IJARASEM

ISSN: 2395-7852

# International Journal of Advanced Research in Arts, Science, Engineering & Management

Volume 10, Issue 3, May 2023

INTERNATIONAL
STANDARD
SERIAL
NUMBER
INDIA

Impact Factor: 6.551

+91 9940572462 +91 9940572462 ijarasem@gmail.com www.ijarasem.com

International Journal of Advanced Research in Arts, Science, Engineering & Management (IJARASEM)

| ISSN: 2395-7852 | www.ijarasem.com | Impact Factor: 6.551 |Bimonthly, Peer Reviewed & Referred Journal|

| Volume 10, Issue 3, May 2023 |

# Impact of Life Insurance on the Growth of Indian Insurance Sector

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**ABSTRACT:** Insurance in India covers both the public and private sector organisations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central Government only.

The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014,[1] and further increased to 74% in May 2021.[2] When Oriental Life Insurance Company[3] was started by Anita Bhavsar in Kolkata to cater to the needs of European community.

The LIC had monopoly until the late 90s when the Insurance sector was reopened to the private sector. But, now there are 23 private life insurance companies in India.[4] By 2020 Indian Insurance is a US$280 billion industry. However, only 500 million people (36.23% of the total population of 1 billion) are covered under Mediclaim.[5] With more and more private companies in the sector, this situation is expected to grow more. ECGC, ESIC and AIC provide insurance services for niche markets. So, their scope is limited by legislation but enjoy some special powers. The majority of Western Countries have state run medical systems so have less need for medical insurance. In the UK, for example, the corporate cover of employees, when added to the individual purchase of coverage gives approximately 11–12% of the population on cover[6] due largely to usage of the state financed National Health Service (NHS), whereas in developed nations with a more limited state system, like USA, about 92%[7] of the total population are covered under same insurance scheme. The Insurance Act of 1938[8] was the first legislation governing all forms of insurance to provide strict state control over insurance business. Life insurance in India was completely nationalised on 19 January 1956, through the Life Insurance Corporation Act. All 245 insurance companies operating then in the country were merged into one entity, the Life Insurance Corporation of India. The primary regulator for insurance in India is the Insurance Regulatory and Development Authority of India (IRDAI) which was established in 1999 under the government legislation called the Insurance Regulatory and Development Authority Act, 1999.[9][10]

**KEYWORDS:** Indian insurance sector, life insurance, policy, growth, companies, schemes, corporation, government

## INTRODUCTION

Life insurance is one of the growing sectors in India since 2000 as Government allowed Private players and FDI up to 26% and recently Cabinet approved a proposal to increase it to 49%. In 1955, mean risk per policy of Indian and foreign life insurers amounted respectively to ₹2,950 & ₹7,859[1] (worth ₹15 lakh & ₹41 lakh in 2017 prices). Life Insurance in India was nationalised by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC.[1] In 1993, the Government of India appointed RN Malhotra Committee to lay down a road map for privatisation of the life insurance sector.[2] Pradhan Mantri Suraksha Bima Yojana (PMSBY, translation: Prime Minister's Safety Insurance Scheme) is a government-backed accident insurance scheme in India. It was originally mentioned in the 2015 Budget speech by Finance Minister Late Arun Jaitley in February 2015.[1] It was formally launched by the Prime Minister Narendra Modi on 8 May in Kolkata.[2] Pradhan Mantri Suraksha Bima Yojana is available to people (Indian Resident or NRI) between 18 and 70 years of age with bank accounts. It has an annual premium of ₹20 (25¢ US). Goods and Services Tax (GST) is exempted on Pradhan Mantri Suraksha Bima Yojana. The amount is automatically debited from the account. This insurance scheme can have one year cover from 1 June to 31 May and is offered through banks. It is administered through public sector general insurance companies.[3]

In case of death or full disability, the payment to the nominee will be ₹2 Lakh and in case of partial permanent disability it would be ₹1 Lakh. Full disability has been defined as loss of use in both eyes, hands, or feet. Partial Permanent disability has been defined as loss of use in one eye, hand, or foot.[4][5] Further, death due to suicide, alcohol, drug abuse, etc., are not covered. A person joined under this scheme is eligible for a claim only after 45 days of joining the scheme.

