CHAPTER-IV
LIFE INSURANCE IN INDIA

“An ingenious modern game of chance in which the player is permitted to enjoy the comfortable conviction, that he is beating the man who keeps the table.”

Ambrose Bierce
A. GENERAL

India’s economic growth since the turn of century is viewed as a significant development in the global economy. This view is helped in no small part by a booming insurance industry. The Life Insurance sector contributes about 4% India’s gross domestic product (GDP) in terms of total premiums underwritten annually.¹ Not only that, India accounts for more than 2% of the world’s premiums and 6% of the premium originating in Asia. The country is the tenth biggest insurance market in the world and has the potential to grow exponentially in the coming years. While regulatory hurdles and dominant incumbents bring challenges to foreign companies looking to enter the Indian Insurance Market, low penetration and opportunities in the market make it quite lucrative.²

Today, Life insurance occupies an important place in the complex modern world. In India there are 23 private companies in the segment. But the state owned Life Insurance Corporation (LIC) dominates the field, with about 71% of the market share, according to Insurance Regulatory and Development Authority (IRDA).³

B. ORIGIN AND HISTORY

The story of insurance is probably as old as the story of mankind. It has always been the quest of mankind to device measures of security against financial adversity and insurance is the result of man’s judicious ingenuity in this direction.⁴

The same instinct that prompts modern businesses today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire, flood and life and were willing to make some sort of sacrifice in order

¹ www.ibef.org/industry/insurance-sector-india.aspx. Accessed on 28/12/13 at 12:30 P.M.
³ Supra n.1.
to achieve security. Though the concept of insurance is largely a development of recent past, particularly after the industrial era—yet it’s beginning dates back to almost 6000 years.\footnote{www.licindia.in/history.htm. Accessed on 23/7/13 at 1:15 P.M.}

Insurance in its primitive form was practiced by Chinese & Babylonian traders as long ago as 3\textsuperscript{rd} and 2\textsuperscript{nd} century BC, respectively. In ancient China farmers used to send their crops to market on boats and if any boat sank the loss were spread among many families, therefore making it manageable to all. The ancient Babylonians also devised a system that protected both the merchants and their customers against theft or loss and this is one of the earliest recorded examples of insurance. This system was recorded in the famous code of Hammurabi (1750 BC) that was practiced by Mediterranean sailing merchants.\footnote{http://www.onedollarglobeinsurance.com/article/history-of-life-insurance. Accessed on 17/9/13 at 11:00 P.M.}

The Greeks and Romans introduced the origins of health and life insurance around 600 AD when they organized guilds called “benevolent societies which cared for the families and paid funeral expenses of members upon death. In ancient Rome citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors by making its payments.\footnote{R. Haridas, “Life Insurance in India”, (2011), p.41, New Century Publications, New Delhi.} The life insurance in its modern form developed in Europe.

1. Origin of Life Insurance in Europe

As European civilization progressed, its social institutions and welfare practices also got more refined. The earliest record shows that first life insurance policy was granted on the life of Mr. William Gybbon by Richard Martin in year 1536. Insurance as we know it today can be traced to the great fire of London which in 1666 devoured 13,200 houses. In the aftermath of this disaster, Nicholas Barbon opened an office to insure buildings. In 1680, he established England’s first fire insurance company, “The Fire Office”, to insure brick and frame homes.\footnote{www.caaa.in/Image/insurance\%20hb\%20110/.pdf. Accessed on 27/12/13 at 4:30 P.M.} In France, the Life Assurance business could not get success because of its prohibition. It was only in 19\textsuperscript{th} century that France allowed life insurance. The first company
was ‘Compagnie Royald Assurance’ which came into existence in 1787. In Germany the first insurance company to transact insurance business was ‘Arnoldi’ in the year 1829. In USA, life insurance business was started for insuring policies to Colonists. The first public insurance office was started in Philadelphia in 1721.9

2. Origin of Life Insurance in India

In India, insurance has a deep rooted history. The concept of life insurance has been prevalent in India since ancient times and it is probably as old as human society itself. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmsastra) and Kautilya (Arthasastra).10 The writing talks in terms of pooling of resources that could be redistributed in times of calamities, such as fire, flood epidemic and famine.

It has been stated, the Sanskrit term ‘Yogakshema’ which means ‘wellbeing’ is found in the Rig Veda and that some kind of communal insurance was practiced by the Aryan tribes in India nearly 3000 years ago.11 The Manusmriti also supports the system of ‘Collective Cooperation’, as practiced by the Aryans.12

The joint family system, peculiar to India was a method of social insurance of every member of the family on his life. The protection of the banyan tree is applied to the family system in India because the institution of joint family continued to afford complete protection to all its members for ages. It is said that the joint family system is a scheme of mutual helpfulness, a little cooperative society, a miniature labor organization and a diminutive insurance concern. The Hindu society rested on this principle for thousands of years.13

C. GROWTH AND DEVELOPMENT

Long before the business of insurance became established as a commercial enterprise the idea made its appearance. The growth of the idea to an institution of the size and importance of the life insurance business today is result of a long period of evolution.14

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10 Ancient Writers of Shastras.
12 The Aryans had evolved a system of village and community life which gave a measure of protection against the ravages of time providing sustenance to everyone.
This great institution represents a growth and development from simple beginnings. It did not like Athens, spring fully formal and fully armed from head of any one person. It had attained its present impressive proportions through years of efforts, through the patient and wise planning of men of vision and of faith. It had steadily grown in power for good, “broadening down from precedent to precedent”, until today it occupied an important and an essential place in the economic and social life of nation.\textsuperscript{15}

\textbf{1. Early Period (1800-1900)}

Life Insurance in its modern form came to India from England. 1818 saw the advent of Life Insurance business in India with the establishment of a Life Insurance Company in Calcutta. This company however failed in 1834.\textsuperscript{16} The year 1871 was a landmark year in the history of Indian life insurance in the sense that it separated the early period of pioneering attempts at life insurance from the subsequent period of steady development with establishment of first Indian Life Office, viz., ‘Bombay Mutual Life Assurance Society’ in 1871. The next important life office was ‘Oriental Government Security Life Assurance Company Ltd.’ which started its operation in 1874. During the period from 1870 to 1900, a large number of Indian companies were formed under Indian Companies Act, 1866. But this era was dominated by foreign insurance offices which did good business in India.

\textbf{2. Mushroom Growth (1901-1912)}

During this period there was mushroom growth of Indian Companies with complete Indian capital and this was mainly due to the Swadeshi Movement (1905-1907) which promoted boycott of British goods, British institutions and everything British. And during this mushrooming many financially unsound concerns also floated which soon failed miserably. This indiscriminate growth, led to the appearance of some evil and to check these


evils Indian Life Insurance Act, 1912 was passed. It was the first statutory measure to regulate life insurance in India.17

3. Struggle and Steady Growth (1913-1937)

This is the period between two world wars. During this period indigenous life offices had to pass through a critical period. Many small offices had to be wound up and the few that survived had to face the competition of many flourishing foreign offices.

After Second World War, Swadeshi movement again gained strength and national spirit increased. The business of insurance also assumed significant size and importance. After Independence, in 1950 Insurance Amendment Act was passed to make insurance institutions more useful for the country’s overall economic growth. This Act made far reaching changes as it provided for a Controller of Insurance, constitution of Life Insurance Council and made provisions regarding investment.


The country moved ahead to achieve its economic independence by the five year plans. The agrarian society was industrialized and education increased insurance consciousness among people. There was increased confidence in domestic companies, and leading insurers indulged in vigorous development programmes. All these contributed to a boom in life insurance business.18

In 1956, life insurance business was nationalized by passing the Life Insurance Corporation Act. Since 1956, the LIC has held the monopoly in India’s life insurance sector.

5. Era of Privatization (Post IRDA Act, 1999)

The liberalization of Indian Economy affected the insurance sector also. In 1993, the Government of India appointed R. N. Malhotra Committee to lay down a road map for privatization of the life insurance sector. The Malhotra Committee recommended the establishment of an Insurance Regulatory Authority, permitting the entry of private players.

17 www.lic.in/history.htm. Accessed on 30/7/13 at 11:00 A.M.
In 1999, the Insurance Regulatory and Development Authority Act was passed. Now, both the public and private sector entities play their role simultaneously.

