

Problems and Prospects of Social Insurance in India

VIKASH RAI, VISHAL MANDAL

Under the guidance of DR.MOHD.SHAMSHAD

School of Finance & Commerce

Galgotias University

Introduction

The fair transfer of the risk of loss from one entity to another in exchange for a payment, known as a premium, is what is meant by insurance (NCAER). A type of risk management called insurance is used to protect or hedge against the possibility of an unforeseen and contingent loss. In the economy, the insurance industry serves as a risk manager, investment activity booster, financial market stabilizer, mobilizer of funds, and financial middleman.

According to the Financial Stability Forum, insurance services are categorized into three major categories: social insurance, non-social insurance and reinsurance. The social insurance sector helps in providing risk cover, investment and tax planning for individuals; the non-social insurance industry provides a risk cover for assets. Under reinsurance, developing countries often find themselves in the position of being buyers of reinsurance (UNCTAD 2007). The development of the social insurance market is playing an increasingly substantial role within the insurance industry due to the existence of insurance-growth relationship with the increased share of the insurance sector in the financial sector (Beck and Webb, 2003).

Social insurance is civilization's partial solution to the problems that caused by death; which eliminates 'risk', substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of breadwinner. In short, social insurance is concerned with two hazards that stand across the life-path of every person: firstly, that of dying prematurely is leaving a dependent family to fend for itself, and secondly, that of living till old age without visible means of supports (LIC, website).

A well-developed social insurance sector is a boon for economic development as it provides long term funds for infrastructure development at the same time strengthening the risk taking ability of a country. Social insurers are custodians and managers of substantial investments of individuals; and policy holders need to be confident that their insurer will be able to meet its promised liabilities in the event that claims are made under a policy

Regulatory authorities therefore seek to ensure that the financial soundness and performance of social insurance companies is in sound condition. Insurance is a big opportunity in a country like India with a large population and 2 untapped potential. In this current scenario of growing customer base, one of the principal concerns underlying the regulation of the insurance companies is the need to protect the interest of and secure fair treatment to policyholders (Charumathi, 2011)

The risk absorption role of insurers promotes financial stability in the financial markets and provides a "sense of peace" to economic entities. The business world without insurance is unsustainable since risky business may not have the capacity to retain all kinds of risks in this ever changing and uncertain global economy (Ahmed et al.,

2010). Insurance companies' ability to continue to cover risk in the economy hinges on their capacity to create profit or value for their shareholders.

The economic significance and recently increasing importance of the insurance industry for financial stability requires for adoption of risk-based supervisions of its undertakings. The Insurance Regulatory and Development Authority (IRDA), the regulatory body of the Indian insurance industry, has therefore intensified its supervision, on-site examinations and off-site surveillances. All of these regulatory measures are to ensure that the financial performance of insurance companies is in sound condition.

Insurers' financial performance is influenced by both internal and external factors. Whereas internal factors focus on an insurer's-specific characteristics, the external factors concern both industry features and macroeconomic variables. The performance of insurance companies can also be appraised at the micro, meso and macro levels of the economy. The micro level refers to how firm-specific factors such as size, capital, efficiency, age, and ownership structure affect financial performance. The meso and macro levels refer to the influence of support-institutions and macroeconomic factors respectively. At the micro level, profit is the essential pre-requisite for the survival, growth and competitiveness of insurance firms and the cheapest source of funds (Buyinza et al., 2010). Without profits no insurer can attract outside capital to meet its set objectives in this ever changing and competitive globalized environment.

An Overview of the Social Insurance Industry of India

The social insurance industry in India is a rapidly growing sector, with an expected market size of \$280 billion by 2025. The industry is primarily divided into two types of insurance providers: public sector companies and private sector companies. Public sector companies are owned by the Indian government and have been in operation for several decades, while private sector companies have been allowed to operate in India since 2000, resulting in increased competition and innovation.

Social insurance is the most significant segment of the Indian insurance market, accounting for approximately 75% of the total market share. However, social insurance coverage among Indians is relatively low, covering just 3% of the population. Health insurance is the second-largest segment, followed by motor insurance. Currently, only 10% of Indians have some form of health insurance.

Pradhan Mantri Fasal Bima Yojana (PMFBY) is a crop insurance scheme launched by the Indian government in 2016, aimed at providing financial support to farmers in the event of crop damage due to natural calamities. Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) is an entitlement-based healthcare scheme launched in 2018, providing financial protection to over 107 million families.

India's insurtech market presents many opportunities for U.S. businesses looking to expand into this sector, with estimates valuing the market opportunity as high as \$339 billion. Some key trends and developments in the insurtech sector in India include the growth and innovation of insurtech companies disrupting traditional insurance models and offering new solutions to meet the evolving needs of consumers.

The Indian insurance market offers many opportunities for U.S. businesses, including joint ventures, reinsurance, technology solutions, and health insurance. The experienced U.S. Commercial Service team in India can help guide U.S. companies' market entry or expansion strategies in the Indian insurance industry.

The social insurance industry in India, particularly health insurance, is a growing market with a significant impact on the Indian economy. At \$12.86 billion, it remains a critical sector for financial protection against medical

emergencies and healthcare services. However, the overall distribution of health insurance policies in India is uneven, with only 41% of households having at least one member covered as of 2019-2021.

In terms of segments, the Indian healthcare sector includes hospitals, medical devices, equipment, clinical trials, telemedicine, and medical tourism, with health insurance as a significant part of it. The Indian healthcare delivery system is divided into public and private components, with free services offered under the public healthcare system at government facilities. However, some challenges, such as insufficient and inadequate funding, persist in the public healthcare system.

In recent years, employer-sponsored health insurance has seen progress, covering a large number of workers in the country. With the increasing prevalence of lifestyle diseases and growing medical costs, purchasing health insurance policies has become more of a necessity than a luxury. Health insurance policies offer cashless coverage, regular monitoring, and access to the best treatment facilities at networked hospitals, including coverage for critical illness and pre-existing health conditions.

The COVID-19 pandemic has led to increased awareness of health insurance coverage and its importance. Digital transformation in providing health insurance is also evident, with plans offering various digital benefits such as e-consultation, telemedicine, and online purchase of plans. Factors such as rising medical inflation, increased awareness, positive government stance on healthcare, and digital adoption in buying insurance schemes will contribute to improving health insurance penetration in India.

Moreover, the Indian government has introduced various health insurance schemes such as Ayushman Bharat and Pradhan Mantri Fasal Bima Yojana, aiming to provide financial protection and support for medical and agricultural needs. State health insurance schemes, Rashtriya Swasthya Bima Yojana, Employee State Insurance Scheme, and Central Government Health Scheme also cover a significant portion of the population.

