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GENERAL INSURANCE BUSINESS TRENDS

(PRE-LIBERALIZATION PERIOD)

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ABSTRACT

The policy frame reveals that the General Insurance Corporation (GIC) in India during the pre-reform period was well-directed to achieve national planning and development objectives. Analyzing the performance of the GIC, including the progress of four subsidiaries, is essential to highlight achievements and business trends between 1973 and 1999-2000. The analysis should focus on trends in paid-up capital, gross premium, net premium, underwriting profits, net profit, and investment income. In general insurance contracts, insurers indemnify the insured for losses caused by specified risks, charging a remuneration called premium. Premiums are received for one year and are renewed only if the contract is renewed. The Insurance Act 1938 requires insurers to provide separate figures for businesses mobilized in and out of India, indicating the volume of business undertaken by organizations.

Key Words: General Insurance, Policy, Business, Pre-reform period

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The policy frame as presented above reveals that the GI business in India during the pre-reform period was well-directed to achieve the national objectives of planning and development. However, it is essential to analyze the performance of the GIC (which includes the progress of the 4 subsidiaries) in quantitative terms to hight light the achievements and business trends between 1973 and 1999-2000. For this purpose it is proposed to analyze the trends in paid-up capital, and other important performance parameters such as gross premium, net premium, underwriting profits, net profit, and investment income.

2.4 Paid-up Capital: Under the General Insurance Business Nationalization Act 1972, as stated earlier all the 107 private companies were amalgamated and grouped into 4 operating

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companies (whose names are already stated in the above paragraphs) under the management control of the General Insurance Corporation of India. The paid-up capital of GIC is fully subscribed by the Government of India and that of the four companies, is fully held by the GIC. Hence, the paid-up capital of the GIC is the reflection of the capital of the four operating companies and one holding company. The total subscribed and paid-up capital of the GI public sector companies initially is Rs.037 Crs in 1973. It gradually increased to Rs. 375 Crs by 1999-2000 i.e., the year of liberalization of the financial sector in India. Table 2.2 shows the paid-up capital trends held by all the five companies together. A close look at the data indicates that the paid capital of all the GI public is a little in 1973, the Government of India, injected an additional amount of Rs. 131 Crs by 1989-90 and another Rs. 100 cars. In 1990-91. Thus the rate of growth of paid-up capital is 354% in 1989-90 over 1973 and it is 60% in 1990-91 over the preceding year. Later for two years, there is no additional introduction of capital by the Government. Out of 11 years period (From 1989-90 to 1999-200) only in the three years additional capital was introduced which can be observed from Table 2.2 i.e., in 1989-90, 1990-91, and in 1993-4.

The data in Table 2.2 further give the per company average paid-up capital held by each. It increased from Rs. 7.4 crs in 1973 o Rs. 75 crs in 1999-2000 registering a growth by 10 times. Banking and insurance companies with limited capital base normally do high turnover business. In actual practice they operate heavily with non- owned funds because of which government control and supervision by regulatory authority is felt essential.

2.5 Premium Income

Persons wishing to cover the risks should enter into contract of insurance with the insurance company. Under the contract the insurer undertakes to indemnify the insured for any loss suffered by the insured due to specified risks. For this purpose the insurer charges some price which is called as consideration in the form of ‘It is the remuneration for the indemnity service promised by the insurer. As such it is an income to the insurer, particularly in case of general insurance. In general insurance contracts, premium is received by the insurer for one year and the premium is will be received again only if the contract is renewed. As a matter of fact, premium is the major source interest, dividends, rents and commission on reinsurance ceded. Further, according to the Insurance Act1938, the insurer has to give

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separate figures of premium for the business mobilized in India and out of India. As a matter of fact the amount of premium collected indicates the volume of business undertaken by the organizations.

Table 2.3 explains the trend in the receipt of the aggregate gross premium by the GIC and the four subsidiary companies over a period of eleven year (1989-90 to 1999-2000). Gross premium is the amount received for the policy amount contracted from the insured. As explained above, a company may some times share its business with other company under re-insurance (to reduce its commitment if any claim arises) contract for which ' commission on reinsurance accepted' is paid. After paying this commission, the premium received will be called as 'net premium'. Besides, an insurance company may also consider 'Bonus in Reduction of Premium' wherein a company allows discount on the subsequent renewal of policies. For instance, the GI companies in India allow ' bonus in reduction of premium' for motor cycle insurance at 15%, 25%, and 30% in first second and third year respectively on renewed policies. Hence, gross premium is that received from the insured before paying commission on re-insurance.

A close look at the data presented in Table 2.3 clearly explains that the gross premium earned by the GIC and its four subsidiaries reveals that it increased steeply from year to year by about 3.5 times. The total gross premium increased form Rs. 2279 crs. In 1989-90 to Rs.9982crs in 1999-2000. A note worthy aspect of the premium collections is that the GIC and 4 subsidiaries never had lagged behind when compared with the previous year. Thus, it candy be observed that the growth of gross premium collected ranged between 9 and 28 per cent. The annual average growth of gross premium collected by; the GIC and the four subsidiaries is 14.58% over a period of 11 years. In 1991-92 the premium collected registered 27.82% growth over the previous year. As against this, in 1999-2000 the collections increased by 9% only. The overseas business of the GIC and its subsidiaries also increased in almost all years except in 1994-95 and 1996-97 but the drop is insignificant by Rs. 3 to Rs. 5 crs. However, the share of the overseas business ranged between 4 and 7 per cent of the total premium collected. In absolute figures, the overseas business of all the publice sector GI companies increased from Rs. 104 crs In 1989-1992 to Rs. 460 crs In 1999-2000 registering a growth by 4.42 times. In same breath, it is evident that the volume of business in terms of gross premium collected increased by 4.38 times over the period under

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study. The growth of inland as well as overseas business equaled with each other. The share of inland business in the aggregate premium collected was never below 93% and it ranged between 93 and 96 per cent which is just similar to that of the overseas business.

