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A STUDY ON INSURANCE IN INDIA

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ABSTRACT

Insurance in India refers to the market for insurance in India which 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.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] Since the privatisation in 2001, the largest life-insurance company in India, Life Insurance Corporation of India has seen its market share slowly slipping to private giants like ICICI Prudential Life Insurance, SBI Life Insurance Company and Exide Life Insurance.

KEYWORDS: Life Insurance, ICICI, SBI, FDI,India

INTRODUCTION

Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity which provides insurance is known as an insurer, insurance company, or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and must involve something in which the insured has an insurable interest established by ownership, possession, or preexisting relationship.The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated. The amount of money charged by the insurer to the insured for the coverage set forth in the insurance policy is called the premium. If the insured experiences a loss which is potentially covered by the insurance policy, the insured submits a claim to the insurer for processing by a claims adjuster.

OBJECTIVES

The following are the Objectives of the Study;

1. To study the History of Insurance:
2. To study the Insurance Industry structure:
3. To study the Insurance repository:
4. To study the Legal structure of Insurance:
5. To study the Insurance Authorities:
6. To study the Insurance education:
7. To study the Principles of Insurance
8. To study the Social effects of Insurance

1. History of Insurance

In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). 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 its current form has its history dating back until 1818, when Oriental Life Insurance Company[2] was started by Anita Bhavsar in Kolkata to cater to the needs of

European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer.

At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. 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. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company , which was founded in 1906, and is still in business.

The Government of India issued an Ordinance on 19 January 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 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 1 January 1973.

The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies. With effect from December 2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company.

2. Insurance Industry structure

By 2012 Indian Insurance is a US$72 billion industry. However, only two million people (0.2% of the total population of 1 billion) are covered under Mediclaim. With more and more private companies in the sector, this situation is expected to change. 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 [[3]]- 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 75% of the total population are covered under some insurance scheme.

3. Insurance repository

On 16 September 2013, IRDA launched "insurance repository" services in India. It is a unique concept and first to be introduced in India. This system enables policy holders to buy and keep insurance policies in dematerialised or electronic form. Policy holders can hold all their insurance policies in an electronic format in a single account called electronic insurance account (eIA). Insurance Regulatory and Development Authority of India has issued licences to five entities to act as Insurance Repository: CDSL Insurance Repository Limited (CDSL IR) , SHCIL Projects Limited Karvy Insurance repository Limited NSDL Database Management Limited CAMS Repository Services Limited

4. Legal structure of Insurance

Insurance Regulatory and Development Authority The insurance sector went through a full circle of phases from being unregulated to completely regulated and then currently being partly deregulated. It is governed by a number of acts.

The Insurance Act of 1938[4] 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 General Insurance Business Act of 1972 was enacted to nationalise about 107 general insurance companies then and subsequently merging them into four companies. All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance a united India Insurance,ch were headquartered in each of the four metropolitan cities.Until 1999, there were no private insurance companies in India. The government then introduced the Insurance Regulatory and Development Authority Act in 1999, thereby de-regulating the insurance sector and allowing private companies. Furthermore, foreign investment was also allowed and capped at 26% holding in the Indian insurance companies.

In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries.A minimum capital of US$80 million(Rs. 4 billion) is required by legislation to set up an insurance business.

5. Insurance Authorities

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.The industry recognises examinations conducted by the IAI (for 280 actuaries), III (for 2.2 million retail agents, 361 brokers, 175 bancassurers, 125 corporate agents and 29 third-party administrators) and IIISLA (for 8,200 surveyors and loss assessors). There are 9 licensed web aggregators. TAC is the sole data repository for the non-life industry. IBAI gives voice to brokers while GI Council and LI Council are platforms for insurers. AIGIEA, AIIEA, AIIEF, AILICEF, AILIEA, FLICOA, GIEAIA, GIEU and NFIFWI cater to the employees of the insurers. In addition, there are a dozen Ombudsman offices to address client grievances.

6. Insurance education

A number of institutions provide specialist education for the insurance industry, these include; National Insurance Academy, Pune, specialized in teaching, conducting research and providing consulting services in the insurance sector. NIA offers a two-year PGDM programme in insurance. NIA was founded as Ministry of Finance initiative with capital support from the then public insurance companies, both Life (LIC) and Non-Life (GIC, National, Oriental, United & New India).

Institute of Insurance and Risk Management, Hyderabad, was established by the regulator IRDA. The institute offers Postgraduate diploma in Life, General Insurance, Risk Management and Actuarial Sciences. The institute is a global learning and research centre in insurance, risk management, actuarial sciences. They provide consulting services for the financial industry.

