IRDA ANNUAL REPORT, 2006-07

(Some excerpts)

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- Editor

PART I

POLICIES AND PROGRAMMES

APPRAISAL OF INSURANCE MARKET

The contours of insurance business have been changing across the globe and the ripple effects of the same can be observed in the domestic markets as well. An evolving insurance sector is of vital importance for economic growth. While encouraging savings habit it also provides a safety net to both enterprises and individuals. The insurance industry also provides rucial financial intermediation services, transferring funds from the insured to capital investment, which is critical for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. In fact investments in infrastructure are ideal for asset-liability matching for life insurance companies given their long term liability profile. Development of the insurance sector is necessary to support the structural changes in the economy. Social security and pension reforms too benefit from a mature insurance industry. The insurance sector in India, which was opened-up for private participation in the year 1999 has completed seven years in a liberalized environment. Since opening up of the insurance sector in 1999, 24 private companies have been granted licenses by 31st March, 2007 to conduct business in life and general insurance. Of the 24, 15 were in the life insurance and nine (including a standalone health insurance company) in general insurance. During the last seven years capital amounting to Rs.9625.28 crore was brought in by the private players, of which the contribution of the foreign partners has been Rs.2174.28 crore. During this period the average annual growth of first year premium in the life segment worked out to 47.06 percent and in the non-life segment it was 16.87 percent. The industry services the largest number of life insurance policies in the world. Yet Indian insurance industry has scope to further expansion with a large untapped potential.

The Authority and the industry have been playing an active role in increasing consumer awareness. Insurance companies in general and private insurance companies in particular, are reaching out to untapped semi-urban and rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments. The insurers are increasingly introducing innovative products to meet the specific needs of the prospective policyholders. Innovative products, imaginative marketing, and aggressive distribution enabled fledgling private insurance companies to sign up Indian customers' faster belying expectations at the time of opening up of the sector. At the time of opening up of the sector, life insurance was viewed as a tax saving device. Of late policyholders' perspective is slowly changing towards taking insurance cover irrespective of tax incentives. The insurable populace is looking for products which suit their specific requirements. As of now a variety of choices are available in the market meeting the requirements of different cross-sections of the society and across age groups.

TABLE 1

KEY MARKET INDICATORS

Life and non-life market in India (Total Premium) Global insurance market	Rs.181971.61 crore (US $ 41.74 billion) US $ 3723 billion
(as on 31st December, 2006)	Inflation adjusted growth:5.0 percent

Growth in premium under written in India and abroad in 2006-07	Life: 47.38 percent Non-life : 21.51 percent
Geographical restriction for new players	None
Equity restriction	Foreign promoter can hold up to 26 percent of the quity
Registration restriction	Composite registration not available

With the registration of Bharti Axa Life Insurance Co. Ltd., the number of companies operating in the life insurance industry has increased to sixteen. The new entrant commenced underwriting life premium in August, 2006.

By end March 2007, there were sixteen life and sixteen non-life insurance companies (including the national re-insurer). Apollo DKV, another standalone health insurance company and Future Generali Insurance Co. Ltd. and Future Generali Indian Life insurance Co. Ltd. were granted Certificate of Registration in 2007-08 and are in the process of commencing operations.

TABLE 2

NUMBER OF REGISTERED INSURERS IN INDIA

Type of business	Public Sector	Private Sector	Total
Life Insurance	1	16*	17
General Insurance	6	11^	17
Re-insurance	1	0	01
Total	**8**	**27**	**35**

* One has been granted registration in 2007-08
^ Two have been granted registration in 2007-08

Of the non-life insurance companies in the public sector, there are two specialized insurance companies viz. Agricultural Insurance Company, which handles Crop Insurance business and Export Credit Guarantee Corporation which transacts export credit insurance. In addition, there are two standalone health insurance companies in the private sector, of which one is yet to commence operations.

EXPANSION OF OFFICES

While there were 2199 offices in the life insurance industry by March 2001, the number has increased to 5373 by the end of 2006-07. During the period, while the number of offices of LIC has increased from 2186 to 2301 the offices of the private sector players increased from a mere 13 in 2001 to 3072 in 2006-07.

WORLD INSURANCE SCENARIO

Worldwide insurance premium amounted to US $ 3723 billion in 2006 comprising of US $ 2209 billion in life and US $ 1514 billion in general insurance business. At this level the premium has increased by 5.0 per cent in real terms in 2006 as compared to 2.5 percent in 2005. The growth in life insurance premium was about 7.7 percent which is the highest since 2000. It may be interesting to note that in most of the countries the growth in life insurance premium was faster than growth in the economic activity. Booming stock markets favouring unit linked products, regulatory changes and tax incentives helped in increasing demand for life insurance. With increasing aging population and governments moving from public to private pension schemes, the demand for life insurance products has also increased. In emerging markets, the growth in life insurance tripled to 21.1 percent from 7.5 percent in 2005. Strong economic growth and catch-up dynamics had positive impact on the growth trend. The profitability of life business continued to improve in many countries as costs were cut, guaranteed interest rates were reduced and profit participations was adjusted to reflect the low interest rate environment. All these improvements have reflected in the increased level of life insurers' risk capital.

The global non-life business grew by 1.5 percent in 2006 recovering from previous year's stagnation. The global growth performance in non-life business varied between industrialized countries and emerging markets. While industrialized countries had shown a small growth of 0.6 percent, the emerging markets exhibited a robust growth of 11.0 percent in the non-life insurance business. This growth was higher than 7 percent recorded in 2005. In emerging markets, strong economic developments and introduction of mandatory cover in areas such as motor, third party liability and health were key drivers of growth. However, there was a downward pressure on premium rates in non-catastrophe lines of business. Strong underwriting discipline and absence of major catastrophes helped improving the profits of general insurance business in 2006. As some of the Asian economies like Hong Kong, Singapore, Taiwan and South Korea are being reclassified as industrialized countries, the premium share of industrialized countries increased to 92.0 percent in 2006 from 87.0 percent in 2005. The share of emerging markets in the total world premium was 8.0 percent in 2006.

The insurance penetration in a country depends on its level of economic activity, risk awareness among the people and the deepening of the financial system. It is therefore desirable to assess India's position vis-à-vis other countries with respect to insurance penetration and density. This has been shown in Chart 1.

The global outlook for 2007 suggests a mixed picture. While healthy growth is expected in life insurance with strong development of savings and pension products, the non-life insurance premiums are likely to stagnate. The outlook for profits remains robust with life sector making further progress on profitability. The combined ratios for non-life insurance are expected to deteriorate due to sluggish premium growth thereby affecting profitability.

INDIAN INSURANCE INDUSTRY

With large population and untapped market, insurance is a big opportunity in India. The insurance business (measured in the context of first year premium) registered an impressive growth of 94.96 percent in 2006-07, surpassing the growth of 47.94 percent achieved in 2005-06. This has resulted in increasing insurance penetration in the country. Insurance penetration or premium volume as a ratio of GDP, for the year 2006 stood at 4.10 percent for life insurance and 0.60 percent for non-life insurance. The level of penetration, particularly in life insurance, tends to rise as income levels increase. India, with its huge middle class households, has exhibited growth potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance market in India has witnessed dynamic changes including presence of a number of insurers in both life and non-life segment.

Most of the private insurance companies are joint ventures with recognized foreign players across the globe. Consumer awareness has improved. Competition has brought more products and improved the customer service. It has a positive impact on the economy in terms of income generation and employment opportunities in the sector.

