INSURANCE AND PENSION FUNDS

Insurance

5.106 The insurance sector was opened for private participation with the enactment of the Insurance Regulatory and Development Authority Act (IRDA Act), 1999.

New entrants in the insurance industry

5.107 Before the opening up of the insurance sector in 2000, there were only six insurance companies viz., Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation of India (GIC). The number of insurers has since gone up to 44 as at end-March 2009, with 22 insurers (1 in public sector and 21 in private sector) in life insurance business, 21 insurers (6 in public and 15 in private sector) in non-life insurance business and 1 re-insurance company viz., General Insurance Corporation of India in the public sector. In non-life segment, there are two specialized public sector insurance companies viz., Export Credit Guarantee Corporation (ECGC) and Agricultural Insurance Company (AIC) besides two stand-alone health insurance companies in the private sector *viz.*, Star Health & Allied Insurance Company and Apollo DKV Health Insurance Company.

5.108 Of the 21 life insurance companies set up in the private sector since 2000, 19 are in joint venture with foreign partners. Of the 15 new private insurers in the non-life segment, 14 have been opened in collaboration with the foreign partners. In all, there are 33 insurance companies in the private sector having collaboration with established foreign insurance companies as at end-March 2009.

Industry development

Life insurance industry

5.109 The total premium underwritten by the industry in the life segment has grown from Rs.1,56,076 crore in 2006-07 to Rs. 2,01,351 crore in 2007-08, recording an increase of 29.0 per cent in 2007-08 attributable to introduction of new products and channels of distribution and increasing penetration of private insurance companies in uncovered markets. It increased further by 10.8 per cent to Rs. 2,23,053 crore in 2008-09.

5.110 A fair measure of growth in life insurance sector is the addition of new business represented by the first year premium income comprising of single premiums and regular premiums. The first year premium underwritten by the life insurers increased by 23.9 per cent to around Rs. 93,713 crore in 2007-08 from Rs. 75,649 crore in 2006-07. The increase was impressive as it was achieved on top of a growth of 94.9 per cent in the first year premium recorded in 2006-07. The linked component of first year premium was also up by 64.0 per cent to Rs. 70,511 crore in 2007-08, with a corresponding rise in its share in the first year premium to 75.2 per

Box 5.1 : Regulation & development of commodity futures markets

The Forward Markets Commission (FMC), the regulator for commodity futures trading under the provisions of Forward Contracts (Regulation) Act, 1952 (FCRA) continued with its proactive approach towards regulation and development of the commodity futures market. As the effectiveness of the commodity futures market in facilitating price discovery process depends on the wider participation of all the stakeholders categories, special emphasis was placed by FMC to broadbase the market The participation of farmers as hedgers, to counter-balance the speculative element in the price discovery, and increasing the awareness level of farmers and other market participants were emphasised. The commission has also been working on various models of aggregation to enable the farmers to hedge on the commodity exchanges to manage their price risk.

Considering the concerns of the Government of India about the inflationary expectations in the economy, the futures trading in chana, soy oil, rubber and potato was suspended by the FMC from May 7, 2008. However, with the easing of inflationary pressure, the suspension was allowed to lapse on November 30, 2008 and trading in these commodities resumed on December 4, 2008.

The Committee appointed earlier by the Government of India under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission, to study the impact of futures trading, if any, on agricultural commodity prices submitted its report on April 29, 2008. The Committee opined that negative sentiments had been created by the decision to delist futures trades in some important agricultural commodities; however, there was no clear evidence of either reduced or increased volatility following opening of futures markets to trading in some agricultural commodities. The vibrant agriculture markets including derivatives markets could provide an early sign of future prospect of the sector.

Major policy developments initiated by the Forward Markets Commission included issuance of guidelines for the constitution of the Board of Directors and appointment of Chief Executive and Chief Compliance Officer in the Commodity Exchanges, grant of recognition to new Commodity Exchanges under the provisions of the Forward Contract Regulation Act 1952, in-principle approval granted to the MMTC and India Bulls Financial Services Ltd., for setting up of a nationwide multi-commodity exchanges in NCR (Gurgaon), directions issued to the National Exchanges regarding fixation of the transaction charges and to restrict the use of multiple client codes by a single client so as to make the violation of regulatory provisions difficult. Daily price limits of international commodities were raised to 9 per cent and the exchanges were directed to ensure that no client was allowed to trade without having Unique Identification Number.

cent (56.9 per cent in 2006-07). This reflected continued popularity of unit-linked products in the wake of sustained positive performance of the stock markets in the first half of 2007-08. Contrary to this, the first year premium underwritten by the life insurers at Rs. 87,108 crore posted a decline of 6.3 per cent during 2008-09.