D. LIFE INSURANCE CORPORATION OF INDIA

As the business expanded, heavy funds were collected as premium and huge amounts were available with the insurers. Soon, the state felt that there was no central control over the funds with the insurance companies and their mis-utilization.\(^{19}\) A turbulent time started with the freedom and partition of country in 1947 which took its toll on the insurance business.\(^{20}\) At that juncture there was no other means, except nationalization to have an effective control over the insurance companies and mobilize their funds for several development projects of the new nation.\(^{21}\)

1. Nationalization of Life Insurance Business

Before 1956, Indian Life Insurance Industry was under the control of private enterprises. At the time of nationalization of life insurance in 1956 there were 154 Indian, 16 foreign Insurers and 75 Provident Societies who were carrying on the life insurance business in India.\(^{22}\)

(a) Causes of Nationalization

The important causes of nationalization are as under:

(i) In the Pre-Independent Period, Banking and Insurance were under the control of big industrial houses which resulted in inter-locking of funds between banks and insurance companies. Moreover, the individuals who were controlling the insurance business

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\(^{19}\) In 1945, the government appointed a committee under the chairmanship of Cowasji Jehangir to study the existing situation and suggest remedies. Based on this a fresh bill was introduced which ultimately became the Insurance Amendment Act, 1950. This resulted in regularization of insurance investment to some extent.

\(^{20}\) By the end of 1947 an Inter-Dominion Agreement on Insurance was introduced in India and Pakistan to solve the business related issues arising out of partition but nothing could be achieved. Finally, in March 1948, the insurance companies collected in Calcutta and decided to sever all ties with Pakistan.


misappropriated funds under their management in their other ventures leaving the insurance business to bear losses.

(ii) Many malpractices crept into the management of insurance companies especially during 1940’s such as acquisition of insurance companies by financiers and misappropriation of insurance funds for speculation and payment of large emoluments to nominees of controlling interests.

(iii) The investment management of these private life insurance companies was doldrums. When government obtained detailed returns of investments made by the management, the findings were appalling. Loans were given on any kind of security—good, bad or insufficient and sometimes there was no security at all.

(iv) Despite the fact that during this period the Indian Life Insurance business expanded gradually, it remained an urban phenomenon.

(v) Private companies failed to function in the national interest as they could not provide economic security to common man.

(vi) Excessive costs, rebating and unsatisfactory standards of business management resulted in disruption of Indian Insurance.

All these dark deeds of private insurance companies intensified the public chauvinism and invited public demand for nationalization. Consequently, the government of India nationalized the life insurance business by amalgamating all the private companies under one corporation i.e. Life Insurance Corporation of India.\(^{23}\)

(b) Objectives of Nationalization

After Independence, insurance business expanded by leaps and bounds and huge funds accumulated with the insurance companies which were without any limitation and regulation. To avoid pitfalls the new India adopted a socialistic pattern of society and

\(^{23}\) *Ibid.*
economy for faster growth and soon the stage was set for Nationalization of financial sector with the following objectives in mind.\textsuperscript{24}

(i) To fulfill the objective of establishing a socialistic pattern of society in India.

(ii) To accumulate resources to meet the five-year-plan objectives.

(iii) To develop insurance in villages and other remote areas.

(iv) To safeguard the interests of insured.

(v) To accelerate social interest.

(vi) To bring an end to the unhealthy competition between private insurance companies.

(vii) To minimize the administrative expenses of insurance.

(viii) To determine reasonable rate of premium.

(ix) To remove the inefficiency of private companies.

(x) To develop safer economic life among the people.

2. Establishment of Life Insurance Corporation (1956)

After independence, while implementing national planning, the Indian Government created many national institutions which played a significant role in building today’s India and LIC is one such precious institution. The Life Insurance business was nationalized with enactment of the Life Insurance Corporation Act, 1956.\textsuperscript{25}

(a) Constitution

Till January 1956, Life Insurance in India was under the control of private enterprises. After 19\textsuperscript{th} January, 1956 all the life insurance business in the country has been nationalized. As a beginning, the Life Insurance (emergency provisions) ordinance was promulgated on the 18\textsuperscript{th} January, 1956. Thereafter, the Life Insurance Corporation Act was passed and the LIC of

\textsuperscript{24} Supra n.18, p.83.

\textsuperscript{25} This Act enabled the transfer of assets and liabilities of existing life insurance companies to the Life Insurance Corporation of India. All the existing 243 companies were acquired by the state and consolidated into one corporation i.e. LIC is the only government agency to undertake life insurance
India came into existence on 1st September, 1956. It took over the management and control of life insurance business in the hands of Government.

(b) Organization

The organization of the LIC is four-tier and divided is into the following offices:

(i) Central Office

(ii) Zonal Office

(iii) Divisional Offices; and

(iv) Branch Offices.

(i) Central Office - The Central Office of the Corporation is situated in Mumbai. It is the highest controlling point of the corporation. This office functions under the care of Board of Directors and different committees of the corporation.

(ii) Zonal Offices - The Zonal Offices of LIC are situated in Mumbai, Bhopal, Kolkata, Kanpur, Delhi, Hyderabad and Chennai. The main duty of Zonal Office is to bring uniformity in the activities of various Divisional Offices working under its jurisdiction.

(iii) Divisional Offices - The functional areas of seven Zonal Offices of LIC have been distributed to a number of offices known as divisional offices. It provides various types of services to policy-holders as well as to the agents, development officers, employees and branch offices.

(iv) Branch Offices - Branch offices have been set up under the direct control of divisional offices. Branch offices are the primary centers of the LIC through which the insurance business is obtained. A major part of the LIC employees and officers are working in branch offices as they are first contracting place for the proposers.

(c) Management

The management of LIC comprise of:

(i) Board of Directors
(ii) Committees of Corporation

(iii) Chairman

(iv) Managing Director

(i) Board of Directors - Board of Directors is the highest authority of the corporation. They are appointed by the Central Government. The maximum number of directors can be 15, but at present there are seven directors. The functions of Board are as under:-

- To determine long term policies of the Corporation
- To take decisions for doing any work prescribed under the Act.
- Decentralization and delegation of authority at different levels.
- Constitution of committees of Corporation according to the requirement.
- Take decisions in the matters/functions which have long term effect.

(ii) Committee of Corporation - The Board of Directors have power to constitute different committees for effectively discharging, directing and controlling as well as advising the Board on certain matters. As per information available, four committees are functioning at present.

1) Executive Committee
2) Investment Committee
3) Building Advisory Committee
4) Consumer Affairs Committee

(iii) Chairman - The Chairman of the LIC is the Chief Executive Officer of the corporation. He heads all the committees of the corporation. But he has no authority to exercise the powers of Investment Committee. In the matters of investment of funds, the chairman has to follow the advice of investment committee. There are restrictions on exercise of powers of the chairman, but in emergencies he has all the powers of the corporation.

(iv) Managing Director - The Managing Director is the whole time officer of the corporation. He discharges all the functions entrusted to him by the Executive Committee of the Corporation. The Corporation can appoint one or more persons as Managing Director. At
present there are two Managing Directors. The Managing Director needs not be a member of the Board. He can delegate some of his powers to the officers working at different levels.

(d) Objectives

The main aim of Life Insurance Corporation of India is to achieve the objectives of nationalization. It includes:

(i) To publicize and extend the insurance business specifically in rural and remote areas.

(ii) To provide suitable financial security at reasonable cost.

(iii) To make the investments more dynamic by popularizing the saving plans attached with insurance.

(iv) To invest the insurance funds for maximum benefits and to keep the interest of assureds.

(v) To run the insurance business at minimum administrative costs.

(vi) To function as trustee of the insured.

(vii) To fulfill the needs of the society in a changing social and economic environment.

(viii) To make the employees collectively responsible for providing efficient services to the insureds.

(ix) To develop work satisfaction among agents and employees.

(e) Functions

The important functions of LIC are as follows:-

(i) To spread the insurance business within and outside India.

(ii) To do capital redemption business, anxiety and re-insurance business.
(iii) Investment of insurance funds, keeping its security, recovery of investment money timely and sale of property when so needed etc.

(iv) To purchase and sale the property on behalf and interest of corporation.

(v) To transfer the insurance business done outside India to any individual/individuals, if it is in the interest of the corporation.

(vi) To grant loans against security of any fixed or movable assets.

(vii) To borrow money or to obtain funds for the corporation.

(viii) To do all such activities which are directly related with the rights of the corporation and incidental thereto.

(f) **Product Range**

Life insurance products usually veer around two basic elements – Risk Cover (benefits payable in the event of death) and Savings (benefits payable in the event of survival). However, in India, life insurance policies have been viewed as a means of tax saving, particularly for the salaried class. In fact, every year, a large section of LIC customers anxiously wait for the annual budgetary exercise of the government to find out what is in store for them in terms of tax incentive in LIC policies. Thus we can say that plans of life insurance are combinations of all the three elements, i.e. risk cover, savings and tax incentive.\(^{26}\) LIC offers a basket of schemes to meet the various needs of an individual and his family.