1.2 Need of Study

There is a clear need for a study on the social insurance industry in India, given the industry's significant growth potential and the current low levels of insurance penetration in the country. With an expected market size of \$280 billion by 2025 and a CAGR of 12%-15%, the Indian insurance sector presents numerous opportunities for U.S. businesses looking to expand into new markets.

A study on the social insurance industry in India could explore various aspects, including the role of government policies and regulations, the impact of digital transformation, the demand for innovative insurance products, and the challenges faced by insurance providers. The study could also examine the potential benefits of increased insurance penetration, such as improved financial protection for individuals and businesses, greater stability in the financial sector, and increased economic growth.

In particular, a study on the social insurance industry in India could focus on the following areas:

Government policies and regulations: An analysis of the regulatory environment and the impact of government policies on the growth and development of the insurance sector.

Digital transformation: An examination of the role of technology in the insurance sector, including the use of data analytics, artificial intelligence, and blockchain.

Demand for innovative insurance products: An exploration of the demand for new insurance products, such as microinsurance, on-demand insurance, and parametric insurance.

Challenges faced by insurance providers: A study of the challenges faced by insurance providers, such as fraud, data privacy, and customer trust.

Benefits of increased insurance penetration: An analysis of the potential benefits of increased insurance penetration, such as improved financial protection, greater stability in the financial sector, and increased economic growth.

Overall, a study on the social insurance industry in India could provide valuable insights into the opportunities and challenges facing U.S. businesses looking to expand into this growing market. It could also help policymakers and industry stakeholders to identify ways to promote insurance penetration and improve financial protection for individuals and businesses in India.

Scope of Study

The study is confined to the extent of the financial soundness and performance analysis of social insurance companies in India. Neither may it hold true for other countries the same sector nor other industries in India.

The scope of a study on social insurance in India could cover various aspects of the industry, including the types of insurance schemes available, the benefits offered, and the compliance requirements for employers. For example, a study could explore the Employees' Provident Fund (EPF) scheme, which requires both the employer and employee to contribute a percentage of the employee's salary towards a retirement fund. The study could also examine the Employees' State Insurance (ESI) scheme, which provides medical care and cash benefits to employees and their families in case of sickness, maternity, or death.

In addition, a study could look at the legal and regulatory framework governing social insurance in India, including the relevant laws and regulations, the role of government agencies, and the impact of international social security agreements. The study could also examine the challenges facing the social insurance industry in India, such as low levels of coverage and the need for greater awareness and understanding of the benefits available.

A study on social insurance in India could also explore the potential impact of emerging trends and technologies, such as the use of blockchain and artificial intelligence, on the industry. Furthermore, the study could examine the role of digital platforms in increasing access to social insurance in India, particularly for informal and gig economy workers.

Overall, a study on social insurance in India could provide valuable insights into the industry's current state and potential future developments, informing policy decisions and business strategies in this critical area.

Chapter II

1. Review of the literature
2. Risk Management

Writing a Review of the Literature

Literature reviews on social insurance in India demonstrate the nation's intricate and diverse social insurance system, comprising numerous schemes and initiatives aimed at ensuring financial security and safeguarding citizens. These initiatives span various areas such as healthcare, pension for the elderly, support for disabilities, unemployment benefits, and maternity benefits, among others.

A critical challenge facing social insurance in India is the inadequate coverage and benefits offered to workers in the informal sector, a significant segment of the workforce. Research indicates that these workers often lack access to social insurance schemes, leaving them more susceptible to economic shocks and uncertainties.

Enhanced coordination and integration of social insurance schemes are deemed necessary in India, given the current fragmented and disjointed system. This becomes especially crucial in light of the country's demographic shift, which is expected to result in a rapidly aging population in the near future.

The literature also emphasizes the potential of technology and digital platforms in expanding access to social insurance in India. With the rapid growth of digitalization and e-commerce in the country, technology could play a pivotal role in improving the delivery and management of social insurance programs.

Some studies underscore the importance of raising public awareness and understanding of social insurance schemes in India. Many citizens are unaware of the benefits and rights available to them or how to access them.

Methodologically, literature reviews on social insurance in India typically involve a thorough and systematic examination of relevant academic articles, reports, and publications. These reviews aim to identify key trends, patterns, and challenges in the field, offering insights and recommendations for policymakers and practitioners.

In conclusion, literature reviews on social insurance in India reveal a multifaceted and evolving landscape, grappling with various challenges and opportunities. Despite advancements, there remains a significant need to ensure that all citizens have access to sufficient financial protection and security. also highlight the need for careful planning and support to ensure that all students have access to the necessary resources and support.

2.1 Insurance and Financial Soundness

Historically, the insurance industry has been seen as a stable and reasonably healthy part of the financial system. The insurance industry has been spared the widespread bank sector runs thanks to the lack of liquid liabilities on insurers' balance sheets, at least as compared to banks. However, recent developments in the insurance sector seem to have reinforced the sector's significance for the stability and soundness of the financial system due to closer ties between insurers and banks, which raises the possibility of contagion. Cross-ownership, credit risk transfers, and financial reinsurance are a few examples of these connections. Because financial deregulation has increased the liquidity of insurers' obligations, it has forced them to diversify into banking and asset management products, putting them at risk.

In reaction to deregulation and falling rates on fixed-interest products, insurers have also boosted their exposure to stocks and complicated risk management products. All things considered, there are a minimum of three ways in which issues arising in the insurance sector might seriously impair financial stability:

→ Certain social insurers incorporate banking-related operations into both sides of their financial statement. Since their goods are effectively utilized as deposits, there is a chance that they may have the same maturity mismatch and related issues that the banking industry does.

→ Banks and insurance businesses are more frequently linked. A connected bank's trust may be damaged by an insurer's failure, which might spread across the financial system. An rising percentage of credit risk is underwritten by the insurance sector, and their collapse might have a direct impact on the caliber of bank assets.

→ In the insurance sector, reinsurers play a crucial role for both non-social and social businesses. In addition to providing capacity to the main market, reinsurers play a major role in absorbing the volatility in underwriting results and peak exposures to natural disasters. They provide insurers with quasi-capital, in essence. A big reinsurer failing may quickly spread to the insurers, and a number of insurers failing at once could probably cause a major disruption to the financial markets and banking system.

Although the contagion effects from failures of insurance companies may not be as virulent as in the case of banks, they have significant potential to disrupt the financial system and negatively impact the real economy (IMF Working Paper, 2003)

2.2 Insurance and Risk Management

The rational creation and execution of a strategy to address prospective losses is known as risk management (Dorfman, 2002). According to Regda (2004), risk management is a procedure that determines the loss exposures that a company faces and the best ways to address those exposures. It is important to distinguish between risk and insurance management. Beyond insurance, risk management is far more comprehensive and covers all methods of handling loss exposures. According to Ward and Zurbruegg (2000), insurance helps the market for pricey goods like vehicles operate by providing risk transfer and indemnity services to those who are afraid of taking on risk. This incentivizes those who may not have otherwise made purchases to do so. Consequently, positive externalities are produced by insurance in terms of higher sales, earnings, and employment in the insurance industry as well as outside of it. Moreover, insurance encourages innovation in an economy by providing the underwriting of novel risks. According to Diacon et al. (2005), insurance plays a crucial part in risk management. The authors address it as a means of delivering qualitative economic value, highlighting two of its features:

- a) risk-based pricing
- b) risk transfer.
- c) Law on tort liability is supported by insurance.
- d) The insurers' investment role.
- f) Risk management guidance.

