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# Insurance Companies in the Present Global Scenario

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## Abstract

The most important aspect for any financial services institution dealing with today's regulatory framework is the need to build an integration, risk, compliance and regulatory environment. The globalization of business, the proliferation of, and dependency on, technology, and the preservation of a trusted and secure environment to facilitate financial institutions, all require financial services organizations to have in place the mechanisms to ensure sound and reliable security and privacy. The industry's landscape is continuously changing and increasing in complexity across financial services, causing firms to face a diverse array of challenges and concerns. Role of Private sector has grown rapidly in the service industry, especially with reference to Insurance management.

The insurance industry, as an integral part of the financial services industry does not stand apart from the profound changes in the financial sector. Recently we are witnessing an enhanced competition in the insurance industry probably due to the opening up of this sector to private participants. There is a close inter-action between insurance and economic growth. As economy grows, the living standards of people increase. As a consequence, demand for insurance increases. As the assets of people and of business enterprises increase in the growth process, the demand for general insurance also increases. In fact, with the widening of the economy, the demand for new types of insurance products emerges. Insurance now extends not only to product market but also to service industries including finance. It is equally true that growth itself is facilitated by insurance. The global consolidation of the financial services sector is in large part driven by acquisition activity. Companies competing for a greater share of consumer funds are seeking quick access to new markets, new products and new channels of distribution, both domestically and economically.

Grounded in a deep understanding of the issue, we have tried to deal with today's life insurance and financial services environment in a very lucid manner covering all the aspects such as productivity, management of processes, growth drivers, critical factors for success and policy implications.

## Introduction

The financial sector is in a process of rapid transformation. Reforms are continuing as part of the overall structural change aimed at improving the productivity and efficiency of the economy. The role of an integrated financial infrastructure is to stimulate and sustain economic growth.

The US$ 28 billion Indian financial sector has grown at around 15 per cent and has displayed stability for the last several years, even when other markets in the Asian region were facing a crisis. This stability was ensured through the resilience that has been built into the system over time. The financial sector has kept pace with the growing needs of corporate and other borrowers. Banks, capital market participants and insurers have developed a wide range of products and services to suit varied customer requirements. The Reserve Bank of India (RBI) has successfully introduced schemes where interest rates are more in line with market forces.

## Banks

Banking today has transformed into a technology intensive and customer friendly model with a focus on convenience. The sector is set to witness the emergence of financial supermarkets in the form of universal banks providing a suite of services from retail to corporate banking and industrial lending to investment banking. While corporate banking is clearly the largest segment, personal financial services is the highest growth segment. The recent favourable government policies for enhancing limits of foreign investments to 49 per cent among other key initiatives have encouraged such activity. Larger banks will be able to mobilise sufficient capital to finance asset expansion and fund investments in technology.

The Indian banking system has a large geographic and functional coverage. Presently the total asset size of the Indian banking sector is US$ 270 billion while the total deposits amount to US$ 220 billion with a branch network exceeding 66,000 branches across the country. Revenues of the banking sector have grown at 6 per cent CAGR over the past few years to reach a size of US$ 15 billion. While commercial banks cater to short and medium term financing requirements that of national level and State level financial institutions meet longer-term requirements. This distinction is getting blurred with commercial banks extending project finance. The total disbursements of the financial institutions in 2001 were US$ 14 billion.

**Issues that Need Immediate Consideration in Banks:**

- The structure of the banking industry
- The share of bank assets in the aggregate financial sector assets &
- Internationalization of banking operations

**Reforms Introduced in Banking Sector:**
A noteworthy feature of banking reforms in India is the growth of newly licensed private sector banks, some of which have attained globally best standards in terms of technology, services and sophistication. In many respects related to performance, these domestically promoted banks have surpassed branches of foreign banks in India, and could be a role model for other banks.

