

INSURANCE MANAGING FUTURE RISKS AND UNCERTAINTIES

Abstract

Life and general insurance are essential element for every individual today. Risk is a constant element in this ever-changing environment. The facets of risk change with the changing scenario but the factor that the human life and economic activities are always subject to risk remains constant. Insurance is required to manage risk confronting every activity associated with life.

Indian insurance industry has seen tremendous change over a period time. Many amendments have been made to the existing Insurance Act to enhance the quality of services and provide better risk coverage to the policy holders. However, many more of these reforms are required as insurance industry still has a long mile to cover.

The contribution of Insurance sector at various levels has been growing. Let it be personal or commercial, the insurance sector and its contribution has been playing a pivotal role to the growth of GDP and in micro and macro-economic development of the nation. The Indian Insurance sector penetration is 3.7 % of the GDP. The Life Insurance industry has recorded a growth of 11 – 12% p.a., growth for the previous year, while general insurance has recorded a growth of 18% p.a. On the global front, the world insurance sector penetration is 6.31 % to world GDP, hence Insurance experts are of view that better Government initiatives can reduce the gap and can make insurance more affordable to all.

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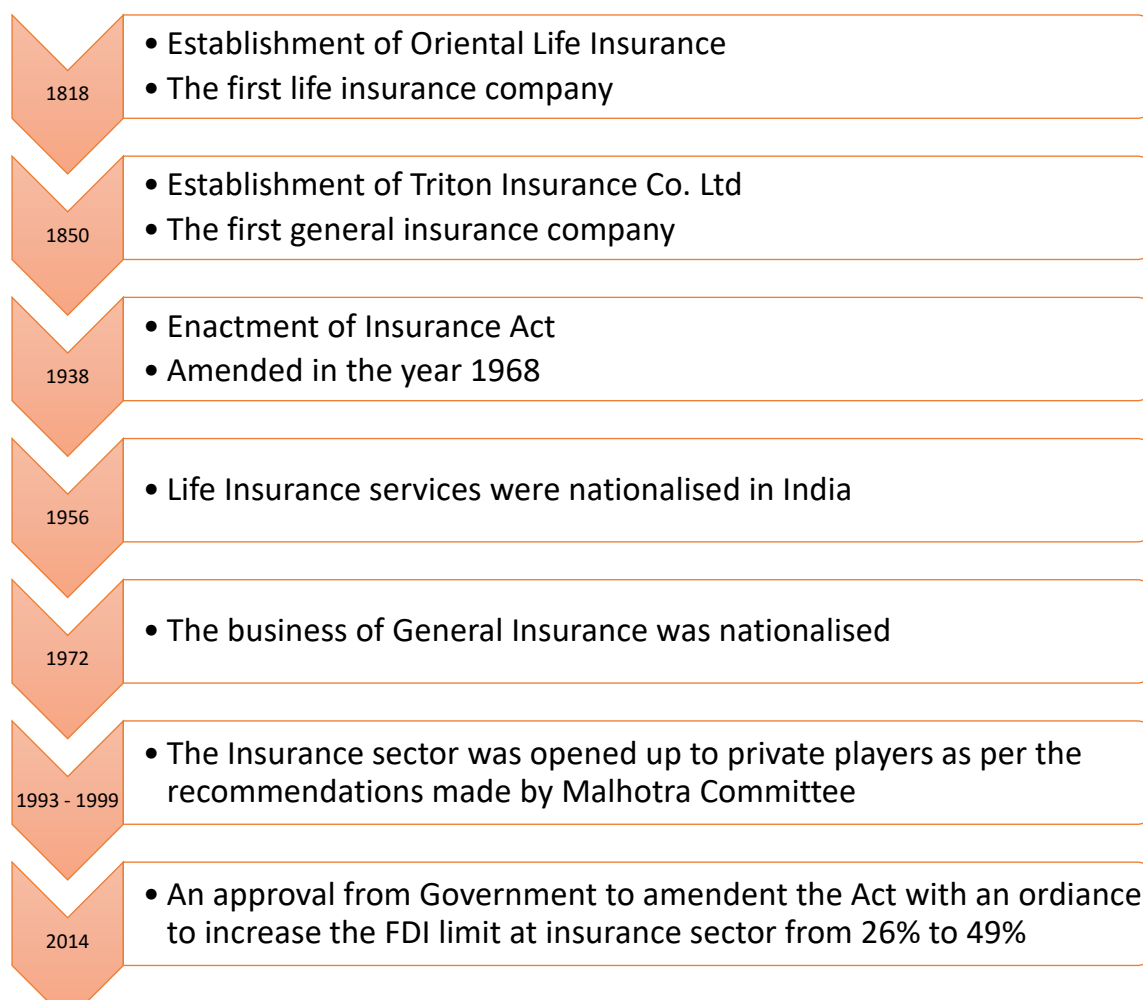
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I. HISTORY