This scheme is linked to the bank accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme. Most of these accounts had zero balance initially. The government aims to reduce the number of such zero balance accounts by using this and related schemes.[6] Now, all bank account holders can avail this facility through their net-banking service facility at any time of the year.[7][8]

As of 31 March 2019, 15.47 crore people have already enrolled for this scheme. 32,176 claims have been disbursed amounting to ₹643.52 crore (US$81 million).[10]

In April 2017, Haryana Government announced that all Haryana residents in the age group of 18–70 years will be covered by PMSBY; the state government would reimburse the premium to the beneficiary.[11]

The Insurance Regulatory and Development Authority of India (IRDAI) is a statutory body under the jurisdiction of Ministry of Finance , Government of India and is tasked with regulating and licensing the insurance and re-insurance industries in India.[1] It was constituted by the Insurance Regulatory and Development Authority Act, 1999,[2] an Act of Parliament passed by the Government of India.[3] The agency's headquarters are in Hyderabad, Telangana, where it moved from Delhi in 2001.[4]

IRDAI is a 10-member body including the chairman, five full-time and four part-time members appointed by the government of India.

In India insurance was mentioned in the writings of many historical documents, which examined the pooling of resources for redistribution after fire, floods, epidemics and famine. The life-insurance business began in 1818[5] with the establishment of the Oriental Life Insurance Company in Calcutta; the company failed in 1834. In 1829, Madras Equitable began conducting life-insurance business in the Madras Presidency. The British Insurance Act was enacted in 1870, and Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were founded in the Bombay Presidency. The era was dominated by British companies.[2]

In 1914, the government of India began publishing insurance-company returns. The Indian Life Assurance Companies Act, 1912 was the first statute regulating life insurance. In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about life- and non-life-insurance business conducted in India by Indian and foreign insurers, including provident insurance societies. In 1938 the legislation was consolidated and amended by the Insurance Act, 1938, with comprehensive provisions to control the activities of insurers.

The Insurance Amendment Act of 1950 abolished principal agencies, but the level of competition was high and there were allegations of unfair trade practices. The Government of India decided to nationalise the insurance industry.

An ordinance was issued on 19 January 1956, nationalising the life-insurance sector, and the Life Insurance Corporation was established that year. The LIC absorbed 154 Indian and 16 non-Indian insurers and 75 provident societies. The LIC had a monopoly until the late 1990s, when the insurance industry was reopened to the private sector.[4]

General insurance in India began during the Industrial Revolution in the West and the growth of sea-faring commerce during the 17th century. It arrived as a legacy of British occupation, with its roots in the 1850 establishment of the Triton Insurance Company in Calcutta. In 1907 the Indian Mercantile Insurance was established, the first company to underwrite all classes of general insurance. In 1957 the General Insurance Council (a wing of the Insurance Association of India) was formed, framing a code of conduct for fairness and sound business practice.

Eleven years later, the Insurance Act was amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee was established. In 1972, with the passage of the General Insurance Business (Nationalisation) Act, the insurance industry was nationalized on 1 January 1973. One hundred seven insurers were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. The General Insurance Corporation of India was incorporated in 1971, effective on 1 January 1973.

The re-opening of the insurance sector began during the early 1990s. In 1993, the government set up a committee chaired by former Reserve Bank of India governor R. N. Malhotra to propose recommendations for insurance reform complementing those initiated in the financial sector. The committee submitted its report in 1994, recommending that the private sector be permitted to enter the insurance industry. Foreign companies should enter by floating Indian companies, preferably as joint ventures with Indian partners.

Following the recommendations of the Malhotra Committee, in 1999 the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry and was incorporated in April 2000.

Objectives of the IRDA include promoting competition to enhance customer satisfaction with increased consumer choice and lower premiums while ensuring the financial security of the insurance market.[3]

The IRDA opened up the market in August 2000 with an invitation for registration applications; foreign companies were allowed ownership up to 26 percent. The authority, with the power to frame regulations under Section 114A of the Insurance Act, 1938, has framed regulations ranging from company registrations to the protection of policyholder interests since 2000.

In December 2000, the subsidiaries of the General Insurance Corporation of India[5] were restructured as independent companies and the GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from the GIC in July 2002. There are 28 general insurance companies, including the Export Credit Guarantee Corporation of India and the Agriculture Insurance Corporation of India, and 24 life-insurance companies operating in the country. With banking services, insurance services add about seven percent to India's GDP.