Amity School of Insurance Banking and Actuarial science (ASIBAS) of Amity University, located in Noida and established in 2000, offers MBA programmes in Insurance, Insurance and Banking, and MSc/BSc actuarial sciences to a Post Graduate Diploma in Actuarial Sciences.Pondicherry University offers an MBA in insurance management. Pondicherry University is the only central university which offers insurance management in India.

Birla Institute of Management Technology is a graduate business school located in Greater Noida, established in 1988, offers a PGDM-IBM programme in insurance business management. This programme was launched in 2000 by the Centre for Insurance and Risk Management and is accredited by the Insurance Regulatory and Development Authority. Life Office Management Association (LOMA), USA is BIMTECH's educational partner and BIMTECH is an approved centre for LOMA examination. The Chartered Insurance Institute (CII), UK has accorded recognition (by way of credits) to the BIMTECH PGDM-IBM programme. Their two-year PGDM programme in insurance business has been recognised as equivalent to the Associate level of the Insurance Institute of India, Mumbai.

National Law University, Jodhpur offers a two-year MBA and one year MS (for engineering graduates) programme in insurance.

To become an insurance advisor in India, Insurance Act, 1938 mandates that the individual has to be "a Major with sound mind". After the advent of IRDA as insurance regulator, it has framed various regulations, viz. training hours, examination and fees which are amended from time to time. Since November 2011 IRDA has introduced a syllabus (IC-33) conceived and developed by CII, London. The syllabus mainly aims to make an Insurance Agent a financial professional. Recent Initiatives: On 9 May 2015 NDA Government led by Shri.Narendra Modi initiated three social Insurance Security schemes named ATAL PENSION YOJANA,PRADHAN MANTHRI JEEVAN JYOTHI YOJANA, PRADHAN MANTHRI SURAKSHA YOJANA on a massive scale such as 80 million people joined in these schemes in just 3 weeks and still the number is growing.

Principles of Insurance

The following are the Principles of insurance include:

● Indemnity – the insurance company indemnifies, or compensates, the insured in the case of certain losses only up to the insured's interest.

Benefit insurance – as it is stated in the study books of The Chartered Insurance Institute, the insurance company does not have the right of recovery from the party who caused the injury and is to compensate the Insured regardless of the fact that Insured had already sued the negligent party for the damages (for example, personal accident insurance)

● Insurable interest – the insured typically must directly suffer from the loss. Insurable interest must exist whether property insurance or insurance on a person is involved. The concept requires that the insured have a "stake" in the loss or damage to the life or property insured. What that "stake" is will be determined by the kind of insurance involved and the nature of the property ownership or relationship between the persons. The requirement of an insurable interest is what distinguishes insurance from gambling.

● Utmost good faith – (Uberrima fides) the insured and the insurer are bound by a good faith bond of honesty and fairness. Material facts must be disclosed.

● Contribution – insurers which have similar obligations to the insured contribute in the indemnification, according to some method.

● Subrogation – the insurance company acquires legal rights to pursue recoveries on behalf of the insured; for example, the insurer may sue those liable for the insured's loss. The Insurers can waive their subrogation rights by using the special clauses.

● Causa proxima, or proximate cause – the cause of loss (the peril) must be covered under the insuring agreement of the policy, and the dominant cause must not be excluded

● Mitigation – In case of any loss or casualty, the asset owner must attempt to keep loss to a minimum, as if the asset was not insured.

● Indemnification: To "indemnify" means to make whole again, or to be reinstated to the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally three types of insurance contracts that seek to indemnify an insured:

7. Social effects of Insurance

Insurance can have various effects on society through the way that it changes who bears the cost of losses and damage. On one hand it can increase fraud; on the other it can help societies and individuals prepare for catastrophes and mitigate the effects of catastrophes on both households and societies. Insurance can influence the probability of losses through moral hazard, insurance fraud, and preventive steps by the insurance company. Insurance scholars have typically used moral hazard to refer to the increased loss due to unintentional carelessness and insurance fraud to refer to increased risk due to intentional carelessness or indifference. Insurers attempt to address carelessness through inspections, policy provisions requiring certain types of maintenance, and possible discounts for loss mitigation efforts. While in theory insurers could encourage investment in loss reduction, some commentators have argued that in practice insurers had historically not aggressively pursued loss control measures—particularly to prevent disaster losses such as hurricanes—because of concerns over rate reductions and legal battles. However, since about 1996 insurers have begun to take a more active role in loss mitigation, such as through building codes.

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