The process has helped reduce the burden on the Government, enhance transparency, encourage market discipline and improve efficiency as reflected in stock market valuation, promote efficient new private sector banks, while drastically reducing the share of the wholly government owned public sector banks in a rapidly growing industry.

## Capital Market

The reform measures initiated by the Securities and Exchange Board of India (SEBI) have helped transform the Indian securities market into a modern one, (in terms of infrastructure and best practices), transparent, efficient, competitive, vibrant, safe, more globalised and investor friendly. The reform measures initiated in the capital market over the past eight years, starting with the conferring of statutory status on SEBI has brought about a significant improvement in the functional and regulatory structure of the capital market. SEBI guidelines on the disclosures and investor protection, insider trading, registration of market intermediaries, venture capital, mutual funds, takeover, custodial services, depositories, foreign investment, corporate governance, derivatives trading etc. are a landmark in capital market.

**Opportunities**

- Insurance( Upto 26% FDI)
- Banking (Upto 49% FDI)
- Housing Finance (Upto 100% FDI)
- Venture Capital (Upto 100% FDI)
- Factoring Services (Upto 100% FDI)
- Credit Rating (Upto 100% FDI)
- Debt Market (Upto 100% FDI)
- Mutual Funds (Upto 100% FDI)

Thus, the changes witnessed have made Indian capital markets into a mature market of the world. Key progressive initiatives in recent years include:

- The depository and share dematerialisation systems that have enhanced the efficiency of the transaction cycle
- Replacing the flexible, but often exploited, forward trading mechanism with rolling settlement, to bring about transparency
- The infotech-driven National Stock Exchange (NSE) with a national presence (for the benefit of investors across locations) and other initiatives to enhance the quality of financial disclosures.
- Corporatisation of stock exchanges.
- The Securities and Exchange Board of India (SEBI) has effectively been functioning as an independent regulator with statutory powers.
- Indian capital markets have rewarded Foreign Institutional Investors (FIIs) with attractive valuations and increasing returns.
- The Mumbai Stock Exchange continues to be the premier exchange in the country with an increase in market capitalisation from US$ 40 billion in 1990-1991 to US$ 203 billion in 1999-2000. The stock exchange has about 6,000 listed companies and an average daily volume of about a billion dollars
- Many new instruments have been introduced in the markets, including index futures, index options, derivatives and options and futures in select stocks.

## *Insurance*

When the insurance industry was nationalized, it was considered a landmark and a milestone on the way to the socialistic pattern of society that India had chosen after independence. However, with the progression of the Insurance Regulatory Development Act (IRDA) in 1999, things are quickly changing. The main features of both are:-

| **Insurance Regulatory Development Act (IRDA) in 1999** | **The Indian Insurance (Amendment) Bill 2001** |
|---|---|
| It requires the Indian promoter to invest either wholly in an insurance venture or team up with a foreign insurer, with a cap of 26% of equity for the foreign partner. | Cooperative societies are being recognized to carry on business |
| The Indian promoter is permitted to divest only after 10 years to the Indian public, through a public offering of shares. | The training requirements are being modified as the existing norms are restrictive and putting constraints on the growth of corporate agency business in the country. |
| The opening up of this sector actually does is open up a range of untapped opportunities for the new players, considering the potential market for buyers in the market is very high | A portion of the premium received from a customer, can be paid as remuneration to an insurance intermediary |
| It offers great scope for growth as the present insurance penetration is just 1.95% | Public players continue to hold strong market share positions. |
| Also what consumers needed were products that offer flexible options, with benefits unbundled and customizable to suit their diverse needs. | Multinational insurers are keenly interested in emerging insurance because their home markets are saturated while emerging countries have low insurance penetrations and high growth rates. |

**Current Policies available in market and the major players**: When talking of health insurance in India, the first is Mediclaim, which is GIC's health insurance policy and has been the only policy in the country even though it may seem unattractive to any person who has been used to a comprehensive health insurance policy. As of now there were only two players in this field, Life Insurance Corporation and the General Insurance Corporation (with its four subsidiaries.)

