ABSTRACT

The rapid pace of financial innovation and the globalization of the various countries around the world has led to the opening up of the insurance sector as well. The globalization and financial integration has many positive effects, but it has a few contingents too. Both external and domestic factors add to the failure of the insurance sector. Brazil, Chile, Indonesia, Mexico and several Nordic countries were worst affected during the late 80's and 90's and according to the World Bank, the cumulative loss estimated over US$ 100 billion. We also witnessed the collapse of insurance companies both in Europe and in few Asian Countries.

When compared to other segments of the financial sector, failures of insurance companies should be taken more seriously because these failures have a de-stabilizing effect on the economy; it erodes the confidence of the households in their long term savings behavior and any risk to long term savings has deleterious effects on investments and hence on GDP. Additionally, failures of insurance companies severely affect the risk transfer mechanism between various segments and hence, risk the stability of the system as a whole.

Thus, it is the responsibility of the Regulator to establish a EWS(early warning system) to obtain signals so as to identify the problem insurers and it should position various policy measure to prevent further deterioration and limit the losses to the policyholders'. EWS is an important tool as the cost of restructuring or liquidation is likely to rise with time and hence could put enormous strain on the exchequer. Taking into account the fiscal problem of Governments, such restructuring could turn out to be exorbitant.

This paper is an attempt to explain EWS for the non-life insurance industry in India taking into account the international practice and developments we have witnessed in the last few years.