising steadily due to increase in repair charges and higher court awards. Without some measure of underwriting and claims control, the motor premium rates may show a continual tendency to rise. The Motor premium figures over the next five years will show a substantial increase partly due to the increase in premium rates, and, partly due to the increased production of vehicles.

The Miscellaneous Department which encompasses the non-traditional field also has been showing a growth rate higher than other departments and I expect that this department will write around Rs. 250 crores premium by 1985. In this main group, Engineering Insurance, Personal Insurances and Rural Non-traditional Insurances are expected to achieve higher growth rates.

### *Growth in Investments:*

The growth in business will naturally mean an increase in the investible funds at the disposal of the Industry. The Industry, therefore, will have an important and active role to play in the development of capital market and also an active and constructive role in the development of the Public Sector. In the next five years, an amount of not less than Rs. 200 crores will be available each to (1) the socio oriented schemes like HUDCO, (2) Government Loans and (3) to the capital market, even after making its due contribution to the national exchequer through payment of taxes and dividends.

### *Expansion in Organisation:*

To service the business volume of Rs. 1200 crores, the Industry will have to expand its organisational set-up. I visualise that in the next five years, the number of offices will go up from 1250 to 2000 and the staff strength will rise from the present figure of 41000 to around 65000. The Industry will have to organise a planned and phased recruiting and training programme for the proposed substantial addition to its work force. Overall, therefore, the industry faces a tremendous task in the immediate future and it may be tempted not to add to its problems by looking for new challenges and opportunities.

*Need for Change:*

However, for many reasons I think that the coming years will see a determined effort by the General Insurance Industry to search for wider horizons. Firstly, a critical analysis of past performance shows many achievements, but, at the same time there are also signs of weaknesses which if not corrected, may endanger future growth. Secondly, the primary objective of nationalisation has been to spread the message of insurance to all sectors of the community. The Industry will have to break new ground if it is to achieve this primary objective. I would, therefore, like to project my views on the deficiencies which, I think, have come to light from a critical review of past performance and place for consideration my suggestions on the course of action that should be taken by the Industry to realise its full potential. Broadly, I would outline suggestions for possible changes in the General Insurance Industry in the following areas:

- (a) A new set-up to realise the vast non-traditional insurance business potential.
- (b) Revised pattern of working to improve efficiency of operations in the traditional field.
- (c) Develop closer links with foreign markets.
- (d) Better utilisation of investible funds.
- (e) Extending commitment to the customer and the community.

*Business Potential:*

The business growth of the past decade appears very impressive when set out in crores of rupees. However, the performance loses a bit of its lustre if you discount the impact of inflation. It will be found that the share of the General Insurance Industry in the gross domestic product has remained constant around 0.4% which means that the Industry's real growth has not been much higher than the rise in Gross Domestic Product. Secondly, if you compare the progress of General Insurance Industry in India with the growth of General Insurance Business worldwide, it will be observed that during the period 1972-78, the worldwide business figures show growth of 242%, whereas the corresponding figures for India is 214%. The Indian business figures of course have been affected by the reduction in fire premium rates and the revised agency commission structure. Overall, however, it shows that the performance of the General Insurance Industry in India in the context of the worldwide insurance experience has been satisfactory but not exceptional.

The main reason why the General Insurance Industry has not improved its share of Gross Domestic Product has been that it operates mainly from a narrow base i.e. urban sector; whereas the most important segment of the economy is held by agriculture. In other countries, particularly developed countries, the share of the General Insurance Industry in Gross Domestic Product is much higher than in India. For example, the



Insurance Industry's share in the Gross National Product is 5.05% in U.S.A. and 1.49% in Japan, as against 0.4% in India. Of course, we have to take into account that the Motor and Liability Insurance markets in developed countries have been very well developed and the market is far larger than in this country. However, it is revealing, that, in developed countries generally, the share of the General Insurance Industry in Gross National Product has been showing a tendency to rise; whereas it has remained stagnant in this country. It appears to me that a significant rise in the Insurance Industry's share of GNP cannot be achieved in this Industry unless the Industry enters the Rural sector in a big way.