Jeevan Asha is the health insurance scheme offered by LIC. The General Insurance Corporation (GIC) was formed by a Legislative Act; it is a merger of more than a hundred private companies.
It was then regrouped into the 4 subsidiaries of GIC:

- National Insurance Company,
- New India Assurance Company,
- Oriental Insurance Company, and
- United India Insurance Company.

This change has brought in a lot of new ventures: With the markets of Developed countries nearing saturation, insurers are looking at the world's emerging markets. These developing economies comprise 84% of world population and 22% of global GDP but only 9% of world insurance. On the other hand global insurance market, concentrated mainly in North America, Western Europe, Japan and Oceania-containing 91% of world's annual premium collection. Since the gestation period of the typical insurance business is around ten years, it is high time for foreign insurers to make their presence felt in India. The new players will have to prove their creditworthiness. It will be a tedious and difficult task to woo customers away from LIC and gain their trust. Their previous track record and brand value in overseas market will not help them much in getting immediate brand recognition in India.

The change brought in the insurance sector in India has been a landmark event in India's economic history. Gone are the days of the domination by the LIC and GIC when ordinary citizens had to work according to their whims and fancies. Over the past one year, the traditional notion of insurance has been turned on its head. Today, insurance offers complete solutions to create wealth, protect health, save tax and insure life. Added to this, the profile of the Indian customer is changing. Today, while boundaries between various financial products are getting blurred, people are increasingly looking not just at products but also at integrated financial solutions that can offer them stability of returns along with total protection. Insurance products will need to be customized to satisfy these myriad needs of the customers and at this point the private players come in bringing with them hopes of wider options and efficient service. The market is already seeing a rise in number of players and in making insurance products, new companies will have to adopt systems which factor in all potential risks. In such a scenario, it will be difficult to say what will be the differentiator across the different players — products, pricing or service or all?

Opening of the market, foreign investment and private (both within India and outside) Indian players are keen to convert untapped market potential into opportunities by providing tailor-made products:

- The presence of a host of new entry of players and diversified product in the sector has resulted in a shift in approach and the launch of innovative products, services and value-added benefits. Foreign majors have entered the country and announced joint ventures in both life and non-life areas. Major foreign players include New York Life, Aviva, Tokio Marine, Allianz, Standard Life, Lombard General, AIG, AMP and Sun Life among others.
- With competition, the erstwhile state sector companies have become aggressive in terms of product offerings, marketing and distribution.
- The IRDA has played a proactive role as a regulator and a facilitator in the development of this sector.
- The size of the market presents immense opportunities to new players with only 20 per cent of the country's insurable population currently insured.
- The state sector Life Insurance Corporation (LIC), the largest life insurer in 2000, sold close to 20 million new policies with a turnover of US$ 5 billion.
- The gross premia for the insurance sector was US$ 13 billion for 2001-02.
- There are four public sector and nine private sector insurance companies operating in general/non-life insurance business with a premium income of over US$ 2.58 billion. The market's potential has been estimated to have a premium income of US$ 80 billion with a potential size of over 300 million people. The General Insurance Corporation (GIC) (which covers the non-life sector) had a total premium income of US$ 2 billion in 2001-02. This is quite potential and target is to reach US$ 9 billion by 2006-2007.

## State Companies Vs. Private Ones

The final lap towards the privatization of the Health care sector in India was made with the passing of the IRDA Bill. Till then, control of formal insurance lay with the public sector. This bill allows for the entry of various private players into various sectors of the insurance industry, overseen by a regulatory authority, which will control the various entities.