LIFE INSURANCE

The total capital of the life insurers at end March 2007 stood at Rs.8124.41 crore. The addition to the capital during 2006-07 was Rs.2232.36 crore and the entire capital was brought in by the private insurers. The domestic and the foreign joint venture partners added Rs.1777.96 crore and Rs.454.40 crore respectively.

TABLE 4

PAID UP CAPITAL : LIFE INSURERS

(Rs.Crore)

INSURER	2005-06	2006-07
LIC	5.00	5.00
PRIVATE SECTOR	5887.05	8119.41
TOTAL	**5892.05**	**8124.41**

There has been no infusion of capital in the case of LIC which stood at Rs.5 crore.

INNOVATIONS IN PRODUCTS

Growth in insurance industry has been spurred by product innovation, active sales and distribution channels coupled with targeted advertising and marketing campaigns by the insurers. Innovations have come not only in the form of benefits attached to the products, but also in delivery mechanisms which have emanated from various marketing tie-ups both within the realm of financial services and outside. All these have taken life insurance closer to the customer as well as making it more relevant. The insurance companies are increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. The insurers have also introduced special products aimed at the rural markets.

Introduction of unit-linked insurance plans (ULIPs) has been, possibly, the single-largest innovation in the field of life insurance in India. The design of the product addresses and overcomes several concerns that customers have had in the past like liquidity, flexibility and transparency. ULIPs are differently structured products and give choices to the policyholder. The Authority prescribed guidelines for Unit Linked products, stipulating minimum level of sum assured, minimum period of premium payment and several other requirements including NAV computation methodology. With the ULIP guidelines in place, there has been an enhanced up front transparency on the charges and associated risks. Fundwise Net Asset Values (NAVs) and portfolio allocations are disclosed on a regular basis.

One of the most significant outcomes of the enhanced competition has been the reduction in the rates for pure protection plans. Over the last seven years, the rates have been revised downwards, and are significantly lower than those prevailing prior to opening up of the sector. The life insurance market has become competitive to the benefit of the policyholders. Simultaneously, industry has been constantly evolving and improving upon its underwriting and risk management abilities. The reduction of term rates has simultaneously facilitated increase in the level of sum assured for policies. This higher level of protection implies that customers are more conscious of the need for risk mitigation and greater security particularly for their homes and child's future. However, given the level of sum assured in the developed countries and other emerging economies, there is a further scope to tap the need for additional cover even amongst the insured population.

Life insurance companies have also been quick to recognize the huge need for structured retirement plans and have leveraged their abilities for long-term fund management towards building this segment. Pension is recognized as a necessity and presents an opportunity for growth in the country, and forms a significant part of portfolio of life insurers. More recently, private life insurers with their expertise in long-term mortality and morbidity introduced annuities.

The growth in group insurance business has also been impressive. The superannuation and gratuity business has grown on the strength of professional fund-management and a host of value-added services. Given such scope for innovation, the life insurance sector is expected to maintain the growth momentum of new premium in future.

NEW POLICIES

New policies underwritten by the industry were 461.52 lakh as against 354.62 lakh during 2005-06 showing an increase of 30.14 percent. While the private insurers exhibited a growth of 104.64 percent, (previous year 73.37 percent), LIC showed a growth of 21.01 percent as against 31.75 percent in 2005-06.

TABLE 5

NO. OF NEW POLICIES ISSUED : LIFE INSURERS

Insurer	2005-06	2006-07
LIC	31590707 (31.75)	38229292 (21.01)
Private Sector	3871410 (73.37)	7922274 (104.64)
Total	35462117	46151566

Note : Figures in brackets indicate the growth rate (in percent) of respective insurer.

The market share of the private insurers and LIC, in terms of policies underwritten, was 17.17 percent and 82.83 percent as against 10.92 percent and 89.08 per cent respectively in 2005-06.

PREMIUM

Life insurance industry recorded a premium income of Rs.156041.59 crore during 2006-07 as against Rs.105875.76 crore in the previous financial year, recording a growth of 47.38 percent. The regular premium, single premium and renewal premium in 2006-07 and their contribution to total premium were Rs.45358.93 crore (29.07 percent); Rs.30258.32 crore (19.39 percent); and Rs.80424.34 crore (51.54 percent), respectively. In 2000-01, when the industry was opened up for the private players, the life insurance premium was Rs.34,898.48 crore which comprised of Rs.6966.95 crore (19.96 percent) of the regular premium, Rs.25191.07 crore (72.18 percent) of renewal premium and Rs.2740.45 crore (7.86 percent) of single premium.

Life insurance industry underwrote first year premium (comprising of single premium and regular premium) of Rs.75617.25 in 2006-07 as against Rs.38785.54 crore in 2005-06 recording a growth of 94.96 percent as against 47.94 percent in 2005-06. The growth in first year premium was fuelled by increased sale of unit linked products. This trend is being observed for the last three years. It is observed that LIC is also shifting its marketing strategy in favour of unit linked products. The shift towards unit linked products can also be seen through the increase in single premium policies issued by the insurers. LIC reported growth rates of 166.65 and 9.71 percent, in single premium individual policies and non-single premium policies respectively. As against these, private insurance companies reported growth rate of 42.96 percent, 105.56 percent respectively. Due to the unprecedented growth in the first year premium underwritten in 2006-07, the proportions of the first year premium and renewal premium to the total premium has witnessed a shift.

TABLE 6

PREMIUM UNDERWRITTEN BY LIFE INSURERS

(Rs.Crore)

Insurer	2005-06	2006-07
		Regular premium
LIC	13728.03	29886.34
	(17.75)	(117.70)
Private Sector	7526.88	15472.58
	(78.23)	(105.56)
Total	21254.91	45358.93
	(33.84)	(113.40)
		Single premium
LIC	14787.84	26337.21
	(64.40)	(78.10)
Private Sector	2742.78 (104.46)	3921.10 (42.96)
Total	17530.62	30258.32
	(69.60)	(72.60)
		First Year premium
LIC	28515.87	56223.56
	(38.07)	(97.17)
Private Sector	10269.66	19393.69
	(84.55)	(88.84)
Total	38785.54	75617.25
	(47.94)	(94.96)
		Renewal premium
LIC	62276.35	71599.27
	(14.32)	(14.97)
Private Sector	4813.86	8825.05
	(122.56)	(83.33)
Total	67090.21	80424.33
	(18.46)	(19.87)
		Total premium
LIC	90792.22	127822.84
	(20.85)	(40.79)
Private Sector	15083.53	28218.75
	(95.19)	(87.08)
Total	105875.76	156041.59
	(27.78)	(47.38)

Note : Figures in brackets indicate the growth (in percent).

The size of life insurance market increased on the strength of growth in the economy and concomitant increase in per capita income. This resulted in favourable growth in total premium for both LIC (40.79 percent) and private insurers (87.08 percent) in 2006-07. The private insurers have improved their market share from 14.25 percent in 2005-06 to 18.08 percent in 2006-07 in the total premium collected in the year.

Segregation of the first year premium underwritten during 2006-07 indicates that Life, Annuity, Pension and Health contributed 67.40; 2.62; 29.94 and 0.04 percent to the premium underwritten, as against 73.57; 4.30; 22.11 and 0.02 percent respectively in the previous year. The shift in favour of pension products is visible for the third consecutive year.

Increase in the renewal premium is a good measure of the quality of the business underwritten by the insurers. It reflects increase in their persistency ratio and enables insurers to bring down overall cost of doing business. The renewal premium underwritten by the life insurance industry, during 2006-07 grew by 19.87 percent as against 18.46 percent in 2005-06. The private insurers and LIC reported growths of 83.33 percent and 14.97 percent respectively during the year.

