
Reinsurance and Liability Insurance in India: Critical Analysis

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ABSTRACT

The insurance sector in India is still in developing phase. There are lots of challenges in this sector. Reinsurance is the best tool to transfer risk. In India Reinsurance is still not completely opened up for private players. GIC Re is the only reinsurance company which is operational in India and owned by the Central Government and in 2017 it has issued for IPO. This paper shows why reinsurance is still in developing phase and what is the regulator doing for the reinsurance sector.

Liability insurance is not so much popular in India. There are very few companies providing policies providing liability insurance in India. This insurance can save organizations from going into deep financial losses. This paper shows the problems in dealing with liability insurance in India. It even explains the (IRDA) regulator role in developing and promoting Liability Insurance in India.

Key Words: *Liability Insurance, Reinsurance, Regulator*

REINSURANCE AND LIABILITY INSURANCE IN INDIA: A CRITICAL ANALYSIS

NEED OF THE STUDY

Insurance in India is still in a developing phase. The present scenario is that the regulator is quite strict about rate making in premiums. Every Insurance company should use File and Use regulation of Insurance Regulatory Development Authority. IRDA is the regulator for insurance industry in India.

Reinsurance is a truly international in every sense. The need to understand reinsurance and liability insurance is that there is lot of scope in this field which can be learned. Reinsurance is the best tool to finance the risk for any insurance company. Reinsurance shows how important it is to protect the insurance companies from a large catastrophe event.

Companies fail to pay lot of money due to their negligence which causes damage to the third party. If the third party sues the company, they would end up paying millions which would affect the financial position of the firm. It would destroy their reserves and end up losing goodwill. Liability insurance indemnifies this companies with providing enough money as well as their legal expertise to fight the case with third parties. This shows how much need is there of insurance for the companies.

Every year 20% of the work staff retires from insurance industry. So in order to fill this gap people need to understand and learn about insurance industry.

OBJECTIVES

- To show how reinsurance started in India and what would be the future roadmap for Public/foreign insurance companies and GIC Re which is an owned by Central Government of India.
- To understand liability insurance and show its development in India.

REVIEW OF LITERATURE:

THE WEEK: Not worried of foreign reinsurers setting up shop in India: GIC Re has no worry for competition set up by foreign reinsurance companies as there is enough room in this market which is still largely underpenetrated. GIC Re even wants to diversify its business in US as it is one of the best global markets.

Lloyd's News: Lloyd's reinsurance has set up its office in India. (April 5, 2017) It has the experience in insurance and reinsurance all over the world, with its expertise Indian market would be the next destination for reinsurance policies.

INTRODUCTION

Reinsurance: Reinsurance is nothing but providing insurance to insurance companies. It is a financial management tool. It is a process of risk transfer to other reinsurance or insurance companies. It helps to minimize losses and prevent the insurance company to go insolvent in case of disasters/ catastrophes/ emergencies.

Reinsurance is a contract between insurance company and a third party (Reinsurer) wherein the later will protect the former by paying losses in case of any disasters/ catastrophes/ emergencies. The insurance company will pay a part of premium to the reinsurer. Up to a certain limit the reinsurance company will retain the losses to itself during claim settlement. If the claims are expected to be higher than the retained loss the reinsure will provide the finance to the insurance company.

LIABILITY INSURANCE:

It is a type of general insurance which protects the insured (purchase: a company or any organization) from risks of liabilities imposed by lawsuits and similar claims. It doesn't cover intentional damage or contractual liabilities. Only a very handful of private companies provide liability insurance in India. It is not so popular in India.

In India very few companies prefer liability insurance. Every Professional like CA or CIMA or ACCA or any other professional can take liability insurance because there is a chance of negligence in their services which can be sued by their clients. There is even nuclear liability insurance in India because of the impact it causes in case of any damage to the nuclear plant.

