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EMERGING ISSUES AND GLOBAL CHALLENGES OF INSURANCE MANAGEMENT IN THE PRESENT SCENARIO

Dr. M.SUBBA RAO, M.Com, M.Phil, Ph.D*

R. SRINIVASULU, M.Com, M.B.A**

ABSTRACT

Insurance management (IM) is a general term used to describe an insurance services firm. This type of company typically provides a range of insurance products. The product offering is typically focused on a specific sector of the market, such as businesses or individuals. Insurance is a service that allows the client to purchase protection against specific future perils. The cost of the insurance is offset by the services provided by the company, in the event of a loss. Within the IM sector there are three types of service providers: insurance services, insurance firms, and financial institution insurance. Regardless of the structure, the role of an IM company is the same, to provide access to insurance products and provide advice to potential clients. The insurance industry has grown considerably in the past 10 years, providing a dizzying array of products, services, and coverage. The services offered by an IM company are designed to streamline this product offering and simplify matters for clients.

Insurance Services have arrangements with a wide range of insurance solution providers. They act as the intermediate service and are responsible for marketing, identifying new clients, working with existing clients, and following up on policy renewals and changes in coverage.

* Principal, P.V.K.K Degree College, Anantapur – 515001

** Research Scholar, Department of Commerce, S.K University - Anantapur

Insurance firms specialize in different areas of insurance, ranging from health to property insurance. This is a very large industry and these firms work directly with specific client groups or corporations.

Financial institution insurance products are purchased solely for the purpose of insurance bonds, debt instruments, cash, and other assets. This type of insurance is not available to the public and is exclusively available to this industry. The cost of IM provided to these firms is included in the banks operating costs, as this type of coverage is typically mandated by the government.

The concept of IM is much wider in scope than the mere financial implication of costs and benefits of an insurance transaction. Therefore, effective IM aims at only optimization of cover at economical cost but also ensuring availability of protection when it is most needed.

Introduction

Insurance is a contract between the insurer and the insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against. In consideration the insured agrees to pay premium regularly. The person whose risk is insured is called I*nsurer* or *Assure*. Thus the concept *Premium* implies that the consideration paid by the insured to the insurer for the risk undertaken by the latter. Premium is usually required to be paid in cash and advance payment of the premium is a condition precedent to the creation of a binding contract of insurance (Periasamy, 2003).

Meaning

Insurance is a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages.

The meaning of insurance is important to understand for anybody that is considering buying an insurance policy or simply understanding the basics of finance. Insurance is a hedging instrument used as a precautionary measure against future contingent losses. This instrument is used for managing the possible risks of the future.

Insurance is bought in order to hedge the possible risks of the future which may or may not take place. This is a mode of financially insuring that if such a incident happens then the loss does not affect the present well-being of the person or the property insured. Thus, through insurance, a person buys security and protection (Rejda et al., 2010).