TABLE 7

MARKET SHARE OF LIFE INSURERS

(Percent)

Insurer	2005-06	2006-07
		Regular premium
LIC	64.59	65.89
Private Sector	35.41	34.11
Total	100.00	100.00
		Single premium
LIC	84.35	87.04
Private Sector	15.65	12.96
Total	100.00	100.00

		First Year premium
LIC	73.52	74.35
Private Sector	26.48	25.65
Total	100.00	100.00
		Renewal premium
LIC	92.82	89.03
Private Sector	7.18	10.97
Total	100.00	100.00
		Total premium
LIC	85.75	81.92
Private Sector	14.25	18.08
Total	100.00	100.00

Segregation of first year premium revealed consolidation towards linked products, with premium underwritten at Rs.42894.71 crore in 2006-07 as against Rs.16060.67 crore in 2005-06, a growth of 167.08 percent. The non-linked premium was Rs.32464.12. crore as against Rs.19804.33 crore in 2005-06, a growth of 63.92 percent. Linked and non-linked business accounted for 56.92 and 43.08 percent of total business in 2006-07 as against 44.78 and 55.22 percent respectively in 2005-06. The shift in preference for linked products has coincided with the continued positive performance of the stock markets in the country. LIC too showed a tactical shift towards promoting linked products, with 46.31 percent of the first year premium derived from this segment in 2006-07 while the non-linked premium contributed 53.69 percent to the first year premium. In the case of private insurers, these proportions were 87.47 and 12.53 percent respectively in 2006-07 as against 82.48 and 17.52 percent in 2005-06. Response to unit linked products in the last three years reflects the preference of people to such products. LIC's decision to drive its premium growth on the strength of unit linked products in line with the rest of the industry reflects its recognition of the customers' choice.

EXPENSES OF THE LIFE INSURERS

Section 40B of the Insurance Act, 1938 provides that no insurer shall in respect of life insurance business transacted in India, spend as expenses of management in excess of the prescribed limits. Expenses of management include all commission payments and operating expenses. The Insurance Rules, 1939 further lay down the manner of computation of the prescribed limits. A major expense head for the life insurers is commission paid to the intermediaries. As against the industry average of 16.65 percent (22.59 percent in 2005-06), LIC incurred an expense of 16.04 percent (25.26 percent in 2005-06) towards commission on first year premium; for the private insurers this ratio worked out to 17.84 per cent (17.72 percent in 2005-06). The commissions paid by LIC towards the single premium were 1.56 percent as against the average ratio of private insurers at 1.08 percent. The industry average was 1.50 percent. The total pay-out by the life insurance industry on account of commissions in 2006-07 stood at Rs.12283.24 crore as against Rs.8643.29 crore in 2005-06. (Table 8) It was observed that the commissions paid by the life insurance companies for procurement of fresh business has increased compared to the previous year, pointing to increasing competition in the sector. Management expenses of private insurers have stabilized in 2006-07, except for new entrant Bharti Axa Life exceeding the limits prescribed under the Act. Thus, all the life insurance companies except Bharti Axa complied with the stipulations on expenses of management. However, in the case of Bharti Axa, the excess was within the norms for the life insurance industry. With the growth in business and stabilization of operations, four private life insurers who exceeded the prescribed limits in 2005-06, were compliant with the prescribed norms in 2006-07. In the case of LIC, the expenses of management continued to be within the allowable limits.

TABLE 8

COMMISSION EXPENSES OF LIFE INSURERS

(Rs.Crore)

Insurer	2005-06	2006-07
		Regular premium
LIC	3468.25	4792.32
Private Sector	1333.57	2760.17
Total	4801.83	7552.50
		Single Premium
LIC	162.08	411.42
Private Sector	29.33	42.51
Total	191.41	453.94

First Year		
LIC	3630.33	5203.75
Private Sector	1362.91	2802.69
Total	4993.24	8006.44
Renewal		
LIC	3469.85	3969.82
Private Sector	180.19	306.96
Total	3650.04	4276.79
Total		
LIC	7100.19	9173.58
Private Sector	1543.10	3109.65
Total	8643.29	12283.24

Alternate channels of distribution like bancassurance, direct marketing, internet and telemarketing have enabled the insurers to reduce costs. While agency force remained the mainstay of most insurance companies, insurers are making efforts to explore new channels including the bancassurance route both with commercial cooperative banks and rural regional banks. Insurers have also initiated on-line sale of policies. It is pertinent to note that the reduction in marketing costs would enable insurers to provide affordable insurance to low income households.

The major expense heads for the private insurers were employee expenses at 37.97 percent (37.44 percent in 2005-06); training expenses (including agents' training and seminars) at 7.01 percent (5.90 percent in 2005-06); and advertisement and publicity at 8.89 percent (10.82 in 2005-06). Employee remuneration and welfare benefits accounted for 57.53 percent of the operating expenses of LIC in 2006-07 as against 59.57 percent in the previous year. Compared to LIC, the private sector insurers have leaner organizational structures. The industry average worked out to 48.15 per cent as against 51.35 percent in 2005-06.

TABLE 9

OPERATING EXPENSES OF LIFE INSURERS

(Rs.Crore)

INSURER	2005-06	2006-07
LIC	6041.56	7080.86
PRIVATE SECTOR	3569.48	6520.04
TOTAL	9611.04	13600.91

Operating expenses as a percent of gross premium underwritten for the private insurers worked out to 23.11 percent (23.67 percent in 2005-06), indicating stabilization of operating costs. In the case of LIC, operating expenses constituted 5.54 percent of the gross premium underwritten in 2006-07 as against 6.65 percent in 2005-06. The average for the life insurance companies stood at 8.72 percent in 2006-07 as against 9.08 percent in 2005-06. However, given that the industry is in the expansion mode and companies have sought permission to expand their office network, it is expected that the expense limits may be breached in the current year.

BENEFITS PAID

The life industry paid gross benefits of Rs.55768.68 crore in 2006-07 (Rs.35263.45 crore in 2005-06) constituting 35.74 percent of the gross premium underwritten (33.31 percent in 2005-06). The benefits paid by the private insurers showed an increase of 89.05 percent at Rs.2470.27 crore (Rs.1306.65 crore in 2005-06), onstituting 8.75 percent of the premium underwritten (8.66 percent in 2005-06). LIC paid benefits of Rs.53298.41 crore in 2006-07, constituting 41.70 percent of the premium underwritten by them (Rs.33956.80 crore in 2005-06, 37.40 percent of the total premium underwritten). The benefits paid by the life insurers net of re-insurance was Rs.55715.01 crore (Rs.35209.86 crore in 2005-06). There has been a significant increase in the benefits paid on account of surrenders/withdrawals which stood at Rs.17532.60 crore as against Rs.4622.19 crore in 2005-06. It is expected that with the stipulation of minimum lock-in period of three years for ULIP products, surrender value as a percent of premium underwritten would come down.

INVESTMENT INCOME

As the operations of the life insurers stabilize, their investment base gets strengthened, resulting in investment income forming a larger proportion of their total income. In the case of LIC, the investment income including capital gains was higher at Rs.46800.52 crore in 2006-07 compared to Rs.40056.35 crore in 2005-06. However as a percentage of total income, it declined to 26.80 percent in 2006-07 from 30.61 percent in 2005-06. As against this, the share of investment income to the total income for the private life insurers increased to 8.88 percent in 2006-07 (7.50 percent in 2005-06). Companies have also reported an improvement in the yields on their investments. The investment income of the private insurers, inclusive of capital gains, was Rs.2747.32 crore in 2006-07 as against Rs.1222.42 crore in 2005-06. The industry is still in the process of stabilizing and despite additional contributions by way of share capital, would require time to reach the consolidation stage.