In 2013 the IRDAI attempted to raise the foreign direct investment (FDI) limit in the insurance sector to 49 percent from the existing 26 percent.[6] The FDI limit in the insurance sector has been raised to 74 percent according to the 2021 union budget.

## II.DISCUSSION

The functions of the IRDAI are defined in Section 14 of the IRDAI Act, 1999,[1] and include:

- Issuing, renewing, modifying, withdrawing, suspending or cancelling registrations
- Protecting policyholder interests
- Specifying qualifications, the code of conduct and training for intermediaries and agents
- Specifying the code of conduct for surveyors and loss assessors
- Promoting efficiency in the conduct of insurance businesses
- Promoting and regulating professional organisations connected with the insurance and re-insurance industry
- Levying fees and other charges
- Inspecting and investigating insurers, intermediaries and other relevant organisations
- Regulating rates, advantages, terms and conditions which may be offered by insurers not covered by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938)
- Specifying how books should be kept
- Regulating company investment of funds
- Regulating a margin of solvency
- Adjudicating disputes between insurers and intermediaries or insurance intermediaries
- Supervising the Tariff Advisory Committee
- Specifying the percentage of premium income to finance schemes for promoting and regulating professional organisations
- Specifying the percentage of life- and general insurance business undertaken in the rural or social sector
- Specifying the form and the manner in which books of accounts shall be maintained, and statement of accounts shall be rendered by insurers and other insurer intermediaries.

The prime minister of India announced an insurance repository system, helping policyholders buy and maintain insurance policies in electronic form rather than on paper. Insurance repositories, like share depositories or mutual fund transfer agencies, will hold electronic records of insurance policies issued to individuals as electronic policies or e-policies.[10]

National Insurance Company Limited (NICL) is a central public sector undertaking under the ownership of the Ministry of Finance, Government of India. It is headquartered at Kolkata and was established in 1906 by Gordhandas Dutia and Jeevan Das Dutia. National Insurance company and Asian Insurance company was nationalised in 1972.[3][4] Its portfolio consists of a multitude of general insurance policies, offered to a wide arena of clients encompassing different sectors of the economy.[5] Apart from being a leading insurance provider in India, NICL also serves in Nepal.[6]

National Insurance Company Limited was incorporated on 5 December 1906 with its registered office in Kolkata. Consequent to passing of the General Insurance Business Nationalisation Act in 1972, 21 Foreign and 11 Indian Companies[7] were merged with it and National became a subsidiary of General Insurance Corporation of India (GIC) which is fully owned by the Government of India. After the notification of the General Insurance Business and its India's largest General Insurance Company(Nationalisation) Amendment Act, on 7 August 2002, National has been de-linked from its holding company GIC and presently operates as an independent insurance company wholly owned by Govt of India. National Insurance Company Ltd (NIC) is one of the public sector insurance companies of India. It transacts a non-life insurance business. Headquartered in Kolkata, NIC's network of about 2000 offices is spread over the country. NIC's foreign operations are carried out from its branch offices in Nepal. The paid-up share capital of National is ₹1 billion. Starting off with a premium base of ₹50 crores in 1974, NIC's gross direct premium income has steadily grown to about ₹160 billion rupees in the financial year 2017–18. National transacts general insurance business of Fire, Marine and Miscellaneous insurance. As of 2010, NICL has a AAA rating from Indian rating agency, CRISIL, a subsidiary of Standard and Poor's Company.[9][10] The gross premiums from underwriting by the company grew by 32.22% to over ₹61 billion during the Financial Year 2010–2011. And Gross Premium grew up to 100 billion during the financial year 2013–2014.[11] With this, the company was ranked second among general insurance companies operating in India, behind New India Assurance, at the end of the 2014 Financial Year.[11] With about 2000 offices and approximately 11,000 employees and many more agents, the company operates in all of India, and neighbouring Nepal.[3] In 2008, the company signed a deal with HCL Technologies worth almost ₹4 billion to outsource the company's information technology requirements over 7 years.[12] On the 2nd of February 2018, the Government of India announced the merger of National Insurance Company Limited with United India Insurance Company and Oriental Insurance.[13]

## III.RESULTS

History of Insurance in India dates back to the writings of Manu (Manusmriti), Kautilya (Arthashastra), and Yagnavalkya (Dharmasastra). History of Insurance is deep-rooted to a couple of centuries ago in the 1800s. Let us learn more about the history of the insurance industry through this article for banking and awareness preparation for UPSC IAS and suchlike exams.