Looking at the special insurance programmes of the Indian government for its employees- under the Central Government Health Scheme (CGHS), employees are not eligible for reimbursements without referrals from the concerned authorities. It is the same for the Employees State Insurance Schemes (ESIS), in the organized sector. The case of referrals is not much for outside private players (CGHS has only 6 of total expenditure on private referrals), but is widespread within the public sector wherein the utilization is highly biased towards the public hospitals and facilities. One must remember that in India, the only significant health insurance policy is Mediclaim and the major players are few and all public sector entities. Here the only choice that one actually has is to decide WHOM to insure HOW MUCH for. This is quite unlike the west where there is a staggering range of health policies to choose from, along with various options like HMOs (Health Maintenance Organization) and PPOs (Preferred Provider Organizations) to aid you.

**Emergence of new players & new products**

| INDIAN COMPANY | FOREIGN PARTNER | PRODUCTS TO BE OFFERED |
|---|---|---|
| ICICI | PRUDENTIAL | Life insurance |
| SUNDARAM FINANCE | ROYAL & SUN ALLIANCE | Fire, Marine, Motor, Personal, Accident,Health Insurance |
| MAX INDIA | NEW YORK LIFE | Life insurance |
| HDFC | STANDARD LIFE | Life, Health & Disability insurance |
| IFFCO | TOKIO MARINE | Farmers credit, wealth, product liability insurance |

Liberalization has finally cast its spell on the Insurance sector. The insurance sector until now had been a virtual monopoly of the Life Insurance Corporation and General Insurance Corporation, While Life insurance accounts for Rs.25000 cr., non life insurance accounts for Rs.9000 cr. in the 34000 cr. insurance market. But all that may change with the entry of a slew of private players who have joined hands with foreign insurance companies to venture into the potentially huge insurance market. At present Insurance contributes only 3% of the country's GDP, which is a very low figure. For example in Indonesia (a developing country like India) Insurance accounts for 8% of GDP.

## *General factors of success*

**Infrastructural development:** Better roads, better ports, better telephony, assured supply of power and water ...all these have huge externalities and could lead the country to that longed for double-digit growth. But these take years to construct and pay-back time comes much later. The result is that infrastructure projects with their long gestation periods find few takers. A banker who is willing to finance an automobile manufacturer will balk at lending to a private company that is building a road where the pay-back period is typically far longer — could be as much as 15-20 years. This is not surprising since his deposits are mostly short-term and he will have to return the money to depositors well before the borrower repays.

Insurance companies, especially life insurance companies, have no such problem. They mobilise savings that are essentially long-term, say 20-25 years and need to invest in avenues that are equally long-term. Infrastructure projects could be a perfect fit. But today, we have a peculiar situation. On one hand there is a crying need for better infrastructure while that of other is that , even though funds are available, the limited spread of the insurance sector means that companies that could channel these savings to infrastructure are not able to mop them up.

Ironically, the restrictions on FDI come at a time when emerging markets have never seemed so enticing to private capital flows. According to the Institute of International Finance, private flows into emerging markets are set to touch a new record this year. All we need to cash in on this bonanza is to raise the cap on FDI. The resultant spread of insurance could see a huge increase in the demand for long-term savings instruments that could be used to fund infrastructure projects.

**Flexible approach:** Private insurers with an altogether new agency force, all ready to hawk freshly designed insurance policies. And the market scene - a government owned established insurance entity -the Life Insurance Corporation (LIC) with a field force of over 6,00,000 agents and more than 80 products to choose from.

Its almost a year since private insurers began their operations. In a scenario where LIC called the shots all these years, how far have private insurers been able to make inroads after almost a year since the opening of the sector. And are their sales force (called life advisors or insurance consultants) successful in pushing their products inspite of the security factor -the ‘government guarantee’ label attached to LIC products - Insure magic makes an attempt to find out.

In comparison to popularly known as LIC, the initial breaking-through by private insurers was not an easy task. Being in the insurance business for about 50 years, LIC had already carved a name for itself in the Indian psyche. Insurance being a long term contract, an established name means a feeling of security and more importantly LIC policies come with the safety tag - the most touted government guarantee. So how easy is it to break the mold? Competition, no doubt is getting rife. Private insurers are concentrating on need based selling. Private insurers are playing it safe - not assuring any guaranteed returns. Price wise the difference in products is marginal. Buying riders may mean paying a little extra but check out the benefits offered and its more than worth the price.