PROFITS OF LIFE INSURERS

Life insurance industry is capital intensive, and insurers are required to inject capital at frequent intervals to achieve growth in premium income. Given the high rate of commissions payable in the first year, expenses towards setting up operations, training costs incurred towards developing the agency force, creating a niche for its products, achieving reasonable levels of persistency, providing for policy liabilities, and maintaining the solvency margin, make it difficult for the insurers to earn profits in the initial five to seven years of their operations. SBI Life Insurance Company was the first private company to report net profit of Rs.2.03 crore in 2005-06. It reported higher net profit of Rs.3.84 crore in 2006-07. The company has succeeded in achieving an early break-even on account of its lower cost of operations, as it has been able to leverage the network of its Indian partner the State Bank of India. However, the insurer still continues to report a deficit in the Revenue account. Shriram Life, which commenced operations in February, 2006, too reported net profit for the second successive year of operations. It reported net profit of Rs. 10.89 crore in 2006-07as against Rs.2.50 crore in 2005-06. The company's operations have, however still to take off in a significant manner (Statement 5). The new business underwritten by the insurer in 2006-07 was slightly above Rs.180 crore.

All the private insurance companies reported deficit in their Policyholders Account in 2006-07, which needed injection of further capital by the shareholders (except for Sahara Life and Shriram Life). However, some of the business segments of individual insurers continued to report surplus. Other than Shriram, all the private insurers transferred funds from the Shareholders' Account to the Policyholders' Account to bridge the deficit in the Policyholders Account so as to meet the stipulations of the Authority for declaration of bonus in case of deficit in the Policyholders' Account. The total losses of the private insurers as on 31st March, 2007 stood at Rs.5585.15 crore as against Rs.3637.41crore on 31st March, 2006, i.e., an increase of 53.56 percent over the previous year. The continued financial support through equity injections reflected the promoters' commitment towards stabilizing the respective insurer's operations. During 2006-07 insurers continued to declare bonus despite reporting deficit in the Policyholders' Account. It may be recalled that in 2003-04, recognizing the need of the new insurers to declare bonus to maintain their competitive stance in the market, the Authority had permitted declaration of bonus despite non-availability of actuarial surplus subject to compliance with the conditions imposed by the Authority. This relaxation has now been extended upto a period of seven years from commencement of operations.

NON-LIFE INSURANCE

There are at present 17 general insurance companies which have been granted registration for doing non-life insurance business in the country. Of these 6 are in public sector and the rest in private sector. Of the 11 private sector companies, two have been granted license during 2007-08. As such their financial data will not be included in this year's Report. A stand alone health insurance company was licensed in March 2006. Of the public sector companies, two are specialized insurance companies; one for credit insurance (ECGC) and another for Agriculture (AIC). The financial analysis of the above two is presented separately in the Annual Report. As such, the present analysis is confined to 4 public sector companies and 8 private insurance companies. The performance of the Standalone Health insurance company has been covered under a separate sub-section.

PAID-UP CAPITAL

During 2006-07, the general insurers have added Rs.271.86 crore to their capital. The increase in the paid up capital of the private non-life insurers through capital contributions was Rs.121.86 crore. (Domestic promoters Rs.90.64 crore and foreign joint venture partners Rs.31.22 crore.)

TABLE 11

PAID UP CAPITAL : NON-LIFE INSURERS AND REINSURER*

(Rs.Crore)

	2005-06	2007-08
		Non -Life
Public Sector	500	550
Private Sector	1279	1401
		Specialized Institutions
ECGC	700	800
AIC	200	200
Star Health	105	105
		Re-insurer
GIC	430	430
Total	**3214**	**3486**

Note: * Including specialized Institutions

The PSU insurers added Rs.50 crore. This additional capital was required either for expansion of their business or for meeting the regulatory requirement of meeting the solvency stipulation of 150 per cent. The specialized insurer ECGC has added Rs.100 crore.

POLICIES ISSUED

The total number of policies issued by the general insurers except specialized insurers (ECGC, GIC, AIC and Star Health) in 2006-07 was 54,795,189 as against 51,140,595 in 2005-06 registering an increase of 7.15 percent. Of the total policies issued, 24.73 percent were issued by private insurers and 75.27 percent by the public insurers. There has been a decline of 2.25 percent in the number of policies underwritten by the public insurers in 2006-07. This decline has been contributed by New India (4.42 percent), National Insurance (7.46 percent), Oriental Insurance (3.00 percent), United India was the only public sector company which showed an increase in its policies underwritten. On the other hand, there has been an increase in the number of policies underwritten by the private insurers.

TABLE 12

NEW POLICIES ISSUED:NON-LIFE INSURERS

Insurer	2005-06	2006-07
Public Sector	42193079 (-5.47)	41241665 (-2.25)
Private Sector	8947516 (73.92)	13553524 (51.48)
Total	51140595	54795189

Note : Figures in brackets indicate the growth (in per cent) over previous year.

The number of policies underwritten by the private insurers has increased by 51.48 percent. However, this growth was lower than 73.92 percent exhibited in 2005-06. Except HDFC Chubb and Cholamandalam all other private insurers have registered an increase in their number of policies underwritten.

The general insurance companies have underwritten a premium of Rs.24905.47 crore in 2006-07 as against Rs.20359.72 crore in 2005-06 exhibiting a growth rate of 22.33 percent. The four public sector insurers have underwritten a premium of Rs.16258.90 crore in 2006-07 as against Rs.14997.06 crore in 2005-06 registering a growth of 8.41 percent.

TABLE 13

PREMIUM UNDERWRITTEN BY NON-LIFE INSURER (WITHIN INDIA)

(Rs.Crore)

	2005-06	2006-07
Public	14997.06 (7.33)	16258.90 (8.41)
Private	5362.66 (52.85)	8646.57 (61.27)
Total	20359.72 (16.46)	24905.47 (22.33)

Note : Figures in brackets indicate growth in percent.

The premium underwritten by eight private sector insurers in 2006-07 was Rs.8646.57 crore as against Rs.5362.66 crore in 2005-06 exhibiting a growth of 61.27 percent. The lower growth rate for the public insurers may be seen in the light of their high base. The general insurance industry has added Rs.4545.75 crore in premium during the year 2006-07; of which public insurers contributed Rs.1261.84 crore and the private insurers Rs.3283.91 crore. The increase in premiums was across all the public sector companies. Oriental insurance has added the highest premium of Rs. 401.41 crore followed by United India and National insurance at Rs.343.99 crore and Rs.290.75 crore respectively. New India has added Rs.225.7 crore. Except HDFC Chubb, all private insurers have added premiums to their earlier levels. During 2006-07, ICICI Lombard has maintained the rising trend with an increase in premium of Rs.1406.21 crore, and registered a growth of 88.84 percent over the previous year. Reliance has added Rs.749.90 crore to its earlier premium level and Bajaj Allianz added Rs.514.05 crore.

The private insurers are increasing their market share over the past few years. In 2006-07, the private insurers had a market share of 34.72 percent which was much higher than 26.34 percent in 2005-06. This shows an increase of 8.38 percentage points over the previous year. As a consequence there has been a decline in the market share of the public insurers to 65.28 percent in 2006-07 from 73.66 percent in the previous year. Though there has been a decline in the market share of the public sector insurance companies, the volume of premium underwritten by them has increased over the previous year implying the expansion of general insurance market (Table 14).