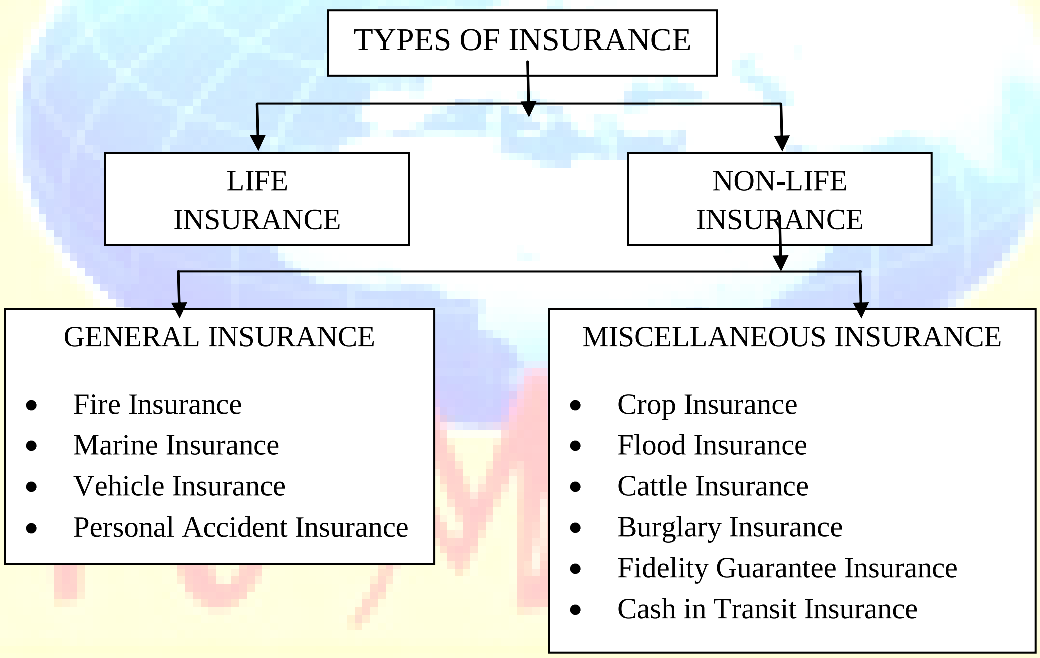
Insurance Industry: Classification

From the practical point of view the insurance can be classified as follows:

(a) Life Insurance

(b) Non-Life Insurance

The non-Life Insurance can be classified further into General Insurance and Miscellaneous Insurance (Periasamy, 2003).



Insurance Sector

The Insurance Sector plays a vital role in the process of the economic development of any economy. It has a positive correlation with economic development and in economy. It acts as promoters of the investment activities, as stabilizer of the financial markets and as a risk manager insurance service leads to efficiency and productive allocation of capital resources, facilitate growth of trade and commerce.

Globalization will certainly increase insurance penetration and all sectors showed equip themselves to exploit the opportunities offered by the sector. By indenting the services of insurance coverage geographically so, "Every family in every remote village in the community feels safe and secure" (Vaughan et al., 2008).

Indian Insurance Sector in 21st Century

The insurance sector in India has been thrown open for some 12 years now. Until the passage of the Insurance Regulatory and Development Authority (IRDA) Act in 1999, it was a public sector monopoly. Present insurance industry spread across the length and breadth of the country through a process of change. Insurance Regulatory and Development Authority (IRDA) has formulated the rules and regulations and they are giving licenses to private parties for setting up of new insurance companies. They states opening by the end of the year 2000. Now growing at an annual average rate of 14% GIC's business is satisfactorily increasing and which is the highest in the world.

- IRDA starts giving licenses to private insurers. ICICI prudential and HDFC Standard life insurance first private insurers to sell a policy in 2000
- Royal Sundaram Alliance first non life insurer to sell a policy in 2001
- Banks allowed selling insurance plans. As TPAs enter the scene, insurers start setting non-life claims in the cashless mode in 2002
- IRDA has removed administered pricing mechanism, i.e. de-tariffing in respect of fire and engineering along with motor insurance of general insurance for premium, effective from 1 January, 2007.
- First online insurance portal, https./// set up by an Indian insurance broker Bonsai Insurance Broking Pvt. Ltd. In 2007
- IRDA has amended the IRDA (Insurance Advertisements and Disclosure) Regulations to remove any scope for the involvement of unlicensed personnel/entities in the sale of insurance products in 2010

The government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill. Lifting all entity restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership.

Minimum capital requirement for direct life and non-life Insurance company is INR1000 million and that for re-insurance company is INR2000 million. In the 2004-2005 budgets, the Government proposed for increasing the foreign equity stake to 49%, this is yet to be effected. Under the current guidelines, there is a 26% equity capital for foreign partners in direct insurance and reinsurance Company.

Factors in the economy, risk and insurance, keeping costs low and retaining business in a competitive market are issues insurance companies face on a regular basis. Uncertainty regarding the economy along with changes in how people do business keep this industry on its toes as it strives to meet the demands of consumers and ensure long-term success (Scott E. Harrington et al., 2004).