It is true that Rural non-traditional business has increased at a much faster rate than traditional business but the share of Rural Non-traditional business in comparison to the total general insurance business is quite insignificant. The Insurance market in the Rural areas is immense and offers prospects for dramatic growth in the General Insurance Business. I may illustrate this point by making reference to potential for live stock insurance which today has a very small share in the rural insurance portfolio. As I said earlier, cattle insurance has been the brightest performer in the general insurance industry's drive to enter the rural market. About 53 lacs cattle have been covered under Cattle Insurance Policies yielding premium of over Rs. 13 crores. As against 53 lacs insured cattle, we may note

that the cattle population of this country is reported to be 24 crores. I accept that a large portion of our cattle is overaged, malnourished and not suitable for insurance. But even if 20% of cattle population is considered valuable, requiring suitable insurance protection, we have 5 crores cattle which can be covered under the Industry's Cattle Insurance Scheme carrying a premium potential of Rs. 150 crores. Similarly, this country's other valuable live stock such as sheep, goats and camels could offer on the same basis insurance potential in the range of Rs. 100 crores. In other words, on conservative estimates, potential live stock insurance business alone of Rs. 250 crores exists in the country. At this stage, you may note that the total general insurance premium from all classes of business has only this year exceeded the Rs. 500 crores mark. Similarly, I can make projections of insurance premium potential in other fields e.g. Personal Accident Insurance cover for agricultural labour and for the middle and upper class population group in the rural sector. Another important source for insurance business is insurance for the 3 crores bullock carts in the country. I am not, for the moment, including crop insurance as potential for the General Insurance Industry though much has been said recently about the need for devising suitable insurance protection to farmers against failure of crops. The values at risk are so gigantic and the administration of the scheme involves such tremendous organisational problems that it is quite beyond the existing resources of the general insurance industry to

undertake a Crop Insurance Scheme for the country.

*New Agency for Rural Business:*

While the potential is very large, the General Insurance Industry can only progress slowly in stages in the rural sector. The present organisational structure is not suitable for economical rural market. The smallest unit in the Industry's organisation set-up is a Branch. Even after due economy in manpower staffing, I do not think that a Branch can operate with an establishment cost of less than Rs. 2 lacs. This means that the minimum premium a branch should write to be economically viable, should be over Rs. 20 lacs. I do not think that the Industry can set up many branches in rural areas which can reach this premium figure in the immediate future. Therefore, the Industry will have to reduce its organisation scale if it is to maintain active and feasible presence in the rural area.

There are various alternatives which the Industry may consider for establishing the organisation set-up for the rural areas. In the initial stages, a resident representative with knowledge of the area, language and influence could be recruited to make the initial potentiality survey, conduct preliminary publicity and scout for possible agents. In the second stage, this representative can supervise the selling operations in the area and report to the Branch Office. This will eliminate the need for establishing too many branches at primary centres.

It is not only the organisational set-up that has to be re-designed to meet the requirements of operations in rural areas. If a review is made of the existing underwriting, administration and selling methods then it will be obvious that change is needed in these areas also. Apart from organisation cost, the present staffing pattern and salary structure of the General Insurance Industry would strain the economics and operations in rural areas. Hence, a separate cadre and organisational set-up based on lower cost scale will be necessary. The inevitable conclusion is that the Government must consider setting up a Rural Insurance Corporation, as soon as possible on lines different than the G.I.C. so that it is not burdened with the cost and structure of the G.I.C and insurance is available to the rural areas at most economical rates.

#### *Need to Revise Pattern of Working:*

The desirability of setting up a rural insurance body has been under consideration for some time. When, and, whether this concept materialises or not, the General Insurance Industry should, I think, at this stage review its present pattern of working and examine if changes can be made to improve efficiency and reduce cost.

#### *Organisational Changes:*

The four units of the General Insurance Industry have now reached a stage of stability and maturity in their growth which can enable them

to develop their own style of functioning. At present the companies are following an uniform four tier pattern of organisation, namely, (1) Head Office, (2) Regional Office/Area Office, (3) Divisional Office and (4) Branch Office. The four tier pattern was originally envisaged because it was felt that for a new organisation, close control was necessary at all operational levels. Secondly, trained manpower was not adequately available at all centres. The four Units have now reached a position where they could well review and adapt a new four tier system which best suits their requirements and future plans. As a first stage, companies may experiment by laying differing emphasis on the different layers of their four tier organisation. For example, one company can develop its own style of functioning by giving a more important role to the Regional/Area Office and a lesser role for their Divisional Office. Another company can concentrate on the Divisional Office and give it a bigger role in their set up. This will help in analysing the efficacy of the four tier set up and the relative importance of the individual tiers.