Among the public sector insurers New India has the largest market share at 20.14 percent in 2006-07, lower than its market share of 23.53 percent in the previous year. Oriental Insurance and National Insurance had market shares at 15.77 percent and 15.32 per cent respectively as against 17.32 and 17.31 percent in the previous year.

TABLE 14

GROSS DIRECT PREMIUM INCOME IN INDIA

	Premium (Rs. Crore)		Market Share (In percent)	
Company	**2006-07**	**2005-06**	**2006-07**	**2005-06**
National	3814.42	3523.67	15.32	17.31
New India	5017.20	4791.50	20.14	23.53
Oriental	3928.52	3527.11	15.77	17.32
United	3498.77	3154.78	14.05	15.50
Sub-Total	16258.90	1499706	65.28	73.66
Royal Sundaram	598.20	458.64	2.40	2.25
Reliance	912.23	162.33	3.66	0.80
IFFCO-Tokio	1144.47	892.72	4.60	4.38
Tata AIG	710.55	572.70	2.85	2.81
ICICI Lombard	2989.07	1582.86	12.00	7.77
Bajaj Allianz	1786.34	1272.29	7.17	6.25
Cholamandalam	311.73	220.18	1.25	1.08
HDFC Chubb	194.00	200.94	0.78	0.99
Sub-Total	**8646.57**	**5362.66**	**34.72**	**26.34**
Grand Total	**24905.47**	**20359.72**	**100.00**	**100.00**

Among the private insurers, ICICI Lombard has the highest market share of 12.0 percent followed by Bajaj Allianz with 7.17 percent and IFFCO-Tokio with 4.60 percent. HDFC Chubb has reported a negligible market share of 0.78 percent. Reliance has registered a substantial increase in its market share from less than 1.00 percent in 2005-06 to 3.66 percent in 2006-07.

TABLE 15

PREMIUM (WITHIN INDIA) UNDERWRITTEN BY NON-LIFE INSURERS - SEGMENT WISE

(Rs. Crore)

Segment	2005-06	2006-07
Fire	3775 (18.54)	4132 (16.59)
Marine	1284 (6.31)	1628 (6.54)
Motor	8733 (42.90)	10697 (42.95)
Health	2221 (10.91)	3310 (13.29)
Others	4347 (21.35)	5139 (20.63)
Total Premium	**20360**	**24905**

Note : Figures in brackets indicate the ratio (in percent) of respective segment to the total premium.

Various segments have contributed to the increase in premium in both public and private sector insurers. The highest contribution in 2006-07 has come from the motor segment which contributed 42.95 percent of the total premium as against 42.90 percent in 2005-06. Fire segment constituted 16.59 percent in the total premium underwritten in 2006-07 which was lower than that observed in the previous year (18.54 percent).

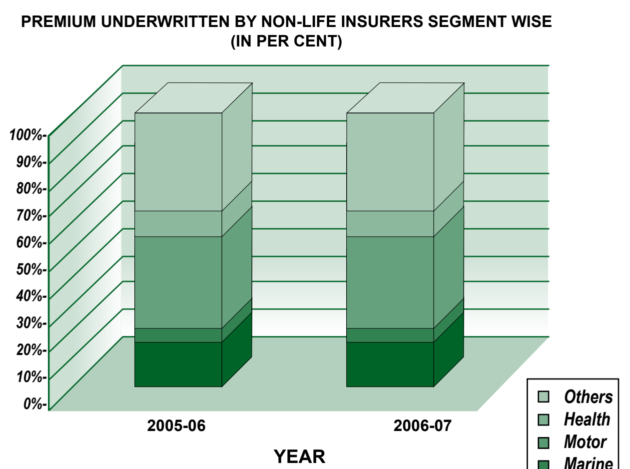

CHART 3

The premium collection in Health has doubled in 2006-07 from its level in 2005-06. Health premium contribution to the total in 2006-07 was 13.29 percent as against 10.91 in 2005-06. Motor and Health portfolios constituted 56.24 percent as against 53.80 percent in 2005-06. Contribution from the Marine segment is the least at 6.54 percent in 2006-07.

PREMIUM UNDERWRITTEN OUTSIDE INDIA

The public sector general insurers also underwrote premiums outside India. They have underwritten a premium of Rs.1024.54 crore in 2006-07 as against Rs.979.38 crore in 2005-06 registering a growth of 4.61 percent. Of the total premium underwritten by the public sector insurers 5.93 percent accounted for premium underwritten outside India which lower than 6.13 percent in 2005-06. The accretion in the premium underwritten outside India was a mere Rs.45.17 crore in 2006-07.

TABLE 16

GROSS DIRECT PREMIUM FROM BUSINESS OUTSIDE INDIA : NON-LIFE INSURERS

(Rs. Crore)

Insurer	2005-06	2006-07
National	12.67 (18.00)	12.70 (0.24)
New India	884.05 (-0.93)	919.58 (4.02)
Oriental	82.66 (13.59)	92.26 (11.61)
United	-	-
Total	**979.38**	**1024.54**

Note : Figures in brackets indicate the growth rate over previous year.

New India is having operations in 27 countries through a network of branches, agencies, associate companies and subsidiaries.

Of the total premium, Rs.1024.54 crore was written outside India by the four public sector insurers in 2006-07, National has underwritten a premium of Rs.12.70 crore against Rs.12.67 crore in 2005-06. There was an increase in the premium underwritten by New India to Rs.919.58 crore as against Rs.884.05 crore in 2005-06, showing a growth of 4.02 percent.

Oriental Insurance underwrote a premium of Rs.92.26 crore outside India as against Rs.82.66 crore in 2005-06 i.e., exhibiting a growth of 11.61 percent. United India had ceased operations outside Inia in 2003-04 (Table 17).

Premium underwritten outside India, by the company constituted 15.49 percent of the total premium underwritten in 2006-07. Oriental has a small component of overseas business i.e., 2.29 percent (which is at the same level as in 2005-06). In the case of National, outside India business was 0.33 percent (as compared to 0.36 percent in the previous year).

TABLE 17

RATIO OF OUTSIDE INDIA PREMIUM TO TOTAL PREMIUM

(Percent)

Insurer	2005-06	2006-07
National	12.67 (18.00)	12.70 (0.24)
New India	884.05 (-0.93)	919.58 (4.02)
Oriental	82.66 (13.59)	92.26 (11.61)
United	-	-
Total	**979.38**	**1024.54**

UNDERWRITING EXPERIENCE

Total underwriting losses incurred by both public and private insurers during 2006-07 declined to Rs.2557.54 crore from Rs.3886.51 crore in the previous year. The public sector insurers during 2006-07 have incurred underwriting losses to the tune of Rs.2451.12 crore as against Rs.3836.64 crore in 2005-06. As a percentage of net premium, the underwriting losses have reduced to 18.83 in 2006-07 from 32.65 in 2005-06. The losses across the companies ranged between 13.72 percent and 28.90 percent. In 2005-06, this range was 27.12 percent to 47.58 percent. A notable reduction was witnessed in underwriting losses across four public sector insurers. The underwriting losses of National Insurance was 19.73 percent (41.89 in 2005-06); followed by New India at 14.38 percent (28.98 percent); United India Insurance and Oriental Insurance at 30.80 (40.52 percent); and 19.40 (28.15 percent) percent respectively. It may be mentioned that National has reduced its underwriting losses from Rs.1090.32 crore in 2005-06 to Rs.546.17 crore in 2006-07 (Statement 28).