Works by Pooling Risk

In its most basic form, insurance is a contract that the insurers agree to pay the policyholders a predetermined sum in the case of a certain loss in exchange for the policyholders paying a premium. As a result, insurance firms take on risk when they accept or underwrite a policy in exchange for a premium. As a result, the definition of insurance

may be described as a cooperative method of distributing the loss resulting from a certain risk among several individuals who consent to insure themselves against the risk (Bodla et al., 2003). The premium that a policyholder pays individually is added to an insurance pool that the insurers can use. The insurer takes into account the anticipated losses across the insurance pool as well as the room for flexibility. The goal is to charge enough in premiums—13 total—to cover the whole estimated amount of claims paid to the insurance pool. This entails striking a balance among a variety of intricate parameters (Anderson and Brown, 2005).

Helps to manage risk

The industry's major contribution is risk management. Most economic activity are accompanied by risk and uncertainty. Most investments include the acquisition of assets, which also entails the acquisition of risk. Particularly physical assets might sustain unforeseen, expensive harm. Particularly as catalysts for economic expansion, new ventures usually come with even more risk. Many people would rather avoid or reduce danger because they are risk averse. If at all possible, even entrepreneurs starting new enterprises would rather minimize risk in areas outside their control. Risk management problems are often solved by insurance.

This is recognized by several writers as a key contribution: ..The ability to transfer risks, or insurance in its broadest definition, enables people to take on risks that they otherwise would not be able to. The essential market function of assigning and pricing risk is fulfilled by insurance. (1970, Arrow). Effective risk pricing and transfer to the most capable parties plays a major role in economic growth and resource allocation. Furthermore, a lot of economic activity would simply not occur in the absence of a dependable system for sharing and transferring that risk (Costello, 2004). ..An economy may be made more innovative by using insurance to underwrite new risks. (Zurbruegg and Ward, 2000) Three methods are available to insurers to facilitate more effective risk management:

- a) Risk pricing;
- b) Risk transformation; and
- c) Risk pooling and risk reduction.

In the course of their work, insurers assess prospective losses; the bigger the risk of loss, the higher the cost of insurance. Policyholders can learn about the effects of their actions from the insurers' pricing of risks, which helps to ensure that resources are allocated as efficiently as possible (Webb, 2000). 14 Through insurance, people can shift their risk to insurers, changing the risk profile of the insured. An essential method of shifting risk from people who are afraid of taking risks to businesses that are experienced in assessing and managing risk is through insurance. As experts in risk information and risk management, insurance firms are essential (ACCC, 2002). Insurance companies are more than just businesses with a focus on risk.

Rather, they are experts in measuring, tracking, and most importantly, managing risk in a world of informational asymmetry. Insurance companies are able to handle challenges like moral hazard and adverse selection because of this competence (ACCC, 2002). The capacity of insurers to transfer risk makes it easier to buy important things like cars and real estate.

Consequently, having insurance can result in "positive externalities" such as higher sales, earnings, and employment. These originate from both inside and beyond the insurance industry (Ward and Zurbruegg, 2000).

As mentioned previously, insurers control risks by pooling risks or indemnify people against losses. There are other advantages to aggregation. Insurance firms are better able to forecast the chance of an event occurring when they

insure a big group of people with comparable risks. This is predicated on the rule of large numbers, which says that while individual occurrences may be random and highly unpredictable, the average result of several related events can be determined with more ease than the result of a single, exceptional event. The insurer's portfolio is more steady and predictable the larger the number of policyholders. This may result in less volatility, which would allow insurers to retain more stable rates and charge lower risk premiums (Starr and Robinson, 2000).

The Role of Insurance in Economic Growth and Development.

Insurance businesses are financial intermediaries, much as banks and capital markets. Therefore, it is insufficient to see the insurance industry as merely a pass-through mechanism for risk diversification, wherein the money received from numerous policyholders is used to pay the unfortunate few who experience losses. In almost every industrialized and emerging nation, insurance is a significant and expanding segment of the financial system (Das et al., 2003).

Through risk transfer and savings mobilization, a robust and well-regulated insurance sector can greatly support economic development and effective resource allocation. Furthermore, it can improve the efficiency of the financial system by 28 lowering transaction costs, generating liquidity, and enabling economies of scale in investment. (Bodla and others, 2003) In their examination of the shaky correlation between the expansion of the insurance sector and economic advancement, Ward and Zurbruegg (2000) acknowledge that national laws, cultural norms, and economic systems all influence the financial advantages of insurance. Moreover, they contend that a country-by-country analysis of the interactions between insurance and economic expansion is necessary. The study is significant because, in contrast to the existing data about the significance of banks—which is exemplified by the work of Levine and Zervos (1998) little is known about Insurance.

The study of Outreville (1990, 1996) is noteworthy for pointing out connections between the growth of the insurance market and the financial development of a country. Patrick (1966) examines how financial development may either be driven by demand via an expansion in the economy or supply through an expansion in the financial sector. Although a number of studies have demonstrated that financial development has a significant role in determining a nation's economic growth, little is known about the indirect link that exists between the expansion of the insurance market and macroeconomic growth. Scholars have noted that it is crucial to account for the sporadic linkages to variations in size and direction among nations (see, for instance, Arestis and Demetriades (1997), Demetriades and Hussain (1996), and Pesaran et al., (2002)). Assessing the "heterogeneity" of the data is essential. role of insurance in the economy across different countries.

In a similar vein, Outreville (1990) examined the role that insurance plays economically in emerging nations. He finds that there is a positive but non-linear link between GDP per capita and general insurance premiums per capita after comparing 45 industrialized and developing nations. While there is no denying the positive correlation between insurance and economic growth, it is uncertain which way the two are causally related. Studies conducted by Ward and Zurbruegg (2000) indicate that the insurance sector contributes significantly to economic growth in some nations. According to Beenstock et al. (1986) and Browne and Kim (1993), the demand for social insurance is influenced by the state's role in providing insurance services since the age dependence ratio and education level are likely to differ across countries.

Hofstede (1995) asserts that the degree of insurance in an economy is contingent upon national culture and people's inclination to utilize insurance contracts as a risk management tool. The finding of heterogeneity is likely to depend

on the cultural background of a particular economy, as confirmed by Fukuyama (1995). When activities are often viewed as dangerous and risks are best managed through insurance contracts rather than alternative risk transfer methods, insurance will provide significant economic advantages. Fukuyama makes the connection between the degree of confidence in the economy and these cultural variations in this setting.