(i) **Basic Life Insurance Plans**

- **Whole Life Assurance Plan** - A low cost insurance plan where the sum assured is payable on the death of life assured, wherever it occurs.

- **Endowment Assurance Plan** - Under this plan, the sum assured is payable on maturity or on death of the life assured, if earlier.

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(ii) Term Assurance Plans

- **Two-year Temporary Assurance Plan** - Term assurance for periods of up to 2 years is available under this plan. The sum assured is payable only on death of the life assured during the policy term.

- **Convertible Term Assurance Plan** - The plan provides for term assurance for 5 to 7 years with an option to purchase a new Limited Payment Whole Life Policy or an Endowment Assurance Policy at the end of the selected term provided the policy is in full force.

- **Bima Sandesh** - This Term Assurance Plan provides for return of premiums paid, on the life assured surviving the policy term.

- **Bima Kiran** - In addition to benefits available under Bima Sandesh Plan, this plan provides Loyalty Addition, in built Accident Cover and Free Term Cover after maturity, if the policy is in full force on the date of maturity.

(iii) Plans for Children

Various children’s Deferred Assurance Plans are available, viz., CDA, Jeevan Balya and Jeevan Kishore. Jeevan Sukanya is a plan specially designed for girls. The Children’s Money Back Assurance Plan is an annual premium plan designed to provide for children’s higher education expenses with added attractions of Guaranteed Additions, Loyalty Additions and optional family benefit.

(iv) Annuity and Pension Plans

These plans provide for immediate or deferred pension for life. Pension payments are made till the death of the annuitant (unless the policy has provision of a guaranteed period). There is also an option, which provides return of the purchase price on death of the annuitant. LIC has Jeevan Suraksha plan which provides pension for spouse also. Premium paid upto Rs. 10,000/- is exempted from income tax under Sec. 80 CCC(1).
(v) Plans for Handicapped Dependents

- **Jeevan Aadhar** - This is a limited payment whole life policy with guaranteed additions at the rate of Rs. 100/- per thousand sum assured p.q. where the claim amount is paid partly in lump sum and partly in form of an annuity.

- **Jeevan Vishwas** - This is an Endowment type plan designed for handicapped dependants whose degree of handicap may not fulfill the definition of disability laid down for Jeevan Aadhar plan. The benefit is payable partly in lump sum and partly in the form of an annuity.

(vi) Other Plans

- **Jeevan Griha (Double & Triple Cover)** - For people desirous of obtaining a housing loan with the policy acting as collateral security and to ensure repayment of the loan in the event of the premature death of the borrower.

- **Mortgage Redemption** – This plan is suitable for borrowers repaying loan in installments as it ensures that the outstanding loan is repaid in the event of the borrower’s death.

- **Double Endowment** - This is an Endowment Assurance plan with double the Sum Assured payable on maturity.

- **Fixed Term (Marriage) Endowment/Educational Annuity** - A plan suitable for making provisions for start in life, marriage or education of children.

- **Money Back Plan** - Besides the payment of money it provides life cover during the term of the policy and the sum assured is paid in installments by way of survival benefits during the term of the policy.\(^{27}\)

(g) Critical Appraisal

The Life Insurance Corporation of India had sole monopoly of transacting life insurance business in India from 1956 to 1999. During this period life insurance industry

played a bigger role in the national economy by actively participating in national reconstruction and economic planning. India embarked upon economic planning and life insurance emerged as an important supplier of resource for the planning process since 1956. Moreover, acceptance of socialistic pattern of society and the aim to eliminate poverty also imposed immense social responsibility on LIC to spread the message of life insurance in rural areas and among the underprivileged. One of the greatest achievements of LIC is spreading knowledge about the necessity of life insurance throughout the country and setting up offices even in remote villages of rural areas. Moreover, it has been able to create trust even among ordinary and illiterate people.

Although LIC has been able to achieve the objectives of nationalization to a great extent but its performance cannot be termed as spectacular owing to following reasons.

i. LIC has approx. 8,00,000 agents and 18,000 Development Officers. But only a fraction of agent force is carrier agents.

ii. Despite of full time career agents, LIC has not sold the way it should have been, pegged more as an investment and tax planning instrument, LIC sells more endowment and money back policies rather than the pure whole life insurance cover.

iii. LIC agents persuade a large number of unwilling persons to take insurance policies, which ultimately lapse. It is very harmful for the insurance and insured because the reputation of former decline whereas the benefits of insurance are not available to the later one.

iv. LIC has not been able to achieve a good progress outside India. At one time LIC was operating in 20 to 30 countries. However, due to nationalization of insurance in various countries which was a trend in the 1960s and 1970s, LIC had to close down operations in many of these countries.

\[ Supra\ n.18, \text{p.81.} \]
v. LIC has not been able to fully develop Indian Life Insurance Market as is evident from India’s poor life insurance density and poor life insurance penetration. Life insurance penetration in India is less than 2% whereas it is approx. 9% in U.S.A.

vi. Despite the fact that more than 50% of the branches of the corporation are situated in rural areas of the country, the performance of LIC in rural area has not been satisfactory.

vii. There are unusual delays in settlement of claims. In Ashok Kumar Dash v. Branch Manager, United India Insurance Co. Ltd., it was held that delay in settling the claim is deficiency in service on the part of insurer for which he is liable, if payments are delayed without satisfactory reasons, policyholder lose confidence in LIC.

viii. LIC’s operation-related service is unsatisfactory. Premium/default notices are not seen in time and in some cases premium receipts and policy documents had a lot of mistakes.

ix. LIC has pursued a very conservative investment policy. It has put too much emphasis on principle of safety by extensively investing in “safe” investments with low yields. Sectoral distribution of LIC’s total investment show 84% of total investment going to public sector and only 13.67% going to private sector.

x. Premium rates on various life policies are very high, though the mortality rates have substantially gone down, due to improvement in health standards and development of medical science. The mortality table premium rates of LIC need to be revised.

E. NEW ECONOMIC POLICY, 1991

The New Economic Policy aimed at making the economy more buoyant by placing a high emphasis on market orientation and free market trade. The main objectives of the New Economic Policy were to strengthen the economic base of India by opening up the economy to competition and to make it globally viable. The major benefits that were expected to accrue for the Indian economy were:

Availability of wider market for Indian products due to removal of import restrictions and concessional tariffs.

Convertibility of current and capital accounts would provide acceptable solutions to the BOP issues.

More predictable external market and better benefits due to international cooperation.

Easier access to technology by technology transfer and availability of foreign investment.

Availability of wider choices to Indian consumers.

Local industries to adhere to international quality standards to be globally competitive. Better quality products for local consumers.

The policy reforms announced by the Government in 1991 led to opening up of Indian insurance sector to global market.

1. Indian Insurance: Shortcomings

Despite the fact that industry has grown after nationalization in terms of premium income, introduction of new products, wide coverage of individuals and organizations, investment in social sectors, creating infrastructure at grass root level, etc., several weaknesses have also come to surface during these years of operation. These are discussed as under:

(a) **Low level of insurance penetration** - Another parameter to measure the spread of insurance is the insurance penetration defined as premium per capita. In India, Life Insurance is mainly an urban phenomenon and its spread is limited to educated middle class and urban elite. The low level of insurance density is partly due to lack of awareness regarding benefits flowing from insurance and partly due to low per capita income.

(b) **Lack of Qualitative and Quantitative Insurance** - During the nationalization era, both the life and general sector insurance designed only generic products with minor variations
to meet ever changing demands of consumer. Thus, there was scarcity of qualitative and quantitative insurance products. And due to lack of need based products the business could not expand.

(e) **Low Productivity** - The performance of Indian insurance industry has been lackluster. It failed to live up to the expectations of Economists as the penetration level remained abysmally low as well as low in comparison to population. Moreover, in spite of a well conceived planning process, the GDP growth of the economy was not buoyant over the decades.

(d) **Inadequate Application of Information Technology** - LIC failed to harness the developments in information technology, for spreading insurance awareness and distribution of products in rural areas. For customers too, these technologies offer innumerable advantages. It could have helped the industry in data mining, warehousing and proper assessment of risk.

(e) **Poor Quality of Insurance Services** - Poor quality of insurance services, particularly post-sale services, is another reason for opening up the insurance sector to private players. In the life insurance industry, where the contracts are of longer duration and customer service is backbone, LIC could not enforce customer services due to many practical difficulties.

### 2. Liberalization and Globalization

Economic liberalization has become the essential feature of the modern world and the developing countries view it as the key for success in economic planning and development of countries. Economic liberalization refers to all those efforts being taken to bring an end to defective economic policies and plans, which create hurdles in faster economic development of countries. In this way, economic liberalization is the gateway of globalization. Globalization is a relatively new economic phenomenon and a process to setup a new economic order; globally increased integration and interdependence of production,
consumption and services. The process of globalization involves the gradual removal of exchange barriers and the free flow of capital and services and wider access to information and technology.

