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Life Insurance in India: Origin, Growth & Future – (A case study of LIC)

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Abstract:

The insurance is especially a social device adopted by refined society for mitigating the incidence of loss of financial gain to families by unforeseen contingencies. In India, once life insurance firms started in operation within the center of twentieth century the evil play natural to each business had its means. There was a large cut throat competition moreover as profiteering. The declared social aim of insurance had been utterly relegated to background. As a outcome life insurance Corporation of Bharat (LIC) came into existence on 1st sep., 1956 once nationalization of all the 245 firms betrothed in life insurance business. From its origin, the Corporation has created exceptional growth forever attempt for additional improvement.However,Govern men-t created a paradigm modification within the policy by adopting the course of easement, privatization and globalization at the tip of earlier decade. Consequently a committee was started beneath the berth of adult male. Malholtra, Ex-governor of RBI for enterprise a spread of reforms within the insurance sector in the lightweight of contemporary policy. The Committee that submitted his details in 1993 recommended the institution of a special administrative unit on the lines of SEBI and gap of insurance trade for personal region. This was forcefully opposed by the varied trade unions of then in operation insurance firms that led to some holdup in implementation of Malhotra Committee's recommendations. However, the govt. approved Insurance restrictive and Development Authority (IRDA) Act in 1999 and established IRDA to manage the insurance business within the nation. As a result, personal sector was allowable entry each normally and life assurance sector in Bharat. IRDA additionally allowable foreign participation up to twenty six per cent in

equity belongings of personal firms. As a result varied firms (both General and life insurance) got themselves registered with IRDA to operate in Asian Bharat.

Keywords: - Policy, Insurance, Industry, Government, Recommendations, Reforms.

Introduction:-

Every risk has involves the loss of one or the other kind. The function of insurance is to spread this loss over a large number of persons who are exposed to a particular risk co-operate to share the loss caused by that risk whenever it takes place. Thus the risk is not averted but the loss on its occurrence is shared by the members. Insurance not only equalizes losses and distributes heavy sudden losses over a long period of time, but it takes the amount of loss from a business in such amounts and at such times that no vital want is left unsatisfied.

The function of insurance is to provide certainty. From the point of view of the insured, the risk is reduced by making a small payment. Reduction of risk fosters security which permits better planning in life and in business. This helps in better apportionment of resources, with a resulting increase in productivity.

Insurance companies also make a vital contribution to the economy by decreasing the chance of loss prevention activities. In many western countries the insurance companies spend large sums of money every year in an effort to make the public safety-minded.[1]

Life Insurance Industry in India

Life insurance industry in India progressed from a loosely regulated market controlled by two groups of private life insurance companies in the early phase to a non-competitive monopoly phase where the industry was represented by a single entity, that is, LIC of India in a planned economic environment. From government controlled monopoly, the industry moved on to the phase into a competitive market environment with the presence of many private and public sector life insurance companies under a well-designed regulatory environment.

In all the tree phase, Indian life insurance industry strengthened itself in terms of reach, concern about consumers and management strategy. Life insurance also played a very crucial role in development of national economy, particularly during the post- nationalization period. But the most dynamic phase of possible growth has begun with the deregulation and liberalization of the insurance sector. Insurance industry has not only been deregulated but the regulator has taken a number of initiatives for healthy growth[2]

A Sight on Historical Background of Indian Insurance Industry:

In India, insurance has a deep-rooted the past. It finds point out in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in period of calamities such as fire, floods, epidemics and famine. This was possibly a pre-cursor to modern day insurance. Ancient Indian history has conserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time a lot drawing from other countries, Britain in particular.

1818 saw the starting of life insurance business in India with the origin of the Oriental Life Insurance Company in Calcutta. This Company however unsuccessful in 1834. In 1829, the Madras Equitable had started transacting life insurance business in the Madras Presidency. 1870 saw the enactment of British people Insurance Act and within the last 3 decades of the nineteenth century, the Mumbai Mutual (1871), Oriental (1874) and Empire of Bharat (1897) were started within the Mumbai Residency. This era, however, was fully out by alien insurance offices that did well business in Bharat, particularly Prince Albert insurance, Royal Insurance and London Globe Insurance and therefore the Indian offices were up for powerful competition from the foreign firms. [3]

In 1914, the Indian Govt. started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first legal measure to regulate life business. In 1928, the Bhartian Insurance firms Act was enforced to create possible the govt. to assemble applied mathematics data concerning equally life and non-life business transacted in India by Indian and foreign insurers yet as provident insurance societies. In 1938, with a read to protective the interest of the Insurance public, the previous legislation was consolidated and amended by the Insurance Act, 1938 with wide provisions for effective management over the actions of insurers.