Discussion of providing customer service - an hitherto neglected area, and private insurers realized it is an area they could score over the behemoth easily. LIC with the entry of private insurers flagged off a mass computerization drive that would connect each of its branches across the country to facilitate among others premium payments online. Considering the reputation LIC has built over a period of time attached with the most saleable tag of government guarantee, and the deep- rooted loyalty reposed in it is comprehensible which manifests in its policy sales.

Private insurers have been able to make a dent in the market in the first year of their operations garnering a market share of a mere 0.02 per cent of the Rs 36,070.4 crore market as per LIC resources. And four private life insurers together have sold 10,000 insurance policies during the first year. Comparatively LIC issued two crore risk covers during the said period inspite of the entry of private insurers; including 3.45 lakh new annuity policies' says the LIC agent proudly.

For private insurers the first year has been well begun. The insurance sector claimed more newsprint than any other and with tailor made policies, riders/add-ons, publicity campaigns etc the interest has caught up considerably. The awareness building exercise undertaken by private insurers has paid off.

**Outreach approach to all section of the countries**

**Diverse product range:** One would observe that the buyer of the insurance products also looks at them as the investment products. This is an issue of conditioning over the period of time and therefore, the customers of the insurance products are both the customers of the risk protection and the investment products. That leads to the insurance sector competing with the other avenues of the investment including banks,
financial institutions and investment companies. The structure of the players in different opportunity zones is also changing on continuous basis. Corporate marriages, exchange's mergers, clearing corporations alliances, regulator's integration, globally, bear testimony to it. Convergence of the financial products is also apparent, everywhere. As an example, let us look at the securities brokers. They are no more securities brokers; they are the brokers exploring opportunities across different dimensions of the economy. Similarly, enterprises in the finance are talking about one stop shop offering all the products ranging from commodities to securities to currencies under one roof. This change in business models is necessitated by the values buried in the inter linkages of the opportunity zones, emerging from economies of scale and economies of scope. On exchanges side, more and more products are migrating to the exchanges for trading. Globally, availability of all sorts of financial products (both money market and capital market) on the exchanges is driven by the benefits like transparency, better price discovery, wider dissemination of information and large investing community. Mergers of the exchanges is adding to all these dimensions, globally.

**Boost to capital formation of the country:** The entry of new players would also expand the products offered at present by the LIC and GIC. Apart from core life insurance, fire insurance and other related product offers the new players would also offer insurance products hitherto new to the Indian consumers. For e.g. Max New York Life is planning to offer credit risk insurance. Under this policy a person can get his housing loan or car loan insured. Thus incase the person cannot repay the loan amount because of disability or death, the asset will not be impounded, because the insurance company will repay the outstanding amount. Some of the new players are also targeting new segments in the market to sell their products.

For example: IFFCO Tokyo Marine is planning to target the 35,000 odd farmers' co-operatives to sell its policies. This will create a whole new range of insurance policies for farmers. It will also introduce farmers credit and weather insurance so that the farmer need not be unduly worried in case of floods.

But primarily in most of the insurance products, especially in life insurance, the policies will range between Rs. 50,000 & one lakh as volumes lie in this segment. This is added to the fact that the Indian consumer is price sensitive.

The entry of new players could mean a lot of competition to both LIC & GIC. They would be forced to be more customer friendly. Secondly the Indian consumer will have a plethora of policies & products to choose from. It will also have a positive impact on the economy where huge funds generated by the insurance companies can be channelised for productive investments namely in infrastructure projects, social sector and other related fields. Thus the Insurance arena is the place to watch out for in the future.