Emerging Issues of Insurance Sector in India 2012

The insurance industry is experiencing significant and ongoing change and is being buffeted by challenging regulatory, political and economic winds. The competition is too tough between private players and the insurance giants. Private players are coming out with innovative and campaign, more sophisticated and intelligent workforce properly trained agents and different types of distribution channels to get hold of customers in variety of ways. Many of the world's largest insurers have entered India's emerging insurance market.

The following issues describe in detail the challenges facing by the insurers.

- In a volatile market, analysts' lack of confidence in prevailing disclosure standards can only heighten investor uncertainty. This makes it even more important for insurers to provide stakeholders clear and informative financial information.
- Improving the acceptability of product range to cater the needs of middle class population viz., retail health insurance mortgage cover, liability insurance, reverse mortgage insurance etc.,
- There should be a tradeoff between the distribution costs and the product complexity by identifying cost effective way of distributing the insurance products.
- Facilitating portability of health insurance products from one insurer to the other.

- Low persistency levels observed need special focus in order to improve the operational efficiency of the insurance sector.
- Asset-liability management risk is more pronounced due to inability to hedge the risks because of the non-availability of mature derivative market.
- Increasing overlap in the operations of various financial institutions to be closely monitored along with the other financial sector regulators.
- Current claims, policy administration and billings systems replacements have reached their practical limits, and modern and flexible platforms have become "table stakes" for any successful carrier. Quite simply, the cost of establishing a common view through superior IT execution and pricing segmentation could prove to be the cost of staying in business.
- Two key themes have dominated regulatory discussions in the past year: Supervisory focus on risk and capital management, and concerted efforts to move towards a consistent approach to cross-territory supervision of insurance groups. These initiatives underscore the importance of embedding strong risk management principles throughout an enterprise and moving beyond just "tick the box" compliance.
- Technology, including mobile devices and sensors, offers insurers great promise for developing a competitive edge, but only if they can effectively analyze the huge amount of data that is now available. If they can meet this challenge, then they will be able to reduce costs, improve efficiencies, and enhance their ongoing attempts to move from product-focused to customer oriented operating models.
- Expansion remains a challenge for many insurers. The M&A environment has been muted in recent years, and growth beyond stagnant developed markets into more dynamic emerging ones presents both opportunity and risk. A key consideration for all companies is that one size does not fit all when determining M&A strategy and/or how to expand into new geographic markets.
- Mismatch of assets and liabilities and assets of insurers due to non-availability of long term assets, particularly in case of annuity and other long-term products.
- There have been major tax compliance developments in the past several months that strongly affect insurers, notably SSAP 101 and FATCA. The latter has the potential to have an especially big impact on compliance functions both in the US and globally.

- In 2011, life insurers started to feel meaningful effects from the low interest rate environment, including declining sales, revenue, profitability, and company valuations. If interest rates continue to stay low - and it appears likely that they will for at least another two years - then life insurers' financial pain will be broader and deeper.
- In rural areas though low insurance penetration provides an opportunity but low literacy and income level requires customized solutions.
- In rural areas high proportion of work force in unorganized sector. Distribution cost increases considerably in the rural areas thereby causing product costs to increase. New cost effective distribution channel need to be identified.

The winds of the globalization have initiated vast changes in the functioning of the industry today. Increasing numbers of the multinational partnership with private insurers have paved for radical shift in insurance setting.

Further computerization and implementation of information technology are in rapid progress which will give the proto connectivity the country by 2001 (Rejda et al., 2010). Moreover, it faces the following problems also:

- Lack of awareness for insurance needs.
- Lack of penetration due to inadequate marketing/ delivery system.
- Total computerization still in the process of implementation.
- Sophisticated covers do not have adequate demands because of general attitude to insurance in India.

Global Challenges of Insurance Sector in India

How is possible to manage numerous risks, in order to achieve human as well as environmental wellbeing, and to form modern insurance industry? This issue is very modern and it requires rational answers. Also, this is field of scientific research. Research results are commonly used by law regulative as row model for the profession and practice. Is mentioned line we can identify challenges in insurance sector.