Insurance is an integral part of national economy and a strong pillar of financial market. The waves of globalization have also deeply influenced the insurance market worldwide. With increase in trade, direct investment and portfolio investment the demand for insurance services has been ever growing, particularly in the emerging markets. Globalization of insurance market enabled the foreign insurance companies to enter emerging markets and benefited both i.e. the local country and the foreign company.

3. Malhotra Committee: Major Recommendations

The Government of India appointed a high powered committee under the chairmanship of R.N. Malhotra, former Governor of RBI to examine and recommend measures for the introduction of reforms in the insurance sector. The Malhotra Committee made certain recommendations to the Government to change the face of the insurance industry and to give it a more meaningful direction. The major recommendations on liberalization of the insurance industry are as under:-

(a) Entry of Private sector

The committee deliberated on the subject and the following issues weighed in favor of opening the industry to private players:

(i) Competition would lead to better customer service.

(ii) It would improve the quality and price of insurance products.

(iii) It would lead to better penetration of the market.

(iv) Public view was converging towards competition in the insurance sector.

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(v) The public sector insurance institutions had created a good pool of professional talent and marketing network, thus there was no fear of them being incapable of facing competition.

(vi) When other wings of the financial sector like banking, mutual funds, merchant banking and non-banking financial sectors were exposed to competition, there was no reason to keep insurance insulated.

(b) No Composite Insurance Companies

The committee recommended that no single company should be allowed to transact both life and general insurance business. The committee had so recommended as life and general insurance are two different lines of business, and prudence demands that there should not be any mixing up of funds. Such restrictions operate in many other economies.

(c) Regulated Entry of New Players

The committee felt that the number of new entrants should be controlled. This step was necessary to control the cropping up of small private sector companies and their wilting away during a financial crisis.

(d) Minimum Paid Up Capital

With a view to ensure that only companies with good track records in their line of business apply for licenses to act as insurance companies, the committee recommended a paid up capital of Rs.100 crores for the new entrants. At the same time, the committee felt that this requirement could be lowered in cases where the promoters are state level co-operative institutions.

(e) Selective Entry of Foreign Players

The committee felt that permitting foreign insurance companies would be in the interest of the Indian Economy, particularly in the context of globalization. It recommended that entry of foreign companies should be on a selective basis. Foreign companies entering India should be required to float an Indian company, preferably as a joint venture.
(f) **Technology Up gradation**

The world over, insurance has become an information driven industry. This, in effect, means heavy dependence on IT and development of computer support systems. The industry has to develop software to improve effective customer service and claim management.

(g) **Pension Sector**

To popularise the contribution to individual pension funds by self-employed professionals, traders and workers, in the organised sectors, the committee recommended income tax concessions up to a prescribed limit for contribution to individual pension schemes floated and managed by insurance companies.

(h) **Privatization of LIC**

The committee felt that as a state owned entity, LIC suffered many operational constraints, and its flexibility and ability to respond to changing situations was limited. Many of the constraints are due to the reason that, in the eyes of law, LIC falls within the definition of ‘state’. To overcome this situation, LIC should be taken out of the definition of state.

(i) **Establishment of an Insurance Regulator**

While considering the implications of opening up the industry to competition, the committee also examined the role of the Controller of Insurance, and the need of a regulatory body for the insurance sector. The committee proposed the establishment of a powerful and autonomous regulatory body on the lines of SEBI. The committee further stated that such regulatory authority should have full functional autonomy and operational flexibility.

(j) **Rural Areas and Weaker Sections of Community**

This stipulation was introduced to ensure a level-playing ground for all insurance companies. New entrants may tend to concentrate on more lucrative business to the neglect of the common people and the rural areas. The committee recommended that both life and non-life companies should procure a prescribed percentage of business from these segments.
F. INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA), 1999

The Malhotra Committee Report set the tone of change in the insurance sector. The Insurance Regulatory and Development Authority Act, 1999 was passed and an autonomous body, the IRDA was constituted under the Act and was vested with the responsibility of regulating and developing the business of insurance and re-insurance in India.

1. Mission Statement of IRDA

In its Annual Report 2000-01 IRDA stated its Mission Statement\(^\text{31}\) which is reproduced as under:

(a) To protect the interest of and to secure fair treatment to the policy holders.

(b) To bring about speedy and orderly growth of the insurance industry for benefit of the common man and to provide long term funds for accelerating growth of economy.

(c) To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealings and competence of those it regulates.

(d) To ensure that insurance customers receive precise, clear and correct information about products and services, and to make them aware of their responsibilities and duties in this regard.

(e) To ensure speedy settlement of genuine claims; to prevent insurance frauds and other malpractices and put in place an effective grievance redressal machinery.

(f) To promote fairness, transparency and orderly conduct in financial markets dealing with insurance, and a reliable management information system to enforce high standards of financial soundness amongst market players.

\(^{31}\) Supra n.18, p.92.
(g) To take effective action where such standards are inadequate or ineffectively enforced.

(h) To bring about an optimum amount of self-regulation in day to day working of the industry, consistent with the requirements of prudential regulations.

2. Salient Features of IRDA Act

The salient features of IRDA Act are:

(a) Protection of Interest of Policyholder

The IRDA Act, 1999 mandates the IRDA to protect the interest of policyholders and to regulate, promote and ensure orderly growth of insurance industry.

(b) Maintenance of Solvency Margin

As per the provisions of the IRDA Act 1999 every life insurer is required to maintain an excess value of his assets over the value of his liabilities of not less than Rs. 500 crore or a sum of equivalent based on a prescribed formula, as determined by regulation, whichever is highest.

(c) Rural and Social Sector Business

IRDA Act, 1999, stipulated that every insurer after the commencement of the Act is to ensure that a specified percentage of business is done in the rural and social sector.

(d) Appointing Actuary

Introduction of appointed actuary system is yet another milestone of the IRDA Act. All life insurance companies must have an appointed actuary. Appointed actuary must be a fellow member of the Actuarial Society of India and should possess a certificate of practice issued by the same.

(e) Actuarial Standard

IRDA issued qualifications of Actuary Regulation and prescribed powers and duties of the appointed actuary. Actuarial Society of India has laid down guidelines for appointment of actuaries, responsibilities of appointed actuaries towards maintaining the solvency of the
insurer, meeting reasonable expectations of the policy holders and to ensure that new policyholders are not misled with regard to expectations.

(f) Accounting Standard

Regulation has been issued for preparation of financial statements and auditor’s report of insurance companies. The regulations broadly conform to the accounting standards issued by the Institute of Chartered Accountants of India (ICAI).

(g) Agents Qualification and Training

IRDA has prescribed minimum qualification and training of agents. Accordingly, an insurance agent should have at least a high school diploma and must undergo certain hours of training from a recognised institution.

(h) Entry of Private Life Insurance Companies

IRDA opened the Indian Insurance market for private companies. It attempts to promote a healthy and competitive insurance market by introducing several regulatory measures.

G. ENTRY OF PRIVATE LIFE INSURANCE COMPANIES

With the passing of the insurance bill in the parliament, several private companies applied for transacting life and non-life business in India. However, very few were issued licenses. The first Indian private sector life insurance company to be issued a license was HDFC Standard Life. Max New York Life became the first insurance joint venture company to be registered under Companies Act. \(^{32}\) Today there are 23 private Life Insurance Companies operational in India. \(^{33}\)


\(^{33}\) www.lifeinscouncil.org/media-center/archives/186-sebis-lock-in-clause-to-affect-7-life-insurers-6-non-life-jvs. Accessed on 28/12/13 at 7:30 P.M.
## Entry of Private Life Insurance Companies

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Date of Regn.</th>
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<tbody>
<tr>
<td>HDFC Standard Life Ins. Co. Ltd.</td>
<td>23 October 2000</td>
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<tr>
<td>Max Life Ins. Co. Ltd.</td>
<td>15 November 2000</td>
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<tr>
<td>ICICI Prudential Life Ins. Co. Ltd.</td>
<td>24 November 2000</td>
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<tr>
<td>Kotak Mahindra Old Mutual Life Ins. Co. Ltd.</td>
<td>10 January 2001</td>
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<tr>
<td>Birla Sun Life Ins. Co. Ltd.</td>
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<td>Tata AIA Life Ins. Co. Ltd.</td>
<td>12 February 2001</td>
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<td>SBI Life Ins. Co. Ltd.</td>
<td>20 March 2001</td>
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<tr>
<td>ING Vysya Life Ins. Co. Ltd.</td>
<td>2 August 2001</td>
</tr>
<tr>
<td>Bajaj Allianz Life Ins. Co. Ltd.</td>
<td>3 August 2001</td>
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<tr>
<td>Met Life India Ins. Co. Ltd.</td>
<td>6 August 2001</td>
</tr>
<tr>
<td>Reliance Life Insurance Co. Ltd.</td>
<td>January 2002</td>
</tr>
<tr>
<td>Aviva Life Ins. Co. India Pvt. Ltd.</td>
<td>14 May 2002</td>
</tr>
<tr>
<td>Sahara India Ins. Co. Ltd.</td>
<td>6 February 2004</td>
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<tr>
<td>Shriram Life Ins. Co. Ltd.</td>
<td>17 November 2005</td>
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<tr>
<td>Bharti AXA Life Insurance Co. Ltd.</td>
<td>December 2006</td>
</tr>
<tr>
<td>Future Generalia India Life Ins. Co. Ltd.</td>
<td>April 2008</td>
</tr>
<tr>
<td>Canara HSBC Oriental Bank of Commerce Life</td>
<td>June 2008</td>
</tr>
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</table>
Insurance Co. Ltd.