Insurance industry has a long history. Insurance is not a recent concept; it has been existing since ages. India witnessed the dawn of Life Insurance industry since 1818 with the establishment of Oriental Life Insurance Company, Calcutta. Almost a century later in the year 1914 the returns of the insurance companies were published by Government of India. With a view of protecting the interest of the insured, The Insurance Act 1938 was enacted, amended and brought into force. This was a major breakthrough towards regularisation of Life Insurance sector.

The Industrial revolution and subsequent growth of sea trade led to growth of General Insurance back in 17th Century. Triton Insurance Co. Ltd was the first general insurance company in India established in the year 1850 in Calcutta by British. In 1968, the Insurance Act was amended. The amendment brought in regulation on investments, minimum margin on solvency and establishment of Tariff Advisory Committee.



Insurance Companies have been functioning at a large number since before Independence and the Insurance market has been making commendable progress for 2 decades. A new milestone in history was recorded when the Government of India made a decision to nationalize one of the major sectors i.e., insurance business. An Ordinance was

issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. LIC was formed by absorbing 154 Indian and 16 non-Indian insurers. Along with the earlier 75 provident societies and 245 Indian and foreign insurers were also added to the formation of the big corporation. The monopoly claimed by LIC sustained till late 90s and thereafter the Insurance sector was reopened to the private sector players.

1957 was the year when General Insurance Council – a wing of the Indian Association of Insurance was created i.e., after 10 years of Indian Independence. Conducting fair Insurance business, code of conduct and good governance was the objective of the Council. The General Insurance Business in India was nationalized by the General Insurance Business (Nationalization) Act in 1972 (GIBNA). With the nationalisation of General Insurance Business, GOI was successful to bring in 55 shares of the 55 Indian Insurance companies and along with this the undertakings of 52 insurers were also added who were carrying on general Insurance business. The National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd., and the United India Insurance Company Ltd. were formed through the amalgamation of 107 insurers.

II. INSURANCE

Insurance is a contract policy in which an insurer assures to manage the risk of the insured against losses from unforeseen contingencies. Insurance companies provide protection to the insured at a pre-defined amount called as a premium. Premiums should be paid at a periodical interval.

1. Life Insurance : Life insurance plans provide risk coverage on life to an extent of sum assured. Life insurance was predominantly dependent on in-person interaction, but in changed scenario it has moved to digital channels and self-service. The recent Pandemic gave rise to many uncertainties, turbulent markets and falling interest rates increased demand for life risk covering schemes and solutions offering guaranteed returns and assured savings. The need for adequate life insurance and fear of uncertain global events has further push the need to stay protected. Volatility in the markets and lack of job security will push the individuals to secure their savings with long-term and guaranteed investment plans.

Conventional insurance schemes: Traditional or conventional insurance plans provide various risk coverages like risk coverage, fixed income return, savings, safety and tax benefit. The various traditional life insurance schemes available are generally categorised into Money-back Life insurance plans, Endowment life insurance policies, Whole-life plans, Term Life Insurance Plans.

