Insurance Industry in India: A Journey from British India to Independent India

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ABSTRACT
Insurance has long history in India. The insurance process has been developed to defend the interests of common man from ambiguity by giving some assistance. The insurance policy is more important. The insurance provides protection and defense against the loss on an exacting occasion. The insurance sector is divided in two parts life and general or non-life Life insurance deals with only human lives and non-life deals with other than human life. In 1818, a British company called Oriental Life Insurance setup the first insurance firm in India followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. The government created a specific Board to deal with promotion of FDI in India and to be the sole agency to handle matters related to FDI. Private insurance has able to obtained 13 per cent of the life insurance market and 14 per cent of non-life market within very short period of time. However, there is still an enormous demand of insurance in market. The objective of this paper is to study the growth and progress of insurance industry in India.

Keywords: General Insurance, Insurance, IRDA, and Life Insurance Corporation of India.

I INTRODUCTION

The concept of insurance has been a long history in India. Overseas traders practised a system of marine insurance. The joint family system which is a part of Indian culture was a technique of social insurance to the members of the family. In Indian Constitution division of powers between the Centre and the States are present, which is the feature of federal system. The Central Legislature is empowered to regulate the insurance industry in India and hence the law in this regard is uniform throughout the territories of India.

Global insurance premiums grew by 2.7 percent in inflation-adjusted terms in 2010 to $4.3 trillion, climbing above pre-crisis levels. The return to growth and record premiums generated during the year followed two years of decline in real terms. Life insurance premiums increased by 3.2 percent in 2010 and non-life premiums by 2.1 percent. Insurance regulators were introduced in 2014 for increasing ability to scrutinize entire insurance group's financial condition. Direct regulation of non-insurance entities is still away from the reach of the legal authority of most regulators. It is important to improve it (Insurance, 2015).

II MEANING OF THE CONCEPT

Insurance is the reasonable move of the risk of a loss, from one unit to other in exchange for payment. It is a form of risk management primarily used to hedge against the danger, uncertain loss. Insurance involves pooling funds from many insured entities to pay for the losses that some may incur. The insured entities are protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be an insurable risk, the risk insured against must meet certain characteristics (Insurance, 2015).

Health insurance can be defined as a way to distribute the financial risk associated with the variation of individuals' health care expenditures by pooling costs over time through pre-payment and over people by risk pooling (Acharya, 2012). Investment income is a key determinant in the calculation of premium rates for any insurance company under the various insurance policies/schemes and for declaration of bonus by life insurers. It is a core function of an insurance company, which cannot be outsourced by an insurer (Bhimrao, 2011).

III LITERATURE REVIEW

Krishnamurthy (2005) in his paper "Insurance Industry in India: Structure, Performance, and Future Challenges" found that insurance companies are playing vital role for offering products. They are also facing various challenges like demand conditions, competition, product innovations, delivery and distribution systems, use of technology, and regulation. From Venkatesh (2013) article "A Study of Trend Analysis in Insurance Sector in India", we known Indian insurance companies are growing very fastly. Population of India is increasing rapidly and also raising the purchasing capacity. It is showing that in future there will be huge demand. Srivastava et al (2012) in their report "Indian like insurance industry: The changing trends" concluded that insurance industry contributes in employment generation and also increasing the social security. The progress of the sector in India has been exceptional. The insurance industry also changing as the market is changing.

Dash & Pany (2013) in their paper "Insurance industry in India: Prospects and challenges" discuss about the development of insurance industry in India. According to them life Insurance potential can be examined by Insurers in details from three angles i.e. in terms of insurable population, savings and consumption expenditure. E-Commerce and market conducts are two important areas which will strengthen the relationship between companies, consumers and regulators. In most of the countries, Insurance industries have not been allowed to operate in a free and competitive environment and are saddled with avoidable restrictions. The market forces should be allowed to operate and determine as to which are the best products and optimum price in the interest of the consumers. Singh & Gautam (2014) in their paper "Foreign Direct Investment and Indian Insurance Industry" investigate the Indian insurance industry and review current policy and regulations with a viewpoint of foreign investors so as to gain an understanding of the current position on FDI, as well as an overview of the Indian Policy and Regulatory Environment. Liberalization of insurance creates an environment for the generation of long term contractual funds for infrastructural investments.

In reveals from Bedi & Singh (2011) paper "An empirical analysis of life insurance industry in India" that life insurance companies in India were faced various constrains during its journey. There are various favourable factors helps for its growth. This paper also analyse the overall performance of Life Insurance Industry of India between pre and post economic reform era. From Kannan (2000) paper "A Study on the Growth of Indian Insurance Sector" we can say that Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalisation) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts are the basic acts which govern the insurance sector. For large untapped market and popularity, insurance industries have good future. Today it stands as a business growing at the rate of 15-20 per cent annually. With combination with banking sector, it contributes seven percent. Considering the all things it can say that growth of insurance sector is not upto expectation. In India yet 80 percent people do not have insurance.