The Insurance Amendment Act of 1950 abolished main Agencies. However, there were a huge 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 industry. A regulation was issued on nineteenth Jan., 1956 nationalizing the life Insurance area and life Insurance Corporation came into subsistence within the same year. The LIC engaged 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had domination till the late 90s when the Insurance division was reopened to the private region.

This millennium has seen insurance come a full sphere in a journey extending to nearly 200 years. The development of re-opening of the sector had started in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, Indian Govt. set up a committee under an able leadership of R.N. Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance area. The objective was to complement the reforms started in the financial sector. The committee submitted its details in 1994 wherein, among other things, it suggested that the private sector be allowed to enter the insurance industry. They declared that foreign companies are allowed to go in by floating Indian companies, preferably a joint venture with Indian associates.

Following the recommendations of the Mr. Malhotra Committee report, in 1999, IRDA was constituted as an autonomous body to control and enlarge the insurance industry. The IRDA was included as a statutory body in April, 2000. The main aim of the IRDA includes promotion of competition so as to get better customer pleasure through improved consumer option and lower premiums, while ensuring the economic security of the insurance market.

The IRDA opened up the bazaar in August 2000 with the invitation of application for registrations. Foreign companies were permitted ownership of up to 26%. The Authority has the command to frame regulations under Section 114A of the Insurance Act, 1938. Currently, there are twenty eight general insurance firms with the ECGC and Agriculture Insurance Corporation of Bharat and twenty four life assurance companies operating within the country.[4]

Growth of Life Insurance of India:-

1. **Nationalization of the Life Insurance Industry in India**

The Insurance Act (1938) has been broadly used as a reference by the insurance industry until the industry was nationalized. The life insurance industry was nationalized in 1956 and general insurance industry nationalized in 1972.[5]

The life insurance industry was nationalized. The main reasons are: (a) insurance companies should be “cooperative enterprises” under the socialist form of government, (b) the insurance products are expensive, (c) there is no improvement in services delivered to the policyholders in particular and the society at large, (d) the lapse ratios are very high and hence it leads to the waste of economic resources, (e) there is no improvement in protecting public health, medical check-up and hazard prevention activities and (f) failure of many insurance companies due to the mismanagement is not healthy for the country’s financial system. Nationalization took place with the hope that with the economies of scale, the cost can be cut down and the lower premium can be offered to the market. In addition, the government can promote the life insurance products to the countryside areas, which are not the interest of the private insurance companies due to non-profitability. The main objective of nationalization of the life insurance industry is to meet up the social purpose of insurance and introduce it to the ignored rural areas. Due to the nationalization in 1956, 245 companies together with foreign own companies were taken over by the government (Life Insurance Corporation of India, 2004). Hereafter, life insurance operated under the publicly owned Life Insurance Corporation (LIC) of India based on the Life Insurance Corporation Act 1956.

2. After Nationalization until Liberation of the Industry

After nationalization of the insurance industry, the Malhotra Committee was established in 1993. The Chairperson of this committee is R.N. Malhotra who is the retired Governor of the Reserve Bank of India. The Objectives of this committee are (a) to suggest the structure of insurance industry by assessing the strong points and weak points of the industry, coverage of the insurance products, eminence of insurance services, competence and variability, (b) to recommend for changes in the structure of insurance industry and changes in general policy framework, (c) to suggest LIC and GIC to improve their functioning, (d) make recommendation on regulation and supervision of the insurance sector, (e) to make recommendation on the role and functioning of the agents and (f) to propose on any matter for the growth of the insurance industry in India.

This committee conducted a survey examining the impact of nationalization. For life insurance, LIC was able to provide a satisfactory level of service according to the customers’ satisfactory survey. LIC managed to attract 60 to 70 million policyholders and lengthened into country areas.

