

## **JOURNEY OF INSURANCE SECTOR IN INDIA: SINCE IT'S INCEPTION**

**Dr.Parshram Gangadhar Kandekar**  
**kandekar2000@yahoo.com**

### **Abstract:**

Insurance sector in India is one of the booming sectors of the economy and is growing at the rate of 15-20 per cent per annum. Together with banking services, it contributes to about 7 per cent to the country's GDP. Insurance sector in India was liberalized in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill. This lifted entry restrictions for private players and allowed foreign players to enter the market with some limits on direct foreign ownership. There is a 26 percent equity cap for foreign partners in an insurance company and a proposal to increase this limit to 49 percent. The opening up of the insurance sector has led to rapid growth of the sector. The potential for growth of insurance industry in India is immense as nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be well below international standards.

The insurance sector in India has come up with a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries. The US\$ 41 billion Indian life insurance industry is considered the fifth largest life insurance market, and growing at a rapid pace of 32-34 per cent annually.

**Keywords:** Regulatory role, Business Growth, Business potential, threat to public sector insurance companies

### **1.0 Introduction:**

The origin of life insurance in India can be traced back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was conceived as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered riskier for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act. By 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business.

Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalised monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 crore.

The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations

and their operations were restricted to organised trade and industry in large cities. The General Insurance Business (Nationalisation) Act, 1972 nationalised the general insurance business in India with effect from January 1, 1973. The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC).

Insurance is a federal subject in India and Insurance industry in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999.

## **2. Objectives of the study:**

- To study growth of Indian Insurance sector.
- To study the Role of Regulatory frame work of IRDA.
- To study the Market Potential for Insurance Business.

## **3. Research Methodology:**

The paper is completely a conceptual one whose basic foundation comes from various secondary sources like research articles in Journal, published and unpublished scholarly papers, and books, various international and local journals, speeches, newspapers and websites. The analysis part of the paper is based on the statistical data provided by IRDA.

## **4. Premature phase of Insurance in India:**

The origin of life insurance in India can be traced back to 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. It was conceived as a means to provide for English Widows. In those days a higher premium was charged for Indian lives than the non-Indian lives as Indian lives were considered riskier for coverage. The Bombay Mutual Life Insurance Society that started its business in 1870 was the first company to charge same premium for both Indian and non-Indian lives. In 1912, insurance regulation formally began with the passing of Life Insurance Companies Act and the Provident Fund Act.

By 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India. In 1938, the first comprehensive legislation regarding insurance was introduced with the passing of Insurance Act of 1938 that provided strict State Control over insurance business. Insurance sector in India grew at a faster pace after independence. In 1956, Government of India brought together 245 Indian and foreign insurers and provident societies under one nationalized monopoly corporation and formed Life Insurance Corporation (LIC) by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs.5 crore. The (non-life) insurance business/general insurance remained with the private sector till 1972. There were 107 private companies involved in the business of general operations and their operations were restricted to organised trade and industry in large cities. The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from January 1, 1973. The 107 private insurance companies were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company.

#### **4.1 Milestone of Insurance Regulation after 1911:**

1912: First piece of insurance regulation promulgated Indian Life Insurance Company Act, 1912

1928: Promulgation of the Indian Insurance Companies Act.

1938: Insurance Act 1938 introduced, the first comprehensive legislation to regulate Insurance business in India.

1956: Nationalization of life insurance business in India.

1972: Nationalization of general insurance business in India.

#### **5. Post New Industrial Policy 1991:**

In 1993, the first step towards insurance sector reforms was initiated with the formation of Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra. The committee was formed to evaluate the Indian insurance industry and recommend its future direction with the objective of complementing the reforms initiated in the financial sector. The formation of the Malhotra Committee in 1993 started reforms in the Indian insurance sector. The aim of the Malhotra Committee was to assess the functionality of the Indian insurance sector. This committee was also in charge of recommending the future path of insurance in India. The Malhotra Committee attempted to improve various aspects of the insurance sector, making them more appropriate and effective for the Indian market.

The recommendations of the committee put stress on offering operational autonomy to the insurance service providers and also suggested forming an independent regulatory body The Insurance Regulatory and Development Authority (IRDA) to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives.