5.111 The non-linked premium, which had declined by 28.9 per cent to Rs. 23,202 crore in 2007-08 from Rs. 32,646 crore in 2006-07, recorded an improvement to Rs. 42,417 crore in 2008-09.

Non-life insurance industry

5.112 Total number of policies issued by the general insurers in 2007-08 was 572.50 lakh, recording an increase of 22.7 per cent over that of 466.64 lakh in 2006-07. The non-life insurers (excluding specialized institutions like ECGC and AIC) underwrote a total domestic premium within India of Rs. 27,824 crore in 2007-08, which was higher by 11.7 per cent over that of Rs. 24,906 crore in 2006-07. Private insurers improved their market share from 34.7 per cent in 2006-07 to 39.5 per cent in 2007-08. The premium underwritten in two of the fastest growing segments viz., "motor vehicles" and "health" was Rs. 12,685 crore and Rs. 4,894 crore respectively in 2007-08 (Rs. 10,697 crore and Rs. 3,319 crore respectively in 2006-07). These segments respectively accounted for 45.6 per cent and 17.6 per cent of the premium underwritten in India in 2007-08 (42.9 per cent and 13.3 per cent, respectively in 2006-07). During 2008-09, the non-life insurers underwrote premium of Rs.30,601 crore, i.e., up by 9.9 per cent over 2007-08.

5.113 Notwithstanding a considerable rise in the non-life insurance business in terms of the number of policies, the premium amount underwritten by the non-life insurers slowed down due to detariffication and the consequent reduction in premium rates.

5.114 The public sector general insurers also underwrite premiums outside India. Total premium underwritten outside the country by the public sector general insurers was Rs. 981 crore in 2007-08 as against Rs. 1,025 crore in 2006-07.

Penetration and density

5.115 Insurance Penetration and Insurance Density are two important indicators of the potential and performance of the insurance sector. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP), while insurance density is measured as the ratio of premium underwritten in a given year to the total population. The life insurance penetration in India increased from 1.77 per cent in 2000 to 4.10 per cent in 2006, before declining to 4.0 per cent in 2007. The general insurance penetration increased from 0.55 per cent in 2000 to 0.60 per cent in 2006 and remained at the same level in 2007. The life insurance density which is premium per capita in US$ terms stood at US$ 40.4 in 2007 as against US$ 33.2 in 2006 and US$ 7.60 in 2000. The general insurance density was, however, lower at US$ 6.2 in 2007 (US$ 5.20 in 2006 and US$ 2.30 in 2000).

Recent initiatives taken in the insurance sector

5.116 During the year 2008-09, the process of reforms in the insurance sector was carried forward through a series of policy initiatives. Some of these included:

- Promoting micro-insurance as a viable business opportunity and integrating the same with the poverty alleviation programmes of the State Governments. During 2007-08, 3,275 micro-insurance agents were allowed to offer composite covers or packaged products to cater to the needs of the poor, taking the total number of micro-insurance agents to 4,584 at end-March 2008.
- Introduction of two bills in the Parliament viz., Insurance Laws (Amendment) Bill, 2008 and Life Insurance Corporation (Amendment) Bill, 2008 aimed at bringing about improvement and revision of laws relating to the insurance business.
- Institutionalising the process of a self-regulatory mechanism by IRDA for enforcement of market discipline and initiating steps to ensure that the life insurance council and the general insurance council become self-regulatory organizations.
- Establishment of a separate health section in the authority with specialists.
- Stipulation by IRDA of the rural and social sector obligations of private insurers up to the tenth year of operations. Under the rural sector obligations, life insurers are required to expand their rural coverage from 7 per cent of the total policies written direct in the first financial year to 20 per cent in the tenth financial year. The non-life insurers in the private sector are required to reach the target commencing from 2 per cent of total gross premium income written directly in the first financial year to 7 per cent from the ninth

financial year onwards. Under the social sector stipulations, all insurers would have to cover 5,000 lives in the first financial year to 55,000 lives in the tenth financial year.

