



PAST AND FUTURE INCEPTION OF INDIAN INSURANCE INDUSTRY

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KEYWORDS: Insurance penetration, Insurance Density, LIC, GIC.

ABSTRACT

The origin of insurance practice is probably lost forever in the mists of antiquity and till today remains a mystery. Similar practices to insurance are found in the ancient Indian texts of Rigveda as it refers to the concept of "Yogakshema" - loosely meaning 'prosperity, well-being and security of people. India is a developing country and moving ahead towards becoming one of the super powers of the world, Insurance business playing a vital role in the country's development. In India from 2003-04 to 2013-14 new insurance policies issued by life insurers and non-life insurers difference is very huge. Through review literature it found that, from 2003-04, the value of new policies issued by public sector life insurance companies increased from 269.68 lakhs to 345.12 lakhs in 2013-14. Similarly from 2003-04, the value of new policies issued by public sector non-insurance increased from 384.27 lakhs to 600.06 lakhs in 2013-14 almost double. The study also found that India is a huge market its rural area is untapped from the insurance industry which needs to be covered. So India is an emerging market and heading towards to becoming one of the top players in the insurance industry. The study tried to give exposure about insurance growth in both the segment i.e. life insurance and non-life insurance through various secondary sources and found that industry have a better potential to excel the business in the urban as well as rural area especially.

INTRODUCTION

The origin of insurance practice is probably lost forever in the mists of antiquity and till today remains a mystery. Similar practices to insurance are found in the ancient Indian texts of Rigveda as it refers to the concept of "Yogakshema" - loosely meaning 'prosperity, well-being and security of people. Insurance has a deep-rooted history in India since ancient times and has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya's Arthashastra that glorified ancient India. In all these ancient texts, the writings discuss about pooling of resources that would be re-distributed in times of calamities or unforeseen circumstances such as epidemics, earthquakes, fire, floods and food crisis. In India, Insurance evolved with the passage of time heavily drawing inspiration from other countries, England in particular.

In 1818 the advent of life insurance business descended in India with the establishment of the Oriental Life Insurance Company at Kolkata. However, this company failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. In 1870 the British Insurance Act was enacted. Moreover, in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) commenced their operations in the Bombay Presidency. It was a significant comment on the British view of Indians that prior to 1871; Indian lives were treated as sub-standard and attracted an extra premium of 15 to 20 per cent. Bombay Mutual Life Assurance Society, an Indian insurer, was the first one to charge normal rates for Indian lives. This age, was dominated and controlled by foreign insurance companies. In 1914, the Government of India started publishing returns of Insurance Companies. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business being transacted in India. In 1938 all the earlier legislations were consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for the detailed and effective control over the insurers (Both life and non-life) so as to protect the interest of the insuring public. With the enactment of Insurance Amendment Act of 1950, the Principal Agencies were abolished and due to the large number of insurance companies across India were working; the cut-throat competition amongst such organizations was pretty high. There were also allegations of unfair trade practices being prevalent to a great extent.

The basic Philosophy of insurance which came into existence by various amendments in the Insurance Act; is that insurance is a cooperative device by which risk can be replaced with known costs-the costs of buying and maintaining insurance policies. Insurance in Financial Sense defined as a contract between the insurer and the insured requiring all the essential of valid contract according to the law of contracts. The instrument containing the contract of insurance called a policy.



Factors Leading to Nationalization- After the First World War, between 1914 and 1920, many insurance companies were closed down causing large losses for the small investors. By 1956, 245 entities (154 Indian insurers, 16 non- Indian insurers and 75 provident societies) had entered in the life insurance business in India. During this period a number of malpractices occurred in the industry causing loss to the unsuspecting public. The Union Government's efforts at regulating the industry through various legislative measures were not very effective. The former finance minister, Dr.C.D.Deshmukh said in Parliament, that "The industry was not playing the role excepted of insurance in a modern state and efforts at improving the standard by further legislation we felt, were unlikely to be more successful than in past. The concept of trusteeship which should be the corner stone of life insurance seemed entirely lacking. Indeed, Managements had no appreciation of the clear and vital distinction that exists between trust moneys and those which belong to joint stock companies." With this the demand for stricter government control of the industry gathered momentum and called for nationalization of the insurance business- which almost became a foregone conclusion. Again, quoting Dr.C.D. Deshmukh, "Misuse of power, position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance". It was necessary in order that the interest of the insuring public and the industry could be safeguarded, the country's economy promoted for and more funds provided for economic development. These were the considerations which persuaded the government of India to opt for nationalization of this industry. With this LIC formed and at the time of its inception, it had five zonal offices, 33 divisional offices and 212 branches.