As stated earlier net premium is that amount arrived after adjusting the 'bonus in reduction of premium' and 'commission on re-insurance accepted/ceded'. Table 2.4 display the trends in the net premium amount pooled by the public sector GI companies. In aggregate terms, the net premium collected by them registered a growth of 4.28 which is almost similar to the growth of gross premium. Year-wise growth analysis of the net premium collected reveals that it ranged between 9 and 26 per cent. Of course, in no year there is a drop in the net premium fetched by the GIC and its subsidiaries. A close examination of the net premium collected by overseas businesses reveals that the public sector GI companies experienced a little setback in 1996-97 and 1997-98 because of a sudden drop in the volume of business but the volume of inland business maintained the general trend of increased collection premium. Year-of-year growth of net premium collected by inland business varied between 11 and 27 percent. The annual average growth of the net premium received by the GIC and 4 subsidiaries over 11 years is 14.37.

Type-wise analysis of the net premium collection, as can be seen from Table 2.5 reveals that the 'miscellaneous' business portfolio is the most important source of premiums to the public sector GI companies. Miscellaneous insurance portfolio is composed of livestock insurance, personal accidents, householders insurance, medi-claim, and many others which can be seen in Annexure Chart: 2. A. The data explain that its share in total net premium collection is almost 50 to 63 percent. 'Fire' insurance is another important insurance scheme much sought after since its share in the total net premium collections by the public sector GI companies accounts for 26 to 28 percent. The growth of these two types of insurance business is almost similar over a period of 11 years viz, 2.41 time and 2.06 time for miscellaneous and fire insurance respectively. It can be seen from Table 2.5 that the collections from 'Marine' insurance are limited whose share varied between 11 and 18 percent. The reason for limited business in marine sector is that all the shipping companies have formed a syndicate to insure the hull part of the vessel. However, over the years it registered a growth of 1.35 times only.

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All the above analysis amply indicates that the GIC and 4 subsidiaries did a significant business over that year but it might be on account of (a) the absence of competitors in the market and (b) its near monopoly power.

Table 2.2

AGGREGATE PAID-UP CAPITAL OF GIC AND PUBLIC SECTOR COMPANIES 1973-2000

Year	Paid up Capital	Growth(%)	Average Paid up Capital Per Company Rs.
1973	37	--	7.4
1989-90	168	354.08	33.6
1990-91	268	59.52	53.6
1991-92	268	0	53.6
1992-93	268	0	53.6
1993-94	375	39.92	75.0
1994-95	375	0	75.0
1995-96	375	0	75.0
1996-97	375	0	75.0
1997-98	375	0	75.0
1998-99	375	0	75.0
1999-00	375	0	75.0
Average		**17**	

Source: **Srivastava D.C** and **Shashank Srivastava,** Indian Insurance Industry.Transition and Prospects; New Century Publications, 2001 P.71

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Table 2.3

TRENDS IN GROSS PREMIUM OF GIC AND 4 SUBSIDIARIES

(1989-90 TO 1999-2000)

Year	**Premium in India Rs.**	**Premium outside India Rs.**	**Total Rs.**
1989-90	2175	104	2279(--)
1990-91	2796	117	2913(27.82)
1991-92	3287	216	3503(20.25)
1992-93	3792	278	4070(16.19)
1993-94	4449	317	4766(17.10)
1994-95	4959	312	5271(10.59)
1995-96	6047	330	6377(20.98)
1996-97	7021	327	7348(15.23)
1997-98	7736	350	8086(10.04)
1998-99	8759	399	9158(13.26)
1999-2000	9522	460	9982(09.00)
Average		**14.58**	

Source: **Srivastava D.C** and **Shashank Srivastava** (2001), Indian Insurance Industry: Transition and Prospects; New Century Publications, o. 7

Note Figures in brackets indicate the percentage of growth over the preceding year.

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Table 2.4

AGGREGATE NET PREMIUM COLLECTED BY GIC AND 4 SUBSIDIARIES

(1989-90 TO 1999-2000) (Rs. In Crores)

Year	**Premium in India**	**Premium outside India**	**Total**
1989-90	1909	277	2186(--)
1990-91	2419	323	2742(25.43)
1991-92	2945	505	3450(25.82)
1992-93	3284	584	3868(12.11)
1993-94	3681	746	4427(14.45)
1994-95	4102	777	4879(10.21)
1995-96	5087	869	5956(22.07)
1996-97	6041	693	6734(13.06)
1997-98	6725	632	7357(09.25)
1998-99	7732	670	8402(14.20)
1999-2000	8648	716	9364(11.45)
Average			**14.37**

Source: **Srivastava D.C** and **Shashank Srivastava**, Indian Insurance Industry: Transition and Prospects; New Century Publication, (2001) p.71

Note: Figures in brackets indicate the percentage of growth.

References and Notes

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