The life insurance business in India was introduced in 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. However, the company failed in 1834.Then in 1829, the Madras Equitable set out with the business of transacting life insurance in the Madras Presidency.In 1870, the enactment of the British Insurance Act came into picture and during the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874), and Empire of India (1897) were begun in the Bombay Residency.The era was evidently dominated by the foreign insurance offices like the Albert Life Assurance, Liverpool and London Globe Insurance, and Royal Insurance. These entities gave a hard competition to the ones being set up in India. In India, the history of insurance finds its roots in the mentions of the writings of Manu (Manusmrithi), Kautilya (Arthasastra), and Yagnavalkya (Dharmasastra).

The writings suggest pooling of resources that could be re-distributed in times of calamities like epidemics, floods, fire, famine, etc. Ancient Indian history has preserved the earliest traces of insurance as in the marine trade loans and carriers' contracts. In all, the insurance sector in India has taken its shape inspired by the other countries, especially, from England.The advent of the life insurance business in India was introduced in 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. However, the company failed in 1834. The Madras Equitable had begun transacting life insurance business in the Madras Presidency in 1829.[8]

The enactment of the British Insurance Act took place in 1870. Besides, in the last thirty years of the nineteenth century, the Bombay Mutual (1871), Oriental (1874), and Empire of India (1897) were set up in the Bombay Residency.However, this period was particularly dominated by the foreign insurance companies like Albert Life Assurance, Liverpool and London Globe Insurance, and Royal Insurance.The Indian Life Assurance Companies Act of 1912 was the first statutory entity to regulate the life insurance business in the country. The government of India began publishing the returns of the Insurance Companies in India in 1914.The Indian Insurance Companies Act was enacted in 1928 in order to enable the government to collect statistical data about both life and non life businesses carried out in India by the Indian as well as foreign insurers including the provident insurance societies.In 1938, the earlier legislation was consolidated and amended by the Insurance Act of 1938 with a view to protect the interest of the insurance public.The Insurance Amendment Act of 1950 abolished Principal Agencies. Moreover, there were a large number of insurance companies and the level of competition was high as well. Amid allegations of unfair trade practices, the government of India therefore decided to nationalize the insurance business.

## IV.CONCLUSIONS

If life insurance could be nationalised, why not non-life insurance? And with that idea, Parliament, on 20 September 1972, passed the General Insurance Business (Nationalisation) Act [1] (GIBNA) for the "acquisition and transfer of shares of Indian insurance companies and undertakings of other existing insurers." Amongst its objectives: to serve better the need of the economy, to develop the general insurance business in the best interests of the community, to prevent concentration of wealth and to regulate and control the industry. In one stroke, Parliament nationalised[9] the general insurance business of 55 Indian companies and the undertakings of 52 foreign insurers. The next month, these 107 companies were amalgamated into four separate companies — National Insurance Company Ltd, Oriental Insurance Company Ltd, New India Assurance Company Ltd and United India Insurance Company Ltd — with geographical equity embedded into the structure by placing their head offices at Kolkata (then, Calcutta), New Delhi, Mumbai (then, Bombay) and Chennai (then, Madras) respectively. On 22 November 1972, General Insurance Corporation (GIC) was incorporated to control and run the business of general insurance. The government transferred all its shares of the four companies to it, turning GIC into a holding company. Following the formation of the Insurance Regulatory and Development Authority on 19 April 2000 through an Act, [2] an amendment ended the monopoly of GIC over the general insurance business. The amendment to the Act — General Insurance Business (Nationalisation) Amendment Act — turned GIC into a reinsurer, [3] removed its supervisory role over the four subsidiaries and transferred the shares vested with it back to the government. From 1972 to 2002, this journey of GIC — from nationalisation to a general insurance monopoly to opening up to private competition and finally to become a reinsurer — mirrors the direction of India's overall economic path over three decades. As with the nationalisation of life insurance, the government's main objective seemed to have been "pooling in of people's money and mobilising them to invest in key sectors," [4] which the government deemed important from the point of view of development. In other words, financial repression of citizens to support socialist and political objectives.[10]

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