#### **5.1 Milestones of insurance regulations after 1992:**

1993: Setting-up of the Malhotra Committee.

1994: Recommendations of Malhotra Committee released.

1995: Setting-up of Mukherjee Committee.

1996: Setting-up of an (interim) Insurance Regulatory Authority (IRA).

1997: Mukherjee Committee Report submitted but not made public.

1997: The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector.

1998: The cabinet decides to allow 40% foreign equity in private insurance companies 26% to foreign companies and 14% to non-resident Indians (NRIs), overseas corporate bodies (OCBs) and foreign institutional investors (FIIs).

#### **6. Post 1999 Insurance Sector:**

The Insurance Regulatory Development Act, 1999 (IRDA Act) allowed the entry of private companies in the insurance sector, which was so far the sole prerogative of the public sector insurance companies. The act was passed to protect the concerns of holders of insurance policy and also to govern and check the growth of the insurance sector. This new

act allowed the private insurance companies to function in India under the following circumstances:

- The company should be established and registered under the 1956 company Act
- The company should only serve the purpose of life or general insurance or reinsurance business
- The minimum paid up equity capital for serving the purpose of reinsurance business has been decreed at Rs 200 crores
- The minimum paid up equity capital for serving the purpose of reinsurance business has been decreed at Rs 100 crores.
- The average holdings of equity shares by a foreign company or its subsidiaries or nominees should not go above 26% paid up equity capital of the Indian Insurance company.

### **6.1 Milestones of insurance regulations after 1998:**

1999: The Standing Committee headed by Murali Deora decided that foreign equity in private insurance should be limited to 26%. According to the committee recommendations the IRA Act was renamed the Insurance Regulatory and Development Authority (IRDA) Act.

1999: During the same year Indian Cabinet cleared IRDA Act.

2000: President gave consent to the IRDA Act.

### **7. Indian Insurance sector Growth in Financial year 2009-10:**

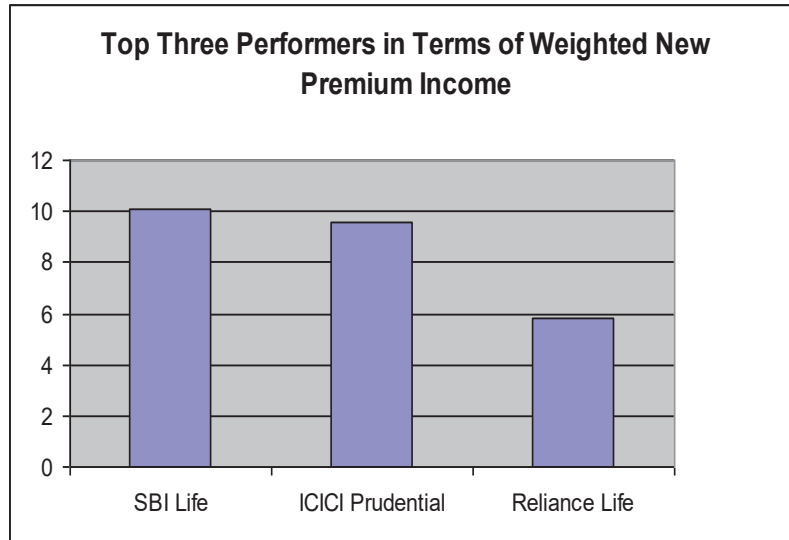
The US\$ 41-billion Indian life insurance industry is considered the fifth largest life insurance market, and growing at a rapid pace of 32-34 per cent annually, according to the Life Insurance Council. Life Insurance Corporation of India (LIC) registered an 83 per cent increase in new business income in March 2010, while private players posted a 47 per cent growth in new business premium.

Moreover, according to IRDA, insurers sold 10.55 million new policies in 2009-10 with LIC selling 8.52 million and private companies 2.03 million policies. At the end of March 2010, LIC held 65 per cent market share in terms of new business income collection with the private sector contributing the remaining 35 per cent share in 2009-10. According to IRDA, total premium collected in 2009-10 was US\$ 24.64 billion, an increase of 25.46 per cent over US\$ 19.64 billion collected in 2008-09. A growth of 18 per cent is expected in total premium income and is likely to cross the US\$ 64.93 billion mark, according to B Mathur, Secretary General, Life Insurance Council.

