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Role of GIC Re in Indian Re-insurance Industry-An Outlook

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Abstract: *Men and business organizations face risk due to uncertainty that surrounds them. No individual or business enterprise can bear this risk all alone. As a tool of risk management; Insurance provides a shield of protection to the men and businesses and in-turn expects a shield of protection through Re-insurance. Re-insurance reduces the risk of the original insurer and enables him to expand his business. Insurance and Re-insurance are mutually supportive and supplementary to each other. Therefore, the growth of insurance sector relies on the availability of Re-insurance support. The GIC Re the one and only public Reinsurer till 2016 shouldered the responsibility of sharing the risk of Insurance Industry in India. Insurance Amendment Bill, 2015 paved a way for historical and sensational changes in the Indian Reinsurance market. This article is meant to recapitulate the role being played by the Insurance and Reinsurance as risk mitigating mechanism. This study also aimed at examining the position of GIC Re in the past and present Indian Reinsurance Landscape. It is felt that Insurance regulators need to support the GIC Re, to continue its successful story amidst the tough competition from Foreign Reinsurance Branches and cross border Insurers.*

Key Words: *Insurance, Risk Management, Re-insurance, Foreign Reinsurance Branch, Cross Border Reinsurers.*

1.INTRODUCTION:

Risk is defined as the chance of incurring loss due to occurrence of an uncertain event. Risk is of various types and has a pervasive nature and no individual or business is free from it.

Risk Management can be described as a scientific and systematic way of dealing with or handling the risks. Risk management is done by risk analysis, risk control, risk transfer, risk financing etc,. Risk management contributes the following benefits to the business organizations.

1) Achievement of business objectives under uncertain circumstances.
2) Reduction of anxiety.
3) Maintenance of good will by meeting the obligations in time.
4) Ability to Face the competition.
5) Reduction in expenses.
6) Saving of resources etc,

However no effective risk management practice can eliminate the risk completely but it helps to prevent or reduce the loss.

Role of Insurance in Risk-management

Risk is the basis of insurance. In-order to cover the losses arising due to uncertainties or risk factor every one wishes to have a shield against the losses. That very shield which provides protection against the loss is 'insurance'. Therefore any risk-bearing object needs to be insured, so as to cover unexpected losses caused by an uncertain event. In this world of uncertainties, daily we come across risks such as accident, death, floods, fire, theft etc,. Hence every common man as well as business is in hunt for such an agency / instrument which can take over their risks at some nominal cost.

Insurance can be defined as a contract of indemnity under which insurance company (insurer) agrees to pay a certain some of money to the insured to compensate the loss caused by the occurrence of an uncertain event in consideration of certain periodical payment i.e., premium.

Insurance is meant to protect the insured against uncertain events which may cause loss to him. At present in India twenty four companies have been involved in providing life insurance coverage and twenty seven companies in providing non-life insurance services and six companies in providing stand alone health insurance services. Insurance has become an important tool in managing and mitigating the risk of loss because all the life and non-life insurance companies are coming up with various policies to provide risk coverage.

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Re-insurance and its role in Risk-management

The emerged economic and social conditions as a result of liberalization and privatization of economies forced the individuals and the corporate sector to realize the need for indemnification of their losses. This realization stimulated the demand for insurance. Insurance companies dealing with life as well as non-life insurances came forward to serve the varied needs of individuals and corporate and thus making them risk-free. But the very insurance companies which are providing the risk coverage / shield against risk are not risk-free. The insurance companies have their own risk to bear. So, what makes the insurance companies as risk-free is the concept of RE-INSURANCE.

Definition: The Federation of Insurance Institute, Mumbai has defined the term Re-insurance as, 'It is an arrangement whereby an original insurer (called direct insurer) transfers a part of the risk with another insurer (called re-insurer)'.

Re-insurance is a means by which an insurance company can protect itself against the risk of losses. Therefore Re-insurance can be called as insurance of insurance. Basically both the Insurance and Re-insurance are tools of risk management, which are mutually supportive and supplementary to each other. The Insurance company which expects the risk coverage is called the 'cedent' and the Re-insurer is called the 'ceded'. The Re-insurer may transfer some of his insurance liability to another Re-insurer known as 'Retrocessionaire' and the amount of business is 'Retrocession'.

Why do insurers purchase Re-insurance? Insurance companies prefer to go for Re-insurance not only because it is mandatory, but also in their own interest, because of the role being played by Re-insurance as a Disaster-Management tool. Re-insurance helps insurers in the following ways.

1) Helps to protect their solvency by passing a part of risk to Re-insurers.
2) Helps to enhance the insurer's under-writing capacity, thus increasing the volume of business.
3) Helps to stabilize the profits by protecting insurers against a catastrophic loss.
4) Helps in reducing the liability.
5) Helps to meet the claims, as and when they arise.

