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CHAPTER 2

GENERAL INSURANCE CORPORATION AND ITS BUSINESS

2.1 COMPOSITION OF GIC

In accordance with the provisions of the Nationalisation Act, the General Insurance Corporation (GIC) of India was formed and registered on 22nd November, 1972 under the Companies Act, 1956 to carry on all classes of general insurance business. It commenced its business from 1st January, 1973. Thus, the general insurance in India is transacted by the General Insurance Corporation of India (holding company) and its four subsidiaries, viz. National Insurance Company Limited, Calcutta; The New India Assurance Company Limited, Bombay; The Oriental Fire and General Insurance Company Limited, Delhi; and United India Insurance Company Limited, Madras.

2.2 ORGANISATIONAL NETWORK

GIC has its corporate office at Bombay and a liason office at Delhi. The corporation, apart from directly handling aviation and reinsurance business, administers the comprehensive crop insurance schemes, the personal accident insurance and social security schemes. All the four subsidiary companies are operating on all India basis in competition with one another. Each company has four tier organisational set up. The Head Office controls all India operations through Regional Offices in the States. Each Regional Office in turn controls operations

of Divisional Offices and Branch Offices, which serve the insuring public. The organisational network throughout the country is shown in TABLE 2.1. The four companies also operate in over 30 countries of the world through branches, agencies or associate/subsidiary companies.

TABLE 2.1 **ORGANSATIONAL NETWORK**

(As on 1-4-1992)

COMPANY	R. O.	D. O.	BRANCHES
National Insurance Co. Ltd. (NIC)	16	241	685
New India Assurance Co. Ltd. (NIAC)	19	301	826
Oriental Insurance Co. Ltd. (OIC)	16	250	748
United India Insurance Co. Ltd. (UII)	21	309	831
TOTAL	72	1101	3090

2.3 THE WORKFORCE

The general insurance industry as on 31st March, 1992 has a workforce of 83,030. The manpower is generally divided into four major categories namely, officers, development officers, supervisory and clerical staff, and the subordinate staff. The categorywise distribution of the manpower employed in general insurance business is depicted in TABLE 2.2.

TABLE 2.2 CATEGORYWISE MANPOWER OF GENERAL INSURANCE INDUSTRY

CATEGORY	NIC	NIAC	OIC	UII	GIC	TOTAL
Officers	3,342	4,124	3,600	3,872	282	15,220
Dev. Officers	3,136	3,726	3,407	3,370	-	13,639
Supervisory & Clerical	9,606	12,273	10,017	10,480	413	42,789
Subordinate staff	2,574	3,184	3,242	2,241	141	11,382
TOTAL	18,658	23,307	20,266	19,963	836	83,030

2.4 FUNCTIONS OF GIC

The General Insurance Corporation was formed for the purpose of superintending, controlling and, if necessary, carrying on business of general insurance. The corporation's functions include the following :

- (a) The carrying on of any part of the general insurance business, if it thinks it desirable to do so;
- (b) Aiding, assisting and advising the subordinates in the matter of setting up of standards of conduct and sound practice in general insurance business and in the

matter of rendering efficient service to holders of policies of general insurance;

- (c) Advising the subsidiaries in the matter of controlling their expenses including the payment of commission and other expenses.
- (d) Issuing directions to subsidiaries in relation to the conduct of general insurance business;
- (e) Advising the subsidiaries in the matter of investment of their funds.

The Act provides that the corporation should keep in mind that competition amongst subsidiaries should be encouraged in order to ensure that the service is rendered more efficiently. The subsidiary companies are expected to carry on general insurance business so as to secure development of business to the best advantage of the community. The companies are expected to act on business principles.

The corporation does not write any direct insurance business except the aviation insurance business relating Air India, Indian Airlines and Hindustan Aeronautics, and crop insurance. It receives by way of compulsory reinsurance cessions 20 per cent of all the direct business written in India by the subsidiary companies. The subsidiaries underwrite all types of general insurance business in India as well as in nearly 35 overseas territories.

