6 THE HISTORY OF THE INSURANCE SECTOR IN INDIA

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Abstract

History of the Insurance Sector in India – Three Phases of Development – Pre Nationalization, Nationalization and Post Nationalization Phases – Pre Nationalization Phase – dominated by foreign insurance companies which implemented unfair practices on the Indian national for their benefit – Nationalization Phase – witnessed a surge in the number of Indian insurance companies which implemented fair practices for the Indian national – also witnessed the implementation of the IRDA – to regulate the insurance segment in the country – post nationalization – saw the privatization of the Indian insurance segment while limiting the Foreign Direct Investment to 26% - today the Indian Insurance segment is one of the most competitive and prospective segments of the Indian economy

HISTORY OF THE INSURANCE SECTOR

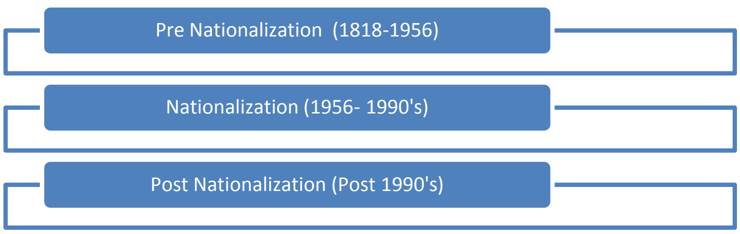
THE BEGINNING

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years.

The concept of insurance in India is a very traditional one and has a deep rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). 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. The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

INSURANCE IN THE INDIAN HISTORY

The history of the insurance sector in India can be broadly bifurcated into three eras:



PRE NATIONALIZATION STAGE (1818-1956)

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Anita Bhavsar and

Europeans in Calcutta was the first life insurance company on Indian Soil to cater to the needs of European community. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them.

In 1870, Indians took a sigh of relief when Bombay Mutual Life Assurance Society, the first Indian insurance company covered Indian lives at normal rates. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society.

Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. 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.

The first 150 years of the insurance industry in India were marked mostly by turbulent economic conditions. The era witnessed, India's First War of Independence, the adverse effects of the World War I and World War II on the Indian Economy, and in between them the period of worldwide economic crises triggered by the Great depression. The first half of the 20th century also saw a heightened struggle for India's independence. The aggregate effect of these events led to a high rate of bankruptcies and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover.

At the dawn of the twentieth century, many insurance companies were founded. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period.

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an Actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. 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.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies, many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business.

NATIONALIZATION STAGE: (1956 – 1990'S)

The demand for nationalization of life insurance industry was made repeatedly in the past because there were a number of foreign and Indian insurers operating in the Indian market. Regulations were passed to regulate the Indian insurers but not the foreign companies providing insurance services in India. The demand for the same gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. The prior legislations became insignificant and single firm- the Life Insurance Corporation (LIC) of India became the sole provider. Thus the industry was transformed from a competitive one to a highly regulated monopoly.

Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st of September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost among financially backward people so that their risks were covered in the event of death.

The reasons behind the nationalization decision included the Government's need to channel more resources towards national development programmes, to increase insurance market penetration through nationalization and to protect the interests of the policy holders from failures which were the result of mismanagement. It was also felt that the nationalization of this sector would lead to more effective mobilization of funds to enable capital to be allocated to development projects.

POST NATIONALIZATION STAGE: (1990'S ONWARDS)

The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The introduction of the policies pertaining to liberalization, privatization and globalization by Government of India in 1992 provided a much needed thrust for the industry. Following the introduction of the LPG policy, the Malhotra Committee for the conception of a more regulated and efficient insurance sector, was set up under the Chairmanship of Mr. R . N Malhotra- the former governor of the Reserve Bank of India. The genesis of opening up of the insurance sector to the private sector lies in the recommendation of this committee, which was to examine the industry on two core issues:

- Increasing search of the insurance industry
- Improving the customer service

The committee was of the opinion that the above objectives would be achieved if the insurance sector was privatized. The following are the basis on which the privatizing of the insurance sector is justified:-

HUGE MARKETS

The potential market estimated at 312 million people. The estimates suggested that only 25% insurable population had taken up the insurance policies. According to the national council for applied research 50 million people have the capacity to pay an annual premium of Rs. 10000, 100 million people have the potential to pay an annual premium of Rs.7000. Thus huge markets need to be tapped.

