International Journal of Management, IT & Engineering
Vol. 9 Issue 2, February 2019,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

AN ANALYTICAL STUDY OF PRIVATISATION IN INDIAN INSURANCE SECTOR.

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Abstract: The study seek to ravel the privatization of insurance sector in Indian scenario and also drafted the pros and corns of this conglomerate to evaluate the insurance on health ,vehicle and wealth on an one set go process of the protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss. privatization is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, either to a business that operate for a profit or to a non-profit organization insurance in India refers to the market for insurance in India which covers both the public and private sector organizations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central government.

Key Words: privatization, insurance, union list, constitution, central government, Enterprise, ownership, contingent.

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I Introduction

Insurance has always been a politically sensitive subject in India. After 40 years of government protectionism of this massive sector, the government is touching dangerous yet interesting ground with their intentions of opening this sector to private Indian business houses, as well as international players. Within less than 10 years of independence, the Indian government nationalized private insurance companies in 1956 to bring this vital sector under government control to raise much needed development funds.. The term is also used in a quite different sense, to mean government out-sourcing of services to private firms. In Indian insurance sector privatization is a boon because it places the risk in the hands of business or private enterprise, Private enterprise more responsive to customer complaints and innovation, the govt. should not be a player and an umpire, and it leads to lower prices and greater supply, Competition in privatization increases differentiation.

Privatization in insurance sector is a bane because it is expensive and generates a lot of income in fees for specialist advisers, Public monopolies have been turned into private monopolies with too little competition, so consumers have not benefited as much as had been hoped, The nationalized industries were sold off too quickly and too cheaply. In almost all cases the share prices rose sharply as soon as dealing began after privatization, the privatized businesses have sold off or closed down unprofitable parts of the business and so services, Wide share ownership did not really happen as many small investors took their profits and didn't buy anything else.

II Literature Review

Shrinivas (2008) analyzes the causes behind lapses in Insurance Policies of LIC after privatization on the basis of the experiences of the functionaries like branch managers, development officers and insurance agents who are the core marketing staff for LIC of India. Subhash and Bhat (2007) highlight the role of innovation for growth in Insurance Sector. They are of the opinion that the success of the insurance industry will primarily depend upon meeting the rising expectations of the consumers. Also a concentrated effort from LIC as well as various private players towards tapping the rural market is needed to boost the insurance sector in the

years to come. There exists huge potential for the wealth maximization of private institutional investors, private wealthy families, individuals, and public sector enterprises.

Ramana (2008) discusses the rapid growth of the insurance industry in India. Raman (2004) emphasized on regulatory dissonance which not only poses serious challenges to insurance companies seeking global expansion, but also reiterates the fact that business models cannot be exported in their entirety from one country to another. The paper presented the regulatory dissonance that exists between the nonlife insurance industry in the U.S. and India. It attempts to highlight the regulatory dissonance that exists in the business line definition area, accounting treatment of acquisition expenses, treatment of unearned premiums, creation of a catastrophe reserve, reinsurance cession, investment regulation, obligations to the rural and social sector, rate and form regulation and solvency margin computation.

Research Objectives

- To finding the pros and corns of privatization in insurance sector.
- To analyze the insurance characteristics that mobilizes the Indian insurance sector.
- To chart out the different classification of insurances.
- To analyze overall activities of companies carried out Indian insurance.

Research Methodology

This paper is prepared upon secondary data**.** The data required is collected from the necessary published and unpublished information and from the internet sources wherever necessary

Ancient history

The history of privatization dates from Ancient Greece, when governments contracted out almost everything to the private sector. In the Roman Republic private individuals and companies performed the majority of services including tax collection (tax farming), army supplies (military contractors), religious sacrifices and construction. Perhaps one of the first ideological movements towards privatization came during China's golden age of the Han dynasty. Taoism came into prominence for the first time at a state level, and it advocated the laissez-faire

principle of Wu wei, literally meaning "do nothing”. The rulers were counseled by the Taoist clergy that a strong ruler was virtually invisible.

The concept of insurance has been prevalent in India since ancient times amongst Hindus. Overseas traders practiced a system of marine insurance. The joint family system, peculiar to India, was a method of social insurance of every member of the family on his life. The law relating to insurance has gradually developed, undergoing several phases from nationalization of the insurance industry to the recent reforms permitting entry of private players and foreign investment in the insurance industry. The Constitution of India is federal in nature in as much there is division of powers between the Centre and the States. Insurance is included in the Union List, where in the subjects included in this list are of the exclusive legislative competence of the Centre. The Central Legislature is empowered to regulate the insurance industry in India and hence the law in this regard is uniform throughout the territories of India.

Insurance law in India had its origins in the United Kingdom with the establishment of a British firm, the Oriental Life Insurance Company in 1818 in Calcutta, followed by the Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and the Oriental Life Assurance Company in 1874. However, till the establishment of the Bombay Mutual Life Assurance Society in 1871, Indians were charged an extra premium of up to 20 per cent as compared to the British. The first statutory measure in India to regulate the life insurance business was in 1912 with the passing of the Indian Life Assurance Companies Act, 1912 (Act of 1912.