- **Money-back life insurance plan:** Provides life coverage during the term of the policy and the maturity benefits are paid in instalments by way of Survival Benefits (money-back payments). A percentage of the sum assured is paid back to the insured on periodical intervals as survival benefit. The money back schemes and plans available in the market provide bonus as well to the insured and the bonus shall be declared by the insurance company based on the performance of the company.

- **Endowment plan:** This plan provides a combined benefit of insurance and investment. The feature of endowment plan provides a lump sum bonus along with the other benefits attached to the policy i.e., benefit at the time of policy maturity or on death event. While a sum of amount is kept aside for life cover – insurance, and the rest is invested in low-risk products available in the market by the life insurance providers.

- **Whole life plan:** This plan or scheme guarantees to provide life cover for life time of the insured and the policy benefit will be assured to be given to the nominees on the death of the insured. For this purpose, the claim must be received from the nominee and on the successful completion of the insurance investigation the claim will be approved.

- **Term insurance:** The traditional, fundamental, oldest and the simplest of them all is the term insurance plan or schemes or product. These schemes are well knit and designed to serve the basic purpose of covering the life risk and hence ensures that in the event of death of the policy holder, the deceased family will receive the sum assured by the plan.

Product Innovation in Life Insurance: Futuristic variants of protection plans, such as Switch on – Switch off insurance, Sachet or Bite sized insurance, and Customized insurance will open doors to new patterns of insurance in the industry

- **A Bite-sized Insurance Policy:** Covers specific needs of the insured for a less or comparatively shorter duration. Such policies are available in the market at a lower premium and one can often purchase the scheme or plan online using a smartphone or other devices without a need for documentation or other verifications.

- **Personalized health insurance policy :** Is so designed such that it allows more customized choice, freedom, and flexibility. The policy also enables individuals to make an effective and efficient health care options which will be tailor knit to their personal needs, which will be built as per their lifestyles and individual priorities.

2. General insurance: General Insurance is an efficient service extended to the policyholder as a matter of right. In fact, the basis of existence of the Corporation is for the benefit of the insured or policyholder. Since long General insurance business has seen growth and has been witnessing growing in India. General insurance industry is seeing good growth in India and it is poised for a stronger recovery in 2022. It is driven by increase in knowledge, awareness and also featured with increase in demand for health insurance backing economic recovery. This growth in insurance industry has helped automobile industry and the real estate industry to be back on track and one can see that the demand for the properties have reached pre-pandemic levels.

Conventional General Insurance Schemes

- **Health Insurance:** The Health Insurance schemes available in the market today offers wide coverage for the medical expenses. These expenses might be a result of an accident or ailment or an illness and the cover is extended up to hospitalisation. All policies and plans vary and are differently designed to suit the diverse instances faced by an individual and they form the basis of types of coverage offered and other benefits expected by the policy holder. General hospitalisation, illness, Psychiatric Support, pre and post hospitalisation expenses,

Day-care procedures, general routine check-ups to yearly health check-ups, cash less hospitalisation, cash less medicines and so on come under the coverage provided by the plans and schemes offered.

