

CHAPTER 5 GENERAL INSURANCE

5.1 General Insurance Companies

The General Insurance Corporation of India Limited (GIC), a Government Company registered under the Insurance Act, 1938 as well as the Companies Act, 1956 having been notified as “Indian Reinsurer” has ceased to carry on direct insurance business with effect from 21 March 2003. The following companies, which were subsidiary companies of the General Insurance Corporation of India Limited till 21 March 2003, conduct business in all areas of insurance.

- (i) National Insurance Company Limited (NIC), Kolkata.
- (ii) The New India Assurance Company Limited (NIA), Mumbai.
- (iii) The Oriental Insurance Company Limited (OIC), New Delhi.
- (iv) United India Insurance Company Limited (UIIC), Chennai.

As on 31 March 2005, the aggregate equity capital of these five Companies was Rs. 665 crore and their net worth was Rs. 12681.42 crore. The volume of business of these Companies increased from Rs. 14188.38 crore in 2003-04 to Rs.15730.54 crore in 2004-05, registering 10.87 per cent growth over the period.

5.2 Profitability Analysis

5.2.1 The segment-wise performance of the five Insurance Companies for the year 2004-05 is given below. The overall financial performance and segment wise performance for the last three years ending 31 March 2005 is given in Appendix XIII. (See also Chart 9 and 10).

Name of the Company	(Year 2004-05)				(Rs. in crore)		
	Profit/loss from				Total	Other Income (Rent, interest, dividend etc)	Net Income
Fire Insurance	Marine Insurance	Motor Vehicle Insurance	Other Miscellaneous Insurance				
GIC	61.12	-89.89	-463.36	-79.37	-571.50	1399.76	828.26
NIC	138.69	23.25	-130.90	-33.45	-2.41	91.79	89.38
NIA	230.83	55.00	3.35	-56.40	232.78	559.38	792.16
OIC	125.85	25.69	-137.19	199.04	213.39	258.47	471.86
UIIC	184.77	19.20	-95.92	-85.83	22.22	296.08	318.30
Total	741.26	33.25	-824.02	-56.01	-105.52	2605.48	2499.96

Chart 9. Analysis of Profit/Loss in underwriting business of Insurance PSUs

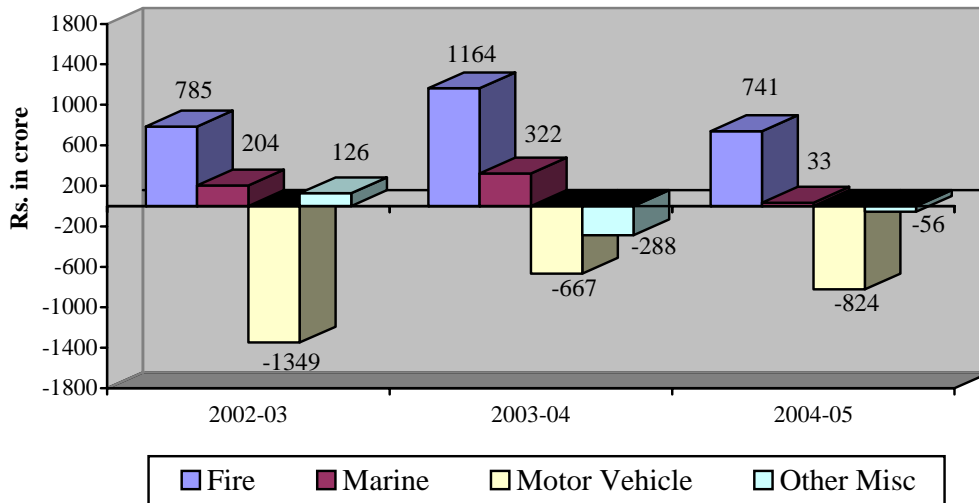
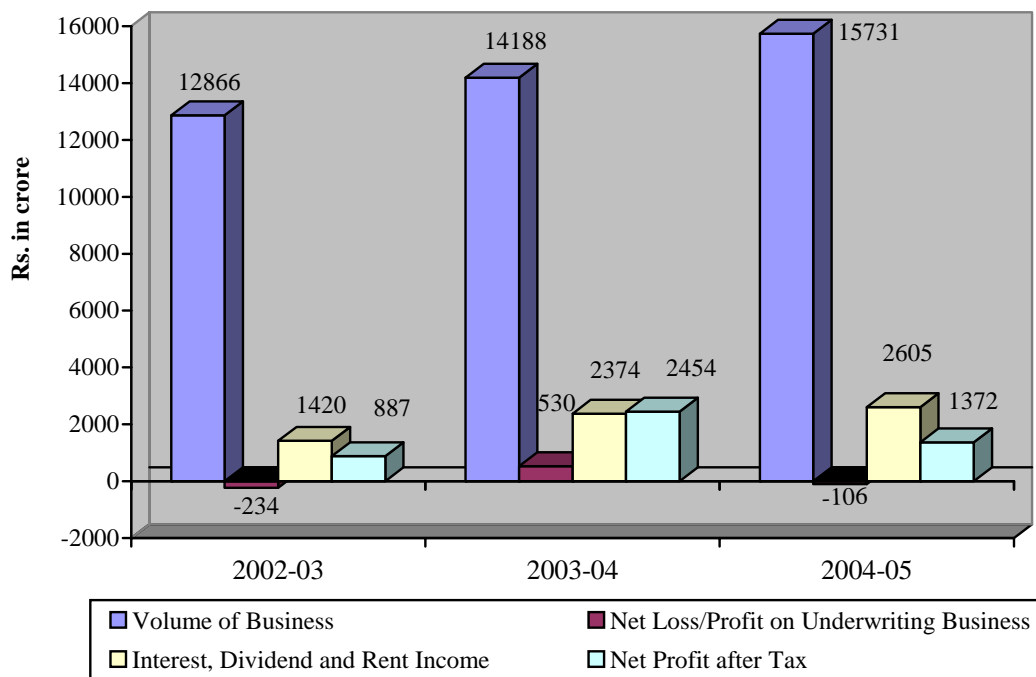