The advantage of this set up with a holding company guiding four subsidiaries operating throughout the country are as follow :

- i. An insured can choose the insurer giving the best service.
- ii. Competition for business makes the companies service conscious and work for improved efficiency.
- iii. Competition can be ensured to be on healthy lines by setting up by the holding company, of standards of conduct and sound business practice.
- iv. The corporation can judge the comparative performance and efficiency of the companies, and provide the necessary stimulus to the subsidiaries for further improvements.

2.5 FUNCTIONS OF VARIOUS LEVELS OF SUBSIDIARIES OFFICES

The Head Offices of the companies are responsible for overall planning, superintending, direction and control of Indian and foreign business. They also attend to investment, guarantees, reinsurance and such other specialist functions.

All the companies have Regional Offices located at Bombay, Delhi, Calcutta, Madras and few other centres for effective co-ordination, control and supervision of the Divisional/Branch Offices in their jurisdiction. New offices are opened by the companies, whenever justified.

The Divisional Office is the king-pin in the organisational structure and carries out excepting investment and reinsurance. The Divisional Office supervises the working of branches, settles claims, maintains accounts and attends to all administrative matters pertaining to its area of responsibility.

The Branch Office, besides supervising the activities of the field workers and developing business, attends to acceptance of risks, issue of documents, receipts, cover notes, collection of premiums, minor payments like commission, rent, etc.

Thus, the Indian insurance market structure with a large network of Divisional Offices and Branch Offices spread over the entire country, with development officials and field workers working under them, ensures that personal contact is maintained with the insuring public and that the service rendered by it reaches all parts of the country.

2.6 THE ASSOCIATE INSTITUTES

There are various associate institutes which help the GIC in one or the other ways listed below in its and the subsidiary companies operations.

(1) TARIFF ADVISORY COMMITTEE : The Tariff Advisory Committee is a statutory body which formulates the rates of premium and terms and conditions of policies for certain classes of business. The tariffs are binding on all general insurance companies. The companies are, however, free to decide the rates, terms and conditions of non-tariff business.

(2) LOSS PREVENTION ASSOCIATION OF INDIA : This is sponsored by the GIC and its subsidiaries for advising on accident prevention, loss minimisation and road safety. It also undertakes fire salvage operations at Bombay and cargo supervision at major ports.

(3) GIC GRIH VITTA LIMITED : This has been set up by GIC and subsidiary companies and other financial institutions to provide long term funds by way of loans to individuals/groups and corporate bodies for purchase, construction, repairs or renovation of residential premises.

(4) GIC MUTUAL FUND : GIC Mutual Fund has been set up as a trust by GIC and its four subsidiaries to mobilise savings from the public and to channelise them to the capital market with a view to providing safety, return and liquidity to the investors.

2.7 NEED AND DEFINITION OF INSURANCE

Human life and material possessions are continually exposed to loss or damage by numerous destructive forces. There is a great deal of uncertainty in life, commerce and in industry. Thus, the risk is undisputed fact of modern complex life. Human beings are aware of this uncertainty about what the future holds for them and hence they show a strong desire for security both for their lives and their possessions. This need is fulfilled by insurance agency.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risks.

Insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk.

2.8 RISK IN INSURANCE

The term 'risk' occurs frequently in insurance transactions. Risk for insurance purpose means uncertainty about financial loss. An

individual may meet with an accident resulting in bodily injuries, a shopkeeper's goods may be stolen, an exporter may lose his merchandise if the ship carrying it sinks, a house-holder's clothing and furniture may be destroyed by fire - are few examples of risk resulting in financial loss. These risks can be minimised but cannot be eliminated. However, these risks can be transferred to insurers through the system of insurance.

Insurance is a technique which provides for collection of small amounts of premium from many individuals and firms out of which losses suffered by few are reimbursed. In this method, the individual insured, who is exposed to a large but uncertain loss, is able to buy protection through the payment of a small but definite cost called 'premium'. A risk thus, becomes insurable if it has the following characteristics :

1. The risk must be of a fortuitous nature. If the event is inevitable and is bound to occur, then it cannot be insured against. Thus, insurance is not available for wear and tear, depreciation, inherent vice, etc.
2. The risk must be a 'pure' risk. 'Trade risks' cannot be insured against.
3. The loss caused by the risk must be capable of being measured in terms of money.
4. Insurance must not be against public policy.