- IRDA issued instructions on the interpretation of pre-existing conditions in health insurance, which came into effect from June 1, 2008. The standardization of terminology would help the insured by increasing clarity and ensure comparability of health insurance products across insurers; and in resolving operational constraints in the area of claims settlement in health insurance.

5.117 As a result of the process of de-tariffication of the general insurance industry, insurers were allowed to quote rates of premium in accordance with the rate schedules and rating guidelines filed with the IRDA with effect from January 1, 2008; the premium rates for motor third party risks would continue to be regulated by the Authority. The availability of third party cover to the policyholders remained unaffected following the directive issued to the general insurers to participate in motor third party pooling arrangement for commercial vehicle segment, managed by the General Insurance Corporation. Terms and conditions of the insurance policy in respect of general insurance business, however, continue to be regulated by the IRDA.

Pension sector : Highlights

5.118 The pension sector reforms were initiated in India to establish a solid and sustainable social security arrangement in the country against the backdrop that only about 12-13 per cent of the total workforce was covered by any formal social security system. The New Pension System (NPS), which was introduced by the Government from January 1, 2004 for new entrants to the Central Government service, except the Armed Forces, was to be extended gradually to the remaining 87 per cent of the total workforce on a voluntary basis. The design features of the NPS are self-sustainability and scalability. Based on individual choice, it is envisaged as a low-cost and efficient pension system backed by sound regulation. As a pure "Defined Contribution" product with no defined benefit element, returns would be totally market-related. It could provide various investment options and choices to individuals to switch over from one investment option to another or from one fund manager to another, subject to certain regulatory restrictions.

5.119 Pension Fund Regulatory and Development Authority (PFRDA), set up as a regulatory body for the pension sector, was engaged in the process of putting in place the full NPS architecture, consisting of a Central Recordkeeping Agency, Pension Fund Managers and Trustee Bank. The National Securities Depository Limited, selected as the Central Recordkeeping Agency (CRA) by PFRDA, also commenced its operations. State Bank of India, UTI Asset Management Company and Life Insurance Corporation were appointed as Pension Fund sponsors under the NPS.

5.120 Pending the establishment of full architecture of NPS, an interim arrangement was put in place by the Government for investment of the accumulated corpus under the NPS. Contributions were credited into a public account up to March 2008 earning a return equal to the rate of General Provident Fund. As per data available, 3.65 lakh employees were covered under the NPS; the Government transferred the accumulated funds along with its matching contribution amounting to over Rs. 2,100 crore to the three fund managers appointed by PFRDA for investment management.

5.121 Efforts are underway to extend the NPS to new segments (autonomous bodies, State Governments and unorganized sector) and introducing micro-pension initiatives. NPS has been well received by the State Governments. Twenty-one State Governments have notified similar schemes for their new recruits. PFRDA had, in collaboration with other NPS intermediaries, conducted three regional workshops at Mumbai, Kolkata and New Delhi to sensitize the State Governments to the requirements of the NPS and also to enable them to log on to the PFRDA-regulated NPS architecture with ease. The appointed pension fund managers and the CRA have been in continuous dialogue with the State Governments/UTs for facilitating their entry into the NPS. As of date, the CRA has signed agreements with six State Governments.

5.122 Following the Government's decision in August 2008 to extend the NPS to all citizens including the unorganized sector workers, the PFRDA announced that it would roll out the NPS architecture during the financial year 2009-10. As part of this exercise, PFRDA appointed six pension fund managers and 22 points of presence for managing NPS contributions pertaining to all citizens, and has made available the NPS to all citizens of India from May 1, 2009. Tier-I of the NPS constituting the non-withdrawable pension account has become operational from May 1, 2009 and Tier-II (withdrawable account) of the NPS account will become operational in about six months. It is expected to help realize the full potential of the NPS in terms of economies of scale and offer benefits to the subscribers in terms of lower fees and charges and high returns.

5.123 In terms of investment guidelines, pension fund managers will manage three separate schemes. The asset classes specified for the purpose consists of (i) equity, (ii) government securities and (iii) credit risk bearing fixed income instruments. It has been decided that investment by an NPS participant in equity would be subject to a cap of 50 per cent. The fund managers will invest only in index funds that replicate either BSE sensitive index or NSE Nifty 50 index. The subscriber will have the option to consciously decide the investment composition of NPS pension wealth. In case the subscriber is unable/unwilling to exercise any choice regarding asset allocation, his contribution will be invested in accordance with the "Auto Choice" option and according to a pre-defined portfolio.