TABLE 18

UNDERWRITING LOSSES : NON-LIFE INSURERS

(Rs. Crore)

	2005-06	2006-07
Public Sector	(3836.64)	(2451.12)
Private Sector	(49.87)	(106.42)

On the other hand the private sector insurers have registered an increase in their underwriting losses from Rs.49.87 crore in 2005-06 to Rs.106.42 crore in 2006-07. These losses constituted about 2.28 percent of the net premium underwritten in 2006-07 as against 1.75 percent in 2005-06. Bajaj Allianz is the only private insurer which has reported underwriting profit during 2006-07. While Royal Sundaram and Cholamandalam have reported a decline in underwriting losses, Tata AIG, IFFCO Tokio, ICICI Lombard and HDFC Chubb have reported an increase in underwriting losses (Statement 29).

EXPENSES OF NON-LIFE INSURERS

Out of the twelve non-life insurers, the expenses of management of five insurers for 2006-07 were within the limits prescribed under section 40C of Insurance Act 1939 read with Rule 17E, as against four in 2005-06. Four private sector insurers (ICICI Lombard, IFFCO-Tokio, Reliance and Bajaj Allianz)continued to be compliant with the limits of expenses of management as in 2005-06. Other private sector insurers (Royal Sundaram, TATA AIG, Cholamandalam, HDFC and Star Health & Allied) however continued to be non-compliant with the stipulations, having reported an increase in the expenses of management.

Oriental Insurance company succeeded in bringing down its operating expenses so as to be compliant with the requirements of the Act and the Rules. National, Oriental and United continued to be non-compliant with the requirements. They reported a decline in the expenses of management computed as a percent of premium underwritten, as against 2005-06.

TABLE 19

OPERATING EXPENSES : NON-LIFE INSURERS

(Rs. Crore)

Insurer	2005-06	2006-07
Public Sector	4016.92	3606.74
Private Sector	1060.51	1700.15
Total	**5077.43**	**5306.89**

Note : Public sector does not include ECGC, AIC and GIC.

Expenditure towards 'Employee remuneration & Welfare benefits' constitutes a significant component of the total operating expenses of the public insurers. While it was 81.07 percent for United India, the highest among the non-life public sector insurers, it was 75.55 percent, 74.06 percent and 70.79 percent for National, Oriental and New India respectively. As against this, the expenses towards employee costs in case of private insurers ranged between 17.03 percent and 47.78 percent of the operating expenses. The major expense heads for the private insurers include legal and professional charges, marketing and business development, and outsourcing expenses.

TABLE 20

COMMISSION EXPENSES

(Rs. Crore)

	Private Sector		Public Sector	
Segment	**2005-06**	**2006-07**	**2005-06**	**2006-07**
Fire	48.12	63.83	215.58	223.79
Marine	22.77	29.58	78.29	84.37
Motor	182.00	268.33	582.33	568.22
Health	43.66	102.20	193.21	249.33
Others	97.70	122.01	361.98	364.01
Total	**394.28**	**585.97**	**1431.41**	**1489.74**

Marked Figure will include Cholamandalam Figures

INVESTMENT INCOME

Higher interest rates on deposits, booming stock market and higher yield on government securities have helped the insurance companies to report higher investment income in 2006-07. The return on investment income accrued on account of sale of investments held, redemption of securities and interest / dividend income of the securities held was high. Investment scenario in the economy was favourable during 2006-07. As a result, along with other financial sector players and intermediaries, the insurance companies too have witnessed an improvement in their financial performance. Insurers have reported higher collection on restructured accounts and returns on their mutual fund portfolios.

TABLE 21

INVESTMENT INCOME

(Rs. Crore)

	2005-06	2006-07
Public sector	5610.63 (29.57)	5784.23 (3.09)
Private sector	269.47 (45.07)	415.04 (54.02)
Grand Total	**5880.10**	**6199.27**

Note : Figure in brackets indicate the growth rate (in percent) of the respective sector.

The gross investment income to the general insurers was Rs.6199.27 crore in 2006-07 as against Rs.5880.10 crore in 2005-06 recording a growth of 5.43 percent over the previous year. Investment income of the public sector insurers has increased to Rs.5784.23 crore from Rs.5610.63 crore in 2005-06 (i.e. an increase of 3.09 percent over the previous year.

Increase in the investment income has been reported by all public sector insurers except United India which reported a decline. All private insurers have reported an increase in investment income to Rs.415.04 crore in 2006-07 from Rs.269.47 crore in 2005-06; an increase of 54.02 percent (45.07 percent in 2005-06). (Statement 34 & 35).

INCURRED CLAIMS RATIO

Total net incurred claims during 2006-07 was Rs.13041.64 crore as against Rs.12118.07 crore in 2005-06 registering a growth of 7.62 percent over the previous year. The public insurers in 2006-07 have incurred lower total net claims of Rs.10538.75 crore compared to Rs.10569.85 crore in 2005-06. The net incurred claims of public sector insurers as a ratio of net premium was 85.22 percent lower than 92.44 percent in the previous year. The incurred claim ratio of Oriental insurance was more or less at the same level of previous year. Sharp decline in this ratio was observed in the case of New India, National and United. In case of New India it declined from 88.13 percent in 2005-06 to 80.34 percent. For United it declined from 93.09 percent to 90.26 percent and for National it declined from 102.43 percent to 86.51 percent (Statement 30 & 31).

TABLE 22

INCURRED CLAIMS RATIO

	Public Sector		Private Sector	
Segment	**2005-06**	**2006-07**	**2005-06**	**2006-07**
Fire	65.14	60.81	61.48	43.92
Marine	67.67	80.50	116.75	112.57
Motor	109.43	92.25	62.71	64.28
Health	153.89	157.79	94.63	103.42
Others	49.52	53.93	53.37	47.11
Total	**92.44**	**85.22**	**68.03**	**68.02**

In case of the private insurers, the total net incurred claims increased to Rs.2502.89 crore from Rs.1548.22 crore in 2005-06. The overall net incurred claim ratio for the private insurers remained unchanged at 68.02 percent as in 2005-06, though individual expenses varied from 54.27 percent (Tata AIG) to 76.30 percent (ICICI Lombard). Except Reliance, ICICI Lombard and IFFCO-Tokio rest of private sector companies reported a lower net incurred claims ratio in 2006-07 than reported in 2005-06. In the case of the four public sector insurers, the overall net incurred claims ratio declined to 85.22 percent from 92.4 percent in 2005-06. The ratio varied between 90.26 percent and 80.34 percent.

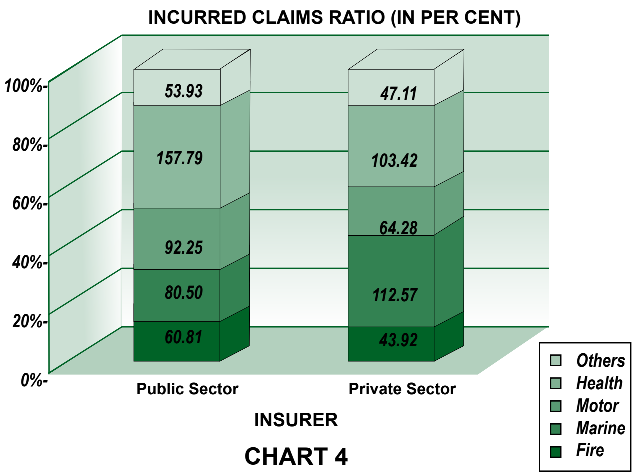

CHART 4

In the case of public insurers, the incurred claims ratio in respect of health business was 157.79 percent. The incurred claims ratios for motor and marine segments were 92.25 percent and 80.50 percent respectively. In 2006-07 Oriental Insurance had the highest net incurred claims ratio at 98.14 percent in the motor segment. And United Insurance had the highest claims ratio for marine at 103.36 percent and fire at 75.21 percent respectively. New India had the highest claims ratio in Health at 212.81 percent.