Others (see, for instance, Skipper Jr., 2000) emphasize how insurance helps businesses and individuals manage risk and how it promotes economic growth. Webb (2000) looked at the process by which banking and insurance work together to promote economic expansion. Webb (2000) investigated whether the addition of banking and insurance to pre-existing models could account for economic development. The contribution of a nation's financial market to economic success increases with its level of development and efficiency. According to Skipper (2000), insurance is a straightforward pass-through method for risk diversification and indemnity. He emphasizes the role that insurance plays in fostering prosperity and expanding economic possibilities.

However, the economic literature has not adequately acknowledged or investigated the contribution that insurance makes to the process of economic growth. According to Indian writers Shrivastava and Shrivastava (2002), there is a lack of tangible connections between insurance services and economic development, while the importance of other services—such as banking, transportation, communication, public administration, and defense—in boosting an economy's gross domestic product has been adequately noted. It is essential to grasp the notion of insurance and, more crucially, economic growth, since the latter has experienced a paradigm change, in order to comprehend the link between the two.

On the other hand, there has never been any uncertainty or disagreement over the concept of insurance. A contract between an insurer and an insured party that provides indemnity for the insured party's loss against specified risks for which the insured party has paid a mutually agreed-upon premium is known as insurance. The time range during which the insurance will cover the damages is specified in the contract. In defining the term "insurance," Samuel (2001) makes reference to the two major schools of thought on the topic:

- (i) Pooling school
- (ii) Transfer school

As per Transfer School, "insurance is a mechanism for mitigating uncertainty for one party, known as the insured, by means of the transfer of specific risks to another party, known as the insured, who provides a partial or complete restoration of the economic losses incurred by the insured" (Irving, 1956). However, as stated by Pooling School, "the essence of insurance lies in the elimination of risk or uncertainty."

Defining Effectiveness in Insurance Markets

The primary standard for a statistic on effectiveness is how well the insurer streamlines the insurance procedure. How well an insurance business helps to lower the negative aspects of risk will depend on a number of factors, including how swiftly, inexpensively, easily, and dependably it administers its policies.

The literature on the topic of insurance efficacy as it has been defined above is few. Studies conducted inside an industry on deep insurance markets, like those in the U.S. or Europe, typically concentrate on economic efficiency or profitability, which are ideas that are directly related to the firm's microeconomic theory.

Because these studies are geared toward the research agenda of highly developed insurance markets, where profit maximization and competition are far more pertinent than improving the foundation for a market that presumably should already be working, the search for variables and factors that capture insurance market effectiveness is completely absent from these studies.

For example, Diacon et al. (2002) focus on the efficiency of an insurer, or its capacity to employ inputs like financial resources and sales and administrative personnel to create a certain set of outputs (such premiums and investment outcome). "Given the existing state of production technology in the industry, an insurer is considered to be technically efficient if it cannot cut its resource utilization without some commensurate drop in outputs." Similar to Cummins and Weiss (1998), they concentrate on a Pareto frontier of economic efficiency, which is attained by an insurer upon reaching cost efficiency, or the mix of inputs that maximizes production (technical efficiency) and minimizes costs (allocative efficiency). Some studies prefer to assess firm performance instead of insurer efficiency.

For example, Mayers and Smith (1992) use an operational income variable (defined as income before taxes and payouts to policyholders) along with yearly increase in premiums to avoid some of the subjectivity associated with profits reported by long-term insurance. Other studies have used growth in assets (Ingham and Thompson, 1995), return on assets (O'Hara, 1981; Genetay, 1999), growth in premiums (Armitage and Krick, 1994), and executive compensation/emoluments (Brickley and James, 1987; Field, 1988; Kroll et al., 1993; Mayers et al., 1997) as proxies of performance.

Relevant Factors for Insurance Development.

Many attempts have been made to connect the growth of the insurance and financial markets with certain factors (e.g., the legal system, governance, enforcement, institutional characteristics). Swiss Re (2004) has mostly examined these aspects from the perspective of commercial prospects. The GDP per capita and the amount of savings are two elements that influence the expansion of insurance; both parameters also benefit from the existence of insurance contracts. According to Enz's 2000 analysis of the relationship between GDP and insurance demand, the penetration of insurance is restricted by further 20 supply and demand factors, such as taxes, regulation, and government-provided insurance.

Swiss Re (2004) states that the distribution of wealth, property rights and legal systems, the availability of insurance products, regulation and supervision, trust, and risk awareness are all significant determinants of the expansion of the insurance industry. The evolution of insurance is also influenced by other non-economic variables, such as education, culture, and religion. Particular elements are distinguished between non-life and life insurance. Regarding non-life insurance, the public sector's involvement in health, claim awards, exposure to natural catastrophes, and regulations (such as mandatory insurance). The factors that affect life insurance include: demographics, the tax system, the savings rate, the pension system, and economic stability (such as inflation and currency rates).

Factors impacting the need for insurance. (Source: Transition and Prospects in the Indian Insurance Industry, 2002)

Broad Factors:

- ⌘ Economic
- ⌘ growth
- ⌘ Products offered
- ⌘ Wealth and Income of distribution
- ⌘ Distribution Channels
- ⌘ Religion, culture
- ⌘ Risk Awareness
- ⌘ Education
- ⌘ Insurance Regulation
- ⌘ Property rights; legal certainty

The insurance industry may have market failures from a number of different causes. The majority of theoretical studies on insurance have concentrated on the issues surrounding moral hazard and adverse selection in the insurance industry. According to Rothschild and Stiglitz (1976), asymmetric information between the insurer and the policyholder prevents the creation of an effective contract when the buyers have different accident probability, which is private knowledge to the buyer. However, there is conflicting empirical data about asymmetric information in insurance markets. In the property-causality, life, and health insurance markets, asymmetric information has not been found in any of the recent empirical research. The U.S. life insurance market is studied by Cawley and Philipson (1999); the U.S. health care system is studied by Cardon and Hendel (2001). who study the French automobile insurance market.

On the other hand, Cohen (2001) provides some evidence for adverse selection in the 21 U.S. automotive insurance markets, while Cutler (2002) examines a significant body of research that finds evidence in favor of asymmetric information in the health insurance market. The question of whether asymmetric knowledge is a realistically significant aspect of insurance markets is raised by these contradictory findings.

Divergent opinions about the necessity of capital adequacy oversight and regulation in the insurance industry may be found in the literature. Asymmetric information in insurance is less severe than in banking, according to proponents of a free insurance market without regulation, supervision, or capital sufficiency. They also contend that the costs associated with an insurance company's crisis or failure are lower than those of bank failures. In their thorough discussion of the subject, Rees and Kessner (1999) argue in favor of a free insurance market, drawing on a comparison of the highly regulated German insurance market and the uncontrolled U.K. insurance market. They contend that since purchasers are always willing to pay for an insurer who pledges solvency, sufficient capital is never at risk in the event of insolvency.