LOW PENETRATION RATIO

The penetration ratio in India is extremely low. The per capita insurance in India in 1999 was only $ 8 against $ 4800 in the Japan. The LIC & GIC further were only able to tap only 10% of the markets and the 90% were yet to be tapped.

CUSTOMIZATION

With a large potential of consumer base it is required that the products are tailor-made as per the requirements of the customers. This is possible only when the markets are competitive enough.

FUNDS FOR THE DEVELOPMENT OF THE COUNTRY

Insurance funds are a good source of long term funds in the economy. The untapped markets has the potential for providing the funds for the long term projects particularly infrastructure.

EMPLOYMENT GENERATION

There is a great potential of growth in the employment through the insurance and insurance related services.

GROWTH IN THE ECONOMY

The Indian economy has grown at the rate of 5.6% per annum in the 1990's and the gross domestic savings are around 25% and have the potential to grow up to 45%. Life insurance showed a growth of 12%. Thus we require more players in this sector.

On account of the above the insurance sector opened up and the following insurers registered with the IRDA

List Of Life Insurers Registered With The IRDA

- Life Insurance Corporation Of India
- HDFC Standard Life Insurance Company Limited
- Max New York Life Insurance Company Limited
- ICICI Prudential Life Insurance Company Limited
- Om Kotak Mahindra Life Insurance Company Limited
- Reliance Life Insurance Company Limited

FEATURES OF THE PRIVATIZATION SCHEME

Monopoly of the public sector companies in the insurance sector has ended. The life insurance and general insurance are opened up even to the private sector

The Act allows the foreign investors to invest upto 26% of the share capital of the insurance company.

The Act has given a statutory status to IRDA to set up in 1996 so as to regulate insurance business in India.The scheme gives powers to the central government to appoint a controller of insurance if IRDA is suspended due to certain reasons.

Minimum capital of any company doing insurance must be at least of Rs.100 crores and if the company is undertaking reinsurance business the share capital required is Rs. 200 crores.

Every insurance company will have to

provide for issuing life insurance and general insurance including the crop insurance to the rural population, economically weaker sections and the workers of the unorganized sector. If they fail to do the same, a fine of Rs. 25 lakhs is imposed and in extreme cases the license is also cancelled.

SIGNIFICANCE OF THE INSURANCE INDUSTRY IN THE CURRENT SCENARIO

The Insurance Industry in India happens to be a very big opportunity. Today it stands as a business growing at the rate of 15-20% annually. Together with banking services, it adds about 7% to the country's GDP. In spite of all this growth, the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and health insurance. This is an indicator that growth potential for the insurance sector is immense in India.

The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe.

There are now 29 insurance companies operating in the Indian market –

- 14 private life insurers,
- 9 private non-life insurers and
- 6 public sector companies.

The insurance industry has undergone a sea of change over the last four years since its opening up to the private players as well as the foreign investors. Since then, it has never looked back and today stands as the one of the most competitive and exploring industry in India. Some of the significant highlights of the industry are as follows:

- The introduction of private players in the industry has added value to the industry and made it one of the most competitive industries in the country today.
- The initiatives taken by the private players have given immense competition to the one time monopoly of LIC.
- The new players have improved the service quality of the insurance. As a result, the market share was distributed among the private players.
- The entry of the private players and the increased use of the new distribution techniques are in the limelight today.
- The use of advanced IT tools has further increased the scope of the industry in the longer run.

CONCLUSION

Evidently, the life insurance industry has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if we desire to progress towards a worry-free future.

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