In the second stage, the units should consider the feasibility of operating on a three tier basis eliminating either the Regional/Area Office or Divisional Office. This will of course, as a prerequisite require adequate staffing of trained manpower at all levels as also an efficient communications and supervisory system. The elimination of

a tier would help in reducing organisational cost considerably and cut down delays in decision making. The competition among the four companies, therefore, need not be confined to procurement of business but in areas of Management ability and service.

### *Revision of Selling Organisation:*

The selling organisation of the Industry is presently on two tier basis — part-time agents working on commission basis supervised by full time development staff employees whose remuneration is linked to the business procured by the agency organisation. The agency commission varies from 5 to 15% depending on the class of business. The remuneration of the Development Staff works out from 7 to 10% of the organised premium. Due to the reduced agency terms and commission structure, agents are reluctant to work on full time basis. The Development Staff tend to concentrate on pockets of business rather than extend their activities to new areas where insurance market is dispersed. Hence addition to development strength has not always resulted in extending the Industry's operations to new areas but often only intensified competition in the existing markets.

The Industry has been placing more emphasis on taking the message of insurance to larger sections of the community. Personal insurances are admirably suited for this purpose but as they carry lower premium it has not received necessary

attention from the existing selling organisation. I am of the opinion that the general insurance industry should re-structure its two tier selling set-up by establishing a professional full time sales agency force remunerated at a fixed percentage of business procurement. The remuneration may be fixed at a rate ranging from 12 to 20% depending on the class of business and the areas of operation. A higher percentage should be allowed for business procured in less developed insurance market and also personal insurance covers.

A second step that the Industry should seriously consider is to enhance the functions of the development staff. At present the development staff employee acts merely as a link between the branch and the customer and has very limited authority. In a service organisation if a customer has close and easy access to service facility, the better will be effectiveness of the service. The Development Staff employees should, therefore, be trained and entrusted with powers to accept standard risks and complete policy documentation formalities. This will not only improve efficiency in service but also reduce overall establishment cost.

*Simplify Procedure:*

To succeed in this not only must the development staff employees be suitably trained, but, the existing procedures also be simultaneously simplified. The proposal and policy forms should be reduced to the bare essentials and coached in the

simplest language. In fact, I would go a step further and suggest that for standard covers, the proposal form and policy form should be combined. The first part would be completed by the customer and the second part completed and signed by the Development Staff employee. In this manner, a record would be easily available of what has been proposed for insurance and what has been accepted. The clerical work would be reduced to the minimum. If you compute the clerical and office cost involved today at current salary levels, the stationery and other establishment expenses then it will be realised that unless some drastic change is made, it will not be feasible nor economical to popularise low cost insurance covers for the masses.

*Staff Productivity:*

The General Insurance Industry has shown improvement in staff — premium ratio. At the beginning of the decade, premium per employee worked out to approximately Rs. 0.75 lacs per employee. Currently, the ratio stands about Rs. 1.2 lacs per employee. Therefore, there has been some improvement, but, if you keep in mind at the same time that there has been a substantial increase in earnings of an average employee, then it will be realised that staff cost percentage in relation to premium has not gone down. Staff costs account for about 75% of establishment cost in the Industry and this has been one of the main reasons why the Industry has been unable to bring down its cost ratio substantially.



There is, therefore, great need for reviewing the existing work pattern to improve productivity. In the long run increase in employee earnings can be achieved only through higher productivity. The Insurance Industry is particularly well suited to the induction of more sophisticated office equipment but unfortunately there is instinctive opposition in this country to any form of mechanisation. I do not think, however, that the General Insurance Industry which expects to transact business of Rs. 1200 crores in the near future can continue to function effectively through manual documentation and accounting. The use of copiers should be standard office procedure and it is time we realise that this method is quicker and cheaper than using copy typists. Similarly, for accounting, the micro processors now available in this country should be used intensively for building up accurate and timely accounting returns and statistics.