IV TYPES OF INSURANCE

The insurance sector is divided in two parts life and general or non-life Life insurance deals with only human lives and non-life deals with other than human life. Life insurance contracts can be for short periods (for example, accidental death) or very long periods (for example, whole of life). In consequence life insurance can intrinsically include a savings element, and in many late transition and industrial countries this component dominates funds flows in the sector (Lester, 2009).

Life insurance is a contract between an insured (insurance policy holder) and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money in exchange for a premium, upon the death of the insured person. Life policies are lawful agreements and the terms of the agreement describe the restrictions of the insured events (Life Insurance, 2015). General insurance or non-life insurance policies, including automobile and homeowners policies, provide payments depending on the loss from a particular financial event. General insurance is typically defined as any insurance that is not determined to be life insurance. It is called property and casualty insurance (General Insurance, 2015).

(a) Importance of Insurance- Insurance can have different impact on people. It provides more safety to the family. It plays vital role in nuclear family, means small family. In joint family, other members of the family help when it needs by any family member, but it not possible in small family. Health insurance, life insurance and other general insurance are more popular in small family. It helps the family if any incidence happens against the earning member of the family (Insurance, 2015).

Natural calamities are an important feature in every country for global warming. Agriculture is affects more by it directly. Many banks and other institution are running various agriculture insurance schemes. Government sector is more ahead here as we compare with private sector. As agriculture and industry are interconnected, i.e. agriculture is the source of raw materials, so industries are also affected for it (Francis, 2015).

Health is an important constituent of human resource development. Good health is real wealth of society. It not only increases human efficiency but also decreases private and public expenditure on sickness and diseases. Health has been declared as a fundamental human right. Healthcare services help to reduce infant mortality rate, check crude death rate, keep diseases under control and raise life expectancy. World development report 1993 stated, Improved health contributes to economic growth in four ways: It reduces production losses caused by worker illness, it permits the use of natural resources that had been totally or nearly increasable because of disease, it increases the enrolment of children in schools and makes them better able to learn, and it frees for alternative uses resources that would otherwise have to be spent on treating illness. Health insurance can provide financial protection to households in the event of health shock and can reduce catastrophic out-of-pocket expenditure on health care (Yellaiah, 2013).

Having health insurance is important for several reasons. Uninsured people receive less medical care and less timely care, they have worse health outcomes, and lack of insurance is a fiscal burden for them and their families. Moreover, the benefits of expanding coverage outweigh the costs for added services. Safety-net care from hospitals and clinics improves access to care but does not fully substitute for health insurance.

(b) Insurance Industry in British India - In India, insurance has a deep-rooted history. It finds mention in the writings of Manu, Yagnavalkya and Kautilya. In 1818, a British company called Oriental Life Insurance setup the first insurance firm in India followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829 (Srivastava et. al. 2012). Government of India started publishing returns of Insurance Companies in India in 1914. The Indian Life Assurance Companies Act, 1912 was known as the first statutory assess to control life dealing. 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. Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers was introduced in 1938 for protecting the interest of the people (Venkatesh, 2013).

General insurance on the other hand also has its origins in the United Kingdom. The first general insurance company Triton Insurance Company Ltd. was promoted in 1850 by British nationals in Calcutta. The first general insurance company established by an Indian was Indian Mercantile Insurance Company Ltd. in Bombay in 1907. Eventually, with the growth of fire, accident and marine insurance, the need was felt to bring such kinds of insurance within the purview of the Act of 1912 (Mahtani, 2002).

(c) Growth of Insurance Industry since Independence- Insurance business gives advantage to the economic activity of the nation and added social security among the people. The growth of the insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy (Srivastava et. al. 2012). Insurance in India started without any regulations in the nineteenth century. After the independence, the Life Insurance Company was taken by government in 1956, and then the general insurance business was taken by government in 1972. The LIC had monopoly till the late 90swhen the insurance sector was reopened to the private sector. The government created a specific Board to deal with promotion of FDI in India and to be the sole agency to handle matters related to FDI. The 'Foreign Investment Promotion Board' (FIPB) as it is known, is chaired by the Secretary Industry (Department of Industrial Policy & Promotion or DIPP) within the office of the Prime Minister. Its key objectives are to promote FDI in India with investment promotion activities both domestically and internationally by facilitating investment in the country via international companies, NRIs (non-resident Indians) and other forms of foreign investors (Singh & Gautam, 2014).