Brief History of Re-Insurance in India and Evolution of GIC Re:

The idea of re-insurance system is believed to have originated in 1853 in Germany with the incorporation of Cologne Re-insurance Company. Insurance sector in India has registered a rapid growth from 1951 onwards and the increased insurance business demanded for Re-insurance protection. At that time re-insurance facility was provided by foreign markets only. In 1956, Indian Re-insurance Corporation a professional Re-insurance company was formed by General insurers operating in India and it started to receive voluntary cessions by the member insurers. . Section 101 of the Insurance (amendment) Act, 1961 made it compulsory for the insurers to get re-insured a certain percentage of their Indian insurance business with two professional Re- insurers namely Indian Re-insurance Corporation Ltd. and Indian Guarantee and General Insurance Company Ltd. General Insurance Corporation was incorporated as a private company, limited by shares on 22 November 1972 under the Companies Act. In 1972, at the time of Nationalization of General Insurance business in India, the Re-insurance powers were vested with the General Insurance Corporation. In November 2000, General Insurance Corporation was re-notified as the Indian Re-insurer (GIC Re) and then onwards it is carrying its business as the one and only Re-insurance Company in India, with its head quarters at Mumbai. W.e.f. 1 April, 2013 it became mandatory on the part of Indian Insurance Companies to cede 5 % of every policy value to GIC Re.

The Insurance Laws (Amendment) Act 2015 has accorded permission to the major Nine Reinsurance Companies to open their full pledged branch offices (Foreign Reinsurance Branches) in India and to two service companies under Lloyds India. With this historical decision, branches of International Reinsurers such as Swiss Re, Scor Re, XL catlin, Gen Re, Axa Vie, Hannover Re, RGA Life Reinsurance company of Canada and Munich Re got registered with effect from 21-12-2016.And the first ever private Reinsurance company of India ITI Reinsurance limited came into existence from 30-12-2016.

Present scenario: GIC Re has started to diversify its operations and has emerged as an important re-insurer in SAARC countries and managed to have its global footprints by expanding the operations to international level through establishing branches at London, Moscow, Dubai and Malaysia.

2. OBJECTIVES OF THE STUDY:

This study mainly aims at observing the unparallel position enjoyed by the GIC Re as a monopolist Reinsurer in India till 2016 and its position in aftermath of liberalization of Reinsurance sector. Objectives of this present explanatory research study can be summarized as:

1. To point out the importance of Insurance and Re-Insurance in Risk management.
2. To overview the position of GIC Re as a monopolist till 2016
3. To observe the change in the position of GIC Re after the entry of competitors.

3. RESEARCH METHODOLOGY:

Present study is purely based on the secondary data collected from the annual reports of IRDA, General Insurance Council, GIC Re and from the various online journals and websites. Some of the key indicators which are more appropriate and can speak about the position of the GIC Re were choosen for the purpose of the study. The selected key indicators are Gross premium, Profit after Tax (PAT) and Total Assets. These variables along with the change in them over a period of time (i.e., from the financial year 2012-13 to 2018-19) are analysed for the purpose of the study,

4. REVIEW OF LITERATURE:

Though a substantial number of studies were dealt with Insurance and Reinsurance, the studies with regard to the importance of Reinsurance in risk management and the performance of GIC Re in changed economic circumstances were not found much.

Dr.Nema &Parul Jain (2012), conducted a study with the objective of studying the growth of reinsurance sector in India and the GIC Re during the period 2005-2010.Through their study they found that GIC Re as a Reinsurer recorded a continuous growth during the study period in terms of Earned premium and profit.

Dr.Sumninder kaur Bawa and Neha verma (2017), conducted their study with the objective of evaluating the performance of GIC Re from the financial year 2006-07 to 2015-16.By employing the CARAMEL approach and Ratio Analysis on the secondary data , they discovered that GIC Re‘s performance is quite well in the past, but it needs some improvement in the combined ratio and liquidity ratio.

Bawa & Verma(2017), in their article ,'Analysing the performance of different segments of GIC Re', analysed the four major segments of the GIC Re business i.e., Fire Reinsurance, Marine Reinsurance, Life Reinsurance and Miscellaneous Reinsurance. Their study revealed that out of all the segments , Life Reinsurance segment has outdone all other segments in profitability while Fire Reinsurance segment being the least profitable one.

