

# Chapter 25

## Insurance

**25.1.** Insurance, in its most basic form, is sharing of risk. Insurance initially started as an informal exercise amongst traders in Europe. Trade in those days were being carried out by ships and the traders knew that there were definitely going to be losses due to pirates or bad weather and sometimes icebergs. But what these traders were not sure of were as to which ship would face the disaster. However, the trader whose ship faced a disaster was left in penury. This led to an informal association of sorts, where the Traders contributed some money into a fund, which was used to compensate the loss of the individual trader.

**25.2.** Insurance has a deep-rooted history in India too, finding mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

**25.3.** The two main types/classes of insurance is (a) Life Insurance; and (b) Non-Life or General Insurance. Life insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the "benefits") upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the premium; however in the United States the predominant form simply specifies a lump sum to be paid on the policy holder's death.

**25.4.** Insurance other than 'Life Insurance' falls under the category of General Insurance. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. There are also other covers such as Errors and Omissions insurance for professionals, credit insurance and the like.

**25.5.** The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. The year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good

business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

**25.6.** In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

**25.7.** The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

**25.8.** An Ordinance was issued on 19<sup>th</sup> January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

**25.9.** The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business. The year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

**25.10.** In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

**25.11.** This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of R.N. Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

**25.12.** Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.


**25.13.** The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.













**25.14.** In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

**25.15.** Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country.








**25.16.** The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved 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 the country.

**25.17.** The Mission Statement of the Insurance Regulatory and Development Authority are as follows :

-  To protect the interest of and secure fair treatment to policyholders;

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 To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
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 To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;
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 To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery;
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 To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;
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 To take action where such standards are inadequate or ineffectively enforced;
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 To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

**25.18.** Insurance statistics can be grouped under the following categories:

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 Life Insurance Statistics
- 
 Non-life (General) Insurance Statistics
- 
 Reinsurance Statistics
- 
 Pension and Super-annulations Statistics
- 
 Health Insurance Statistics
- 
 Crop Insurance Statistics
- 
 Other Insurance Statistics like ESI, Postal Insurance, Army Insurance, and the like.

### **Current Status**

**25.19.** The data presently collected by the Life Insurance Company (LIC) and the General Insurance Company (GIC) largely meet their own requirements to assist management decisions, design strategy, formulate business plans, examine the market sizes, and changes in market environment, etc. The annual reports of LIC and GIC provide statistical information on various aspects of insurance statistics in their organisations. The General Insurance companies also supply statistical information to the Tariff Advisory Committee (TAC) in prescribed proforma to perform its function of scientific rating and pricing for general insurance products. The insurance companies also supply statistical information on assets and liabilities, sources of funds and deployment of funds and other aspects to RBI (quarterly/annual) as a part of

the survey of Financial Sector. The statistical system prevalent in these two agencies is given below:

**25.20.** The Life Insurance Corporation (LIC) collects information on various aspects of its operations, such as:


- ✚ Individual insurance business information-new business and sum assured, premium income, number of policies, rural and urban business, social sector schemes, etc.
- ✚ Group and pension fund business – number of schemes, lives covered, premium income, etc.
- ✚ Product-related information-Sales under various policies, number of lives investment, State-wise investment, etc.
- ✚ Investment information-total investment, sectoral investment, instrument-wise investment. State-wise investment, etc.
- ✚ Claims-related information-total claims settled, claims ratios, etc.
- ✚ Cost and expenses information-total cost, management expenses, etc.
- ✚ International operation-business procurement, investment, etc.


**25.21.** The General Insurance Company (GIC) collects information on the following aspects :


- ✚ Balance sheet in respect of every class of business.
- ✚ Major claims, details of investments-category-wise and assets owned, claims settlement position with settlement ratio, premium details, class: business-wise and region-wise, documents issued with documentation percentage, investments and investment income.
- ✚ Investments, short-term loan placement, call money transactions, sanctions and disbursements.
- ✚ Rural traditional covers and rural non-traditional business, cattle, poultry, Janta Personal Accident and other covers.
- ✚ Data on foreign operations, Motor Accident Claims Tribunal (MACT) settlements, grievance redressal and details of commission and management expenses.


