2.1 INTRODUCTION

Modern life can hardly be imagined of without the protection of risk through insurance. Protection against risk is very essential whether its construction of large skyscrapers or shipping of goods or marketing of a new product. In today’s volatile world insurance stand as shock absorbers. With the advent of social security system and advent of global trade practices and industrial revolution the insurance industry rapidly gathered momentum. The advent of trade and emigration has played a significant role in creating a global insurance safety network. Insurance is not a new concept; it dates back to the dawn of the human civilization. When people were nomads they moved in groups to safeguard themselves against the attack of wild animals and natural calamities. With the discovery of fire, pottery and cultivation they started settling down in permanent locations this brought into existence the system of joint families. The joint family system provided safeguard against the financial crisis in case of loss of life of any family member. Traders in various countries shared the risk of loss of goods on ship; fire etc by the same mechanism. Human beings have always suffered the risk of loss of life as well as risk to their assets from time immemorial. Reference of sharing of risk is found to exist in the Vedas and Upanishads also. The present civilization is a result of changes and reforms that had taken place in the past. Risk exists in everyone’s life; it may be the risk of death or the loss of an asset. This risk which is a part and parcel of every individual’s life can never be eliminated. So it becomes necessary either to transfer the risk or to share the risk so as to lower down its impact. And insurance is an instrument to mitigate this risk.

Life is uncertain and so the livelihood and the property. We grow food grain by cultivation of soil which is fed by rainfall. If rainfall does not occur it leads to crop
failure and hardship for life. Even life itself may be attacked by disease, ailment which may lead to fatal consequences. The dwelling house may face vagaries of nature. Land on which house is located may be destroyed by disaster, natural calamities, civil commotion, affecting the life, property and human civilization. In order to counter the consequential loss and sufferings that might arise and mitigation of losses to some extent can be provided by the device called insurance.

### 2.2 MEANING OF INSURANCE

Insurance is an instrument of sharing of risk of a few among the many. Insurance is a contract entered into between two parties namely the insurer i.e. the insurance company and the insured i.e. the policyholder. It is the mechanism whereby the insured transfers his risk wholly or partly to the insurer for a consideration called premium. Insurance company takes up the obligation to meet their claims as per the terms fixed upon by them in the policy. Insurance products can be broadly classified into two main sub-headings i.e. the life insurance and the non-life insurance also called as general insurance.

#### 2.2.1 LIFE INSURANCE

According to the rule of nature and biology life is mortal. Man is mortal and it is a universal truth the true worth of a life, the earning capability of a human life cannot be measured with a definite yardstick or a scale. The mankind is different from animal kingdom in that they preserve resources and wealth for their posterity. Hence, an individual when does not exist in this planet he or she makes arrangement for economic support system of his/her family members and decedents; here lies the essence of a life insurance contract. Every individual has financial and other responsibilities towards oneself and its family including the number of years the person survives and also thereafter. Risk of loss of life has always been there; although the reasons were different,
like in the past the risk to which a human life was prone were attack of wild animals, snake bites, falling down from trees, wars, natural calamities etc whereas the scenario is different in the present times. Today the dimension of risk faced has widened further to permanent or partial disability, sickness, old age etc.

If we turn the pages of the Rig Veda which is one of the four Vedas of the Aryans in India we can find that the concept of insurance dates back to that period. The Rig Veda mentions the existence of the concept of insurance among the Aryans in India around 1000 B.C. The Logo of the Life Insurance Corporation of India (LICI) two hands holding a lighted earthen lamp in between with the Sanskrit slogan inscribed “YOGAKSHEMAM VAHAMYAHAM” written in Devnagiri script which means “Your Welfare Is Our Responsibility”. The two terms which are the logo of the Life Insurance Corporation of India (LICI) means to provide protection to humans who have taken birth. If we study in detail we get that this two hands means the hands of the mother who always holds her child tenderly and provides protection in all the ways. The same applies to insurance which has the ideology of protecting the people from the effects of certain risk they are exposed to and providing for their welfare and well being. This slogan has its relation with the ancient Hindu text the “Bhagavat Gita” and is derived from the 22nd verse of the 9th chapter. [1]

However we desist ourselves from discussing these matters here because this are outside the ambit of present research work. Therefore we will concentrate on non-life insurance products as discussed here under.