Nationalization of Life Insurance- The detailed plan was prepared included the action and as a first step , on 19th January 1956, the management of the life insurance business (245 Indian and foreign insurers and provident societies, operating in India) was taken over by central government through (Emergency Provisions) the Life Insurance Ordinance, 1956. This ordinance had also been kept ready for the President of India's signature on 1st September 1956; it caught many people by surprise, and was perhaps, one of the best kept secrets of the government. The Ordinance was replaced by an Act of Parliament known as the Life Insurance (Emergency) Provisions Act, 1956. The bill to provide for nationalization of the life insurance business was introduced in the Lok Sabha in February 1956, and the same became an Act on 1st July 1956.

General Insurance-The first general insurance company, Triton Insurance Company Ltd., established in Calcutta in 1850, was held mainly by the Britishers. The Mercantile Insurance Company Ltd., Bombay (1907), was the first general insurance company to be set up by Indians. In 1968, the Insurance Act was amended again to provide for the extension of social control over insurers transacting the general insurance business. These amendments came into force on 1st June, 1969.

The formation of the General Insurance Corporation (GIC)- However, before these amendments could be effectively implemented, the management of non-life insurance was taken over by the central government on 13th May,1971 as a prelude to nationalization, because general insurance had become by and large city-oriented, catering mainly to the needs of organized trade and industry. The business was nationalized with effective from 1st January, 1973, by the General Insurance Business (Nationalization) Act, 1972. The GIC was incorporated as a holding company in 1972 to look after the non-life insurance business. This was done by amalgamating 107 insurers, including branches of foreign companies operating within the country. The capital of Rs. 2.15 billion of GIC was subscribed by the Government of India, and that of four companies, by GIC. GIC laid down the policy guidelines and monitored the functioning of the subsidiary companies in order to spread non-life insurance cover to a variety of risks over larger geographical areas.

The Reinsurance Business in India- after Independence, In 1961, by an amendment to the Insurance Act 1938, this voluntary arrangement was formalized by notifying the Indian Guarantee and General Insurance Company Ltd. a government company, as 'Indian Reinsurers' by Indian government. The Government of India made it statutorily compulsory for every insurer to cede 20 per cent in fire and marine cargo, 10 per cent in marine hull and miscellaneous and 5 per cent in credit and solvency business to approved Indian reinsurers, viz., the Indian Reinsurance Corporation and the Indian Guarantee and General Insurance Cooperation. In 1965, some general insurance companies came together and formed the Indian Reinsurance Corporation, a professional reinsurance company, to which the member companies voluntarily ceded 10 per cent of their gross direct business. The Market was thus strengthened by the addition of a second professional reinsurer. At the time of nationalization, each company had its own reinsurance arrangement. After the formation of the GIC, it was designated as the Indian reinsurer under Section 101(A) (8) (ii) of the Insurance Act, 1938, for its four subsidiaries. Thus reinsurance operations in India were controlled by GIC with close interaction with companies.



Review of Literature- (G. V. Rao, 2006) found that the insurance community in every country in globalization is becoming an integral part of the financial reforms. Developed markets having direct impact on the domestic markets so study emphasized that there is a greater need to examine and understand how the Developed markets have dealt with the problems that are likely to arise in our national markets. The study concludes that understanding of global scenario helps to understand our markets with more clarity.

(Kumari, T Hymavathi, 2013) tried to understand the life insurance sector in India and flagging issues relating to competition in this sector. Through liberalization India opened up of the financial sector, Insurance has a very important role in the country's economy development. As a result, many private insurers also came into existence. The study explored the performance of life insurance industry in India in post liberalization era & present a deep analyzes about the financial performance of insurance industry both public sector and private sector, its market share, growth have been studied in post liberalization era.

(Nagaraja, 2015) Through various empirical evidence author tried to vindicate the relationship between the performance of insurance industry and economic development. In India, form the last three years, the growth rate in terms of number of new policies issued and the insurance premium are experiencing a negative trend. Reasons and contributing factors for this state of affairs is highly essential. The present paper primarily deals with these aspects of insurance industry and a comparative analysis of both private and public sectors of life and non-life insurance industry. In conclusion with as observed by the World Insurance Report-2014, the insurance industry has to inquire into the basic indicators of performance measurement and initiate the measures for improving its performance in the coming years.