**25.22.** The IRDA on the advice of the Insurance Advisory Committee has framed fifteen regulations so far under the IRDA Act, which are to be followed by all insurers. It has also prescribed a number of returns to monitor various provisions of these regulations and the insurers in the life insurance business and general insurance business are required to statutorily submit these returns to the IRDA as per the periodicity and time frame specified. Most of the regulations, which require insurers to submit these returns to the IRDA, have been framed in the year 2000 only. The IRDA will be receiving these returns from the insurance companies as per the periodicity and time frame specified by it.


**25.23.** The highlights of the Insurance activities in India are as following :


 The life insurance revenue of the Life Insurance Corporation of India increased from 2002.81 billion in 2008-09, to 29872.15 billion (49%) in 2009-10 and 29927.26 (.01%) in 2010-11. Whereas, the claims by death increased from 59.62 billion to 703.37 in 2009-10 and 801.02 billion and the claims by survival increased from 347.44 billion to 469.21 and 495.48 billion.

 During 2009-10, the life insurance fund has increased maximum in Life Insurance Fund, the increase is from 1224.31 billion in 2008-09 to 1900 billion in 2009-10, which is about 55%, whereas in 2010-11 the amount of Life Insurance Fund has come down to 1516 billion.

 The liabilities as well as assets of the Life Insurance Corporation of India increased from 8735.51 billion in 2008-09 to 11520.57 billion in 2009-10 and 13174.16 billion in 2010-11. During 2009-10, the Life Insurance has made its investment 2 times as compared to 2008-09 and has increased the investment by 12% in 2010-11.

 The receipts of postal life insurance increased from 149.86 billion in 2008-09, to 178.10 billion (19%) in 2009-10 whereas, its' total payment increased from 8.33 billion in 2008-09 to 11.53 billion (by 38%) in 2009-10.

 The number of postal life insurance (PLI) policies in force increased from 3.9 million in 2008-09 to 4.4 million in 2009-10, whereas, its' sum assured amount increased from 388.14 billion to 517.69 billion during the same period.

 Corpus fund of Postal Life Insurance increased from 141.53 billion in 2008-09 to 198.02 billion in 2009-10. The number of rural postal life insurance (RPLI) policies in force increased from 9.9 million in 2009-10 to 12.2 million in 2010-11 whereas, its' Sum Assured amount increased from 595.72 billion to 661.32 billion during the same period.

**25.24.** This chapter contains the following tables:

**Table 25.1:** presents year-wise life insurance account of the Life Insurance Corporation of India categorized by Income, outgo and expenses of management and further each sub-categorized into various heads since 2001-02.

**Table 25.2:** presents year-wise new life insurance business by Indian insurers and total life insurance business in force, each categorized by various heads since 2000-01.

**Table 25.3:** presents year-wise liabilities and assets of the Life Insurance Corporation of India categorized by various heads, since 2001-02.

**Table 25.4:** presents year-wise account of receipts and payments for Post Office Life Insurance Fund Account categorized by various heads since 2000-01

**Table 25.5:** presents year-wise 'postal life insurance polices issued' since 2000-01.

**Table 25.6:** presents year-wise postal life insurance (PLI) and rural postal life insurance (RPLI) categorized by number of policies in force, sum assured amount and corpus of funds since 2001-02.

**Table 25.7:** presents year-wise growth in postal life insurance (PLI) and rural postal life insurance (RPLI) categorized by policies procured during the year, sum assured and premium income since 2001-02. It also presents the Growth in premium income of PLI and RPLI categorized by premium income and increase over previous year since 2006-07.

**Table 25.8:** presents year-wise particulars relating to premium derived from fire, marine, and miscellaneous insurance business of Indian insures categorized by 'in India' and 'outside India' since 2000-01.