5. DATA ANALYSIS AND FINDINGS:

Table-1 Key Performance Indicators of GIC Re

(in crores)

Year	Gross Premium	% change	Profit after tax	% change	Total assets	% change
2012-13	15,086	---	2345	---	59,940	---
2013-14	14,680	(2.7)	2253	(3.9)	66,992	11.8
2014-15	15,183	3.4	2693	19.5	78,093	16.6
2015-16	18,435	21.4	2848	5.76	79,732	2.10
2016-17	33,585	82.2	3127	9.80	94,949	19.1
2017-18	41,799	24.5	3233	3.39	1,09,672	15.5
2018-19	44,238	5.84	2224	(31.2)	1,18,884	8.4

Source: GIC Re website

The above table shows the Gross premium & Profit after Tax earned by the GIC Re and the Total Assets held by it during the financial years 2012-13 to 2018-19.The gross premium which stood at Rs.15086 crores in the year 2012-13 declined to Rs.14,680 crores in 2013-14 registering a fall of 2.7%.After 2013-14,there is a continuous raising trend in the premiums earned. The highest growth rate i.e., 82.2% can be observed in the financial year2016-17, the very year in which foreign reinsurance branches got registered. In the year 2017-18, the amount of premium earned rose to 41,799 crores, but the rate of growth decreased from 82.2% to 24.5%.The same trend is repeated in the F.Y 2018-19 also. The cause behind the decrease in the growth rate may be attributed to the disappearance of the monopoly position of GIC Re and sprouting of the competition from the foreign reinsurance branches.

The following two tables provide a comparative picture of the GIC Re and its counterparts FRBs in terms of Gross premium and share capital.

Table-2 Gross premium of Re-insurers

(Rupees in crores)

Name of the Re-insurer	As on 31-03-2017	As on 31-03-2018
GIC Re	33,585.43	41,799.37
Foreign Re-insurance branches	59.41	6,018.85

Source: IRDA Reports

The above table shows that the premium earned by GIC Re has increased from Rs.33,585.43 crores on 31-3-2017 to Rs.41799.37 crores on 31-3-2019 registering a growth rate of 24.5%, whereas the premium earned by FRBs has increased to Rs.6018.85 on 31-3-2019, from mere Rs.58.41 crores registering a growth rate of nearly 100 times.

Table-3 capital of Re-insurers

(Rupees in crores)

Name of the Re-insurer	**As on 31-03-2017**	**As on 31-03-2018**
Share capital of GIC Re	430.00	438.60
Assigned Capital of Foreign Re-insurance branches	1,117.81	2,570.35

Source: IRDA Reports

The above table shows the Share Capital of GIC Re and Assigned Capital of FRBs as on 31st March of 2017 and 2018.The share capital of GIC Re as on 31-03-2018 reached to Rs.438.60 crores from Rs. 430 crores as on 31-03-2017.The share capital of GIC Re increased by 2%,whereas the increase in the Assigned capital of foreign Re-insurance branches is 130%.

6. FINDINGS: The above analysis reveals that

- The Gross Premium earned by the GIC Re has shown an increasing trend over the study period except in the year 2013-14.
- Even though there is a positive growth in the premium earned, no consistency was observed in the rate of growth.
- It is clearly evident that the growth rate in the gross premium has fallen swiftly in the year 2017-18 &2018-19 from the peak level growth rate, evidenced in the year 2016-17.
- In the year 2018-19 GIC Re ‘s profit after tax registered a downward trend of 31.2% and the growth rate in the value of total assets also witnessed a declining trend in the post liberalized period.
- Foreign Reinsurance branches managed to earn a Gross premium of Rs.6019 crores in the year 2018-19, which is nearly more than 100 times of what they earned in their initial year of operation. Earning premium like as much as multiplied by 100 times in just one year period is a good omen and indicates a promising future for new foreign reinsurance branches in India.
- FRBs remained forefront even in meeting the capital requirements by increasing their Assigned capital from nearly Rs.1118 crores to Rs.2570 crores in one year.

7. CONCLUSION AND SUGGESTIONS:

The GIC Re, which is supporting and strengthening the Indian Insurance Industry over the last four decades has registered a very good track record of performance. GIC Re, which has been recognized as the 12 th largest global reinsurer in the year 2017 by S&P Global ratings, now reached to 11th place. some of the feathers in the cap of GIC Re are (1) It is the 4th largest global aviation reinsurer (2)Largest Agri reinsurer across the globe (3)It has been rated as ‘A Excellent’ by A M Best company regarding its financial strength. There is no doubt in saying that GIC Re’s performance as the sole reinsurer till 2016 is quite appreciable and it remained as an invisible force behind the vast development of Indian Insurance Industry. The regulators in India need to put special focus on further strengthening the GIC Re so as to make it fit to compete efficiently with the global insurers with vast experience and resources.

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