

GLOBALIZATION OF INSURANCE SECTOR: AN OVERVIEW

Dr. P. Sujatha

Lecturer of Economics, New Science College, Ameerpet, Hyderabad

ABSTRACT

Globalization of Indian insurance sector means entry of private players resulting positive growth of the sector. It helps in providing Employment opportunities leading to capital formation. Among the service sector it is fastest progressing and expanding sector.

With increased complexity in the business and life style of man, the need for insurance is expanding and all categories of people accepted insurance as an essential cover of life or the business. Fast changing modern economy, highly competitive markets, changing technology involves several risks. Risk has become a common factor to individuals and institutions. Every risk results in loss. The loss may be simple or it may lead to major loss of wealth and may also be a loss of life. Insurance sector provides protection against risk and insecurity. This study is giving detailed information about the types, importance, benefits of this sector. The study aims at Globalization of insurance sector, as its help in country's development. Its highlights the recommendations of Malhotra Committee report.

Keywords: IRDA- Insurance Regulatory Development Authority; GDP – Gross Domestic Product; BPL – Below Poverty Line; FDI – Foreign Direct Investment; LIC – Life Insurance Corporation; GIC – General Insurance Corporation; PMSBY – Pradhan Mantri Suraksha Bima; PMJJBY – Pradhan Mantri Jeevan Jyothi Bima Yojana; CAGR – Compound annual growth rate

INTRODUCTION

Today insurance is largest financial services in the world which provides assurances of protection to the loss that result from the risk that is insured with insurance company.

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globalization, that why globalization need was felt in insurance sector.

Business globalization of economic areas and the growing interdependence among people worldwide indirectly affects the insurance and reinsurance market allowing for the creation of a global insurer. Therefore the globalization of the world economy fosters the globalization of insurance and reinsurance service/

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IMPORTANCE OF INSURANCE SECTOR IN INDIA

Insurance companies play a pivotal role in the economy of the country. While they provide the much-needed protection to companies and individuals from their financial losses, they act as a precursor to various risky projects and undertakings. The insurance sector generates a huge amount of revenue and job requirements every year. The insurance sector in India along with the banking sector turn up for around 7% of the country's GDP, with an annual CAGR of around 15-20%. Notwithstanding the role played by the Insurance sector in public capital conservation, it provides the much-needed long term capital for growth of infrastructure and development of the country.

- Insurance sector in India has gained much from the sovereign backing.
- Whether it is the introduction of Government sponsored Insurance schemes such as PMSBY, PMJJBY etc, or the enforcement of compulsory insurance for vehicles and accident-prone establishments, there has been a concerted effort to popularize the insurance sector.
- With a growing scale, the insurance industry has itself plunged into rapid advertisement and promotional activities, all resulting in increasing growth of the sector in India.

TYPES OF INSURANCE

While there is a wide range of insurance types available in the market, all of them can be broadly classified into two main categories

1. life insurance
2. General insurance

While life insurance provides you with financial coverage against your life, a general insurance policy indemnifies you against any losses for your non- life assets.

The major kinds of Life Insurance Policies in India are

1. Term insurance
2. Whole life insurance
3. Endowment policy
4. Money back policy
5. Pension plan
6. Unit linked insurance plans
7. Child plans

The major kind of General insurance are

1. Motor insurance
2. Travel insurance
3. Property insurance
4. Commercial insurance
5. Asset insurance

NEED OF THE STUDY

1. LIC and GIC are able to cover only 10% of insurance market, 90% of markets is still untapped. To cover vast potential Globalization is needed.
2. With increase in Life expectancy of individual breakdown of joint family system, people now become more conscious about safety and security of their families. So therefore, coverage of insurers has to grow very fast to provide insurance services to the needy.

Objective of the study

1. To study the need for globalization of insurance sector.
2. To highlight Malhotra Committee Recommendations & draw conclusion.

Methodology

The study is completely based on secondary data. The data is collected from books, articles, journals, Newspaper articles, & internet etc.

Problems in insurance sector

1. Insurance awareness among general public is low.
2. Term insurance plan is not promoted adequately.
3. Inefficient management, low investment led to high premium.
4. More than 10% of policies are surrendered or lapsed.
5. There is no market research and computerization.
6. Servicing to customers is not satisfactory.

- Government stake is decreased to 50%.
- Interest paid for delays in payment beyond 30 days.

NEED FOR GLOBALIZATION

The following points support globalization of Insurance sector. The points are

- India has potential for further growth. So, opening of the sector to private sector will foster competition, innovation and variety of products.
- Public sector insurance companies have little incentive to offer wide range of products and extensive risk coverage. So private entry in this sector is must.
- Role of IRDA also initiated for Globalization of Insurance to provide more satisfactory services to customers.

Malhotra Committee Recommendation implementation will support globalization of insurance sector. The recommendations are

- Entry of foreign companies and collaborating with domestic companies
- More freedom to be given to insurance companies.
- Only those private companies with minimum paid up capital of 1 billion should be allowed.
- Establishment of IRDA
- To start unit linked pension plan
- Computerization of insurance sector is must

IMPACT OF GLOBALIZATION

The insurance industry in India was impacted by globalization, which resulted in a rise in foreign participation and privatization. The RBI established the R. N. Malhotra committee in 1993, and the committee reported on the reforms the insurance industry in India underwent in 1994 with the goal of achieving financial stability and independence. It promoted the entry of private enterprises into the Indian insurance market as a key suggestion. It also advocated for the industry to be opened to international participants, ideally through joint ventures, so they could engage in the Indian insurance market..

- In 2014, 49% FDI was allowed by the regulator in insurance companies.
- The insurance penetration in India is around 4% while the average world over is around 7%.
- As India lacks the required penetration, it provides a major scope for the insurance sector to utilize the FDI inflows to grow further.
- Higher foreign direct investment would result in the insurance sector to scale newer areas and geographies and provide innovative and sophisticated products for the newer generation.
- The FDI would enable the insurance companies to generate more jobs which in turn will have a trickle-down effect through the economy.
- On the consumer side, there is bound to be better choices and better offerings by the insurance sector as a whole.
- Foreign players would bring in better management capabilities, which would in turn help their Indian counterparts. As such the increased availability of foreign investment is expected to bring about true financial inclusion.

CONCLUSION

1. The insurance sector can explore newer and undervalued areas for its further growth.
2. Indian insurance companies will record growth of nearly 20% in premium in dollar terms, compare to world growth rate of 3%.
3. FDI up to 26% has been permitted which will allow companies to restructure and realign with global practices.
4. Arago Sree / health cards to BPL families, it will cover 60 million people.
5. As the sector grows, India could be immensely helped by its long term funds for its capital growth.
6. In India expenditure on health and increasing life expectance will help in promoting health insurance and pension policies.

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