Sample Size:

For Reinsurance there are three important players:

1. GIC Re (General Insurance Corporation of India) which is owned by Government of India.
2. All other Public/Foreign reinsurance companies which are still in the phase of applying license to open up their branches in India.
3. The Regulator (IRDA)

For Liability Insurance there are only a very few companies like HDFC, ICICI, TATA AIG, BHARTI AXA. Through these companies we can find out in which Position we are in writing Liability Insurance comparing with Global companies.

THE REINSURANCE PHASES IN INDIA

PRE NATIONALIZATION: In 1956, India Reinsurance Corporation, a professional reinsurance insurer was formed by general insurance companies operating in India and started receiving voluntary quota share cessions from member companies.

In 1961, Government made it compulsory by statue that every insurer must cede minimum percentages of different insurance types. The approved Indian reinsurers were:

1. India reinsurance Corporation

2. Indian Guarantee and General Insurance Company.

POST NATIONALIZATION: The GIC was established in 1972 under a statute as a wholly owned company of the government of India. GIC (General Insurance Corporation of India) is the sole reinsurer of India. GIC was actually set up to write general insurance in India with four other subsidiary companies. Pursuant to the liberalization GIC became the sole reinsurer of India. It is important to understand why is that GIC was the only reinsurance company prevailing in India. This is because Reinsurance is where companies award themselves by transferring risks. Before 2013 the main interest of the Government is retain all the funds in India itself.

There were many changes in the amendments in the insurance act. GIC Re has collected premium of 60% from insurance companies in India and rest from other countries. GIC wrote business from 161 countries and ranked as 12th in best reinsurance companies. The solvency rate is 1.83 which is greater than 1.5 which is a standard rate issued by IRDA. It implies that it can sustain a lot of big losses while settling for claims during disasters.

Particulars	H.Y. ended 30.09.2017	H.Y. ended 30.09.2016	Growth %	FY 2016-17` (in Crore)
Gross Premium	24,404.37	16,118.08	51.4%	33,585.44
Profit After Tax	1,809.22	955.81	89.3%	3,127.67
Return on Equity	19.6%	12.2%		17.4%
Combined ratio	99.4%	99.1%		99.7%
Solvency Ratio (times)	1.72	2.92		2.40
Net Worth	18,549.92	15,785.77	17.5%	17,946.63

TABLE 1

This is the comparative analysis of GIC Re over the past two years.

ANALYSIS

1. Premium has increased by 51.4% which is very good.
2. Net Profit after tax by 89.3% which indicates the great market share of GIC Re. The market share is increased because it is obvious that GIC Re is the only sole reinsurer of India.
3. It would be very difficult if foreign reinsurance once set up and operate in India. The market share will come down in the subsequent years.
4. Solvency ratio has increased which is more than 1.5 which is a standard rate to maintain.

The Gross Premium Break Up analysis (FROM TABLE 2)

1. The major premium is collected from marine, fire and health insurances.
2. There is no word of liability insurance.
3. It indicates that there is very less reinsurance for liability insurance.
4. Agriculture reinsurance has increased by 96% because of promotion of insurance in rural areas. It indicates that IRDA is very particular in agriculture insurance for the sake of farmers.

Break-up of Gross Premium

Gross Premium	HY 30.09.2017	HY 30.09.2016	Growth %
A) Fire	4,327.57	3,931.48	10.1
B) Miscellaneous - Total	19,123.41	11,432.31	67.3
Misc - Motor	3,548.96	2,403.81	47.6
Misc - Health	2,621.94	1,541.57	70.1
Misc - Agriculture	11,091.27	5,654.48	96.2
Misc - Other LOBs	1,861.24	1,832.45	1.6
C) Marine	688.29	570.01	20.8
Marine - Cargo	261.42	228.16	14.6
Marine - Hull	426.87	341.85	24.9
D) Life	265.10	184.28	43.9
Total – A+B+C+D	24,404.37	16,118.08	51.4