**Insurance & Bond Market:** Insurance companies also play a crucial role in widening and deepening the bond market. Wider and deeper markets invariably result in better price discovery, help reduce margins, lower the cost of capital and, in turn, lead to more capital issues coming to the market. An efficient bond market also generates a critical mass of capital that, apart from making markets more sophisticated, reduces the dependence of domestic companies on the whims of foreign investors. This could become a critical factor when other channels of financial intermediation — banks and equity markets — falter or fail.

In fact, one of the major causes of the Asian crisis was the lack of mature bond markets that could absorb the shock when international banks panicked and withdrew. Once bank credit shrank and stock markets collapsed, overseas investors could not diversify into domestic bond markets even if they wanted to. The only alternative was to withdraw their capital, which they did, with devastating consequences.

- *A rapidly growing insurance sector does wonders for infrastructure*
- *Long-term savings also help widen and deepen the bond market*

## *New products in insurance sector*

**Pension Plan**
Before you enter into any financial contract, it is important that you understand what the product is, how it works, the risks involved and what a decision to buy could mean for you. It is recommended that you read the document before you purchase a policy from HDFC Standard Life Insurance Company.

**Infra structural Bonds**
Some bonds have a special provision that allows the investor to save on tax. These are termed as Tax-Saving Bonds, and are widely used by individual investors as a tax-saving tool.
Examples of such bonds are:
a) Infrastructure Bonds under Section 88 of the Income Tax Act, 1961
b) Capital Gains Bonds under Section 54EC of the Income Tax Act, 1961

**RBI Tax Relief Bonds**
Infrastructure bonds are available through issues of ICICI and IDBI, brought out in the name of ICICI Safety Bonds and IDBI Flexibonds. These provide tax-saving benefits under Section 88 of the Income Tax Act, 1961, for the investor. You can reduce your tax liability by upto Rs 16,000 per annum

For instance, the tax-saving bond from ICICI for the month of July 2001 provides two options:

a) Face value of Rs 5,000 for 3 years @ 9.00% interest payable annually.
b) Deep Discount Bonds: Carrying a face value of Rs 6,600, these bonds are available for Rs 5,000, and are issued for 3 years and 4 months, after which they are redeemed at their face value, i.e., Rs 6,600, the difference being the interest you're entitled to.

The terms for the IDBI Bonds are similar. According to the July 2001 bond issue from ICICI, the yield to investors (including tax benefits) works out to approximately 18.5 per cent per annum in the first option and approximately 16.7 per cent per annum in the second. Deep Discount Bonds are suitable for an increase in your investment. These bonds, which are sold at a discount on their face value, are redeemed at their face value on maturity of the instrument, the difference being your gain and interest on Infrastructure bonds is payable @ 9.0 per cent annually

**Infrastructure bonds**
This scheme is basically for Individuals or on behalf of minors and trusts. The minimum limit for investment in this scheme is Rs. 5000/- while the maximum limit is unlimited. The interest on this scheme is 8% compounded semi-annually. The maturity period is of six years. However after four years pre-mature withdrawal can be done .This scheme helps to avail tax benefits under the Sec 88 and 80.

**GIC**
The Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits for the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, and retired municipal employees and teachers in certain governmental units. The Group Insurance Commission is a quasi-independent state agency governed by an eleven-member commission appointed by the Governor. The GIC's mission is to provide access to quality care at a reasonable cost.

**ULIP**
A Unit linked Insurance Policy (ULIP) is one in which the customer is provided with a Life insurance cover and the premium paid is invested in either debt or equity products or a combination of the two. Every insurance company has four to five ULIPs with varying investment options, charges and conditions for withdrawals and surrender. The premiums paid for ULIPS are eligible for tax rebates under section 88 which allows a tax rebate of 20% of premiums paid for taxable income below Rs.1.5 lakh and 15% for income between Rs. 1.5 lakh and Rs.5 lakh.Proceeds from ULIPs are tax-free under section 10(10D) unlike those from a mutual fund which attract capital gains tax.

