History of Life Insurance in India - An Overview

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In India, **insurance** has deep-rooted history. finds mention in t writings of **Manu** (**Manusmri**), **Yagnavalkya** (**Dharmasastra**) a **Kautilya** (**Arthasastra**). The writings talk terms of pooling of resources that could re-distributed in times of calamities such as fi floods, epidemics and famine. This w probably a pre-cursor to modern day insuran Ancient Indian history has preserved t earliest traces of insurance in the form marine trade loans and carriers' contracts.

Insurance in India has evolved over ti heavily drawing from other countries, Engla in particular.

1818 saw the advent of life insuran business in India with t establishment of the **Oriental Life Insuran Company** in Calcutta. This Company howev failed in 1834. In 1829, the Madras Equita had begun transacting life insurance busine in the Madras Presidency.

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.

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.

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.

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation **(LIC)** 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.

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.

1957 saw the formation of the **General Insurance Council**, a wing of the **Insurance Associaton of India**. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

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.

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 RN 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.

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.

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.

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.

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.

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.

Insurance Sector in other countries

- The History of Life Insurance in Britain
- The History of Life Insurance in United States

Source: IRDA - The History of Insurance in India http://www.irda.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2