ISSN 2278-8808
An International Peer Reviewed & Referred
SCHOLARLY RESEARCH JOURNAL FOR INTERDISCIPLINARY STUDIES
UGC APROVED SR. NO. 49366
SJIF 2016 = 6.177

A BRIEF HISTORY OF INSURANCE SECTOR IN INDIA

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The history of general insurance can be traced back to the early civilization. As civilization progressed, the incidence of losses started increasing giving rise to the concept of loss sharing. Loss of profit insurance was practiced by the Aryans through their village co-operatives. It was also practiced by the Mediterranean merchants in the 14th century B.C. through the issue of Bottomry Bonds. The code of Manu indicates that there was the practice of marine insurance carried out by the traders in India with those of Srilanka, Egypt and Greece (Jadhav, P., 2002)[1].

The earliest transaction of insurance as practiced today can be traced back to the 14th century A.D in Italy when ships were only covered. This practice of marine insurance gradually spread to London and during the 16th century it was established in the mercantile transactions. The history of Marine insurance is closely linked with the originand rise of the Lloyds ship owners (Kaur, M. & Sharma, R., 2003)[2]. Captains and merchants used to gather in a coffee-house to deal with the various problems. Individual merchants started adopting marine risks to their other line of activity. The coffee-house made remarkable progress in individual undertaking and thus this practice grew up (Bodla., 2003)[3]. The Lloyds Act was framed to setup the Lloyds by which they were empowered to transact other classes of insurance. Today Lloyds is regarded as the largest insurance underwriter in the world (Mahima, M. 2002)[4].

History of insurance development in India

Insurance in its modern form first arrived in India through the British company called the oriental life insurance company in 1818, followed by the Bombay assurance company in

1823, and the Madras Equitable life insurance society in 1829. They insured the lives of Europeans living in India. The first company that sold policies to Indians with "fair value" was the Bombay Mutual life Assurance society starting in 1871 then Oriental Government Security Life Assurance Company in 1874. (Mahapatra, R. & Patra, S., 2004)[5].

Important milestones in general insurance industry in India

In 1850 Triton Insurance Company Limited became the first general insurance company established in India, it was based in Calcutta. In 1907 Indian Mercantile insurance company limited was set up as the first company to transact all classes of general insurance businesses. In 1957 General insurance council, a wing of the insurance association of India framed a code of conduct for ensuring a fair conduct and sound business. In 1968 Insurance Act was amended to regulate investments and set a minimum solvency margins and the tariff advisory committee (TAC) was set up. In 1972 the

General Insurance Business (Nationalization) Act, 1972 was passed to nationalize the general insurance business in India with effect from 1-1-1973 (Sasidharan, 2007). And finally in 1999 the current act, the Insurance Regulatory Development Authority (IRDA) Act, was passed to open insurance sector (both life and non life) to private participation.

List of General Insurance Companies in India as in June 2008.

Public Sector (6) National Insurance Company Limited (Calcutta) New India Assurance Company Limited (Bombay)Oriental Insurance Company Limited (Delhi) United India Insurance company Limited (Madras) Export Credit Guarantee Corporation Limited Agriculture Insurance Company of India Limited Private sector (15) Bajaj Alliance General Insurance Company Limited ICICI Lombard General Insurance Company limited Reliance General Insurance Company Limited

IFFCO-Tokio General Insurance Company Limited Royal Sundaram Alliance Insurance Company Limited. Tata AIG General Insurance Company Limited. Cholamandalam General Insurance Company Limited HDFC Chubb General Insurance Company Limited Star Health and Allied Insurance Company Limited Apollo DKV Insurance Company Limited. Future Generali India Insurance Company Limited Universal Sampo General Insurance Company Limited Shriram General Insurance Company Limited. Bharti Axa General Insurance Company Limited.