Progress since Nationalization of LIC and GIC - After the Mundhra scandal, the parliament was also watching its performance with great vigil. First few years were devoted to the framing of rules and regulations, setting up other administrative procedures and streamlining the accounting procedures. At the time of nationalization, the total new business of the 245 erstwhile insurance companies was around 2 billion rupees of sum assured. The total income of LIC during 2002 was a substantial Rs 727.6991 billion, in which income from investments was Rs. 226.9542 billion. The life insurance business has thus seen a rising curve of growth.

The General insurance business has grown in spread and volume after nationalization. The GIC's equity capital increased from the original capital of Rs. 215 million to Rs. 2.15 billion through bonus issues in 1982, 1986, 1990, and 1994. The four companies continued to expand their activities, and by 2001-2002, they operated through 2,699 branch offices, 1,360 divisional offices and 92 regional offices spread all over the country. The gross premium income of the non-life insurance business grew from Rs.2.04 billion in the 1973 to Rs.118.08 billion in 2001-2002. The net premium income of the four subsidiaries was Rs. 87.45 billion and GIC's operations produced a net premium income of Rs. 26.71 Billion.

Current Scenario of Indian Insurance Industry-

Table-1 Registered Insurers in India

Year	Type of Business	Life Insurance	Non-Life Insurance	Re-insurance	Total
2013-14	Public Sector	1	6	1	8
	Private Sector	23	22	0	45
	Total	24	28	1	53
2012-13	Public Sector	1	6	1	8
	Private Sector	23	21	0	44
	Total	24	27	1	52
2011-12	Public Sector	1	6	1	8
	Private Sector	23	21	0	44
	Total	24	27	1	52
2010-11	Public Sector	1	6	1	8
	Private Sector	23	18	0	41
	Total	24	24	1	49



	Public Sector	1	6	1	8
2009-10	Private Sector	22	18	0	40
	Total	23	24	1	48
	Public Sector	1	6	1	8
2008-09	Private Sector	21	15	0	36
	Total	22	21	1	44
	Public Sector	1	6	1	8
2007-08	Private Sector	20	14	0	34
	Total	21	20	1	42
	Public Sector	1	6	1	8
2006-07	Private Sector	16	11	0	27
	Total	17	17	1	35
	Public Sector	1	6	1	8
2005-06	Private Sector	15	9	0	24
	Total	16	15	1	32
	Public Sector	1	6	1	8
2004-05	Private Sector	13	8	0	21
	Total	14	14	1	29

Source: Compiled from Annual reports of IRDA of different years from 2004-05 to 2013-14

Note: 1. Life insurance 2. Non-life insurance 3. Total number of insurers

Table-1 shows the growth in registered insurers in India over a period of time. In 2013-14, the total number of insurance companies registered is 53, out of which 443 are in private sector and eight are in public sector. 24 life insurance companies and 28 non-life insurance companies are operating in India by the end of March, 2014. In public sector there is one life insurance company which is LIC and six in non-life insurance companies. While in private sector there are 23 life insurance companies and 22 non-life insurance companies operating in India. There is only one re-insurer in India which is GIC. In public sector, there are two specialised non-insurance companies named, ECGC and AIC. In private sector, out of 22 non-life insurance companies, there are five Standalone Health Insurance Companies - Star Health & Allied Insurance Co., Apollo Munich Health Insurance Co., Max Bupa Health Insurance Co., Religare Health Insurance Co., and Cigna TTK Health Insurance Co.

Table-2 New Policies Issued: Life Insurers and Non-life Insurers

Year	Life Insurers			Non-life Insurers		
	Public	Private	Total	Public	Private	Total
2003-04	269.68 (94%)	16.59 (6 %)	286.27 (100%)	384.27 (92%)	32.99 (8%)	417.26 (100%)
2004-05	239.78 (91%)	22.33 (9 %)	262.11 (100%)	421.42 (89%)	51.07 (11%)	472.49 (100%)
2005-06	315.91 (89%)	38.71 (11%)	354.62 (100%)	439.45 (83%)	89.47 (17%)	528.92 (100%)
2006-07	382.29 (83%)	79.22 (17%)	461.52 (100%)	412.42 (75%)	135.54 (25%)	547.95 (100%)
2007-08	376.13 (74%)	132.62 (26 %)	508.74 (100%)	385.47 (67%)	187.03 (33%)	572.50 (100%)
2008-09	359.13 (71%)	150.11 (29 %)	509.24 (100%)	451.37 (67%)	219.23 (33%)	670.60 (100%)
2009-10	388.63	143.62	532.25	434.04	240.84	674.88