AEGON Religare Life Insurance Co. Ltd.       July 2008

DLF Pramerica Life Insurance Co. Ltd.         September 2008

Star Union Dai-ichi Life Insurance Co. Ltd.   January 2009

IndiaFirst Life Insurance Co. Ltd.            November 2009

Edelweiss Tokio Life Insurance Co. Ltd.

H. CHANGES IN LIFE INSURANCE MARKET

Liberalization of life insurance market has brought multi-dimensional changes along with competition, world-class insurance regulation, better protection of consumer interest, wide range of new products, increased awareness among the consumers, compulsory education of sales force etc. in the market.

1. Factors Responsible

A silent revolution in the customer’s behavior is taking place since insurance sector in India was deregulated and opened to the private sector. The market has suddenly transformed from supply driven to demand-driven. The transformation of market has been driven by several social, political, economic and technological factors.

(a) Sociological Factors

Increase in longevity, disappearance of joint family, increase in smaller household and increase in consumerism and weakening of family ties.

(b) Politico-economic Factors

The emergence of free market economy, decline of role of state in welfare of citizens, globalization, entry of foreign capital, expanding product range and new distribution mechanism are some of the politico-economic factors.
(c) **Technological Factors**

Increased speed in information dissemination and service delivery, increase in communication band-width and reduction of costs are the relevant sociological factors.

2. **Changing Market Structure**

(a) **Competition and Market Expansion**

Liberalization of the insurance industry leading to entry of private life insurance companies has intensified competition which has helped market expansion in the post liberalized era. The life insurance market has become healthier due to a number of regulatory initiatives and there has been a significant expansion in network and geographical spread of life insurance.

(b) **World Class Insurance Regulation**

Regulations improve the quality and depth of market as well as increase competition, which ultimately enhances the value for customers. Regulations serve the industry as well as all the stakeholders of the industry. IRDA has introduced several world class regulatory measures to promote a healthy and competitive insurance market.

(c) **Wide Range of New Products**

One of the significant developments in the Indian life insurance market is the widening of the product basket. Pre-liberalized life insurance market was primarily dominated by endowment type plans but the post liberalized market witnessed a variety of new plans such as children’s plans, retirement plans, pension plans, investment plans and unit linked plans.

(d) **Increased Awareness among Consumers**

There is a significant improvement in insurance literacy, information dissemination and informed decision making. The mass media has played a very positive role in increasing awareness among customers about various insurance plans.
(e) Licensed Life Insurance Agents

Agents play a very important role in life insurance business since they act as linkage between a life insurance company and the buyers of insurance policies. In India, agents obtain the necessary license from IRDA to transact insurance business. Increase in the number of agents in recent years has led to growth of life insurance business.

(f) Better Protection of Consumer Interest

Consumers are the driving force of all industries; they are the engines of growth. No service industry can deliver 100 per cent satisfactory services to customers unless it protects the interest of customers. IRDA has issued Protection of Policyholder Regulation, 2002 for improving policyholder servicing.

3. Changes in Management

The survival and sustenance of growth of any institution depends on its ability to respond to changes. Institutions are thus expected to readjust their objectives and priorities in order to accommodate these changes. Therefore, institutions have to redefine their goals and redesign the action plan to achieve those goals, which can be done only after identification of changes and their direction.

Thus, the above mentioned changes must be viewed seriously by life insurance companies and must be institutionalized for further growth and expansion of life insurance industry.

I. SOCIAL SECURITY IN INDIA

Social security is a dynamic concept that has become an important part of social policy in modern times. It is a sign of interest that a welfare state takes in the wellbeing of masses. Now days, it has come to be increasingly seen as an integral part of the development process of every state. It not only helps in creating a positive attitude towards structural and
technological changes but also empowers the state to deal with the challenges of globalization and exploit its potential benefits.34

In advanced countries, the concept of social security is considered as an indispensable tool to strike at the evil effects of poverty, unemployment, disease and death and realize greater efficiency and higher productivity. On the other hand, in underdeveloped economies having a low national income; the development of social security institutions is inherently limited. But, its importance tends to increase along with the expansion-phase through which such an economy passes in an endeavour to get relief from poverty and want. India is an important developing country which has recently taken several concrete steps, within the democratic framework for introducing the universal social security measures. These measures seek to bring in the illiterate, poor and marginalized sections of society within the protective umbrella of life insurance.

1. Meaning

Social security is a basic human right and is enshrined in major international human right instruments.35 It caters to the universal human need for reassurance and support in times of unemployment, illness, disability, death and old age.36 In simple words, social security means the security and protection provided by the society to its members through a series of public measures against the economic and social distress that otherwise is caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, occupational diseases, unemployment, invaliding old age and death.37 Social security thus include any measure established by legislation to maintain individual or family income or to provide income when some or all sources of income are disrupted or terminated or when

34 www.business.gov.in/legal_aspects/social_security.php. Accessed on 13/2/14 at 10:00 A.M.
35 The right to social security was for the first time recognized in the preamble of the constitution of ILO. Subsequently, the UN General Assembly, while adopting the Universal Declaration of Human Rights also recognized the right to social security by stating that every member of society has a right to social security.
36 www.ntui.org.in/what-we-do/social-security. Accessed on 10/2/14 at 3:30 P.M.
37 These risks are necessary contingencies which a person of small means cannot effectively tackle against, by his own effort and foresight alone, or even in private combination with each other.
exceptionally heavy expenditures have to be incurred in marriage, treatment and education of children. In this way, it includes provision of cash benefits to persons faced with sickness, disability, unemployment, crop failure, loss of spouse, retirement and maternity. With time the concept of social security has been further widened, so as to include provisions for housing, safe drinking water, sanitation, health educational and cultural facilities as also a minimum wage which can guarantee workers a decent life.

2. Importance

Every individual deserve security for self and dependant. The social security system acts as a facilitator and helps people to plan their own future through insurance and assistance. It protects not just the subscriber but also his/her entire family giving benefit packages in financial security and health care. Social security schemes are designed to guarantee at least long term sustenance to families when the earning member retires dies or suffers a disability. The success of social security scheme however requires the active support and involvement of employees and employers. As a worker/employee, you are a source of social security protection for yourself and your family. As an employer you are responsible for providing adequate social security coverage to all your workers.

3. Historical Background

Social security is an embedded value of Indian social life which is referred even in the ‘Vedas’. In India, since time immemorial a variety of social security programmes in different complexities, are in existence. The joint family with ‘Karta’ as the head, the village panchayats, community guilds, the religious and charitable institutions, all used to provide assistance to the needy for various risks and calamities that occurred. The joint family system

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38 www.slideshare.net/anukritibhat/social-security-legislation. Accessed on 13/2/14 at 4:00 P.M.
39 www.mrunal.org/2012/07/economy-social-security.html. Accessed on 12/2/14 at 7:00 P.M.
40 www.icws.org/global-conferences/social-securities.htm. Accessed on 13/2/14 at 4:00 P.M.
41 www.labour.nic.in/content/division/social-security.php. Accessed on 13/2/14 at 12:00 P.M.
42 As Manusmriti and kautilya’s Arthshastra testify, the social structure in those days was evolved and the social codes were designed in order to provide security to all in the community.
was the original cell of social security. The protection of banyan tree applied to the family system in India, which for ages continued to afford complete protection to all its members. The Hindu society rested on this principle for thousands of years, so much so, the joint family system was a legalized fortification against insecurity. The education and marriage of children, the maintenance of aged and infirm members of the family and the widows of the unfortunate who died, were the joint responsibility of all members of the family.