5. The risk must not be of an 'illegal' nature, the object of contract must be legal.
6. The risk must not be of a catastrophic nature.

2.9 NATURE OF INSURANCE

The insurance has following characteristics which are, generally, observed in case of life, marine, fire and general insurances.

(1) Sharing of Risk : Insurance is a device to share the financial losses which might befall on an individual or his family on the happening of a specified event. The event may be death of a bread-winner to the family in case of life insurance, marine perils in marine insurance, fire in the fire insurance and other certain events in general insurance like theft in burglary insurance, accident in motor insurance, etc.

(2) Co-operative Device : The most important feature of every insurance plan is the co-operation of large number of persons who, in effect, agree to share the financial loss arising due to particular risk which is insured. Such a group of persons may be brought together voluntarily or through publicity or through solicitation of the agents.

(3) Value of Risk : The risk is evaluated before insuring to charge the amount of share of an insured, called premium.

(4) Payment of Contingency : The payment is made at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency, the death or the expiry of term, will certainly occur, the payment is certain. In other insurance contracts, the contingency is the fire or marine perils - which may or may not occur. So, if the contingency occurs, payment is made, otherwise no amount is given back to policy holder.

(5) Amount of Payment : The amount of payment depends upon the value of loss occurred due to the particular insured risk provided insurance is there up to that amount.

(6) Large Number of Insured Persons : To spread the loss immediately, smoothly and cheaply, large number of persons should be insured. The co-operation of a small number of persons may also be ensured but it will be limited to smaller area. The cost of insurance to each member may be higher. So it may be unmarketable. Therefore, to make the insurance cheaper, it is essential to insure large number of persons or property because the lesser would be cost of insurance and so the lower would be premium.

(7) Insurance is not a Gambling : The insurance serves indirectly to increase the productivity of the community by eliminating worry and increasing initiative. The uncertainty is changed

to certainty by insuring property and life, because the insurer promises to pay a definite sum after damage or death.

(8) Insurance is not Charity : Charity is given without consideration but insurance is not possible without premium. It provides security and safety to an individual and to the society although it is a kind of business in consideration of premium it guarantees the payment of loss.

2.10 KINDS OF INSURANCE

The insurance can be divided broadly from two points of view namely, from the business point of view and from the point of risk covered. These are further divided into sub-categories as shown in the CHART 2.1.

(A) Business Point of View : Based on the business point of view the insurance can be divided into following three categories :

(1) Life Insurance : Life insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being. The insurer pays a fixed amount of insurance at the time of death or at the expiry of certain period. This insurance provides protection to the family at the premature death or gives specific amount at the