It must be appreciated that the insurance industry cannot work out scientific rating structure for each class of business without building up data on premium and claims. Besides, the Indian General Insurance Industry has entered into re-insurance contracts with insurers all over the world and these contracts run into many thousands. The constant review of the profitability of such contracts cannot be made without the use of sophisticated equipment.

It may be borne in mind that the Indian General Insurance Industry though small in terms of business volume in the world insurance market,

is, at the same time fairly active in the international markets. In size it ranks 25th in the world insurance market and third in Asia but if you compare the international network established then the Indian General Insurance Industry is next only to Japan in the Asian market.

### *Foreign Contacts:*

If India is to maintain and improve its image in the world market, it must be alert to new thoughts and ideas which are constantly emerging. As technology advances, underwriters have to adopt new methods and techniques to keep with the increasing complexity and values at risk. New administration and accounting procedures are being worked out abroad to handle increasing volume of business. There is, therefore, a great need for continuous exchange of visits between the Managers of the Indian General Insurance Industry and the Insurance Managers abroad. Unfortunately, a climate is building up in this country regarding foreign travel which I think is inimical to the interest of the General Insurance Industry. Foreign travel and contacts are necessary not only to keep abreast of insurance techniques but also to be alert to the possibilities of business expansion overseas. The market for direct foreign business is narrowing due to the growing local sentiments. The Indian General Insurance Industry is conscious of this and has promoted joint ventures abroad. India is in very advantageous position in this regard because there are many countries

where the Indian community plays an important and significant role. These expatriates offer a valuable base for insurance operations. However, I must caution that after establishing the base, the Industry should seek local participation as sustained growth is not possible without full identification with the local market.

*Reinsurance:*

The reinsurance market has also been growing. The Indian General Insurance Industry has been seeking better reciprocity for its outward cessions. Underwriting experience of reinsurance business offered has not been very satisfactory. There are signs of hardening of rates as a result of which underwriting results may improve — the Industry should be alert to exploit the position should this come about. Even now, if our concept of evaluating the profitability of reinsurance business is altered, then there is scope for the Industry to expand its reinsurance operations.

Overseas reinsurers examine profitability not merely on the basis of claim results but also take into account income arising from investment of reinsurance premium received. It is on the income from investments on which reinsurers to-day thrive. If the investment angle is taken into account then the insurance industry can still consider the desirability of extending reinsurance operations.

*Investment:*

At present the investment policy of the General Insurance Industry is closely governed by official guidelines. Under these guidelines, the Industry is required to invest 35% of its annual accretion in Government securities, 35% in the housing and other socio-economic projects and only the balance 30% of accretion is available for market sector operations. Within these guidelines, the Insurance Industry can play an important role.

The Industry has already made available loans to State Governments on soft terms for fire fighting equipments. The Industry can develop this sector keeping also in view the need for increasing business potential by offering financial assistance to Government agencies for fire fighting equipments/stations like Industrial Development Corporations. They in turn provide infra-structure facilities to cluster of industrial units in selected development areas. This type of assistance will increase premium potential for the Industry as well as reduce potential hazard to property by fire. Again, we all realise that the marine cargo claims ratio can be brought down considerably if handling losses are minimised at ports. If the ports are unable to improve their facilities for lack of finance, the Industry should offer financial assistance from the 35% earmarked for the socio-economic sector. Such financial assistance will enable the ports to improve their facilities and

serve the industry's objective of reduction in cargo losses.

The Industry has to maximise its investment return from the market sector investments. As you are aware, the Industry is subject to heavy tax on investment income, with the result that on 70% of its investment in the socio-oriented sector, the after tax return to the Industry is only  $2\frac{1}{2}\%$  to 3%. On the other hand, on dividend earning assets, due to the inter-corporate tax relief available, the taxation rate works out to around 25% only and, therefore, yield on investible funds in this sector is much higher.

I visualise that due to the rising claims ratio in both national and international markets there will be decline in underwriting profits. If the Industry is to maintain its profitability, the Government will have to ensure that adequate return is available on its investible funds. It may be borne in mind that in insurance markets overseas, the premium rates are to some extent subsidised by investment income. It is realised that investment income has been built up from funds contributed by the insuring public and, therefore, they should derive some benefit from the return. Official guidelines should, therefore, be framed to permit sufficient discretion to the Industry to build up its investment income and also its financial strength so that it is able to improve its retention capacity and deal with reinsurers from a position of strength.