	(73%)	(27 %)	(100%)	(64%)	(36%)	(100%)
2010-11	370.38	111.14	481.52	505.78	287.65	793.41
	(77%)	(23 %)	(100%)	(64%)	(36%)	(100%)
2011-12	357.51	84.42	441.93	528.14	329.30	857.44
	(81%)	(19%)	(100%)	(62%)	(38%)	(100%)
2012-13	367.82	74.05	441.87	689.68	380.56	1070.24
	(83%)	(17%)	(100%)	(64%)	(36%)	(100%)
2013-14	345.12	63.60	408.72	600.06	424.47	1024.52
	(84%)	(16%)	(100%)	(59%)	(41%)	(100%)

Source: Compiled from Annual reports of IRDA of different years from 2004-05 to 2013-14

Notes: Values given are in lakhs. Values given in brackets shows the share of each sector out of total number of insurers in India.

Table-2 shows number of new policies issued by life insurers and non-life insurers in India from 2003-04 to 2013-14. From 2003-04, the value of new policies issued by public sector life insurance companies increased from 269.68 lakhs to 345.12 lakhs in 2013-14. Similarly from 2003-04, the value of new policies issued by public sector non-insurance increased from 384.27 lakhs to 600.06 lakhs in 2013-14.

Table-3 Market share of Life insurers

Year	Regular		Single		First Year		Renewal		Total	
	Premium		Premium		Premium		Premium		Premium	
	PSU	PS	PSU	PS	PSU	PS	PSU	PS	LIC	PS
2003-04	NA	NA	87.67	12.33	87.67	12.33	98.55	1.45	95.32	4.68
2004-05	NA	NA	78.78	21.22	78.78	21.22	96.18	3.82	90.67	9.33
2005-06	64.59	35.41	84.45	15.55	64.52	35.48	92.82	7.18	85.75	14.25
2006-07	65.89	34.11	87.04	12.96	74.35	25.65	89.03	10.97	81.92	18.08
2007-08	47.77	52.23	86.99	13.01	64.02	35.98	83.42	16.58	74.39	25.61
2008-09	38.43	61.57	90.7	9.3	60.89	39.11	77.43	22.57	70.92	29.08
2009-10	43.13	56.87	92.19	7.81	65.08	34.92	73.64	26.36	70.1	29.9
2010-11	56.73	43.27	81.26	18.74	68.85	31.15	70.49	29.51	69.78	30.22
2011-12	64.58	35.42	80.58	19.42	71.85	28.15	69.91	30.09	70.68	29.32
2012-13	58.08	41.92	83.92	16.08	71.36	28.64	73.5	26.5	72.7	27.3
2013-14	60.56	39.44	87.09	12.91	75.47	24.53	75.34	24.66	75.39	24.61

Note: PSU refers to public sector insurance company (LIC) and PS refers to Private sector

Source: Compiled from Annual reports of IRDA of different years

Table-3 shows the Market share of Life insurers. In all segment the market share of public sector life insurer is higher. It shows that LIC, the only life insurer in public sector is dominating the insurance market in India.

Table-4 Insurance Penetration and Density in India

Year	Life Insurance		Non-Life Insurance		Total	
	Density	Penetration	Density	Penetration	Density	Penetration
	(USD)	%	(USD)	%	(USD)	%
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.1	5.2	0.6	38.4	4.8



2007	40.4	4	6.2	0.6	46.6	4.7
2008	41.2	4	6.2	0.6	47.4	4.6
2009	47.7	4.6	6.7	0.6	54.3	5.2
2010	5.7	4.4	8.7	0.71	64.4	5.1
2011	49	3.4	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9

Source: Compiled from Annual reports of IRDA of different years from 2004-05 to 2013-14. Note: (a) Insurance Density is calculated as the ratio of premium (in USD) to total population (per capita premium). And (b) Insurance Penetration is measured as the percentage of Premium (in USD) to GDP (in USD)

Table-4 shows the Insurance Penetration and Insurance Density of the last decades. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2013, the level of life insurance density was only USD 41. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.1 per cent in 2013. Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 11.0 in 2013.

CONCLUSION

All over achievements are no doubt deserving of praise but for constant growth of insurance business it is essential to make sure professional and efficient service to the policy holder. In general business of insurance has been drastically enlarged following privatization but still enormous Indian residents live is being uninsured. Since there is urgent requirement to inspect to what extent the business is serving the requirements of the clients before and after the trade of policies and to what extent modern products are introducing to get better the performance of insurance industry in India.

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