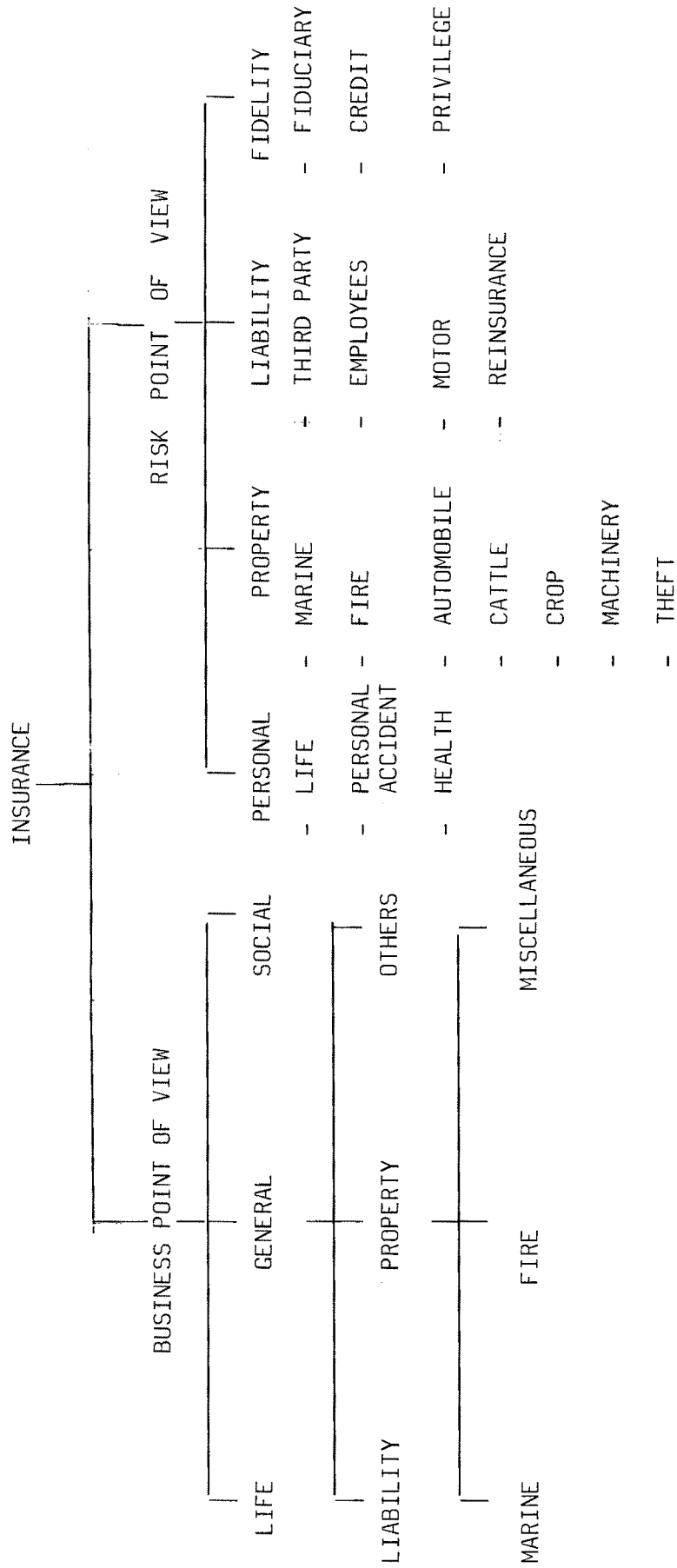
old age when earning capacity is reduced. The insurance is not only a protection but also is sort of investment.

(2) General Insurance : The general insurance includes property insurance liability insurance and other forms of insurance. Fire and marine insurance are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent. On the other hand, the other forms of general insurance include export-credit insurance, state employees insurance, etc., whereby the insurer guarantees to pay certain amount at the certain events.

(3) Social Insurance : The social insurance provides protection to the weaker section of the society, who are unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various examples of social insurance.

(B) Risk Point of View : From the risk point of view, the various types of insurance covers can be divided into broad four categories namely, Personal Insurance, Property Insurance, Liability Insurance and Guarantee Insurance, as follows :

CHART 2.1 KINDS OF INSURANCE



(1) Personal Insurance : The personal insurance again includes insurance of human life which may suffer loss due to death, accident and disease. Therefore, the personal insurance is further classified into life insurance, personal accident insurance and health insurance.

(2) Property Insurance : The property of an individual and of the society is insured against the loss of fire and marine perils, the crop insurance is insured against unexpected decline in production, unexpected death of the animals engaged in business, breakdown of machines and theft of the property and goods.

(3) Liability Insurance : The liability insurance covers the risks of third party, compensation to employees, liability of the automobile owners and reinsurances,

(4) Guarantee Insurance : The guarantee insurance covers the loss arising due to honesty, disappearance and disloyalty of the employers or second party. It also includes fiduciary insurance, credit insurance, and privilege insurance. Besides these there are various miscellaneous types of insurance practiced like - jewellers' block insurance, engineering insurance for boiler insurance, machinery breakdown insurance, erection insurance and contractor's all risks insurance;

television insurance, neon sign insurance, sports insurance, aviation insurance, and rural insurance schemes.