- **Travel Insurance:** Travel Insurance schemes offer a financial liability coverage for the policy holders, when the insured travels to distance places may it be within the boundary or outside the boundary of this country. The reasons for financial liabilities may be due to medical emergencies or non-medical issues which may need immediate attention. Usually, the plans which are afloat in the market provide a coverage for 180 days to the policy holder when he or she is at travel for a given time frame. The policy holder is allowed to travel more than once in the year when they are under coverage.
- **Motor Insurance:** A Motor Insurance Policy is obligatory along with driving license to become eligible to drive legitimately on Indian roads. Broadly there are two types
 - Third-Party Liability
 - Comprehensive Package Policy.
- **Firstly - Third-Party Insurance Policy:** This type of plan covers for losses faced by the policy holder in a given situation where if any third-party faces any damage in an incident of accident, the third party shall be covered under this plan. Third party can be a public property or third-party vehicle or a passing by individual and likewise.
- **Comprehensive Policy:** Comprehensive insurance plans are generally first party insurance schemes and are generally much in demand as they cover both first party and third-party damages. The liabilities, damages, losses or costs incurred by the policy holder to his or her life or vehicle shall be covered by the plan. Generally, losses are outcome of many unsought reasons like burglary, fire, natural calamities, accident, theft, unforeseen events and many more.
- **Home Insurance:** home or house insurance policies are available to protect the priceless possession of an individual or an entity which would a result of years of hard work and effort put in by the possessor of the property. And hence it becomes utmost important to protect and cover the property against all possible damages. Home Insurance plans are intended to protect the valuables and other possessions of the insured. Comprehensive general policies also include in their package policy the terms to covers all valuable possessions of the insured. Both property insurance schemes and comprehensive policies provides protection to the properties and they cover burglary, fire, theft, natural disasters, loss and damage to jewellery and other precious possessions.
- **Property Insurance:** A Property insurance scheme is planned to cover a business against losses or damages to property during the time of events like fire, natural disaster, theft and so on. The property that is in use for the business purpose shall be covered and if any losses in an event are incurred or damages are suffered as a result of diverse common perils a property insurance shall cover the same. The plan is so structured such that it covers the business premises and at the same time it also provides coverage of office furniture and fixtures, furnishings, the stock in use, the raw material and other inventory which is stored in the go-down or warehouse, the machineries in use for production, the office stationery including

computers and laptops, printers, other equipment movable and immobile which are required for daily functioning of the business seamlessly.

Product Innovation In General Insurance

- **Switch on – Switch off insurance:** This is a sandbox initiative of IRDA, the launch of this new type of insurance has brought in new type of or an added feature to the existing insurance policies. This insurance scheme permits vehicle possessors to switch 'on' and 'switch off' the policy whenever the insured wants to do so. This insurance plan is calculated on the basis of the age and experience of the driver

- **Splitsurance:** A new product innovation seen is by Allianz Suisse. This policy uses the KASKO developed cloud-based insurance lifecycle Model. This creates a platform to run an innovative type of insurance plan which is named as splitsurance. The new plan offers university students who live in a shared flats or accommodation. The policy holders get a liability coverage, and the holders are allowed to insure up to three high valued assets of their choice. As an added feature they are offered good discounts if they can bring in more customers or new clients and a referral code will be given for the same. Access to a web portal will be given to the existing policy holder and using the same they can update their coverage online and need not visit the branch physically to renew the policy.

- **CUVVA:** Cuvva is a new variant of motor insurance which is designed to provides hourly coverage to the motor car. To avail this insurance a mobile app is required. This needs to be installed by the insured and he is required to key in the registration number of the car that needs to be covered and an approximate value of the motor vehicle that has been borrowed from a relative or cousin or friend or family member and the details shall be mentioned in the app. A choice of the time that shall be covered is finalised and a picture of the motor vehicle will be taken and the insurer will send an instant quote to the insurance seeker. Cuvva works with the help of Facebook which is used as a source of information to look for rental cars or other motor vehicles. The insurance provider Cuvva makes use of the data bases or other data sources to verify the authenticity of the driving licence, and also looks for other claims if any on the motor vehicle and if any underwritings or any frauds are discovered during the back ground verification, right measures would be initiated to tackle the same. Also, an automated fraud protection mechanism is implemented for a quick and smooth verification process.

- **Digital Risks:** DigitalRisks a new invention is an insurance. It is specially built and planned to cover various risks faced by tech companies. Its main feature is its flexibility in payment mechanism and its new service model. The tech companies and initially cover their movable properties like computers, laptops, servers and extend it up to employer liability coverage and also scale it up such that any breach in data or data theft can be covered as the company grows.

- **Digit insurance** – This policy provides added features to the existing Comprehensive plans which covers motor cars, bikes and other vehicles and it acts as an additional shield to the vehicle. Other coverages offered are Depreciation coverage, Tyre Protect Cover, Return to Invoice, coverage against, breakdown, any engine or damage to gearbox or other important parts of the motor vehicle are also covered in this plan.