Chart 10 - Total Profit/Loss of Insurance PSUs



5.2.2 The insurance business had generated profits under segments of fire and marine (Rs. 774.51 crore). These profits were, however, offset by losses (Rs. 880.03 crore) incurred under motor vehicle insurance and other miscellaneous operations resulting in overall loss (Rs. 105.52 crore) in insurance-related business for all Insurance companies during the year

2004-05. All the five companies, however, earned substantial income (Rs. 3309.02 crore) from their non-insurance operations by way of interest, dividend and rent. This helped them to show aggregate profit of Rs.2529.17 crore before tax (after tax Rs. 1371.60 crore) as indicated in Appendix-XIV.

5.2.3 The loss incurred by the General Insurance companies in underwriting business was due to the loss in third party claims relating to motor insurance business and the loss arising out of other miscellaneous insurance business as reported in the preceding two years as well. The loss of Rs. 824.02 crore in motor insurance segment was attributable to the collection of premium substantially lower than the claims paid out.

5.2.4 While two Companies viz. General Insurance Corporation of India and National Insurance Company Limited incurred losses in insurance business during the current year, the other three Companies viz. United India Insurance Company, New India Assurance Company and Oriental Insurance Company earned profits.

5.2.5 No capital adequacy norms had been fixed for the insurance companies. However, as per Section 64 VA of the Insurance Act, 1938, solvency margin equivalent to one fifth of the first five crore of rupees and one tenth of the remaining amount of premium income from insurance business during the preceding twelve months is required to be maintained by the insurance companies, failing which the insurer shall be deemed to be insolvent and the insurer may be wound up by the court. Although the solvency margin is maintained by the five insurance companies, in view of ever-increasing exposure to risks, there is a strong need to prescribe capital adequacy norms based on the total risk underwritten by these companies, instead of maintaining solvency margin based on income from general insurance business.

5.3 Reinsurance Operations

5.3.1 The insurance companies reinsure the risk accepted in excess of their retention capacity. This reinsurance is made in accordance with a common annual reinsurance program drawn up in advance by the respective insurance companies. The main objective of the reinsurance program is to prudently retain maximum premium in India while at the same time securing the best possible protection for cost incurred on reinsurance.

5.3.2 The gross direct premium underwritten by the General Insurance Companies and the total net premium retention, after reinsurance, within India during the last three years were as tabulated below:

(Rs. in crore)

	2002-03	2003-04	2004-05
Gross Direct Premium	13887.95	20138.26	20054.06
Net premium retained in India	12224.92	15367.51	15746.31
Net premium ceded to foreign reinsurers	1663.03	4770.75	4099.62
Average retention margin (per cent)	88.02	76.31	77.40

5.3.3 The average retention margin of the Insurance Companies increased marginally from 76.31 per cent during 2003-04 to 77.40 per cent during 2004-05.

5.4 Foreign operations

5.4.1 General Insurance Corporation of India does not carry out any foreign operations. As on 31 March 2005, the New India Assurance Company had invested Rs. 74.19 crore in the total paid up capital of Rs. 76.27 crore of two wholly-owned subsidiaries^o carrying out insurance business in two countries. In addition, the Insurance companies operate 39 offices abroad spread over 24 countries.

5.4.2 In overseas operations, two companies Oriental Insurance Company Limited and United India Insurance Company Limited incurred loss of Rs. 1.82 crore and Rs.54.41 crore respectively while two companies, The New India Assurance Company Limited and National Insurance Company Limited made profit of Rs.120.57 crore and Rs.33.13 crore respectively in 2004-05. After taking into account the income from other sources, the insurance companies made an overall profit of Rs.673.69 crore in 2004-05 as against the net loss of Rs.166.84 crore in 2002-03 and profit of Rs.50.87 crore in 2003-04.

5.5 Investments

5.5.1 The income derived by the insurance companies through investment was Rs. 3030.61 crore, Rs. 3799.14 crore and Rs.4985.97 crore during 2002-03, 2003-04 and 2004-05 respectively against which the Companies incurred overall losses of Rs.234.34 crore in 2002-03 and Rs. 105.52 crore in 2004-05 from their insurance related business. However, there was a profit of Rs.530.08 crore during 2003-04 from insurance related business. The return realised on investment was 9.95 per cent in 2002-03, 10.50 per cent in 2003-04 and 10.51 per cent in 2004-05.

5.5.2 Insurance companies had generated an accretion of investment funds to the tune of Rs. 3037.30 crore in 2002-03, Rs.2902.45 crore in 2003-04 and Rs. 3918.42 crore in 2004-05.

^o 1. The New India Assurance Company (S.L) Limited, Free Town, Sierra Leone.
2. The New India Assurance Company (Trinidad & Tobago) Limited