Life Insurance Corporation of India (LIC) is an Indian owned insurance group and investment company headquartered in Mumbai. It is the major insurance corporation in India. The company was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalised the private insurance industry in India. Eventually, the Parliament of India passed the Life Insurance of India Act on June 19, 1956 creating the Life Insurance Corporation of India, which started operating in September of that year. It consolidated the life insurance business of 245 private life insurers and other entities offering life insurance services, this consisted of 154 life insurance companies, 16 foreign companies and 75 provident companies. There are various products that offer by LIC, i.e. insurance plans, pension plans, unit-linked plans, special plans and group schemes. Today, the LIC has 8 zonal offices, around 113 divisional offices, 2,048 branches and 992 satellite offices and corporate offices (Life Insurance Corporation of India, 2015).

There are various insurance acts in India which governs the insurance sector, like as Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts (Bhimrao, 2011). GIC of India is the sole reinsurance company in the Indian insurance market that have more than four decades experience. After a process of mergers and consolidation, It was re-organized with four fully owned subsidiary companies: National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited (General Insurance Corporation of India, 2015).

Life Insurance is growing rapidly from 2000, because government allows private sector investment upto 26 percent. All private life insurance companies at that time were taken over by LIC. As number of private players are increasing and it's reduce the role of LIC in the market. Life insurance policy in India is growing rapidly ever since the sector opened up for the private and foreign players. The industry is in the throes of competitive market forces. Unlike several industries like telecommunication and oil industry, insurance is not a high capital cost industry (Thakur, 2014).

(d) Health Insurance Sector in India- Health insurance can be defined in very narrow sense where individual or group purchases in advance health coverage by paying a fee called premium. Health insurance in India is considered same as "hospitalization", where the policy covers the hospitalization expenses. The expenses for hospital bed, nursing, surgeon's fees, consultant doctor's fees, cost of blood, operation theatre charges are all covered. Certain diseases which are mentioned in the policy's terms and conditions shall be excluded from coverage or may be covered only after one or two years of the policy issue date. Health insurance is the most emerging sector in India nowadays due to increasing rates of illness and diseases and high expenses incurred in hospitalization and treatments for these diseases (Aggarwal et. al. 2013).

Given that most employment is informal in developing countries, governments are likely to manage compulsory insurance in the formal sector, with limited avenues to cross-subsidize the non-formal sector. The state is likely to offer insurance on a voluntary basis to the non-formal sector where the bulk of the poor work. The prime welfare objectives of social health insurance are to: (i) prevent large out-of-pocket expenditure; (ii) provide universal healthcare coverage; (iii) increase appropriate utilization of health services; and (iv) improve health status. Because of the widespread interest in expanding health insurance coverage, there has been a parallel interest in evaluating the impact of health insurance programmes in terms of their effects on utilization, out-of-pocket spending and health outcomes (Acharya, 2012).

The health sector in India is at the crossroads today. In line with economic progress and liberalization, Indian states are pushing for reforms in the healthcare sector. The private health sector's market size in India is enormous. It contributes to almost 4.2 percent of GDP of India's total health expenditure (5.1 percent of GDP). The signing of the Comprehensive Economic Cooperation Agreement (CECA) by India and Singapore in June 2005 paves the way for increased business and investment opportunities for Singapore companies in the Indian health sector. Recent healthcare utilization surveys show that private health care providers contribute to 60 percent of India's curative health services needs. The Apollo Hospital Group, which is the acknowledged leader in world-class private healthcare in India, currently carries out preventive check-up on about 300 people daily. Medical-related infrastructure development, led by private health care providers, is expected to grow around 13 per cent annually by 2015. This will inevitably lead to an increase in the demand for medical equipments, instruments and hospital supplies in India. India offers much potential in the private healthcare market, and in the pharmaceuticals and insurance sectors (Mathiyazhagan, 2005).

Most of the insurance programmes have been started as a reaction to the high health care costs and the failure of the government machinery to provide good quality care. The objectives range from providing low cost health care to protecting the households from high hospitalization costs. BAIF, DHAN, Navsarjan Trust and RAHA explicitly state that the health insurance scheme was developed to prevent the individual member from bearing the financial burden of hospitalization. Health insurance was also seen by some organisations as a method of encouraging participation by the community in their own health care. In recent years, community health insurance (CHI) has emerged as a possible means of: (i) improving access to health care among the poor; and (ii) protecting the poor from indebtedness and impoverishment resulting from medical expenditures. The World Health Report 2000, for example, noted that prepayment schemes represent the most effective way to protect people from the costs of health care, and called for investigation into mechanisms to bring the poor into such schemes (Devadasan et. al, 2004).

Health sector in India falls under both centre and state government. From the initial state government plays vital role for development of health sector. Central Government Health Scheme (CGHS) and Employees State Insurance Scheme (ESIS) are most important scheme in this direction. Various specialty insurance programme was introduced by LIC in 1993 which covered medical expenses for only four dreaded diseases. The GIC's Jan Arogya Bima Policy is a medical reimbursement scheme and its annual premium is Rs. 70 for the youngest people age group as against the coverage limit of Rs 5,000 per year (Ellis et al. 2000).