Out of the above said kinds of insurances available in India, the Life Insurance Corporation undertakes life insurance business exclusively. Whereas, all the other types of insurances are dealt by the General Insurance Corporation through its four subsidiaries. This is depicted in CHART 2.2. The General Insurance is conveniently divided into three major types of business namely, marine insurance, fire insurance and miscellaneous insurances. The marine insurance covers hull insurance, cargo insurance, freight insurance, and liability insurance. Fire insurance covers risk of fire, war risk, turmoil and riots losses as well. Whereas, the miscellaneous insurance covers wide variety of insurance covers like motor insurance - the major component, personal accident insurance, burglary insurance, fidelity guarantee insurance, liability insurance, engineering insurance, aviation insurance, cattle insurance, and crop insurance.

2.11 BUSINESS PROFILE OF GIC

The business of GIC is shown in TABLE 2.1 in terms of broad categories of insurances - fire, marine, motor and miscellaneous insurances from 1973 to 1991-92. It is noticed from the table that by and large all the types of insurance business are increasing in last two decades. However, among all the categories, motor insurance business

TABLE 2.3 BUSINESS OF GIC

(Rs. in crores)

YEAR	FIRE	MARINE CARGO	MARINE HULL	MOTOR	MISC.	TOTAL	GNP	GDP/GNP (%)
1973	1,999	936	150	1,106	709	4,900	53,447	0.09
1974	2,224	1,234	254	1,177	726	5,615	62,972	0.09
1975	2,638	1,494	375	1,307	917	6,782	56,972	0.10
1976	2,886	1,698	465	1,403	1,137	7,589	71,231	0.11
1977	2,842	1,811	582	1,477	1,160	7,872	80,433	0.10
1978	2,931	1,979	610	1,517	1,452	8,489	86,800	0.10
1979	2,963	2,296	655	1,730	1,681	9,325	95,131	0.10
1980	3,427	3,105	681	2,016	1,895	11,126	1,13,882	0.10
1981	4,058	3,708	771	2,642	2,500	13,679	1,37,040	0.10
1982	4,757	3,988	839	4,032	3,117	16,733	1,45,416	0.11
1983	5,720	4,395	902	4,954	3,832	19,803	1,67,000	0.12
1984	6,326	4,740	1,081	5,530	4,548	22,225	2,07,153	0.11
1985	7,182	5,203	1,145	6,578	5,279	25,387	2,32,047	0.11
1986	3,521	5,532	1,338	7,724	6,686	29,801	2,57,250	0.12
1987	9,320	6,078	1,389	9,271	7,972	34,030	2,91,647	0.12
1988-89*	12,679	8,571	1,788	14,771	11,758	49,567	3,49,105	0.11
1989-90	12,673	7,718	1,548	15,424	11,314	48,677	3,92,524	0.12
1990-91	14,420	9,663	1,825	23,001	14,081	62,990	4,62,487	0.14
1991-92	16,856	10,891	2,788	26,641	15,427	72,603	5,33,526	0.14

* denotes 15 months accounting period

appears to be the major business followed by fire insurance, miscellaneous and marine insurance. The total gross direct premium (GDP) in India has increased to approximately 14 times in last two decades. Whereas, the gross net profit has increased to 10 times during the same period. The ratio of gross direct premium to GNP has increased from 0.09 per cent in 1973 to 0.14 per cent in 1991-92.

Documentation and Claims Settlement

The number of documents issued and claims settled annually has grown enormously over the years, as can be seen from the table below.

TABLE 2.4 DOCUMENTATION AND CLAIMS SETTLEMENT

(Figures in thousand)

	1980	1985	1991-92
Number of documents issued	8,430	13,525	22,155
Number of claims settled	589	969	2,010

Incurred Claim, Management Expenses & Underwriting Results

The overall net incurred claim ratio (ratio of net claims payable to net premium income) and management expenses ratio including commission (as a percentage of gross premium) are shown in table below.