**Role of technology in Insurance Sector**
Most of the opportunities and challenges that we have discussed apply equally to existing and new insurers. It must be emphasized that the opening of the insurance market is far from a bad thing for nationalized insurers. With a strong presence, a wide network and considerable brand equity, they are in a good position to tap the very same segments profitably, while improving their product and service offerings. All insurers in a liberalized Indian market will have to address a host of other issues. They will have to:

- Leverage information technology to service large numbers of customers efficiently and bring down overheads. Technology can complement or supplement distribution channels cost-effectively. It can also help improve customer service levels considerably.

- Use data warehousing, management and mining to gauge the profitability and potential of various customer and product segments and ensure effective cross selling. Understanding the customer better will allow insurance companies to design appropriate products, determine pricing correctly and increase profitability.
- Ensure high levels of training and development not just for staff but for agents and distribution organisations. Existing organisations will have to train staff for better service and flexibility, while all companies will have to train employees to cope with new products and an intensive use of information technology.
- The importance of alliances and tie-ups means that companies will have to integrate related but separate providers into their systems to ensure seamless delivery.
- Build strong relationships with intermediaries such as agents

## *Innovation & value drivers in Insurance industry*

The new entrants would be best served by micro-level two pronged strategies.
First, is to introduce innovative products offering a right mix of flexibility/risk/return depending which will suit the appetite of the customers and the secondly they would target specific niches, which are poorly served or are not served at all.

The first prong of a new insurer's strategy could be to stimulate demand in areas that are currently not served at all. For example, Indian general insurance focuses on the manufacturing segment. However, the services sector is taking a large and growing share of India's GDP This offers immense opportunities for expansion opportunities. For example, revenue from remote processing activities in information technology is estimated at USD 50 billion in the next ten years. Insurers could respond with various liability covers.

Being the agrarian economy again there are immense opportunities for the new entrants to provide the liability and risks associated in this sector like weather insurance, rainfall insurance, cyclone insurance, crop insurance etc.

Next, the financial sector is aggressively targeting retail investors. Housing finance, auto finance, credit cards and consumer loans all offer an opportunity for insurance companies to introduce new products like creditor insurance etc. Similarly, organized sector sales of TVs, refrigerators, washing machines and audio systems in 1998 was around Rs.110 billion. Only a negligible portion of these purchases was insured. Potential buyers for most of this insurance lie in the middle class. Existing players can also profitably exploit these areas.

In case there are products, which are not serving adequately new products many of them, which are already prevalent in different markets can be customized to the Indian markets and used to expand the markets. For example life insurance products provide a good example. Life Insurance products have to compete with savings and mutual funds hence should offer various dimensions of risk/return/flexibility so they can be linked to stock market indices, inflation etc. making them more competitive and appropriate risk/return appetite for different investors at present there are no such products. Similar problems apply to pensions. For instance, pure protection products like term assurance account for up to 20% of policies sold in developed countries. In India, the figure is less than one percent because policies are inflexible. They compete with investment and savings options like mutual funds. It is imperative that they should offer comparable returns and flexibility and there is immense scope of developing pure insurance products with flexibility.

The lack of a comprehensive social security system combined with a willingness to save means that Indian demand for pension products will be large. However, current penetration is poor. Making pension products into attractive saving instruments would require only simple innovations already prevalent in other markets. For example, their returns might be tied to index-linked funds or a specific basket of equities. Buyers could be allowed to switch funds before the annuities begin and to invest different amounts at different times.

Health insurance is another segment with great potential because existing Indian products are insufficient. By the end of the GIC's Mediclaim scheme covered only 2.5 million people. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earnings through disability.

## *Conclusion*

Thus we see that a financial service institutions dealing with today's regulatory framework is the need to build an integration risk, compliance and regulatory environment. The globalization of business, the proliferation of, and dependency on, technology, and the preservation of a trusted and secure environment to facilitate financial institutions, all require financial services organizations to have in place the mechanisms to ensure sound and reliable security and privacy.