### **7. Statistics of Private Life Insurance Industry:**

**During financial year 2009-10 the weighted new premium of private sector insurance registered a growth of around 13 percent as compare with financial year 2008-09. Against this the life insurance corporation registered the growth of 31 percent. The weighted new premium income written by private sector life insurers during financial year 2009-10 as per the statistics realized is IRDA. The life insurance industry collected a weighted new premium income of Rs. 632 billion. The new business market share of private sector life insurance decreased to around 55 percent in this period, down around 59 percent in previous financial year. SBI life maintained its position as**

the leading private sector life insurer with a market share of 10.1 percent in terms of weighted new premium income. ICICI prudential and Reliance life were second and third with market share of 9.6 percent and 5.8 percent respectively.



**Source: IRDA**

### **General Insurance:**

According to the data released by IRDA, the general insurance industry recorded 13.42 per cent growth in gross premium collected during 2009-10. The industry collected gross premium of US\$ 7.84 billion in 2009-10 compared with US\$ 6.91 billion in 2008-09.

The public sector players posted 13.85 per cent growth in gross premium in 2009-10. At the same time, private players recorded a 12.82 per cent increase in gross premium till March 2010. During April-May 2010, non-life insurers mopped up US\$ 1.59 billion against US\$ 1.34 billion in the previous year, registering an increase of 19 per cent according to IRDA data.

The four state-run insurers fared better than their private counterparts, with New India Insurance collecting the maximum premium of US\$ 294.5 million in April and May 2010, compared to US\$ 253.15 million in the previous year, growing by 16.34 per cent. According to the IRDA's Summary Reports of Motor Data of Public and Private Sector Insurers - 2008-09, nearly 30 million vehicle policies were issued and a total premium worth US\$ 1.83 billion was collected.

### **8. Potential of Indian Insurance Industry:**

With a huge population base and large untapped market, insurance industry is a big opportunity area in India for national as well as foreign investors. India is the fifth largest life insurance market in the emerging insurance economies globally and is growing at 32-34% annually. This impressive growth in the market has been driven by liberalization, with new

player's significantly enhancing product awareness and promoting consumer education and information. The strong growth potential of the country has also made international players to look at the Indian insurance market. Moreover, saturation of insurance markets in many developed economies has made the Indian market more attractive for international insurance players. An insurance market in many developed countries of the world has made the Indian insurance market more magnetic in terms of international insurance players. The available source of the insurance sectors reflects the following.

- Home insurance sector is likely to achieve a 100% growth since home insurance are made compulsory for housing loan approvals by the financial institutions.
- In the coming three years Health insurance sector is all set to become the second largest business after motor insurance.
- During the period of 2008-09 to 2010-11 the non life insurance premium is likely to have a growth of 25%.

#### **Conclusions:**

India is the important emerging insurance markets in the world. Life insurance will grow very rapidly over the next decades in India. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness. The fundamental regulatory changes in the insurance sector in 1999 were significant for future growth. Despite the restriction of 26% on foreign ownership, large foreign insurers were entered the Indian market. State owned insurance companies still have dominant market positions. But, this would probably change over the next decade.

#### **References:**

- Ahluwalia, M. S. (2002). "Economic Reforms in India since 1991: Has Gradualism Worked?" *Journal of Economic Perspectives*, 16, (3), 67-88.
- Bhat, Ramesh.(1996)."Regulation of the private health sector in India." *International Journal of Health Planning and Management*.11:253-74.
- Bhat, Ramesh (2005) " Insurance Industry in India" Structure performance and future challenges." *Vikalpa*.30: 3-5
- Inderjit, singh and Ashwini kumar (2005) " Insurance Sector Reforms Insurance Regulatory and Development Authority (IRDA) (2010). *Annual Report*, IRDA, Mumbai.
- Sinha, P.K. and Sahoo,S.C.(1994) Marketing of Life Insurance in India". "*Service Marketing*" Himalaya Publishing House
- Wadhawan, Sahdev. 1987. "Health insurance in India: The case for reform." *International Labour Review* 126(4):479-94.