Thus, India has always had a joint family system that took care of the social security needs of all the members provided it had access/ownership of material assets like land and gold. However, with increasing migration, urbanization and demographic changes there has been a decrease in large family units. This is where the formal system of social security gains importance and a need of institutionalized and state-cum-society regulated social security arrangement to address the problem in a planned manner in wider social/economic interest at national level become paramount.

4. Life Insurance and Social Security

Life is full of risks and uncertainties which cause insecurity and mental anxiety. Security dispels this fear and anxiety. It is also a worldly truth that man finds his security in income which enables him to buy food, clothing, shelter and other necessities of life. Every individual desire this security for self and dependents. And for that end he has to earn income to provide for his family needs, old age needs, special needs and readjustment needs. This fundamental need of security of self and dependents is the mother of invention of the institution of life insurance.

43 Joint family, a unique system of social organization was a device par excellence of social insurance of every member of family throughout his or her life time.
45 Supra n.39.
Life insurance is essential for the well being of people and society. It is one of the agencies, which improves mental, moral and material circumstances of citizens, raises the condition of community of which they are members and promotes the welfare of society by properly protecting the social unit - the family.\textsuperscript{47} It brings in a sense of pride and self respect amongst the citizens and provides them with the strength and security that make life worth living and enable them to contribute more efficiently in the national progress. It has no parallel in terms of benefits it bestows on an individual or the community as a whole.

In modern times, life insurance has come up as a great welfare institution and an excellent form of social security.\textsuperscript{48} It is increasingly viewed as an integral part of the development process and extension of its benefits to all and sundry will contribute in achieving various development goals of nation.\textsuperscript{49} Today, when India is facing the biggest challenge of extending the social security benefits to the 93\% excluded workforce and eliminating hunger and poverty, life insurance is expected to play a crucial role.\textsuperscript{50} The fundamental function of life insurance is to shift the loss caused by sudden death of the breadwinner to a willing and capable professional risk bearer in exchange of a comparatively small contribution called premium.\textsuperscript{51} Moreover, it is a source of peace, content and happiness and takes care of all kinds of needs of individuals whether they are family needs, old age needs, readjustment needs or social needs.\textsuperscript{52} Apart from this, it is the best mode of saving and provides profitable investment.

\textsuperscript{47} Supra n.44.
\textsuperscript{48} The need of life insurance has been increasing in the society day by day as the great stress of modern industrial life makes people anxious for security of future and at the same time the complexity of life makes it difficult to foresee and make adequate provision against uncertainties of life.
\textsuperscript{49} Supra n.41.
\textsuperscript{51} Supra n.46, p.12.
\textsuperscript{52} Life insurance cannot prevent old age or death, but it makes financial provision to relieve the monetary hardships caused by these contingencies.
5. Role of State

Men are born differently; they think differently and act differently. But all of them urge to be accommodated within the larger frame of society’s security. State as an agent of the society has an important mandate to harmonize such differences through a productive cover to the poor, the weak, the deprived and the disadvantaged. A formal social security system presupposes the interventionist role of the state on redistribution grounds.\(^{53}\) Thus, state bears the primary responsibility for developing appropriate systems for providing protection and assistance to its workers and their families.\(^{54}\)

The state’s obligation to all citizens and the responsibility of the government to frame and regulate welfare schemes are adequately provided for, in the Indian Constitution. The constitutional provisions authorize the Union and State Government and confer upon them the right to take legislative steps as may be required to provide social security against certain risks to which its members are exposed.\(^{55}\) The matters relating to social security are listed in the Directive Principles of State Policy and the Concurrent List.\(^{56}\)

The government of India took over the conduct of life insurance business in the year 1956 by nationalizing the life insurance, and the Life Insurance Corporation was established.\(^{57}\) Life Insurance Corporation has successively spread its protection to the farthest reaches of the nation and proved to be a milestone in the gigantic task of national

\(^{53}\) Social security is a system of protection of individuals who are in need of such protection by the State as an agent of the society and such protection is relevant in contingencies such as retirement, resignation, retrenchment, death, disablement which are beyond the control of the individual members of the society.

\(^{54}\) Supra n.36.

\(^{55}\) The constitution confers powers upon the Union and the State Government to formulate laws with respect to social security and social insurance; employment and unemployment; labor welfare including the conditions of work, provident fund, employer’s liability, workmen’s compensation, invalidity, old age and maternity benefits.

\(^{56}\) The following social security issues are mentioned in the Concurrent List (List III in the Seventh Schedule of the Constitution of India)-Item No. 23: Social Security and Insurance, employment and unemployment. Item No. 24: Welfare of Labor including conditions of work, provident funds, employer’s liability, workmen’s compensation, invalidity and old age pension and maternity benefits.

\(^{57}\) Nationalization was basically affected to mobilize resources and to extend the benefits of life insurance to all sections of people as a measure of social security and to render quality service to them.
development. The protective hands life insurance today spreads to the weakest, poorest sections of society and to the toiling masses and their illiterate and semi-illiterate families. After opening up of the insurance industry to private players, the Insurance Regulatory and Development Authority, (IRDA) has also exhorted all the players to follow the same ideology and philosophy, in the true spirit of reaching all sections of population, in fulfillment of the objectives of liberalization of the insurance industry.

So, in a modern context the provision of social security does not limit itself as a state subject. The time has come when people, citizens and institutions by and large have come forward and are participating in the decision making process that affects them while designing the policy matters on social security concerns.58

6. Social Security Laws in India

The principal social security laws enacted in the 20th century India have been gathered hereunder:

a. The Employees’ State Insurance Act, 1948 (ESI Act) which covers factories and establishments with 10 or more employees and provides for comprehensive medical care to the employees and their families as well as cash benefits during sickness and maternity, and monthly payments in case of death or disablement.59

b. The Employees’ Provident Funds & Miscellaneous Provisions Act,1952 (EPF & MP Act) which applies to specific scheduled factories and establishments employing 20 or more employees and ensures terminal benefits of provident fund, superannuation pension, and family pension in case of death during service.

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58 This can be seen from the fact that various Governments have addressed the need of various notified communities and groups and thereby helped them to join the development main stream.

59 Supra n.41.
Separate laws exist for similar benefits for the workers in the coal mines and tea plantations.\textsuperscript{60}

c. The Employees’ Compensation Act, 1923 (WC Act), which requires payment of compensation to the workman or his family in cases of employment related injuries resulting in death or disability.

d. The Maternity Benefit Act, 1961 (MB Act), which provides for 12 weeks wages during maternity as well as paid leave in certain other related contingencies.

e. The Payment of Gratuity Act, 1972 (PG Act), which provides 15 days wages for each year of service to employees who have worked for five years or more in establishments having a minimum of 10 workers.

7. Social Insurance

Being a welfare state India is wedded to the socialistic pattern of society and is committed to provide benefits, facilities, concessions and privileges to those who need and deserve such help. In modern times, institution of life insurance has emerged as an excellent form of social security. Making the best use of this modern tool, the state has come forward to extend life insurance protection to all those who need it but cannot afford it. The social insurance legislations in India derive their strength and spirit from the Directive Principles of the State Policy as contained in the Constitution of India. Although, the Constitution of India is yet to recognize social insurance as a fundamental right, it does require that the state should strive to promote the welfare of the people by securing and protecting as effectively as it may, a social order in which justice, social, economic and political shall inform all the institutions of national life.\textsuperscript{61}

\textsuperscript{60} \textit{Ibid.}

\textsuperscript{61} Article 41: The state shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and the public assistance in cases of unemployment, old age, sickness and disablement and in other cases of undeserved want.
Social insurance has been defined as a program where risks are transferred to an organization, often governmental, that is legally required to provide certain benefits. Under the social insurance schemes people receive benefits or services in recognition of contribution to an insurance program. These services typically include provision for retirement, pensions, disability insurance, survivor benefits and unemployment insurance.

The social insurance schemes are a form of social security in India. These schemes are initiated by the government to provide protection to certain sections of population against income losses. The need for public support for these schemes arises from the fact that risk adjusted premium rates are often unaffordable for the weaker sections of the population to which the schemes are targeted and the Government needs to step-in to provide financial support to facilitate the provisioning of insurance for these sections of population. Social insurance schemes basically intend to provide benefits during periods of greatest need e.g. old age, illness and unemployment. It is a form of compensation provided and controlled by the Government for elderly, disabled or unemployed people. It may come in form of medical assistance and monetary compensation.

8. Social Insurance Schemes in India

A number of government supported insurance scheme have been initiated in India, over the last decade and a number of schemes that existed earlier have also been modified substantially. While some of these changes have taken place at the state level. The most important changes, in particular some of the largest insurance scheme in terms of implementation across the country have been initiated by the Central Government. An analysis of the volume of the expenditure incurred by the Government of India on insurance schemes indicates that the total direct expenditure of insurance schemes by the Government of India in 2008-09 was about 1142 Crore. This constituted about 0.1% of the total expenditure by the Government of India and about .02% of the Country’s GDP.

