

Growth and Development of Insurance Law in India

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Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Law of Insurance
Module Name /Title	Growth and Development of Insurance law in India.
Module No.	I

Growth and Development of Insurance law in India.

Objective: After reading this module, the learners will have a clear picture of :

The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, outbreak and food crisis.

Learning Outcomes:

The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians. The Indians were charged with higher premiums than the English. Bombay Mutual Life Assurance Society, the first Indian insurer was established in 1870.

Introduction

In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), (Dharmashastra) and (Arhashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, outbreak and food crisis. The pooling of resources were maintained by the then Kings for the food safety and welfare of the people. The early reference to insurance in these texts has reference to marine trade loans and carriers' contracts.

1818, when Oriental Life Insurance Company : Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in Kolkota to provide to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians. The Indians were charged with higher premiums than the English. Bombay Mutual Life Assurance Society, the first Indian insurer was established in 1870.

Certified by Registrar: In the starting of the twelfth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were enacted by the British Parliament to regulate the insurance business in India. The

Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by Registrar. However, the disparity still existed as discrimination between Indian and foreign companies.

AFTER THE INDEPENDENCE: The Government of India issued an Ordinance on the 19th January 1956 nationalizing the Life Insurance Sector and the 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. The insurance Act, 1938: was the first legislation governing all forms of insurance to provide strict state control over insurance business. Life insurance in India was completely nationalized on 19th January 1956, through the Life Insurance Corporation Act, 1956.

General Insurance Business (Nationalisation) Act, 1972: The Indian Parliament enacted the General Insurance Business (Nationalisation) Act, 1972 nationalizing the General Insurance business with effect from 1st January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., and 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 1st January 1973.

Reopened to the private Sector: 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 Insurance (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 Ltd, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Ltd.

FDI: The insurance sector has gone through a number of phases by allowing private companies in insurance and also allowing Foreign Direct Investment (FDI). The Indian Government allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%. At the end of September 2011, The BJP led National Democratic Alliance (NDA) government increased the Foreign Direct Investment (FDI) limit to 49 per cent in the insurance sector. Presenting his maiden union budget for 2014-2015, Finance Minister Arun Jaitly said the Government has decided to increase the FDI in insurance sector to 49 per cent from the current 26 per cent. He said the insurance sector is starved of funds. There are forty-nine insurance companies operating in India; of which twenty-four are in the life insurance business and another twenty-four are in general insurance business. In addition, GIC is the sole national re-insurer. By 2012, the Indian Insurance was a US\$72 billion industry. However, only two million people (**0.2% of** the total population of 1 billion) are covered

under Medical Claim whereas in the developed countries like USA about 75% of the total population is covered under some insurance scheme. With more and more private companies in the sector, this situation is expected to change.

Seventh Schedule (Union List) : It is listed in the Constitution of India on the in the Seventh Schedule (Union List) meaning it can only be legislated by the Central Government.

IRDA controls all the insurance business in India. They set up the structure and boundaries for the insurance companies to act within. Starting from licensing to approving the products, IRDA directs the companies India. They also protect customer interests in the country. The whole idea of insurance has developed on the fact that human life is full of uncertainties and the life of a person itself is very uncertain. It is well said that “Life is full of risks. For property, there are fire risks, for shipment of goods, there are perils of sea, for human life, there is the risk of death or disability and so on and so forth”. Life insurance is a husband’s privilege, a wife’s right and a child’s claim.