The future growth of the insurance industry depends on macro-economic stability, sound regulation and avoidance of company failures and scandals that would more the good reputation of the industry (Vaughan et al., 2008).

The leading companies have a strong record of innovation and efficiency and have been responsive to the changing needs of their customers. The main supervision and modernizing the legal and regulatory frame work. A consolidation of the industry by encouraging weak firms to merge or exit the market would also contribute to sound competition and greater safety (Sinha, P.K et al., 1994).

The following challenges are needed to be taken by the Insurance Sector:

- **Capital adequacy Standards:**

  Capital Adequacy Standards should be brought in line with best international practice. The solvency margin based on the average net claims over a specified period should be introduced to complement the solvency margin that is based on net premiums. A positive solvency margin requirement for long-term business should also be used.

- **Insurance Information Bureau:**

  An Insurance Information Bureau should be created with data on underwriting policies, loss claims and incidents of insurance fraud. The bureau should facilitate sharing of these data by all licensed companies and should contribute toward higher underwriting standards. Competition policy should ban the practice of tide sales whereby customers of large companies are forced to buy several services from the same group.

- **Special consideration:**

  Consideration need to be give creation of a compensation fund to cover the unpaid claims of failing companies and protect policy holders especially in connection with life and annuity policies. Special provisions would be required to expedite the liquidation process, require the submission of reorganization plans and facilitate the reinsurance and or transfer of policies. These means would protect the assets of the failed companies from the expenses of protected liquidation and thus maximize the amounts available for distribution to policy holders and other clients.

- **Detailed Standards:**

As part of new frame work, detailed standards should be issued covering the constitution and methods of calculation of reserves and provisions and the amount of credit for amounts recoverable under reinsurance arrangements to ensure that all companies follow sound policies while accounting and actuary's practices used by most companies are line with best international practices.

- **Risk Management:**

Consolidation of the insurance industry needs to be promoted to ensure sounder competition and grater safety. This can be achieved by raising the level of minimum capital and introducing risk based capital requirements as well as by encouraging weak firms to merge with other firms or exit the market.

The following strategies can use to cope with change, manage risk, enhance their operations and grow.

- Identifying more and more Non-Government Organizations. Self Help Group and Micro Finance Institutions to be included as Micro insurance agents to cater the needs of rural people.
- Monitor various causes leading to the grievances of policy holders and take all possible steps to contain them.
- Promoting Tele marketing and Internet based marketing of insurance products need to be encouraged.
- Consumers are provided with clear information and are kept appropriately informed before during and after the point of sale.
- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and ad they have been led to expect.
- Facilitate the development of machinery to handle the payment of annuities as with the introduction of defined contribution pension schemes by many governments would cause the transactions in this area to increase both in number and amounts involved.
- Encourage research in the area of developments in mortality and morbidity of Indian population, due to medical advancements, to facilitate more appropriate pricing of insurance products.
- Promoting corporate governance in the industry which recognizes and protects rights of all interested parties.
- Developing separate set of regulations for reinsurance companies and to encourage health and reinsurance market in India.

Conclusion

The Indian insurance industry has traveled a long way ever since businesses were regulated tightly & concentrated by few insurers of the public sector. The insurance industry is a key component of the financial infrastructure of an economy, and its viability and strengths have far reaching consequences for not only its money and capital markets, but also for its real sector.

The launch of new developments in the insurance industry saw many new international insurers entering the market. It also gave way to propagation of innovative goods & channels for distribution & the supervisory values rising. Indian per capita revenue is likely to grow up to more than 6% incoming 10 years & with developing awareness, the Indian insurance rate is estimated to rise at a striking rate in India. Till recently, only 20% of the Indian population is covered by different schemes of life insurance. It is also seen that the healthcare penetration rate as well as schemes of non-life insurance in Indian insurance market are well under the worldwide levels. These aspects show vast potential of the Indian insurance industry

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