- **Back me up:** It is a brand of Ageas. The insurer provides a unique plan where the intention is to provide coverage for youths, students, researchers, scholars and so on. The insured can insure their three most valued items like laptop, mobile, printers and other valued possessions using the plan. Adding the existing features, a value addition is that the plan also includes cover for theft loss and if travel around the world is also covered. No annual contracts need to be maintained.

- **Go girl:** A new trend is Go Girl insurance. This is an exclusive insurance for woman drivers. It offers lower premiums as it is exclusively made for women. An added feature is that when the insured car is in for repairs or has broken down or for routine service a courtesy car is offered by the company. Also, if the car has visited a garage or need of a child car seat or windscreen work out or for any personal purpose, this courtesy car service can be availed. The company also provides insurance against theft wherein the handbag and all the items in it are covered.

- **Safety wing:** This a new travel insurance scheme which provides a risk coverage for the online freelancers, frequent business travellers and entrepreneurs. The insurance company offers coverage where in unexpected illness, accidents, injuries or an unforeseen event is covered and the plan includes the hospitalisation expenses, medical expenses, doctor consultations fees and so on. The insurance providers plan to provide an extension to the existing policy by providing coverage while in medical travel.

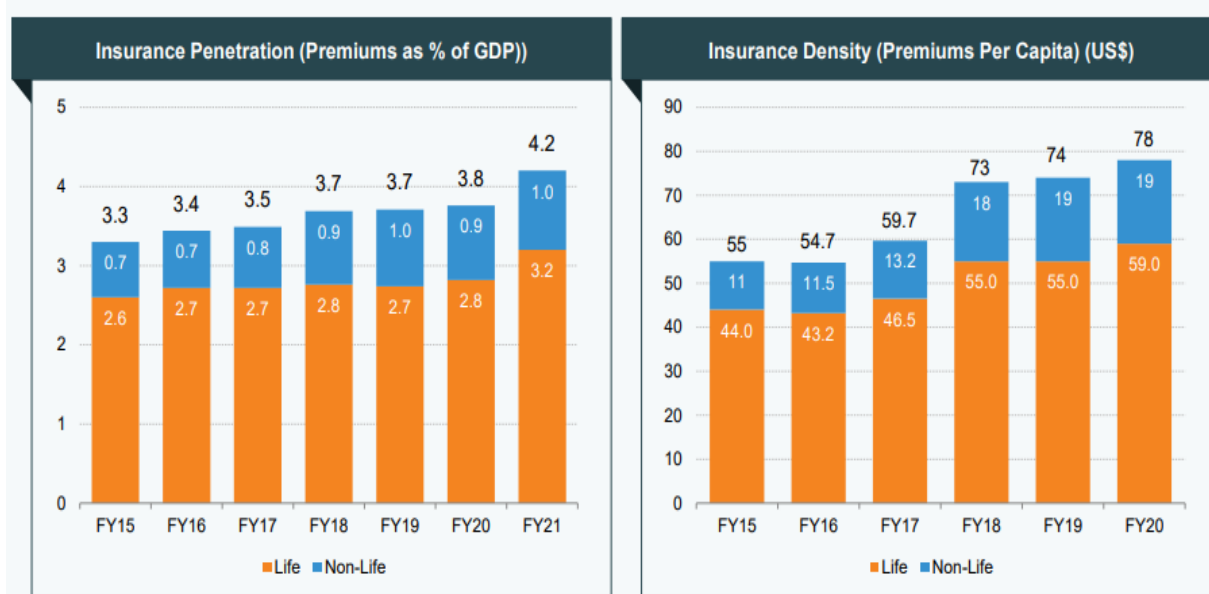
- **Fizzy:** Fizzy is an insurance plan which is made taking into account today's busy schedules of people. It is planned covers risk of flight delays and a delay of more than 2 hours is included in the package. The benefits of a startup and the experience and knowledge of global insurance providers is combined by this plan. The insurance providers also offer a one-shot coverage which is tailor made to the flight route of the insured. Also, an automatic compensation system is in place to compensate the insured for cases of delay where in there is no exclusion.