As a result, insurers make efficient decisions about their economic capital, and regulations may force the market to bear deadweight loss. They make the premise that customers are fully aware of the risk of insolvency in support of their thesis. According to empirical evidence, Klemperer and Meyer (1985) challenge the dominance of the unregulated insurance market in the United Kingdom and the idea that insurance failures (referring to company failures between 1986 and 1999) are more severe than losses of other financial institutions. They also remove the

important assumption of consumer information, namely that consumers can fully understand the solvency risk and that consumers have the ability to use relevant information.

In reality, worldwide insurance markets are regulated and overseen, in spite of the justifications for a free and unrestricted market. Nonetheless, the justification for loose regulation and oversight in the insurance industry is stronger than it is in the banking industry. This distinction stems from the fact that insurance does not require liquidity (i.e., to cover depositor withdrawals that may trigger bank runs and so-called contagion). Furthermore, the insurance industry can use reinsurance to spread the risks in its portfolio.

Chapter III

1. Research Methodology

2. Objectives

Research Questions

1. What are the key factors influencing the effectiveness of social insurance programs in providing financial security to individuals and families?
2. How do different social insurance models around the world impact economic inequality and social welfare?
3. What are the main challenges faced by social insurance systems in adapting to demographic changes, such as aging populations?
4. How do cultural differences impact the design and implementation of social insurance programs?
5. What role does technological innovation play in improving the efficiency and accessibility of social insurance services?

Objectives

The specific objectives which derived from the general objective are:

- a. To evaluate the financial soundness and performance of social insurers in India
- b. To make comparative statistical analysis of the financial soundness and performance for the public and private social insurance companies.
- c. To scan the insurance regulatory and supervisory benchmarks in light of parameters;
- d. To evaluate performance and development of social insurance sector via indicators viz., Penetration and Density; and an attempt to draw dependable conclusions and offer sound suggestions for the improvement of the social insurers.

Research Approach

Social insurance is a type of benefit that is offered by the government or through commercial insurance subsidies. It offers protection against economic hazards. The Employees' Provident Fund Organization (EPFO), which offers benefits including pensions, insurance, and housing to workers in the organized sector, is one of India's social insurance schemes. The informal sector employs a sizable fraction of the Indian labor force, which makes it difficult to increase the country's social insurance coverage. The challenges of extending India's social insurance program to unorganized laborers have been studied. These obstacles include the belief that social insurance is exclusively available to those employed in the formal sector, the inability to contact informal workers, and a lack of knowledge about social insurance programs. Among the

methods to get beyond these obstacles is to use technology to reach informal workers, giving employers incentives to sign up staff members for social insurance programs, and raising knowledge of the advantages of social insurance.

Additionally, qualitative research has been done to comprehend the viewpoints and experiences of those participating in social insurance in India. Interviews with representatives of the government, business owners, labor unions, and civil society organizations are included. The results of this study might provide light on the difficulties and possibilities associated with increasing social insurance coverage in India. Research has looked at the obstacles to increasing social insurance coverage as well as how social insurance affects income inequality and poverty reduction in India. Social insurance can act as a safety net for employees and their families, lessening the likelihood that they will experience financial shocks. However, there's a chance that some workers won't be covered by social insurance due to coverage gaps and unequal distribution of benefits.

All things considered, earlier studies on social insurance in India have shed important light on the difficulties and prospects associated with raising the country's social insurance coverage. A thorough grasp of this subject may be attained via the use of mixed methods research techniques that incorporate both qualitative and quantitative data.

Research Design

A social insurance study design need to be thorough and diverse. A comprehensive analysis of the body of research on social insurance programs—their development, use, and effects on different populations—should be part of it. The choice of an acceptable research technique and a clear description of the study questions and objectives should also be part of the research design.

Both qualitative and quantitative techniques, such as surveys, interviews, and administrative data analysis, should be used in data collecting.

Random sampling should be used, and the sample size should be chosen in accordance with the study's resources and intended level of precision.

The study's ethical implications, such as those pertaining to informed consent, confidentiality, and possible damage, should be taken into account in the research design to participant.

It should also contain a strategy for informing pertinent parties—like practitioners, legislators, and the general public—about the findings.

In general, a social insurance study design ought to be transparent, rigorous, and centered on advancing financial security and social wellbeing for all societal members.

Hypothesis Framed

To achieve the objectives, the study tested the following null hypotheses:

H01: Effectiveness: Social insurance plans with different levels of coverage do not significantly differ in terms of the financial security they offer to individuals and families.

H02: Impact on Inequality: The results of social welfare and economic inequality are not significantly different in nations with various social insurance systems.

H03: Adaptation to Demographic Changes: With an aging population, for example, social insurance systems do not confront many substantial obstacles in this area.

H04: Cultural Impact: The development and execution of social insurance schemes are not greatly impacted by cultural differences.

H05: Technological Innovation: The effectiveness and accessibility of social insurance services are not appreciably enhanced by technological innovation.

Research Methodology

Assessing financial soundness and performance of individual insurers as well as insurance sector as a whole is a complex task. The essential undertaking is to explore the risks to which insurers are exposed and their ability to endure them. The overall financial position of an insurance company depends on many factors, some of which are difficult to quantify, including the quality of its management, organizational structure and system and controls in place. An assessment of financial soundness thus needs to take into account both quantitative and qualitative indicators to achieve an acceptable degree of reliability.

Therefore, we employed two models in this study to assess the financial soundness and performances of social insurance companies in India. Employed model, as an indicator of financial soundness of social insurers while the Insurance Penetration, Density and Market Share (IPDMS) proxy to Gross Written Premiums (GWP) as a measure of performance and development of social insurance business in India. In addition to the ratio analysis, the parameters were tested statistically with the help of statistical tools, viz., Independent Samples T test or/and Mann-Whitney test.

It has taken seven registered social insurance companies¹ in India through employing purposive sampling so as to include majority which represents more than 87 per cent of market share of the total social insurance business premiums. The study span is of five financial years from 2008-09 to 2012-13 respectively.

Both primary and secondary data sources were used for this study. The collection of primary data has been done through consultation of industry experts and field visits. The required secondary data were drawn from relevant earlier studies, public disclosures and annual reports of the respective insurance companies, regulatory authorities and Insurance Information Bureau (IIB) which is working as comprehensive database for all insurance companies.