The first health insurance in 1986, under the name mediclaim was started by government insurance company. Mediclaim is a compensation base insurance for hospitalization. Outpatient treatments are not cover under it. Mediclaim has provided a model for health insurance for the middle class and the rich. It covers hospitalization costs, which could be catastrophic. But given the premium is on higher side it as remained limited to middle class, urban tax payers segment of the population. There are also problems and negative unintended consequences of this scheme. Over the last several years there have been efforts to develop health insurance by various small NGOs. Some of the prominent among them have been ACCORD in Karnataka, Tribhuvandas foundation, Aga Khan

Health Services, India (AKHSI) and Nav-sarjan in Gujarat, and Sewagram medical college Maharashtra. The privatization of insurance and constitution IRDA envisage improving the performance of the state insurance sector in the country by increasing benefits from competition in terms of lowered costs and increased level of consumer satisfaction (Mavalankar & Bhat, 2000).

Health insurance in India is a growing segment of India's economy. In 2011, 3.9 percent of India's gross domestic product was spent in the health sector. According to the World Health Organization, this is among the lowest of the BRICS (Brazil, Russia, India, China, and South Africa) economies. Policies are available that offer both individual and family cover. Tax deductions facility can avail any person under the Income Tax Act (section 80D). The health insurance sector hovers around 10 percent in density calculations. Lack of competition in the sector is the important factor obstacles before growth of insurance. The Insurance Regulatory Authority of India (IRDA) was introduces for controlling and proper monitoring the insurance sector (Health insurance in India, 2015).

V OPPORTUNITY OF FOREIGN DIRECT INVESTMENT

FDI in the Insurance Industry, as prescribed in the Insurance Act, 1938, is allowed under the automatic route. This will be subject to the condition that Companies bringing in FDI shall obtain necessary license from the Insurance Regulatory & Development Authority for undertaking insurance activities. FDI up to 26 percent in the Insurance Industry is allowed on the automatic route subject to obtaining license from Insurance Regulatory & Development Authority (Singh & Gautam, 2014). Government improved this limit upto 49% recently (Business Standard, March 13, 2015).

VI INSURANCE REGULATORY & DEVELOPMENT AUTHORITY OF INDIA

It is authoritarian and enlargement authority under Government of India for protecting the interest of the investors. It is an important step in history of insurance sector. In the last 10 years of its establishment the insurance sector has seen tremendous growth. It came into effect in the year 1999. This Act removed the exclusive privilege of GIC and its subsidiaries to carry on general insurance business in India. The supervisory role of GIC over the subsidiaries ended and they were made four independent companies.

Mathotra committee on insurance sector reforms recommended throwing it open to private sector in 1994. Following this government of India enacted the IRDA Act, 1999. IRDA is an autonomous authority to control, regulate an develop the insurance sector of India. One of the objectives of setting up was to regulate the investment of funds by insurance companies. The IRDA has practices the pattern of investment to be followed by insurance companies, through the insurance of IRDA (Investments) Regulations, 2000 which were amended in May 2001. The main features of the bill are:

(a) The monopoly of public sector in insurance sector has ended.

(b) This act allows foreign investment upto 26 percent of total share capital of an Indian Insurance group.

(c) The act has given statutory status to Insurance Regulatory and Development Authority set up in 1996.

(d) The minimum solvency margin has been fixed in Rs. 50 crore.

VII CHALLENGES

The Indian insurance industry currently is in a state of instability. After a decade of strong growth, the Indian insurance industry is currently facing severe headwinds owing to: slowing growth, rising costs, deteriorating distribution structure, and stalled reforms. For the Non life sector the problem areas include micro-insurance in non-life widening reach, improved fraud control mechanisms , standardization to reduce claims loss, reducing inefficiencies by revisiting third party administrator (TPA) agreements. Another challenge for the industry is tendency of insurance companies to under price their products to gain an edge over competition, which is also allowing the industry to bleed. Artificial pricing leads to artificially excessive competition. The inadequate development of health related infrastructure in the country is one of the major challenges today for the health insurance sector (Aggarwal et. al. 2013).

VIII CONCLUSION

The subject matter of life insurance is important for human civilization. Most of the insurance policies are combination of savings and security. LIC was established on September 1, 1956, under an Act passed by the parliament with the capital of Rs. 5 crore. It extends help both to new and existing units. The investment policies of LIC are often criticized by many people. It has certainly has favouring large and well to do industrial units under the garb of security. Numbers of companies in life insurance sector are increasing continuously as government increased the FDI limit from 26 to 40 percent. Market of LIC were decreasing since 2000, because of appearing new private players.

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