TABLE 2

FUTURE ROADMAP OF GIC RE AND REINSURANCE INDUSTRY IN INDIA

According to GIC the future projections are stated below:

1. In Union Budget 2017, government increased the coverage from 30 per cent to 40 per cent under Pradhan Mantri Fasal Bima Yojna (PMFBY) and as part of PMFBY, Rs9, 000 crore (US\$ 1.35 billion) has been allocated for crop insurance in 2017-18. In this would increase its market share in agriculture insurance.
2. GIC Re expected to maintain its market leadership going forward on strong financials, adequate capacity and expertise in market conditions. This is because no other reinsurance company had got its operating certificate from IRDA in India.
3. Reinsurance premiums in India expected to touch INR 70,000 Crore by 2022.
4. According to me, even though the projections are much high GIC Re value would increase in the next 2 years and then the competition would become very tight as more and more private reinsurance coming up to set up their offices in India.

PRIVATE/ FOREIGN REINSURANCE COMPANIES INDIA

Top 20 Global P & C Reinsurers				
2005 Rank	2004 Rank	Group	GPW US \$ mn	Market Share(%)
1	1	Munich Re	17400	12
2	2	Swiss Re	16046	11
3	3	Berkshire Harthway	8039	5
4	5	Lyoyd's	7953	5
5	4	Hannover Re	6569	4
6	6	GE Insurance Solutions	4469	3
7	8	Transatlantic Holdings	4141	3
8	11	Partner Re	3471	2
9	10	XI Capital	3421	2
10	9	Everest Re	3411	2
11	7	Converium	3395	2
12	12	ACE	2960	2
13	13	SCOR	2060	1
14	15	Odyssey Re	1954	1
15	14	White mountains Re	1933	1
16	17	Korean Re	1907	1
17	23	Platinum Underwriters	1660	1
18	18	Arch	1657	1
19	16	AXA Re	1571	1
20	19	QBE Re	1480	1

TABLE 3

This is the top reinsurance companies all over the world. Out of these 20, 4 have applied for license to operate in India through R1 application and got their certificate recently to open their branches and help them in advisory but not for operational yet.

The Four Companies are: Swiss Re, Munich Re, SCOR, Hannover

Even Lyoyd's had applied for R1 license as well as even Berkshire Harthway. Even an Indian private reinsurer ITI had applied for license and started its operations alongside GIC Re.

There is a process for every Reinsurance company to be set up in India:

1. Apply for a certificate of registration in accordance with the process set up by IRDA (Registration of insurance companies)
2. Must make registration in from R1.
3. On acceptance, the applicant makes an application for grant of certificate of registration.
4. Both the forms R1 and R2 must be accompanied with specified documents and there is a detail background check.
5. If IRDA is satisfied it will grant a certificate for operations in the form R3.
6. It is a staged process and with every form there are certain fulfillments which are to be done before setting up in India.
7. A foreign reinsure can also undertake reinsurance business in India through the following structures:
 - a. Foreign reinsures can set up their branch in India under the Branch office Regulation.
 - b. Syndicates of Lloyd's may transact in reinsurance business under the Lloyd's India framework through Service Company registered in accordance with the Lloyd's India Regulations.

REGULATOR

The reinsurance of general insurance was initially governed by IRDA (General Insurance – Reinsurance) 2000. This regulation was superseded first in 2013 and then again 2016. It is the same case with Life Reinsurance governed by IRDA (Life Insurance – Reinsurance) 2000 and this was superseded in 2013.