TABLE 2.5 INCURRED CLAIMS, MANAGEMENT EXPENSES & UNDERWRITING

(Figures in percentage)

	1975	1980	1985	1991-92
Net Incurred Claims Ratio	48.6	61.6	66.8	66.8
Management Expenses Ratio (including commission)	28.7	25.3	24.1	23.3
Underwriting Profit/Loss as a % premium	15.0	3.1	1.0	2.2
Reserve Strain	7.8	10.1	8.1	12.2

It is observed from the table that underwriting profits have declined over the years till 1988/89. When the underwriting loss was passed for the first time. During 1990/91, the underwriting loss to premium ratio was 2.2 per cent which was much better than 4.3 per cent in 1990-91, 5.5 per cent in 1989-90 and 6.5 per cent during 1988-89.

Financial Strength

The General Insurance Industry has been able to develop a sound financial position over the years since nationalisation. The financial strength for the selective years is shown in the table below.

TABLE 2.6 FINANCIAL STRENGTH OF GIC

(Rs. in lakhs)

	1975	1980	1985	1991-92
All Reserves (including unexpired risks reserves)	33,323	62,000	1,42,695	4,40,921
Of which capital & Free Reserves Constitutes	15,171	31,497	69,515	2,20,783

Investments

The growth in amounts invested (as per Govt. guidelines), the investment income and the yield on mean value basis shows the success of the industry in investing in surplus funds according to the priorities of the nation. The investment is shown in table below.

TABLE 2.7 INVESTMENT OF GIC

(Rs. in lakhs)

	1975	1980	1985	1991-92
Amounts invested	49,765	88,823	2,17,550	6,10,100
Investment Income	3,426	7,375	2,168	75,291
Yield on Mean Value basis	8.1	9.3	10.9	13.5

Profits of GIC

The General Insurance Industry has been making substantial profits over the years as can be judged from the table below.

TABLE 2.8 PROFITS OF GIC

(Rs. in lakhs)

	1975	1980	1985	1991-92
Profit Before Tax	7,828	9,174	26,352	66,874
Profit After Tax	7,371	7,815	23,536	61,281
Tax Provisions	4,718	4,897	10,685	24,100
Net Profit	2,920	4,277	15,667	42,774
Net Profit (excluding dividend from subsidiaries)	2,547	2,918	12,851	37,181

Involvement in Socio-Economic Development

The GIC has extended insurance to rural areas with introduction of covers like cattle and other live stock insurance, poultry insurance, agricultural pumpsets insurance, Gramin Accident and Janata Personal Accident policy. The corporation has been administering the comprehensive crop insurance scheme on behalf of the Central

Government from Kharif 1985 season. Premiums and claims under the scheme are being shared by the Central Government and the State Government in the ratio of 2 : 1, while the expenses of management incurred in administering the scheme are being shared equally by the corporation and the Central Government.

Product Development

The GIC transacts a vast and diversified portfolio with all classes of business like fire, marine cargo, marine hull, motor, engineering, aviation and other miscellaneous with a total of around 115 products. The range of policies offered include policies in the following broad categories :

- (1) Rural Insurance Family Insurance
- (2) Cover for Shopkeepers/Small Establishments
- (3) Cover for Professionals
- (4) Commercial/Industrial Insurance
- (5) Cover for Banks
- (6) Social Security Schemes
- (7) Miscellaneous

Special packages to cover individuals and groups for their life and health are also available e.g. Group Personal Accident and Group Mediclaim Policy. Under Personal Accident Social Security Scheme,

cover is provided to poor families in the age group of 18 to 60 years with income less than Rs. 7,200 P. A. Compensation of Rs. 3,000 is payable in the event of accident death of the bread winner. The industry has settled 65,576 claims involving compensation of Rs. 19.67 crores upto March 1992.

The Hut Insurance Scheme is applicable to poor families with an annual income of Rs. 4,800 or less, covering the hut and its belongings. Compensation of Rs. 1,000 for hut and Rs. 500 for its belongings is paid. The industry has settled 2,11,712 claims under the Hut Insurance Scheme, paying a compensation of Rs. 25.78 crores upto March 1992.

The Solatium Fund is meant for hit-and-run road accident victims, under which compensation amounting to Rs. 8,000 per victim is payable. Over 2,760 claims amounting to Rs. 200 crores have been settled since its inception in 1989.