Segment-wise analysis under the private sector illustrates that the claims ratio was highest in the Marine business with 112.57 percent (116.75) followed by health at 103.52 percent (94.63) and motor at 64.28 percent (62.71). In 2006-07 among the private insurers HDFC Chubb and Reliance had the highest net incurred claims ratio at 74.85 percent and 74.62 percent respectively for the fire segment. The highest claim ratio in the Marine segment was reported by Bajaj Allianz at 139.37 percent followed by IFFCO Tokio at 139.13 percent. In the health segment IFFCO Tokio held the highest claim ratio at 78.97 percent.

NET PROFITS

Despite underwriting losses the public insurers have reported profits on account of higher investment income. The net profit earned by both public and private sector insurers during 2006-07 has increased to Rs.3137.10 crore from Rs.1473.66 crore in 2005-06, an increase of 112.87 percent over the previous year. Although the public sector companies have incurred underwriting losses, they were comparatively profitable than the private sector companies.

National Insurance recovered from its loss of Rs.106.25 crore in 2005-06 and made a profit of Rs.421.28 crore during 2006-07. This turnaround was possible mainly due to much lower underwriting losses and operating expenses. New India and Oriental have nearly doubled their profits to Rs.1459.95 crore and Rs.497.27 crore respectively in 2006-07. United Insurance on the other hand has registered a profit of Rs.528.86 crore.

All private insurers recorded profits during 2006-07. Of these, one insurer has reported net profit after recording net loss during the previous three years; two have reported profits in 2006-07 but recorded lower than the previous year's profit. The total net profits of eight private insurance companies were Rs.229.74 crore as against Rs.157.52 crore reported by seven insurers in 2005-06 (Statement 29).

RETURNS TO THE SHAREHOLDERS

The total dividend distributed by the public sector insurance companies (both life and non-life) was Rs.1339.20 crore as against Rs.887.77 crore in 2005-06. A higher growth of 50.85 percent has been remarkable this year. All the four public sector general insurance companies which have reported net profits in 2006-07 have contributed Rs.581.39 crore against Rs.266.00 crore in 2005-06 to the exchequer as dividends (Table 23).

TABLE 23

DIVIDENDS PAID : NON-LIFE INSURERS

(Rs. Crore)

Insurer	2005-06	2006-07
		Non -Life
Public sector	266.00	581.39
Private Sector	32.05	52.64
		Specialized Institution
ECGC	44.35	125.00
		Re-insurer
GIC	86.00	309.60
Total	**428.40**	**1068.63**

Note: * Including specialized Institutions.

ECGC and GIC distributed dividends in 2005-06. ECGC declared Rs.125.00 crore and GIC at Rs.309.60 crore.

HEALTH INSURANCE

Liberalisation of the insurance sector as well as the increasing demand for health insurance covers, especially from the middle class, have given a fillip to the growth of health insurance in the country and today the sector is emerging as fastest growing segment in the non-life insurance industry. In 2006-07, health insurance premium stood at more than Rs.3200 crore registering an increase of 35 per cent. Over the last five years the premium has nearly doubled. Despite this, health insurance penetration in India continues to be low. There are several other challenges in the health sector—from the perspective of policyholder, insurers and the Authority.

With a view to promoting health insurance in the country and looking for possible solutions to bring in as many people as possible into the insurance net, the IRDA has, over the last few years, gave special thrust to addressing various issues concerning health insurance. These initiatives not only develop health insurance in the country but also address the concerns of the policyholders of health insurance. The grievance redressal system set up by the Authority enables a detailed analysis of policyholder grievances and health insurance stands out as a major area of concern from the customer viewpoint. It was in this backdrop that the IRDA set up The National Health Insurance Working Group towards the end of 2003. This provided a platform for stakeholders of the health insurance industry to work together to suggest solutions to various relevant issues. Some of the Working Group's recommendations were implemented and some are under examination.

The industry has recently seen the entry of a second stand-alone health insurance company. Some more are in the offing. Given its potential, health insurance business has generated considerable interest among the existing general and life insurers. Innovations in products are taking place though there is always scope for further enlargement of the canvas. Whilst on this, mention must be made of a stand-alone policy covering HIV that has been recently introduced in the market by one of the insurers. Many other innovative covers are being devised and are likely to come into the market.

To handle the plethora of issues relating to health insurance with focused attention, a separate health department was wet up in IRDA. The team in the health unit has recently been strengthened and shall be scaled up further if required.

THIRD PARTY ADMINISTRATORS

Third Party Administrator (Health Services) have grown and are further consolidating their position. Two more companies have been granted licence to act as TPAs. TPAs are on the steady path of growth by enlarging their network. People trained on ICD-10 coding have been positioned in TPA's to facilitate analysis of health insurance related data.

TABLE 32

TPA (INFRASTRUCTURE)

Name of TPA	Hospitals Added in the Network	Number of Offices/ branches opened	Manpower including Doctors/Professionals Added
Family Health Plan Ltd.	653	0	-100
Heritage Health Services	254	0	45
Raksha TPA Private Ltd.	720	5	57
TTK Healthcare Services Ltd.	719	2	285
Paramount Health Services	52	0	20
Medi Assist India Private Ltd.	1558	9	143
Vipul MedCorp TPA Private Ltd.	157	6	55
MD India Healthcare Services Pvt. Ltd.	332	4	81
Genins India Ltd.	519	0	20

Increasing number of hospitals in different parts of the country has been included in the TPA network for cashless settlement of claims arising out of health insurance policies. This is a welcome indicator as it reveals that health insurance policy holders across the country are now able to get cashless treatment in hospitals.

BUSINESS IN THE RURAL AND SOCIAL SECTOR

The Regulations framed by the Authority on the obligations of the insurers towards rural and social sectors stipulate obligations to be fulfilled by insurers on an annual basis. The regulations require insurers to underwrite business based on the year of commencement of their operations. For meeting these obligations the regulations further provide that if the operations of the insurer is less than 12 months, proportionate percentage or number of lives, as the case may be, shall be underwritten. In addition, the LIC and public sector general insurance companies are required to ensure that the quantum of insurance business in the rural and social sector underwritten by them shall not be less than what has been recorded in 2001-02 i.e. before the issue of regulations.

Obligations of life insurers:

(a) Rural Sector Obligations: All the sixteen life insurers, including the public sector insurer, LIC have fulfilled their obligations towards the rural sector. The number of policies underwritten by them in the rural sector as a per cent of the total policies underwritten in the year 2006-07 was as per the obligations applicable to them. LIC, in compliance with its obligations, underwrote a higher percent of policies in rural sector, than were underwritten in the year 2001-02.

(b) Social Sector Obligations : Of the sixteen life insurers, fourteen have fulfilled their social sector obligations during 2006-07. The number of lives covered by them in the social sector was above the stipulated obligations. The LIC, in compliance with its social sector obligations covered a higher number of lives than was covered by it in 2001-02.

Two private sector companies did not comply with their social sector obligations. The details are:

Bharti Axa Life Insurance Co. Ltd. which commenced its operations in August 2006 fell short of meeting its obligations in social sector. Against a proportionate obligation of coverage of 3333 lives in about 8 months of operations, they have covered 3067 lives. The shortfall has been waived as the insurer is in first year of operations and the shortfall is negligible.