*Socio-Economic Commitments:*

The nationalised General Insurance Industry now has the resources to play a more important and effective role in public life. It has already helped to establish the Loss Prevention Association. The Cargo Loss Minimisation Cells established at some major ports should be extended to other ports. I would suggest that the Industry seeks Government approval for more direct participation in the working of ports through representation on Trustee Boards. It has gained a lot of experience from claims settlement regarding various types of losses and can make important suggestions for loss reduction.

The General Insurance Industry has only taken tentative steps to awaken the interests of large clients in the concept of risk management. I am aware that expenditure on any project to benefit large clients receives close scrutiny in official circles. But one must realise that the General Insurance Industry owes its financial strength to the support of large clients only because of the patronage and support that it enjoys from the large Corporate sector. The Industry, therefore, should be more active in offering its facilities and expertise to its large clients in the field of risk management. Making industry insurance-conscious will improve the image of the insurance industry and help it to serve better.

*Role of Government:*

The General Insurance Industry, being a public sector organisation, has to receive support and assistance from its Administrative Ministry to achieve continual growth within the parameter of official policy and guidelines. The government today nominates the Board for the GIC and the four companies. The nominations include a representative from the administrative ministry.

It has been accepted by successive Governments that the Public Sector Corporations will be run on business lines as autonomous bodies and that there should be no bureaucratic interference. Nobody can deny Government the right to issue directives in public interest on policy matters but what in fact has been found is that the Administrative Ministry controlling the industry interferes in day-to-day affairs. The representative of the Ministry sits on the Board of the Companies and without knowing the technicalities and intricacies of the business, tries to impose his own views. It seems to have been forgotten that the other Directors sitting on the Board are equally Government nominees, but because they happen to represent the controlling Ministry, they feel their views should supersede those of others.

The Prime Minister has been recently reported in the papers to have said that comparatively junior level officers from the ministries sat on the boards of public sector enterprises and tried to do "back seat driving". She further said that the

finance ministry's representative should not function like a "super director" but should ensure adequate safety and accountability, without blocking its functioning. One could not but agree entirely with what the Prime Minister has said. By experience it has also been observed that whilst the bureaucrats sitting on the Board of the G.I.C. have been fairly useful, those sitting on the Boards of the subsidiaries could be more constructive and should be helpful in the development of the companies. This does not happen. Government should, therefore, consider withdrawing such representatives or educate them in the role they have to play. Again, the representative from the administrative ministry being part of the Insurance Wing feels that his only duty is to control the company. It would, therefore, be better if the Government directors to be appointed are either from another Ministry or from other wings of the Finance Ministry and should be of a higher status so that they can function effectively at the Board level.

I may also add a note of caution about the tendency which is creeping in to tie down all processes and procedures in the General Insurance Industry into rigid rules and regulations. Flexibility and the use of discretion is being discouraged and this will set back service in this type of industry. Take the settlement of claims as an example. It is accepted that the claim quantum should be determined solely by the Surveyors. The Surveyor's estimate should no doubt be the



guiding principle in claim assessment. But surely, insurance claims department with its vast experience of claims settlement should have the discretionary authority to have the assessment reworked or waive a procedure formality if they have adequate grounds for so doing. But practical initiative and display of commercial spirit is getting discouraged and frowned upon in the growing officious atmosphere and this may ultimately affect the growth and service in the General Insurance Industry.

### *Conclusion:*

The prospects for the General Insurance Industry in the coming years, therefore, appear very bright. But to achieve its potential the Industry will have to experiment with new methods and pattern of working. Any deviation from the traditional path carries risk. The Industry should not hasten at the risk of disturbing its stability but short term losses should not deter it from taking the bold path. From my experience, I can say that the top management of the General Insurance Industry has the ability and the will to tackle its task. But initiative on their part will require active encouragement from Government who are the owners of this industry. It is the official attitude and response which will to a great extent determine whether there will be clouds or a glow on the future horizons of the General Insurance Industry.

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*The A. D. Shroff Memorial Trust has no specific views on these economic problems. This publication is issued for public education, and hence the views expressed are specifically those of the author.*