The guiding principle for General and Life reinsurance Regulation is to maximize retention circular. by Indian insurers within India. IRDAI began registering foreign reinsurer branches; It brought Regulation 28(9) of the Branch Office regulation into immediate effect through January 16 2017

REINSURANCE: FINDINGS AND SUGGESTIONS

1. IRDA is a very strict regulator. It is a gain as well as loss. It follows everything precisely from their laws to promotion to give certificates of operations. For reinsurance IRDA states that minimum capital required is 200 crore. IRDA takes lot of time and hectic process to giving license to foreign reinsurers.
2. GIC Re being the sole reinsure in India for quite some time has enjoyed the market share. Reinsurance truly means international. Private players would take lot of time to get their roots fixed in India.
3. The one of the main problems are that there are enough alternative for reinsurance. Once people tend to understand them then those alternates could be vastly used. Like Hedging risks is one of the best uses. Derivative market can trade risks rather than paying a premium to Reinsurance Company.
4. The reinsurance market in India has also regarded healthy CAGR of 15% in ten years till 2017. Premiums ceded have increased to 73% and in general insurance it has increased by 32% and retention decreases to 9%. The reinsurance premiums in India are projected by Crisil Research to register a CAGR of 11-14% over the next five years to reach Rs 70000 crore by 2022.

LIABILITY INSURANCE:

Liability means responsibility. The term legal liability connotes specific responsibilities and obligations which can be enforced by law. Liability insurance only covers civil liability but not criminal liability.

Based on the category covered by this insurance there are only two types:

1. Insurance covering statutory liability that is liability defined by specific law
2. Insurance covering tort liability that is common law judgments, professional liability, product liability etc.

HISOTRY IN INDIA

In India after the passing of Workmen's Compensation Act, 1923, and the motor vehicles act, 1939, had a significant effect on the origin and growth of employer's liability insurance and public liability insurance. Another thing is that because of several acts relating to environment or consumer gave rise to public liability insurance. These acts are Environments Protection act an even Consumer Protection act.

COMPANIES PROVIDING LIABILTY INSURANCE IN INDIA: HDFC, ICICI , TATA AIG, BHARTHI AXA

The basic objective of Liability Insurance is to protect the insured from third party claims. The insurance indemnifies the insured. It mostly happened due to the unintentional damage cause to the third parties. If it was intentional then there would be no claim provided. In India no the public insurance company provides Liability Insurance.

CASE:

In divisional personnel officer, Southern Railways vs. Karthiayani (1987) the facts were: Drinking water was provided by railways for the workmen. There was a drum kept for this purpose. The deceased workman was at the relevant time within the railways premises after collecting the tools for going to the work spot. The death was caused by some bacteria which was in the water. The death was the proximity cause so the High Court

held that the commissioner rightly found that the railways was liable in terms of Section 3 of the Act to pay compensation.

What if the railways would have liability insurance? It completely depends of section heads and other officers of railways to take insurance. There are so many cases where risk is very much there but is not visible to the eyes. These risks can cause huge damages to the third party. One can't argue around for the blame work. In order to protect third party as well as the insured this insurance was bought into existence.

POLICIES AND PREMIUM:

In insurance the policy must be issued. In liability insurance the hardest part is the underwriting part. It is very difficult to calculate the premium or the rates. Sometimes the premium are more than the associated risks and there chance of occurring. In fact it is very hard to calculate sum assured because third parties are involved.

CONCLUSION:

Reinsurance has lot of scope in India. Liability insurance can be taken as a new initiative and set up new business for this class of insurance. The journey from 1972 to till date there were lots of changes. As a general mindset of people no one thinks about mere future and the risks its carries. That is why insurance in not so popular in India. Only 10% of properties and firm have been insured compared to 30% for the rest of the world. Private reinsurance as well as insurance companies in India are still not at its best in terms of revenue or profits. All the insurance companies recently started issuing IPO and are getting listed which is a great step forward for the insurance sector. Insurance has the power to provide huge capital for tart ups. LIC has its investments in each and almost every company. What if GIC re and LIC take up initiative for startups? There are lot of new creations can be done in liability insurance. As a whole we are still in a developing as well as testing phase. We are near to take over the control of the world share but there are lots of restrictions in domestic affairs as well as with the IRDA

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