The paper is primarily base on quantitative research; for purpose, social insurers categorized into peer and industry so as to produce representation hence computed its peer and industry average² via employing SPSS software, based up on, comparison of private and public (i.e. LIC) sector soundness and performance was examined. Then firstly, evaluated the financial soundness and performances based on the framework which had proposed by Das, Davies and 1 One public and 23-private social insurers currently operating in India 2 'Peer' includes only private insurers under review whereas 'Industry' compiles all including the LIC. 8 Podpiera (2003)³ later duly was endorsed by IMF and WB for adoption of regulatory and supervisory body as an individual parameter.

This framework is analogous to the CAMEL framework for the banking sector. Besides, finally the performance and development of social insurance business in India was examined via employing the indicators, viz., the Insurance Penetration, Density and Market Share (IPDMS); capital adequacy, asset quality, reinsurance & actuarial issues, management soundness/efficiency, earnings & profitability, and liquidity were selected to be included as explanatory variables in this study.

Random Sampling

In research studies on Social Insurance, researchers often use different sampling techniques to select participants for their studies. One simple method is random sampling, where participants are selected randomly from a larger population of individuals who meet the study's criteria. The choice of sampling technique depends on the research question, population of interest, and available resources. It is important for researchers to carefully consider the strengths and limitations of each method before selecting the most appropriate sampling technique for their study.

Sample Size

I have collected the responses from 100 people's, who have social insurance. Whole research and interpretation done is based on their responses only.

Example

To study the awareness and perceptions of social insurance schemes among informal sector workers in a specific city, we follow these steps:

1. Define the target group: Identify informal sector workers in the city as our target group.
2. Determine the sample size: Decide on the number of workers we want to survey. For example, if we choose 100 workers, ensure it's a representative sample size.
3. Create a list of potential participants: Compile a list of informal sector workers in the city. This list could be based on official records, community organizations, or other relevant sources.
4. Randomly select participants: Use a random selection method to choose participants from your list. This ensures that each worker has an equal chance of being selected.
5. Conduct the survey: Administer your survey to the selected participants. You can use various methods such as face-to-face interviews, phone surveys, or online questionnaires.
6. Analyse the data: After collecting the survey responses, analyze the data to understand the awareness and perceptions of social insurance schemes among informal sector workers in the city.

Chapter IV

1. Data Analysis & Interpretation
2. Limitations

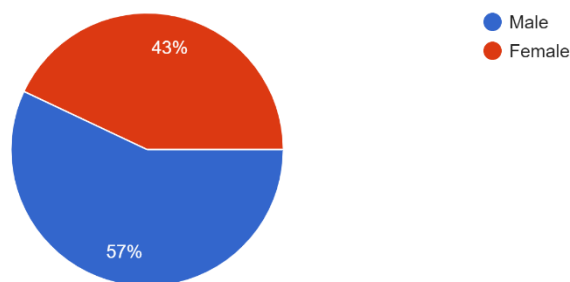
Result Analysis

The result analysis of a Problems and prospects of social Insurance in India should aim to provide an in-depth understanding of the research questions and objectives. It should be presented in a clear and concise manner and include both descriptive and inferential statistics, as well as qualitative findings.

Interpretation based on responses

GENDER:

Gender
100 responses



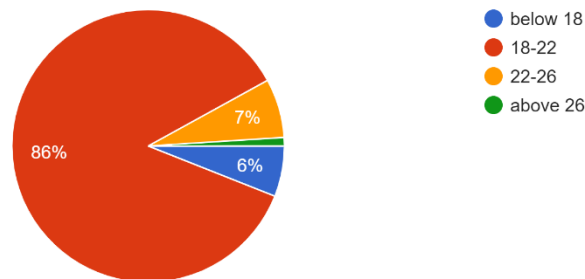
INTERPRETATION

100 responses have been collected from the students out of which 43% are females and 57% are males. Hence, more males have responded to the questionnaire.

AGE:

Age

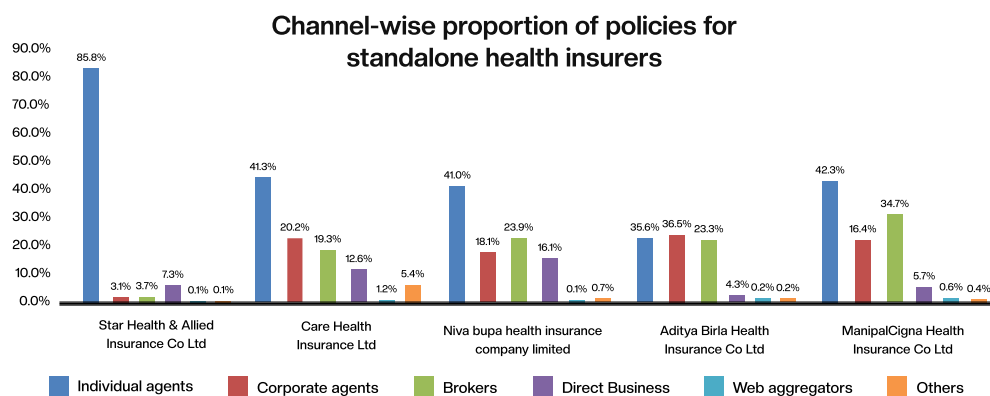
100 responses



INTERPRETATION:

100 responses have been collected from the People's out of which 86% are of 18-22 ages, 7% are of 22-26 ages, 6% are below 18 ages and 1% are of above 26 ages.

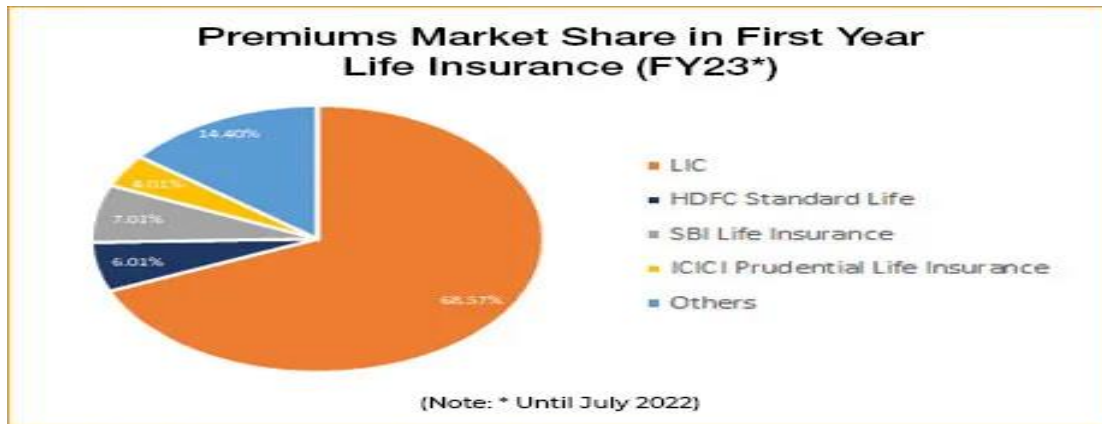
Interim presentation and channel wise proportion.