2.2.2 NON-LIFE INSURANCE

Non-life insurance covers the risk of loss of assets through accidents or natural calamities. Assets are owned by human beings either for making their life convenient or
to generate revenue. Every asset has a value and a lifetime during which it functions and generates revenue. In case before the expiry of its useful life if the asset is destroyed or made non-functional owing to any accident or happening of a natural calamity, the owner is to incur additional cost on either its repairing or replacement in case it is completely destroyed. As well as to incur additional expenses on arranging an alternate for the period the asset is not repaired. This leads to the necessity of insurance mechanism for assets. The category of insurance is termed as non-life insurance. The main sub-divisions of non-life insurance are as follows:

- Fire
- Marine
- Motor
- Personal Accident
- Miscellaneous
- Liability
- Engineering

2.3 ORIGIN OF INSURANCE

Babylon civilization which is 5000 years old is the oldest civilization of the world. This civilisation is the richest in terms of thought. The concept of sharing of risk was introduced by the traders in Babylon who sent their goods on ships to other countries so as to protect themselves against the loss suffered by high tides, grounding, sinking, drowning of ship, water entering inside and spoiling the goods, ship piracy, war and other perils of the sea. As the Middle East countries are surrounded by sea on all the three sides, so they had to cross the sea for trading activities with other countries. And
the only outlet for the export and import of goods was the ship. It was very necessary to protect the ship from all the risks it was exposed to. Although risk could not be eliminated, so Mother Nature had given birth to new discovery of sharing of risk of few among the many. This same mechanism is the base on which today the concept of insurance is based.

The concept of insurance has said to originate in Babylon where rich people gave loan to traders on the condition of repayment of loan with interest on safe arrival of their goods through ship. Ancient Roman civilization also practised insurance in the form of burial clubs which were formed by the local citizens to extend financial support for rehabilitation and funeral expenditure to the survivors of deceased members. The existence of insurance as a well developed sector owes credit to the Lloyd’s Coffee House in London. In the year 1688 ship-owners and merchants encouraged insurance by sharing among themselves the losses suffered by them during ship voyage.[2] Reference of insurance can be traced back to the times of Kautilya, who had in his great writing “Arthashastra” mentioned about collecting of taxes from the public so that the same taxes can be used up for maintaining and providing social security to the public. This taxes collected by the king would be utilised by the king in providing security and financial support to the poor and the needy. This shows that the governing authority had provided social security to its public in one way or the other. This same security in today’s world is provided by the government in the form of insurance.

Earlier there were no written rules for the coverage of maritime risk. Gradually with the increase in the volume of business, entry of unknown parties as well as increase in the unseen losses to the contract there arose the need to have written rules. This written down rules paved the way for evolution of present day insurance contracts. The various
principles of insurance that the insurers follow today have been created so as to face these changing needs and scenes. Today we have various principles for the contract of both life and non-life insurance. The principles of insurance that applies to a contract of non-life insurance today are Utmost Good Faith, Insurable Interest, Indemnity, Proximate Cause, Contribution, and Subrogation. These principles are all practised so that the victim is compensated and does not make any profit out of the contract.

2.4 RISK MANAGEMENT

Insurance is a subject matter relating to risk and it is a tool for managing the risk of life, asset, properties, marine trade and fire. Had there been no risk the insurance business would have been dead. So insurance is sought to protect the life and property and managing the risk. However, before going into a detailed discussion on insurance, we shall like to focus on the risk, uncertainties entangled with a life, with a property, with a subject matter which is insurable. A brief discussion here under has been done to understand the interdependence between risk and insurance. We shall now concentrate on analysing the concept and various dimensions of risk and then insurance as a hedge and as a protective device to mitigate the risk.

2.4.1 DEFINITION AND MEANING OF RISK:

Selim and McNamee (1999) defined risk as, “A concept used to express uncertainty about events and/or their outcomes that could have a material effect on the goals and objectives of the organization”. The definition of risk has been put forth by several researchers and practitioners from time to time. In simple words ‘risk’ means exposure to danger. It is the possibility of exposure of an asset to loss or damage which risk may be a natural calamity or an accident causing damage to an asset partially or completely. The risk of the happening of a particular event should be uncertain; otherwise it cannot be
termed as risk. This uncertainty in the happening of the event gives rise to taking measures to minimise the impact to the lowest. And this risk is at the heart of every insurance policy, because risk creates the necessity for insurance.

2.4.2 MEANING OF “RISK MANAGEMENT”

Risk Management can be defined as “A systematic way of protecting the concern’s resources and income against losses so that the aims of the business can be achieved without interruption”. In terms of the insurance parlance it can be said that, “Risk Management is a tool identifying business opportunities to design and modify the insurance products.” Benjamin Franklin observed that ‘in this world nothing can be said to be certain, except death and taxes’. [5] But this is not true; there is some amount of uncertainty about even those two phenomena. Firstly, no one can be sure about the timing of his death i.e. when he will die and secondly regarding the tax rules the uncertainty lies in the rules and rates which keep changing frequently. This implies that the whole life is surrounded by uncertainty.