However, in the case of general insurance, a few unfavorable issues were faced after nationalization of the general insurance companies. In 1972, General Insurance Corporation (GIC) of India was built-in under the Companies Act 1965 to manage and work the business of general insurance of India after nationalization. GIC is 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. The performance of GIC was criticized by the Malhotra Committee by pointing out the unavailability of complete and up-to-date data. In addition, with the amendment of the Motor Vehicles Act 1939, there as an increase in third party liability and hence, the premium should be higher. However, because of political pressure, the premium cannot be augmented and thus it does not replicate the market price. Therefore, GLC incurred huge losses in motor insurance. This led to the abatement of the Tariff recommended Committee on 1st April 2006. Additionally, the competence of four subsidiaries is questioned and it has been recommended that these subsidiaries should be self-governing companies and GLC should not be the holding company and should focus exclusively on reinsurance. Interestingly, the report from Price Waterhouse Coopers was different to the suggestions of the Malhotra Committee. Price Waterhouse Cooper's suggested merging the four subsidiaries for bigger efficiency. These companies came out with the "voluntary retirement scheme" to decrease the figure of staff since they were overstaffed. In 1995, the Mukherjee Committee was set up. The purpose of this committee is to provide a concrete plan for newly formed insurance companies. The report of this committee is not disclosed to the public. This committee also focuses on the crystal clear disclosure of the financial information. After the report from the Malhotra Committee, the political instability slowed the process to liberalize the insurance industry. The Indian Cabinet permitted the Insurance Regulatory Authority (IRA) Bill on 16th March 1999. After the new government came into subsistence, the Insurance Regulatory and Development Authority Act (which is now called the Insurance Regulatory and Development Authority) was agreed on 7th December 1999, aimed at liberalizing the insurance business. Starting from early 2000, private companies are given licenses for insurance, according to life, general and reinsurance.[6]

3. Current status of Insurance sector

After the liberalization of the insurance area, the public area insurance companies have continued to manage the insurance market, enjoying over 90 per cent of the bazaar share. Indeed, the LIC, which is the merely public sector life insurer, enjoys over 98 per cent of the bazaar share in Life insurance. A main responsibility played by the insurance sector is to mobilize national savings and channelize them into investments in diverse sectors of the market. However, no important change seems to have occurred as far as mobilizing savings by the insurance area is concerned, following the liberalization of the insurance zone in 1999. The development of the savings in life insurance by the households to GDP proportion, while showing a clear upward trend through the 1990s signifying increasing business for the insurance sector, does not demonstrate any structural break after 1999. [7]

It can be inferred that the foreign capital which flowed in after the opening up of the insurance sector has not been accompanied by any technological innovation in the insurance business, which would have created bigger dynamism in savings mobilization. Far from expanding the marketplace for the insurance sector, the business activities of the private companies are limited in urban areas, where a fairly good market network of the public sector insurance companies already exists. The glaring facts for this are the composition of agents operating in the insurance area. According to the IRDA Annual Report, 2002-03, the number of insurance agents in urban and rural India was in 100:76 ratios in the public sector companies. For the private insurance companies this share was 100:1.4. Due to their urbanized operational activity, the private insurance companies can neither increase the insurance base of the economy significantly, nor lead to substantial employment generation. Given this scenario, further increase in foreign participation is only going to lead to intensified competition for the urban insurance markets, rather than leading to a growth in overall savings.[8]

While the proposals for hike in FDI were placed, the arguments advanced were that FDI will continue to be encouraged and actively sought, particularly in areas of infrastructure, high technology and exports. The Life Insurance Corporation of India (LIC) was recognized in 1956 as a legal Corporation under the Life Insurance Act, 1956, to carry on life insurance industry. The first 150 years of the British law in India were characterized by unstable economic conditions. The first war of independence in 1857, the World Wars I and II (1914-

1918 and 1939-45) and India's national struggle for freedom had adverse effect on the economy. In addition to this the period of worldwide economic crisis in between the two World Wars termed as the period of Great Depression led to the high rate of bankruptcies and liquidation of most Life Insurance Companies in India that existed during that time.[9]

Existing as a towering insurance company for over 50 years, LIC has acquired almost control power in the solicitation and sale of life insurance policies in India. In accumulation to the summary regarding the present figure provided at the commencement, LIC has extended its actions in 12 countries other than India with the purpose of catering to the insurance requirements of Non Resident Indians. The sole insurer linking to the general public space currently should struggle with several different company entities of its kind which regularly are heavyweight Bhartyian yet as worldwide life Insurance brands in themselves.[10]

Conclusion :

After the reforms in insurance sector, life insurance industries have seen a remarkable growth moreover; the policies measures provided a favorable environment for insurance firms to prosper in the country. The share of the life insurance business in total insurance business was very high at 80.2% and it is ranked 10th among 88 countries. LIC has been successfully able to create value for its customers or policy holders. By analyzing the pre and post performances, It is showing a respectable growth in its business. There is enormous potential for life insurance and no doubt that LIC still enjoys immense goodwill in our country. But private players are giving cut throat competition, So LIC has to made more efforts to enhance its business in terms of technology distribution network, technological innovations, client relationship and quality.

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