Raheja QBE General Insurance Company Limited. Re-Insurer (1) General Insurance Corporation of India (GIC) (www.banknetindia.com/ finance) Regulation of insurance companies began with the Indian Life Assurance companies Act 1912. In 1938, all insurance companies were brought under regulation when a new insurance Act was passed. It covered both life and non life insurance companies. It clearly defined what would come under life and non life insurance business. The act also covered, among others, deposits, supervision of insurance companies, investments, commissions of agents and directors appointed by the policyholders. This piece of legislation lost significance after the insurance business was nationalized in 1956 (life) and 1972 (non-life), respectively. When the market was opened again to private participation in 1999, the earlier insurance act of 1938 wasreinstated as the backbone of the current legislation of insurance companies as the IRDA Act, 1999 was superimposed on the 1938 Insurance Act. By Mid- 2008 there were 21 companies in the general insurance sector operating in India. Six of them are public sector companies, of which four were former subsidiaries of the GIC that operated as nationalized companies, and the other two are export credit guarantee cooperation limited and the Agriculture insurance company of India limited. The rest are private sector companies. Most of these private sector companies have foreign partners with a maximum of 26 per cent of share, but there are also pure domestic companies (e.g. Reliance General Insurance Company Limited).

It is also encouraging sign that regulators are ready to accommodate more diverse forms of corporate channel for the distribution of insurance. At the same time, in a few joint ventures, Indian banks shared the domestic equity portion with other non banking entities. It still remains to be seen how this new mode of corporate co-operation will develop.

Nationalization of General Insurance Business

Prior to nationalization, the general insurance business in India was transacted by 107 companies (63 domestic and 44 foreign). Under the general insurance business Nationalization Act, 1972, these were amalgamated and grouped into four operating companies; National Insurance Company Limited head office New Delhi, the New India Assurance Company Limited head office Mumbai and United India Insurance Company Limited head office Chennai. They become subsidiaries of holding company, namely General Insurance Corporation of India which came into being on January 1st 19734 (Maheswari, J., 2005)[6].

Objects of GIC

There were several objectives for setting up this structure, they can be summarized as follows; to set up standards of conduct, sound practices and provisions of efficient customer service in general insurance business. The GIC was to help control the expenses of the subsidiaries. It was to help with the investment of funds for its four subsidiaries. It was to bring general insurance to the rural areas of the country, by distributing business to the four subsidiaries, each operating in different areas in India. GIC was also designated the national re-insurer. By law, all domestic insurers were tocede 20 per cent of their direct gross premium India to the GIC. The idea was to retain as much risk as possible domestically. This was intern motivated by the desire to minimize the expenditure in foreign exchange. All four subsidiaries were supposed to compete with each other (Desai, 2006).

Global Scenario of Insurance Sector

In 2005, worldwide insurance premiums amounted to USD 3426 bn of this, USD 1974 bn accounted for life and USD 1452 bn to non life insurance. In real terms, total premium volume grew by 2.5 per cent while life premiums increased by 3.9 per cent, non life premiums increased by 0.6 per cent. Profitability in life insurance improved compared to 2004. Non life business remained profitable despite huge hurricane losses in the U.S. High economic growth, moderate inflation, low interest rates and favorable stock markets in Europe, Japan and in the emerging markets contributed to growth in the insurance industry. Profitability of life business has continued to improve in many

countries due to lower costs. In the year 2004-05, non life business growth slowed down due to decline in premium rates in commercial lines such as aviation and marine, which had experienced

sharp increases in rates between 2001 and 2004. Premiums in emerging markets like India continued to outgrow than in mature insurance markets. Profitability in non life business remained sound with favorable underwriting experience. Despite the huge catastrophe losses, capital in the industry continued to rise in line with higher exposure. This development was supported by new capital flowing into the markets.

Growth of Insurance Sector

In a period of a half a century, the insurance sector in the country has come full circle, from being an open competitive market to full nationalization and then back again to liberalized market in which private players and public sector companies are on a level playing field (Kapse, 2003). Most of the new companies in the industry have entered the market as joint ventures (JV) with participation of a foreign partner holding up to 26% of the total paid-up equity capital. The opening of the sector to the private players witnessed with introduction of

a number of new products deserving the attention of the customers and possibly the Indian Insurance market is one of the fastest growing markets. The
factors that support the possibilities for increased penetration of the Indian market are the emerging socio-economic changes, increased wealth, education and awareness of insurance needs. Insurers are increasing introduction of innovative products to meet the specific needs of the prospective policy holders. The industry is today slowly emerging from the shadows of insurance being a synonym to life insurance corporation (LIC).