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62 www.en.wikipedia.org/wiki/Social_insurance. Accessed on 15/2/14 at 6:00 P.M.
64 www.businessdictionary.com/definition. Accessed on 22/1/14 at 4:00 P.M.
65 An analysis of the volume of the expenditure incurred by the Government of India on insurance schemes indicates that the total direct expenditure of insurance schemes by the Government of India in 2008-09 was about 1142 Crore. This constituted about 0.1% of the total expenditure by the Government of India and about .02% of the Country’s GDP.
social insurance schemes for unorganized sector are operated by Government through LIC. A few schemes have been listed hereunder.

a. **Aam Aadmi Bima Yojna, 2007**

   Aam Aadmi Bima Yojna is a prestigious scheme of the central and state government administered by LIC to bring a ray of hope and smile to rural landless households. The scheme provides for insurance of head of the family or an earning member of the family of rural landless household and covers the persons between the age group of 18 to 59 years against natural death as well as accidental death and partial/permanent disability. The annual premium payable per member is Rs. 200 of which 50% shall be paid by the Central Government and remaining 50% by the State Government. This scheme seeks to extend the benefit of life insurance coverage as well as coverage of partial and permanent disability to the head of the family or an earning member of the family of rural landless household in the states. Apart from this it also gives educational assistance to their children studying from 9th to 12th standard as an extended benefit.66

b. **Janashree Bima Yojna, 2000**

   The most important and comprehensive scheme that has been launched in recent times, is the Janashree Bima Yojna providing insurance cover of Rs. 20,000 in case of natural death, Rs. 50,000 in case of death or total permanent disability due to an accident and Rs. 25,000 in case of partial disability.67 The scheme replaced Social Security Group Insurance Scheme (SSGIS) and Rural Group Life Insurance Scheme (RGLIS). The objective of the scheme is to provide life insurance protection to the rural and urban poor persons in the age group of 18 to 59 years who are below the poverty line and marginally above the poverty line.68 For the purpose of extending the benefits under the Janashree Bima Yojna 45

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67 [www.planningcommission.nic.in/aboutus/committee/wrkgrp/wgsodysdy.pdf](http://www.planningcommission.nic.in/aboutus/committee/wrkgrp/wgsodysdy.pdf). Accessed on 4/2/14 at 5:00 P.M.
vocational/occupational groups have been identified. NREGA workers have also been included under Janashree Bima Yojna.\(^{69}\)

Recently, the Union Government merged Janashree Bima Yojna and Aam Aadmi Bima Yojna extending similar benefits to landless agriculturists.\(^{70}\)

c. Shiksha Sahayog Yojna, 2001

Shiksha Sahayog Yojna (SSY) is a social security scheme for the benefits of children of parents covered under Janshree Bima Yojna. Under this scheme a scholarship of Rs. 600 per half-year is given to students studying in standard IX to XII for a period of 4 years. This benefit is restricted to only two children of a family.\(^{71}\)

d. Rajiv Gandhi Parivar Bima Yojna, 2011

This scheme provides immediate financial support to the bereaved family in case of death and disability due to various accidents like rail and road accidents, fires, drowning, snake bites, electrocution, stampede, poisoning and unnatural causes like murder. This scheme is completely free and no premium or consideration of any kind is collected from eligible beneficiaries. Homeless people if fulfilling other conditions are also covered under this scheme.\(^{72}\)

e. Krishi Shramik Samajik Suraksha Yojna, 2001

The objective of this scheme is to provide life insurance protection, periodical lump sum survival benefit and pension to agricultural workers.\(^{73}\) This scheme envisaged to cover 20,000 agricultural labourers in the age group of 18-50 years from each of the selected blocks and districts during the first phase. The beneficiary will contribute Rs. 365 per annum

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\(^{69}\) Supra n.41.


\(^{71}\) www.licindia.in/social_securities_003.htm. Accessed on 12/2/14 at 6:00 P.M.


\(^{73}\) www.lickhan.com/kirishi_SSSY_2001.htm. Accessed on 15/2/14 at 6:00 P.M.
whereas central government will provide Rs. 730 per annum to each beneficiary from the social security fund. The benefit available under the scheme includes life cum accident insurance, money back and superannuation benefits.

In case of natural death or permanent partial disability before the age of 60, beneficiary will get Rs. 20,000 and Rs. 25,000 respectively and Rs. 50,000 in case of death or permanent total disability.

It has been observed that the coverage under these schemes have been very slow. Lack of awareness, problems of constituting workers into groups to take advantage of the scheme, non availability of the incentives at the grass root level to organize the workers etc. are some of the reasons of low coverage under these schemes. Therefore, it is suggested that the life insurance legislations that cover the poorest section of the workforce must be universal in their reach and coverage and must also provide for such benefits that are caused by inability to access gainful employment. Furthermore, spreading information and awareness about various social insurance schemes can also play a vital role in widening the coverage of social security schemes.

**J. FDI IN INSURANCE SECTOR**

There is hardly a facet of the Indian psyche where the concept of ‘foreign’ has not permeated. This term, connoting modernization, international brands and acquisitions by MNCs in popular imagination, has acquired renewed significance after the reforms initiated by the Indian Government in 1991. India is the third most attractive foreign direct investment destination in the world. Due to the growing demand for insurance, more and

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74 The Second National Commission on Labour has been constituted by the government to suggest rationalization of existing laws relating to labour in the organized sector and suggest umbrella legislation for ensuring a minimum level of protection to the workers in the un-organized sector.

75 Supra n.36.

more insurance companies are now emerging in the Insurance Sector. FDI provides a win-win situation to the host and the home countries.\textsuperscript{77}

1. Meaning

Foreign Direct Investment is a measure of foreign ownership of productive assets, such as factories, mine and land. It is a direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.\textsuperscript{78} Increasing foreign investment can be used as one measure of growing economic globalization.

Speaking generally, FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. The investing company may make its overseas investments in a number of ways – either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company or through a merger or joint venture.\textsuperscript{79}

2. Current Status of FDI in India

The Union government opened up the insurance sector for private participation in 1999, allowing the private companies to have foreign equity up to 26 per cent. Following the opening up of the insurance sector, many private sector companies entered the insurance business. The new players not only improved the service quality but also increased the life insurance penetration by providing need based products. The premium collection kept on increasing every financial year putting insurance business in India on fast pace. The insurance business today requires additional capital as it grows and this has to come from the

\textsuperscript{77} \url{www.slideshare.net/santhu4siri/fdi-santi-ppt-4th5th-ppt}. Accessed on 12/2/14 at 11:00 P.M.

\textsuperscript{78} Ibid.

\textsuperscript{79} Ibid.
promoters. If the Indian promoters are unable to contribute their share of the capital, they will not be able to grow. Foreign companies with deep pockets will be able to fill this gap, if they are allowed to invest up to 49% of the capital.

The central government has proposed to enhance foreign direct investment (FDI) in insurance to 49% in its second wave of reforms announced recently. At present foreign investment in private insurance companies is restricted to 26% of their capital, which is now proposed to be increased to 49% by passing an amendment to the Insurance Act in the ensuing session of Parliament. The insurance laws (Amendment) bill, 2008 which seeks to raise FDI cap in the sector from 26% to 49% was cleared by Union government through automatic route but is still had to be cleared by the parliament.

Announcing this decision, finance minister P Chidambaram said “the benefits of this amendment to the insurance act will go to the private sector insurance companies, which require huge amounts of capital and that capital will be facilitated with the increase in foreign investment to 49%.” He also clarified that this will not apply to public sector insurers like Life Insurance Corporation of India (LIC) and the five general insurance companies.

The second phase of financial sector reforms consists of two pronged strategies. First, the further opening up of the foreign investment via increasing FDI limit to 49% from 26% and second, creating an enabling environment for further expansion of insurance services. Under the first measure, the Government has increased FDI in insurance to 49%. Second set of measures taken by the Government is in form of an overhaul of the regulations pertaining to insurance sector. Foreign Investment Promotion Board (FIPB) has been set up by the government of India in order to increase the flow of foreign direct investments into the country. FIPB is the only agency in the country that deals with foreign direct investments and

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80 The opening up of financial sector is a long pending reform and given the dearth of money in financial sector, it is undoubtedly a major step.
82 Supra n.76, p.71.
investments into India. The main objective of Foreign Investment Promotion Board (FIPB) is to encourage foreign.