3. Government Initiatives

- A 7% stake of LIC was sold by Indian government for Rs. 50,000 crore which is making up to (US\$ 6.62 bn). With this LIC offering has become largest IPO in India.
- The Indian Government has inked an agreement with World Bank for improving the quality of health care services provided in Meghalaya. The Meghalayan health insurance programme is also included in this World Bank initiative. This project values for US\$ 40 Mn and was signed in the month of November 2021.
- A new project was approved by Central Government in September 2021. This was exclusively offered to export insurance providers. This aim is to boost additional exports for next 5 years and the target is to achieve a market of US\$ 75.11 bn which amounts to Rs.5.6 lakh crores in Indian Rupees.
- With an aim to privatise the state – run insurance companies who are serving general insurance to the insured, the Central Government amended the bill in Aug 2021 in a parliament session.

- The FDI limit in insurance is increased from 49% to 74% in the 2021 Union Budget. This has come from the India's Insurance Regulatory and Development Authority (IRDAI), through Digi-locker, of digital insurance policies by insurance firms.
- As a part of the consolidation in the banking and insurance sector, Finance Minister Ms. Nirmala Sitharaman under the Union Budget 2021 announced that the initial public offering (IPO) of LIC will be implemented in FY22. Despite LIC's IPO having the potential to raise Rs. 1 lakh crore (US\$ 13.62 billion), no formal market valuation has been undertaken.
- For healthcare workers across India, the government has extended a Rs. 50 lakh (US\$ 66.85 thousand) insurance coverage scheme in June 2021 for a period of next one year.
- To improve the overall financial health of companies in February 2021, the Finance Ministry announced to infuse Rs. 3,000 crore (US\$ 413.13 million) into state-owned general insurance companies.
- A fund of Rs.16,000 crores is allocated exclusively for crop insurance plans under an initiative by Central in the year 2021.

4. Penetration and Increase In Density Of Insurance Over the Years



Source: Invest India Swiss Re Institute

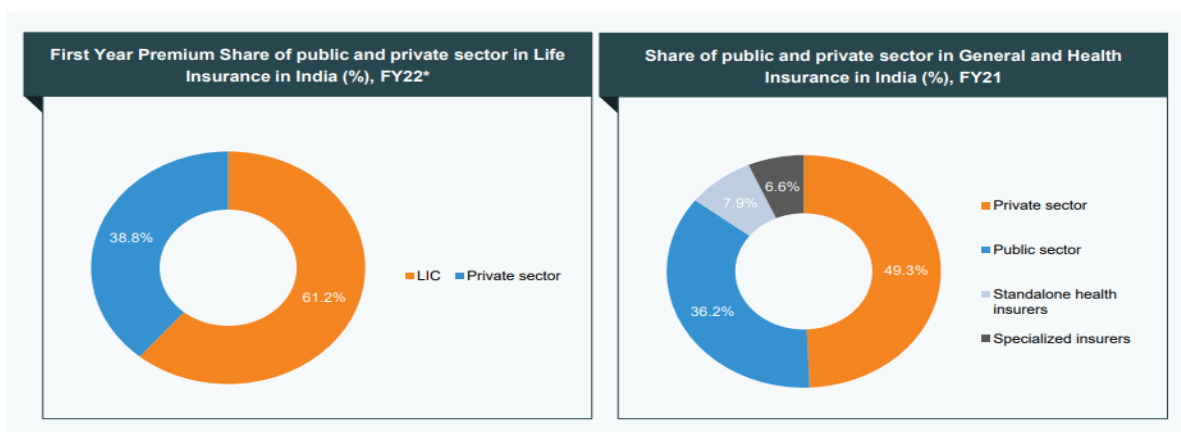
<https://www.ibef.org/industry/insurance-sector-india>

III. CONTRIBUTION OF PUBLIC AND PRIVATE SECTOR IN LIFE INSURANCE

Findings

- IRDAI has proclaimed Digi-locker facility installation for digital insurance programs by insurance enterprises.
- Privatisation of State-Run General Insurance Companies was announced in the month of Aug 2021 through Bill Amendment.