INTERPRETATION:

From 100 responses collected from the People's, according to 90% respondent satisfied with the individuals and the rests are average ratios for corporate agents, brokers, direct business, web aggregators, and others.

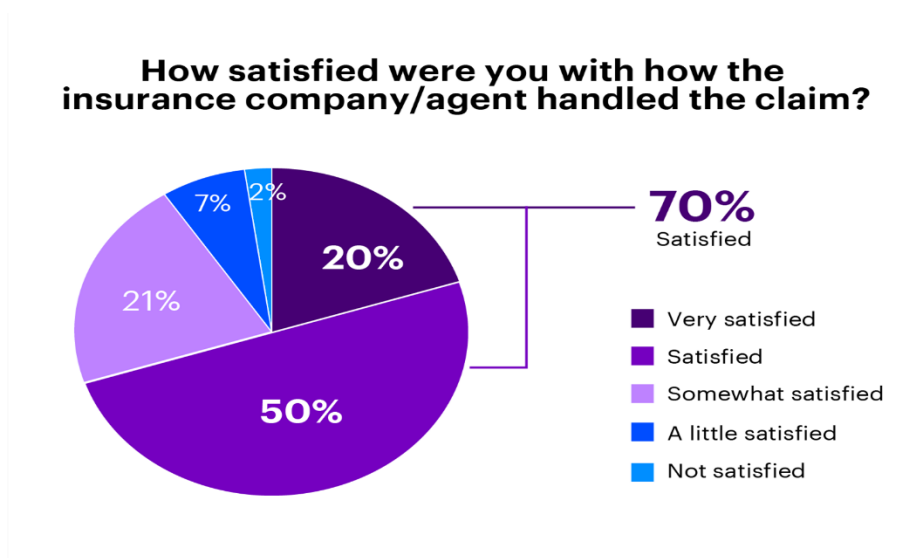
Market share of Social Insurance in Financial Year 2023.



INTERPRETATION:

From 100 responses collected from the People's, out of which 68% is satisfied with this LIC, 6.01% maybe satisfied with HDFC and 14.40% is other Category.

How satisfied were you with the quality of the Social Insurance.

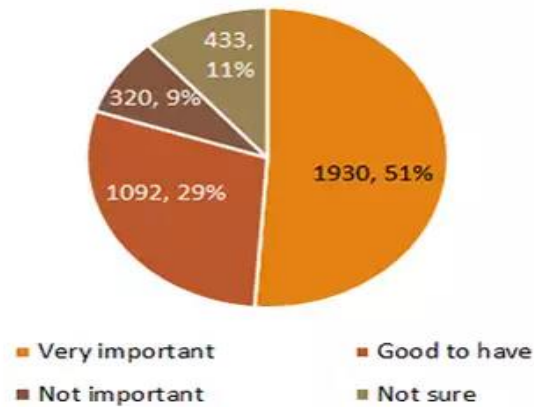


INTERPRETATION:

From 100 responses collected from the People's, out of which 50% respondent very satisfied and 21% somewhat satisfied with this statement and 2% are not satisfied with the quality of the social insurance.

Do you think that after COVID-19 impact your ability to assure social insurance ?

Contemporary Perception about Insurance

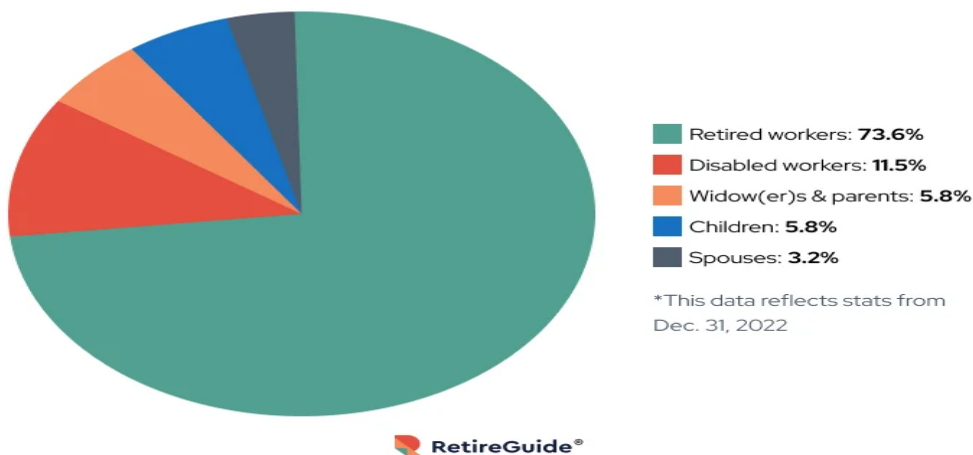


INTERPRETATION:

From 100 responses collected from the students out of which 51% are satisfied with a statement that covid19 impact our ability to assure social insurance.

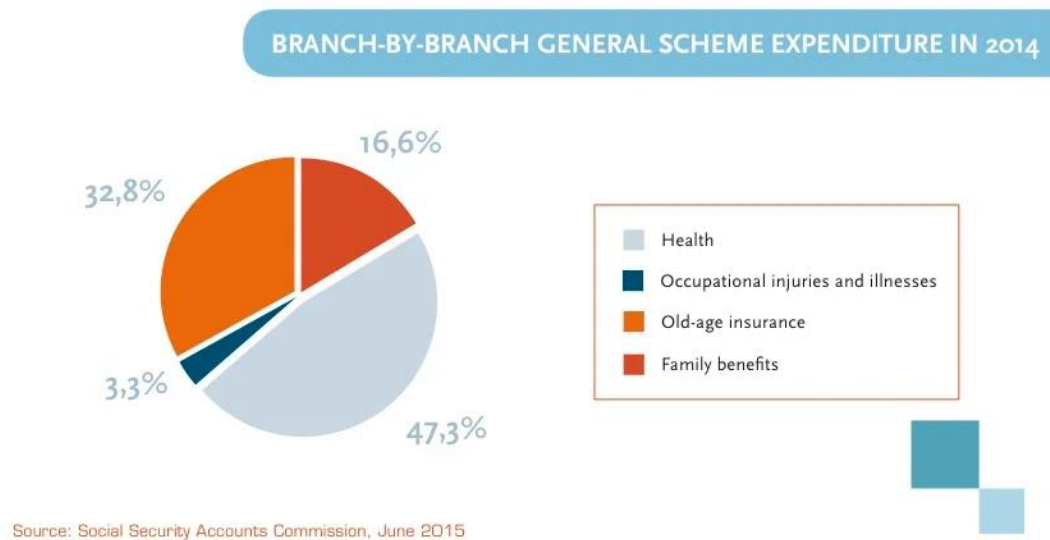
Do you think social security have most number of corporate people's?