Despite the significance of these measures, context of this opening is somewhat different now. Global financial conglomerates i.e. banks, insurance and pension companies have lost their credibility during financial sector crisis in Europe and America. Opaque functioning of financial companies is under criticism and doubts have surfaced about the safety of hard earned savings of public. Therefore, we need to look into the safeguards being taken by Government under these reforms.

3. Need of FDI

The Indian insurance industry suffering from ruled grant and undergoing consolidation needs a major breather in form of higher investment. According to Insurance Regulatory & Development Authority (IRDA) insurance sector requires big investment for growth and may attract Rs.30, 000 crore that the industry requires over the next five years. Unless the FDI cap is raised from 26% to 49% the industry will not have the required capital to underpin the growth of the insurance industry. The need of larger FDI exists more so because India is at a stage where it needs not just investment but also technology and management policies to sustain and enhance its economic growth.

India’s private insurance industry is now ten years old and in the need of an investment of Rs. 72, 000 crore in order to expand its business. This step if approved by parliament will pave the way for influx of fresh funds in India’s financial services industry. If reforms are powerful and long term the fears are not less substantive either. Financial companies have played havoc in the global markets through their irresponsible business behaviour. The disastrous consequences of the banks and insurance companies investing in speculative activities are not unknown. Numerous examples can be given where they have

83 www.aparajithoughtcouture.blogspot.in/2012/10/fdi_in_insurance-reassure-safeguards.html?m=1. Accessed on 27/4/14 at 3:00 P.M.
84 www.scribed.com/mobile/doc/124727386#fullscreen. Accessed on 23/3/14 at 6:00 P.M.
burned the savings of common man due to their greed for making more money. Thus, in light of this global environment India’s fresh reforms must be analyzed in this context. The fine prints of these reforms have to be closely scrutinized to understand the possible impact.\textsuperscript{85}

India definitely needs an open and vibrant insurance market as majority of the population is deprived of financial security. But these reforms must came with impeccable safeguards to preclude the greedy play of banks & insurance companies as has occurred in other developed markets.\textsuperscript{86}

4. Advantages of FDI

Foreign Direct Investment (FDI) plays an important role in reviving the Industry and helps to boost capital. It gives new ways to attract investment and helps in recovering the Insurance Sector.

a. Capital for Expansion

FDI has the potential to meet India’s long term capital requirements to fund the building of infrastructures which is critical for the development of the country. Infrastructure has been the major factor which has restricted the progress of the Indian economy. Insurance sector has the capability of raising long term capital from the masses as it is the only avenue where people put in money for as long as 30 years even more. An increase in FDI in insurance would indirectly be a boon for the Indian economy, the investments not withstanding but by making more people invest in long term funds to fuel the growth of the Indian economy.\textsuperscript{87}

b. Wider Scope for Growth

FDI in insurance would increase the penetration of insurance in India, where the penetration of insurance is abysmally low with insurance premium at about 3\% of GDP

\textsuperscript{85} Supra n.83.
\textsuperscript{86} Ibid.
\textsuperscript{87} Supra n.76, p.75.
against about 8% global average. They would be better through marketing efforts by MNC’s better product innovation consumer education etc.  

### c. Moving towards Global Practices

India’s insurance market lags behind other economies in the baseline measure of insurance penetration. At only 3.1%, India is well behind the 12.5% for the UK, 10.5% for Japan, 10.3% for Korea and 9.2% for the US. Currently, FDI represents only Rs.827 core of the Rs.3179 crore capitalizations of private life insurance companies.

### d. Competitive Products, More Options and Better Service

Increasing FDI ceiling will help in expanding availability of new products & services, generate new job opportunities, support investment in infrastructure and enhance India status in global financial market. Thus, opening the FDI in the insurance sector would be good for the consumers, in a lot of ways and would impact a lot of industries in a positive way.

### 5. Disadvantages

Raising FDI cap to 49% will come handy for the foreign partner and they will be more than happy to increase its stake, as it will help it get a bigger share of the pie, and will also give it a larger role in running the company according to its ways, by virtue of a higher shareholding in the company. However, it challenges the domestic insurance companies.  

The Global Companies may hike premium to make more profits. They may come up with complex products that common man will not understand and will lead to loss. They may take back money anytime as they are here for profit and not for cause. The increased role of foreign capital may lead to the possibility of exposing the economy to the vulnerabilities of the global market by way of likely inheritance of unsound balance sheets and financial health of the foreign partners through joint ventures and subsidiary routes, flight of capital outside

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88 www.alamlife.com/2014/03/impact-of-foreign-direct-investment-fdi_html?m=1. Accessed on 20/3/14 at 12:00 P.M.
the country and also endangering the interest of the policy holders. In the present global economic scenario, any further hike in FDI at this juncture may not be in the interest of the Indian insurance industry, whereby the common man too would not stand to gain through insurance, particularly as a means of social security.

6. Major Issues

a. Efficiency of the Companies with FDI

The opening up of this sector for private participation in 1999, allowed the private companies to have foreign equity up to 26 per cent. Following this up 12 private sector companies have entered the life insurance business. Apart from the HDFC, which has foreign equity of 18.6%, all the other private companies have foreign equity of 26 per cent. The aggregate loss of the private life insurers amounted to Rs. 38633 lakhs in contrast to the Rs.9620 crores surplus (after tax) earned by the LIC.

b. Credibility of Foreign Companies

The argument that foreign companies shall bring in more expertise and professionalism into the existing system is debatable after the recent incidents of the global financial crisis where firms like AIG, Lehman Brothers and Goldman Sachs collapsed. Earlier too, The Prudential Financial Services (ICICI’s partner in India) faced an enquiry by the securities and insurance regulators in the U.S. based upon allegations of having falsified documents and forged signatures and asking their clients to sign blank forms. Hence, FDI in Insurance in India would expose our financial markets to the dubious and speculative activities of the foreign insurance companies at a time when the virtues of regulating such activities are being discussed in the advanced countries.91

c. Greater Channelization of Savings to Insurance

One of the most important duties played by the insurance sector is to mobilize national savings and channelize them into investments in different sectors of the economy. However, no significant change seems to have occurred as far as mobilizing savings by the

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91 Supra n.76, p.74.
insurance sector is concerned even after the liberalization of the insurance sector in 1999. Therefore, the private or foreign participation has not been able to achieve the goal.\footnote{Ibid.}

d. Flow of funds to infrastructure

The primary aim of life insurance is about mobilizing the savings for the development of the economy in long term investment in social and infrastructure sectors. The same vision was argued for the opening up of insurance market would enable huge flow of funds into infrastructure. But more than fifty percent of the policies they sell are ULIPS where the investments go into the equity markets. As per a report, 95\% of policies sold by Birla Sun Life and over 80 percent of policies sold by ICICI Prudential were unit-linked policies during 2003-04. Under these schemes, nearly 50 percent of the funds are invested in equities thus limiting the fund availability for infrastructural investments. On the other hand, the LIC has invested Rs.40, 000 crore as at 31.3.2003 in power generation, road transport, water supply, housing and other social sector activities. IRDA figures further imply that the share of the public sector life and non-life insurance companies in investment in infrastructure is greater than their market share. Despite the FDI cap being set at 26\%, the investment from the insurance sector to the infrastructure sector was predominantly from the public sector companies. Hence the point of raising the FDI cap in the insurance sector for mobilizing resources for infrastructural development does not hold good.\footnote{Id. at 75.}

K. REVIEW

Insurance Industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of Insurance Sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private and government insurance companies in India that have become synonymous with the term insurance over the years. Offering diversified product portfolio and excellent services, many
insurance companies in India have managed to make their way into almost every Indian household.\textsuperscript{94}

Life insurance is the growing sector of Indian Economy since 2000 when the government allowed Private players and relaxed FDI up to 26%. It is evident that Life Insurance industry expanded tremendously from 2000 onwards in terms of number of offices, number of agents, new business policies, premium income etc. Further, many new products (like ULIPs, pension plans etc.) and riders were provided by the life insurers to suit the requirements of various customers. However, the new business of such companies was more skewed in favor of selected states and union territories.\textsuperscript{95} Private life insurers use the new business channels of marketing to a great extent when compared with LIC. Investment pattern of LIC and Private Insurers also showed some differences.

Despite this wave of change and tremendous competition from private players, the Life Insurance Corporation of India (LIC), the state owned behemoth remains by far the largest player in the market.\textsuperscript{96}

\textsuperscript{94} www.researchersworld.com/vol3/issue3/vol3_issue2_3/Paper_11.pdf. Accessed on 28/12/13 at 8:00 P.M.
\textsuperscript{95} http://www.ijmbs.com/13/prit.pdf. Accessed on 25/12/13 at 8:00 P.M.
\textsuperscript{96} http://en.wikipedia.org/wiki/Life-Insurance-in-India. Accessed on 30/10/13 at 6:00 P.M.