Shriram Life Insurance Company Limited commenced its operation in February 2006. They are obliged to cover 7500 lives. They covered only 5952 number of lives. As the shortfall was observed for the second year in succession, a penalty of Rs.5 lakh has been imposed on the insurer. They have also been advised to cover the shortfall in the current year i.e., 2007-08. This company has submitted revised data and according to that they covered only 5952 number of lives. The company further submitted data for 2005-06 which the Authority is examining.

Obligations of non-life insurers:

(a) Rural Sector Obligations: All the eight private sector non-life insurers met their rural sector obligations in 2006-07. The gross direct premium underwritten by them in the said sector, as a percentage of total premium underwritten in 2006-07, was above the prescribed stipulations. All the four public sector insurers complied with the rural sector obligations for 2006-07. With respect to the public sector insurers, their obligations are indicated against the quantum of insurance business done by them in the accounting year ended 31st March, 2002.

(b) Social Sector Obligations: All the eight private sector non-life insurers met their social sector obligations in 2006-07. The number of lives covered by them in the social sector was also higher than the regulatory stipulations. While, three public sector insurers complied with the social sector obligations for 2006-07, New India Assurance Co. Ltd. fell short of compliance towards the sector. With respect to the public sector insurers, their obligations are indicated against the quantum of insurance business done by them in the accounting year ended 31st March, 2002. In case of New India, a penalty of Rs.5 lakh has been imposed for non-compliance with its social sector obligations and was advised to fulfill the shortfall in 2007-08 and 2008-09.

CROP INSURANCE

Agriculture is also a raw material source to a large number of industries like textiles, silk, sugar, rice, flour mills, milk products. The Indian economy is based directly or indirectly on agriculture. It would not be wrong to say that the criticality of this sector is such that any change has a multiplier effect on the economy. Productivity of agriculture is contributed by many inputs such as soil, seeds, fertilizers, and management practices. However, weather risk is the only significant uncontrollable risk among all other production risks. A study by the Crop Insurance Cell of General Insurance Corporation of India shows that a mammoth 90 per cent of the reasons of crop failure can be attributed to various weather related deviations, be it deficiency or excess rainfall, high or low temperature, excessive wind speed or high relative humidity.

Weather Insurance is an insurance product based on a weather index which provides insurance for losses arising due to vagaries of weather. These weather indices could be deficit/ excess rainfall, extreme fluctuations of temperature, relative humidity and/or a combination of above. Detailed correlation analysis is carried out to ascertain the way weather impacts yields of the crops to arrive at compensation levels. The basic idea is to estimate the percentage deviation in crop output due to adverse deviations in weather conditions. Hence, it is a financial protection based on the performance of specified index in relation to a specified trigger.

The general insurance companies have experimented with several weather insurance schemes for agriculture during the last two years which are easy to administer, are designed considering location's agro-climatological properties, do not entail long term-liabilities on governments or insured, are rated based on actuarial principles and offer high level of flexibility in terms of indemnity level and coverage.

Agriculture Insurance Company of India Limited underwrites two types of crop insurance products:

1. Government supported products, viz. National Agricultural Insurance Scheme (NAIS), where AIC is the Implementing Authority (IA).
2. Company's own products: The Company has been designing from time to time need based new insurance products. These products can be broadly classified as under:

   a) Weather & Index Insurance Products: Varsha Bima, Rainfall Insurance, Coffee Insurance, Wheat Insurance & Mango Insurance. These products cover weather based perils & are operated on 'Area Approach' basis.

   b) Traditional & Named Peril Insurance Products: like Potato Insurance, Bio-Fuel Tree/Plant Insurance, and Poppy Insurance. These products operate at individual farm level with losses being assessed on individual basis.

   The list of all products is as under:

TABLE 34

BRIEF DETAILS OF CROP INSURANCE POLICIES OF AIC LTD.

Sr. No.	Product	Scope / Coverage	States	No. of locations (App)
1	Varsha Bima	Deficit Rainfall	15 states	140
2	Coffee Insurance	2005-06 yield + Deficit rainfall 2007-08 Adverse rainfall	Karnataka KTK/TN/ Kerala	3 40
3	Poppy Crop Insurance	Named perils (Natural calamities +pests & diseases)	MP, Raj., UP	CBN Notified locations
4	Wheat Insurance	Biomass + temp. + rainfall	Hary. & Punjab	12
5	Mango Insurance	Un-seasonal R/F + temp+ frost + wind	Maharastra & Uttar pardesh & AP	5
6	Rainfall Insurance	Deficit & Excess rainfall	UP, Raj, M P Maha, Gujarat	100
7	Potato Crop Insurance	Named perils (Natural calamities+ & WB pests & diseases)	Maharashtra	5
8	Bio-Fuel Plant / Tree Ins.	Named perils (Natural calamities pests & diseases)	Available in all parts of India	Available in all parts of India
9	Weather Ins. (Rabi)	----	UP, Raj, MP Maha,	75

Weather Insurance was launched by ICICI Lombard three years back. Till the year 2006, ICICI Lombard has executed close to 90 weather insurance deals across the country which have provided weather insurance solutions to about 2,00,000 farmers covering an area of about 2,50,000 acres. These 90 deals represent experience in wide ranging crops such as groundnut, castor, cotton, wheat, coriander, kinnu, cumin, black gram, soybean, grapes, paddy and oranges. The deals were executed across 13 states.

The result of the policy for the year 2006 is as under:

- The product is in 8 states
- 150 Districts
- 68600 farmers

across the scheme cover.

The potential for weather insurance in a monsoon dependent country like India is immense. It can act as a risk mitigation tool for farmers and give them liquidity due to quicker turnaround times for claims settlement. Some of the other entities that can benefit from it are agro-based companies, micro finance organizations, other rural financial organizations and governments. By bringing about stability to a critical sector of the economy, it can have a multiplier effect thereby fuelling growth of the economy.

MICRO-INSURANCE

Insurance can play a positive role in meeting the financial needs of the poor, and one would need to examine the many challenges involved in offering insurance to them through micro-insurance agents with simpler types of insurance cover for property, personal accident, health and life insurance. The Authority had notified Micro-Insurance Regulations on 10th November 2005.

The Micro-Insurance regulations, 2005 allow the sale of both term assurance as well as savings-linked insurance policies along with riders, on the life insurance side. Under non-life, covers include dwellings, live stock, tools & implements, personal accident covers and crop insurance. Health insurance, however, is allowed to be offered by both life and non-life insurers. Composite covers or package products can also be offered by the insurers through a tie up with the corresponding life/ non-life counterparts.

This has provided framework for insurers to design suitable micro-insurance products. Norms are also laid down to recognize micro-insurance agents, like Non-Government Organizations (NGO) and Self Help Groups (SHG). The relaxation of the KYC norms under Anti Money Laundering Act requirements, upto a premium of Rs.10,000/- per annum help the Micro-Insurance sector. The Advertising guidelines notified on 14th May 2007 provide for release of joint sales advertisements by the insurers and Micro-Insurance Agents.

A modest beginning has been made in the first year after notification of Micro Insurance regulations. While twelve Micro-Insurance products have been filed by six life insurers, eight Micro-Insurance products have been filed by four non-life insurers till date.

FORM IV (RULE 8)

Statement about Ownership and other Particulars about the Journal of Insurance Institute of India as required by Form IV (Rule 8) of the Registration of Newspaper (Central) Rules 1956.

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I, Shri S.J. Gidwani hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date : 30th June, 2008. Sd/-

S. J. GIDWANI
Signature of Publisher