The insurance sector in India, which was opened up to private participation in the year 1999, has completed a decade in a liberalized environment. With an average annual growth of 37 per cent in the first year premium in the life segment and 15.72 per cent growth in the non-life segment, together with the largest number of life insurance policies in force, the potential of the Indian insurance industry is still large. The non life public sector insurers have been rather slow to respond to the evolving competition compared to the life segment. Both the authority and the industry have been playing an active role in increasing consumer awareness. In addition, the insurance companies in general and private insurance companies in particular, are reaching out to untapped semi urban and
rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments.

The penetration ratios of health and other non-life insurance in India is also well below the international level. These facts indicate immense growth potential of the insurance sector. Since opening up of the insurance sector in 2000, 24 private companies have been granted licenses and foreign investment of Rs.1688.67 crore has been made into the Indian market by the end of 2005-06. (www.irdaindia.org, 2006). By end March 2006, there were 15 life and 15 non-life insurance companies of the non-life insurance companies two are specialized insurance companies Viz. Agricultural Insurance Company (AIC) which handles crop insurance business and Export Credit Guarantee Corporation (ECGC) which transacts export credit insurance.

INSURANCE PENETRATION

Insurance penetration, insurance premium and insurance derisity are generally taken as the measures of insurance development in any country. The opening of the sector has led to unprecedented increase in coverage, especially in the life segment and it has impacted the level of insurance penetration which has witnessed a surge in the last couple of years.

Insurance penetration has remained relatively at low level in the pre-liberalization phase of Insurance sector (see table - 4.4). Total insurance penetration in India was only 1.5 per cent in 1990 and was 1.93 per cent in 1999 which has risen to 2.88 per cent after reforms in 2003 and further to 4.8 per cent in the year 2006. It has thus more than doubled in the past 7 years. While the increase is impressive in the case of life, where it increased from 1.39 per cent to 4.1 per cent, it remained stagnant at nearly *0.6* per cent in the case of non-life. The increased economic activity coupled with recent reforms in general insurance market, would certainly help expand the market in the years to come.

In the context of international comparison, insurance penetration in India is low but commensurate with its level of per capita income. In 2003, India had the 11th highest insurance penetration in Asia and ranked 54th worldwide. While examining the country-wise insurance penetration (both life and non-life) in 2000, 2003 and 2006, it came to light that in comparison to other countries, insurance penetration as a percentage of

premiums to GDP is very low in India. In case of Switzerland, Netherlands, Japan, South Africa, insurance penetration has decreased in aggregate in this period. While in case of remaining countries it has almost increased in aggregate during this period. In case of India, insurance penetration has increased in aggregate from 2.32 (life 1.77 and non-life 0.55) in 2000 to 2.88 (2.26 life and 0.62 non-life) in 2003 *to* 4.80 (4.10 life and 0.60 non-life) in 2006.4 Table - 4.5 shows the comparison of India with top six countries in terms of insurance penetration in both segments of insurance during 2006. UK has highest insurance penetration of 16.50 (13.10 in life and 3.40 in non-life) followed by South Africa 16.0, Taiwan 14.50, South Korea 11.10, Switzerland 11.0 and France 11.0

INSURANCE DENSITY

Another measure of insurance development is insurance density.^ By this measure, India is among the lowest-spending nations in Asia in respect of purchasing insurance. The table - 4.8 and Figure 4.4 shows the list of six countries having highest insurance density. It clearly indicates that UK has highest insurance density i.e. 6466.7 (5139.6 in life and 1327.1 in non-life) followed by Ireland with 5564.7, Switzerland with 5561.9, Denmark with 4271.4, USA with 3923.7 and Netherlands with 3828.8. India's insurance density is incomparable with these top six countries as it is relatively very low. It is as low as 33.2 in life segment and 5.2 in non-life segment. In addition, when it is compared with world level (554.8), India's share is too small i,e 38.4. Therefore, it can be deduced from the analysis that although insurance density in India has increased from 9.9 in 2000 to 38.4 in 2006, yet it is relatively very low when compared with the other countries.

The state owned companies still dominate segments like endowments and money back policies. But in the annuity or pension products business, the private insurers have already wrested over 33 per cent of the market. And in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 per cent of the customers.

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