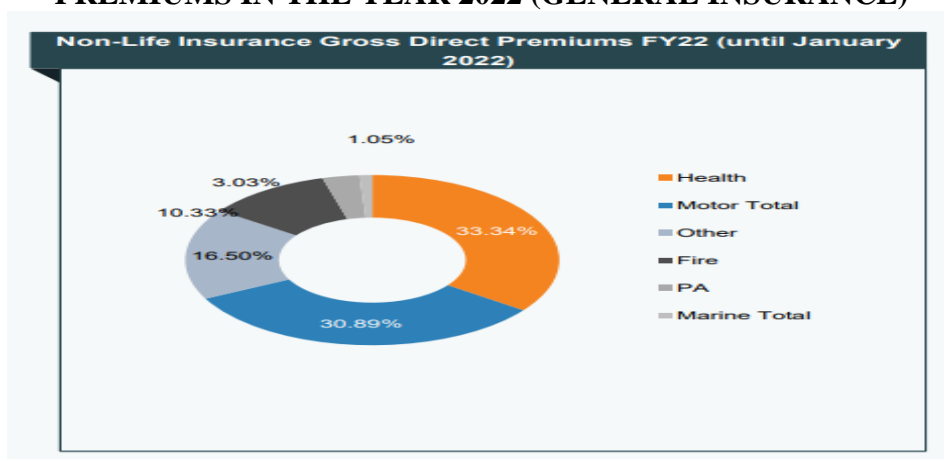
- An initiative from GOI with World Bank for US\$ 40million to expand the health care services in eastern part of India which would also include state health insurance programme, Meghalaya
- GOI sold 7% of its LIC stake fifty thousand crores and this became India’s largest Initial Public Offering.
- A boost up fund of six thousand crores was unveiled by Union for entities which are providing export insurance coverage policies



Source: IRDAI, Life Insurance Council

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PREMIUMS IN THE YEAR 2022 (GENERAL INSURANCE)



Source: General Insurance Council, IRDAI

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- A push up funding of sixteen thousand crore rupees has been assigned to Crop Insurance Scheme.
- Insurance plan modernizations in life insurance like switch on and switch off insurance, bite – sized insurance policy, personalized health insurance policy and so on are trending in the sector
- The trending general insurance products include splitsurance, CUVVA, Digital Risk, Back me up and so on.

- The Insurance Premium Penetration is recorded at 4.2% (3.2% contributed by life insurance and another 1% by general insurance) as a % against GDP
- Also, private players are on the rise in life insurance sector, however LIC continues to dwell in and takes a predominant share in the life insurance sector
- With the chronic pandemic 2019 issue the insurance awareness and demand has tremendously increased for health insurance policies, however other types of insurances are experiencing certain fluctuations.
- General insurance business has been growing consistently in Indian Market.

IV. CONCLUSION

The future of insurance business in India looks promising and mainly the life insurance industry shows positive result where numerous changes in regulatory norms are made which shall lead to added changes in the way this industry takes its business forward and involves itself with the customers. Life insurance industry is expected to grow by 14-15% in the upcoming 3 to 5 years which is very promising. The contribution of IoT in Indian insurance bazaar has grown tremendously and automations has become an inbuilt process for basic jobs like telematics and contributes on a large scale for customer risk assessment. 110 Insur Tech start-ups companies are already operating and many new adding to this number in India today. Indian population majorly predominates by middle class and below poverty line people. However, the good news is that the young population which has eligibility to insurance is increasing and growing awareness among people for insurance is also on a rise. The coverage for safety and protection and retirement planning will support the growth of Indian insurance. General insurance is also showing steady growth in its development.

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