Since 1956, with the nationalization of insurance industry, the LIC held the monopoly in India’s life insurance sector. GIC, with its four subsidiaries, enjoyed the monopoly for general insurance business. Both LIC and GIC have played a significant role in the development of the insurance market in India and in providing insurance coverage in India through an extensive network. For example, currently, the LIC has a network of 7 zones, 100 divisions and over 2,000 branches. LIC has over 550,000 agents and over 100 million lives are covered. From 1991 onwards, the Indian Government introduced various reforms in the financial sector paving the way for the liberalization of the Indian economy. It was a matter of time before this liberalization

affected the insurance sector. A huge gap in the funds required for infrastructure was felt particularly since much of these funds could be filled by life insurance funds, being long tenure funds. Consequently, in 1993, the Government of India set up an eight-member committee chaired by Mr. R. N. Malhotra, former Governor of the Reserve Bank of India, to review the prevailing structure of regulation and supervision of the insurance sector and to make recommendations for strengthening and modernizing the regulatory system. The Committee submitted its report to the Indian Government in January 1994. Two of the key recommendations of the Committee included the privatisation of the insurance sector by permitting the entry of private players to enter the business of life and general insurance and the establishment of an Insurance Regulatory Authority. It took a number of years for the Indian Government to implement the recommendations of the Malhotra Committee. The Indian Parliament passed the Insurance Regulatory and Development Act, 1999 (IRD Act) on 2nd December, 1999 with the aim "to provide for the establishment of an Authority, to protect the interests of the policy holders, to regulate, promote and ensure orderly growth of the insurance industry and to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 1972".

Privatization is a boon

In Indian insurance sector privatization is a boon because it places the risk in the hands of business or private enterprise, Private enterprise more responsive to customer complaints and innovation, the govt. should not be a player and an umpire, and it leads to lower prices and greater supply, Competition in privatization increases differentiation. Potentials of privatization is stated below

1. Improved Efficiency.

The main argument for privatisation is that private companies have a profit incentive to cut costs and be more efficient. If you work for a government run industry, managers do not usually share in any profits. However, a private firm is interested in making profit and so it is more likely to cut costs and be efficient. Since privatisation, companies such as BT and British Airways have shown degrees of improved efficiency and higher profitability.

2. Lack of Political Interference.

It is argued governments make poor economic managers. They are motivated by political pressures rather than sound economic and business sense. For example a state enterprise may employ surplus workers which are inefficient. The government may be reluctant to get rid of the workers because of the negative publicity involved in job losses. Therefore, state owned enterprises often employ too many workers increasing inefficiency.

3. Short Term view.

A government many think only in terms of next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election.

4. Shareholders

It is argued that a private firm has pressure from shareholders to perform efficiently. If the firm is inefficient then the firm could be subject to a takeover. A state owned firm doesn't have this pressure and so it is easier for them to be inefficient.

5. Increased Competition.

Often privatisation of state owned monopolies occurs alongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competition that can be the greatest spur to improvements in efficiency However, privatisation doesn't necessarily increase competition; it depends on the nature of the market.

Privatization is a bane

Privatization in insurance sector is a bane because it is expensive and generates a lot of income in fees for specialist advisers, Public monopolies have been turned into private monopolies with too little competition, so consumers have not benefited as much as had been hoped, The nationalized industries were sold off too quickly and too cheaply. In almost all cases the share prices rose sharply as soon as dealing began after privatization, the privatized businesses have sold off or closed down unprofitable parts of the business and so services, Wide share ownership

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1.Monopoly.

A natural monopoly occurs when the most efficient number of firms in an industry is one. For example tap water has very significant fixed costs; therefore there is no scope for having competition amongst several firms. Therefore, in this case, privatisation would just create a private monopoly which might seek to set higher prices which exploit consumers. Therefore it is better to have a public monopoly rather than a private monopoly which can exploit the consumer.

2. Public Interest.

There are many industries which perform an important public service, e.g. health care, education and public transport. In these industries, the profit motive shouldn't be the primary objective of firms and the industry. For example, in the case of health care, it is feared privatizing health care would mean a greater priority is given to profit rather than patient care. Also, in an industry like health care, arguably we don't need a profit motive to improve standards. When doctors treat patients they are unlikely to try harder if they get a bonus.

3. Government loses out on potential dividends.

Many of the privatized companies are quite profitable. This means the government misses out on their dividends, instead going to wealthy shareholders.

4. Problem of regulating private monopolies.

Privatisation creates private monopolies, such as the water companies and rail companies. These need regulating to prevent abuse of monopoly power. Therefore, there is still need for government regulation, similar to under state ownership.

5. Fragmentation of industries.

In different countries, rail privatisation led to breaking up the rail network into infrastructure and train operating companies. This led to areas where it was unclear who had responsibility. For

example, the Hatfield rail crash was blamed on no one taking responsibility for safety. Different rail companies have increased the complexity of rail tickets.

Prospectus of Future Research

The social impact of privatization on employees and consumers needs to be studied more rigorously in India's case. If privatization is associated with price increases and job losses, then a judgment on the overall outcome of privatization would have to weigh these effects against the demonstrated profitability and efficiency increases. In addition, further research should examine whether the profitability and efficiency increases at the firm level translate into employment gains for the wider economy to partially compensate for the job losses at the firm level.

Findings and suggestions

- Insurance sector in India is bane in one side of the coin.
- Insurance sector in India is boon on another side of the coin.
- Privatization of insurance sector reduces the job security among the employees.
- Despite insurance is included in union list of constitution privatization backdrops the objective.
- Privatization of insurance sector squeeze out the monopoly of the public sector.
- Both private and public sector are competitive to give unrivaled service to the customers.

III Conclusion

Privatization in India has led to significant improvement in profitability and efficiency of firms. In addition, it has provided a modest financial boost to the government through privatization receipts. However, the impact on employment is negative. This is true for SOEs (State Owned Enterprises) privatized through share issues and asset sales, over the short-run and long-run, and after controlling for the impact of deregulation and liberalization on SOE performance. Regardless, the government should continue with the policy of privatization, mainly because of its potential to unleash the productive potential of state-owned enterprises through significant improvements in their profitability and efficiency.

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