Social Security Beneficiaries by Type



INTERPRETATION:

From 100 responses collected from the people's out of which 73.6% respondent Retired workers are most numbers of social insurers and spouses have least number of social insurers.

Do you know which sector have the highest scheme in social insurance?**INTERPRETATION:**

From 100 responses collected from the respondents out of which 47.3% respondent think that Health scheme has highest and occupational injuries and illness has the least with 3.3% .

Limitation of the Study

A study on social insurance in India might face limitations due to data availability and quality. The data from various government agencies administering these programs may be difficult to access or incomplete. Additionally, the data collection methods may vary, affecting the accuracy and comparability of the data.

Another limitation could be the generalizability of the findings. Social insurance programs vary across states and regions in India, so findings from one study may not apply to other areas. Also, the study population may not represent all social insurance beneficiaries, limiting the generalizability of the results.

Confounding variables pose another challenge. Social insurance programs are linked to factors like healthcare access, education, and income, making it difficult to isolate their effects. This can lead to biased or inaccurate results.

Selection bias is also a concern. Social insurance programs might attract individuals who are more health-conscious or have higher education levels, affecting the outcomes studied. Accounting for these biases can be challenging, leading to skewed results.

Finally, reverse causality is a potential limitation. Social insurance programs might be adopted by individuals already experiencing health issues, making it hard to determine causality. This can result in biased or inaccurate findings.

Chapter V

1. Conclusion and Suggestions

Conclusion and Suggestions

Conclusion:

The objective of this study was to examine the financial soundness and performance of social insurance companies in India, based on regulatory and supervisory parameters and standards; thereby to ensure the prudence of the sector. Accordingly, the study was delved into the financial soundness and performance of social insurance companies in India through an in-depth analysis of the soundness indicators and performance measures via employing corresponding two frameworks. These parameters capture the key operations of social insurers. Typically, the overall financial soundness and performance is a summation of the adequate risk management & sound inbuilt control system, and effective & efficient business underwritings.

The comparative statistical analysis of financial soundness and performance of public and private social insurance companies' results reveal that there was a significance difference between capital adequacy, asset quality, management efficiency, earnings & profitability and liquidity positions in private and public social insurance companies. This study does not find enough evidence for difference between the ROA and the New Business Premiums (NBP) in private and public social insurance companies.

The Data analysis reveal that; the Indian social insurance companies have been satisfactorily financially sound by and large. However, the researcher observed strange weaknesses and believes it's due to the sector has given the excessive attention on marketing divisions to grow premiums without a proportionate earmarking of resources towards the risk management of their investment portfolios. Therefore, the following points needs to be taken care of seriously since the complexity has been increasing in response to the deregulations.

- Absence Risk-Based Supervision (RBS) approach thereby lack of internally prescribed benchmarks for the financial soundness indicators;
- Inadequate reinsurance coverage, i.e. high-risk retention and low survival ratios, indicates as the moderate risk management environment prevails in the sector;
- Relative inadequate capital position of LIC against private players; and
- High underwriting expenses to Gross Written Premium (GWP)

Suggestions:

We came to know that the regulatory has constituted a committee for finalization of the road map for shifting to Risk-Based Solvency approach for insurance industry. The intention of the IRDA to adopt a risk-based approach in its supervision is not only timely but a very significant move that will improve and enable to early identification of emerging risks, efficient use of resources through a sharper focus on risk of the industry as well as the governance and risk management structures of the sector.

Therefore, we look forward to that the weakness identified would be addressed within the RBS framework i.e. will put in place the risk-based parameters and thresholds for components further hoping that the authority will adopt risk-based supervision as integrated with approach. Furthermore, we motivated to leave one more view; the authority thereby shall develop the Risk Management Guideline (RMG) for social insurers in returns seek Risk Management Program (RMP) from the sector.

The social insurers shall be advised to earmark proportionate resources to risk management in respect of their business volume taken. It will also be necessary for the companies to properly re-capitalize in order for them to take on large businesses without compromising their solvency state. Adequately capitalized insurance companies are not only able to address regulatory capital needs but can have additional funds for investment to generate profits.

Also, well capitalized insurers are able to increase their underwriting profits through the underwriting of large capital-intensive investments such as investments in the oil and gas industry and real estate.

Chapter VI

- **References**
- **Questionnaire**

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Questionnaire on Social Insurance

1.What is the primary goal of social insurance in India?

- a. To offer financial assistance to senior citizens
- b. To provide financial support to those without jobs
- c. To provide medical assistance to the ill
- d. All of the above

2.Which of these is a form of social insurance in India?

- a. Employees' Provident Fund
- b. Employees' State Insurance
- c. National Pension System
- d. All of the above

3.Who qualifies for the Employees' Provident Fund in India?

- a. All workers with a fixed salary

- b. Workers earning less than INR 15,000 per month
- c. Workers earning over INR 15,000 per month
- d. None of the above

4. Who administers the Employees' State Insurance in India?

- a. Central Government
- b. State Government
- c. Employees' State Insurance Corporation
- d. None of the above

5. What are the benefits provided by Employees' State Insurance in India?

- a. Medical care
- b. Sickness benefits
- c. Maternity benefits
- d. All of the above

6. What is the contribution rate for Employees' Provident Fund in India?

- a. 12% of basic salary
- b. 10% of basic salary
- c. 8% of basic salary
- d. 6% of basic salary

7. Who is in charge of appointing auditors in government companies in India?

- a. Board of Directors
- b. Central Government
- c. Comptroller and Auditor General of India
- d. None of the above

8. Who appoints auditors in statutory corporations in India?

- a. Board of Directors

- b. Central Government
- c. Comptroller and Auditor General of India
- d. None of the above

9.What is a limitation of a study on social insurance in India?

- a. Lack of data
- b. Limited scope
- c. Limited generalizability
- d. All of the above

10.What is a method used in data analysis and interpretation on social insurance in India?

- a. Descriptive statistics
- b. Inferential statistics
- c. Content analysis
- d. All of the above

11.What type of social insurance in India is available for informal sector workers?

- a. National Pension System
- b. Atal Pension Yojana
- c. Pradhan Mantri Suraksha Bima Yojana
- d. Pradhan Mantri Jeevan Jyoti Bima Yojana

12.What benefit does Atal Pension Yojana in India provide?

- a. Monthly pension
- b. Lump sum payment
- c. Both a and b
- d. None of the above

13.What form of social insurance in India is for rural workers?

- a. National Rural Employment Guarantee Scheme

- b. National Health Protection Scheme
- c. National Pension System
- d. None of the above

14. What benefit is provided under the National Health Protection Scheme in India?

- a. Cashless hospitalization
- b. Reimbursement of medical expenses
- c. Both a and b
- d. None of the above

15. What type of social insurance in India is for urban workers?

- a. National Urban Employment Guarantee Scheme
- b. National Health Protection Scheme
- c. National Pension System
- d. None of the above