2.4.3 RISK MANAGEMENT AND INSURANCE:

Wherever there is uncertainty about the future, risk exists. The risks to which individuals are prone in different ways may be classified under the following heads:-

- Financial and non-financial risk: - risks which have financial consequences are called financial risk and non-financial are those risk which have negligible or no financial consequence. Our subject matter of insurance is concerned with financial risk only and if the risk has no financial consequences it cannot be covered under insurance.
- Static and Dynamic risk: - static risk is that risk that exists even in the absence of changes that take place in the society i.e., static risk exists in the absence of dynamic risk. Static risk arises due to dishonesty or infidelity of others which may result in dispossession of an asset or property or because of perils of nature like earthquake, storm, flood etc. which may ruin the property. Since this risk do not have any element of gain and cannot be predicted with accuracy, so this risk is insurable.

Our society is dynamic, change is inevitable. Dynamic risk arises from the changes that take place in a society in various fields like economic, technological, political etc. Dynamic risk can be changes in prices, inflation, change in consumer taste and buying behaviour, technological developments etc, which although have financial impact on business houses but do not fall under the bracket of insurance.

- Fundamental and Particular risk: - fundamental risks are termed as group risk because they affect a large segment of people or population when they occur. Examples of fundamental risk are war, flood, earthquake, inflation etc. These risks are insured.

Particular risk arises out of individual losses which may be dynamic and static. Individual losses like loss of house by fire, robbery, burglary etc are particular risk and can be insured by individuals.

- Pure and Speculative risk: - pure risks are those risk which produce only loss to an asset if they occur and there is no element of gain present in it. Hence is insurable. But in case of speculative risk, there may be three possible outcomes. There may be loss, there may be gain or there may not be any change in value of
the asset. Here it involves possibility of gain. Speculative risk is similar to a wagering contract and gambling and hence is not covered in insurance.\[6\]

### 2.4.4 CONSEQUENCES OF RISK:

Having discussed the various types of risk to which an individual or an organization is prone to, it becomes necessary to study the consequences of these risks on the life of human beings and business organizations that exists in the society. All the risks discussed above except dynamic and speculative risk can be insured. There are some common features present in all the types of risk which makes them insurable. The affect of the above mentioned risks on human life has been discussed in details under the following heads of risk.

- **Risk faced by individuals** – Every individual is exposed to almost every category of the risks discussed above. Even if an individual do not possess any property or assets he is exposed to the risk of premature death as well as risk of dependent old age i.e. he is exposed to the possibility of dying too early or living too long. In both the situations living too long or dying too early the risk is the financial aspect. In the first situation the individual might not have been able to make a sufficient corpus for fulfilling the financial needs of his surviving family. Secondly, living too long after the retirement from work too is a high risk because earning capacity either comes to an end or is negligible which results in loss of income but regular living expenses continue with increase in new expenses in the form of medical treatments and health care management.

- **Risk to Property** – Property risk is the direct loss to the property as a consequence of any risk faced by it. It may be full or partial loss to an
asset or property. The loss may be due to the continuation of expenses even when the asset or property is not in use or has become non-functional temporarily or permanently. And also includes the additional expenses that are being incurred because of the loss.

- **Risk arising out of Liability**: - Liability risk arises when an individual commits a wrongful civil act which may result in injury or death of any other person or damage to property owned by others. In such case he is liable under law to compensate the party who has suffered the loss because of his wrongful act.

- **Risk due to Ownership in case of vehicles**: - here the owner of the asset is exposed to risk due to negligence or carelessness in the use of the vehicle. The risk may be damage to vehicle, loss of life or injury to others.

- **Risk arising out of Fidelity**: - this type of risk mainly arises due to the dishonesty of employees and other people in course of their duties and dealings. This results in the loss of assets to the organization in the form of theft of stock or cash.

- **Failure of obligation**: - Here the risk mainly due to the failure on the part of any other individual to meet personal obligation in the prescribed time limit. The individuals who stand as guarantors and sureties in financial loans are subject to obligation risk in case the individual on whose behalf they stand as guarantor fail to meet his/her obligation in time.[7]
2.5 INSTRUMENTS OF INSURANCE TO MITIGATE RISK:

Man has some basic needs which include food, clothing, shelter and sleep. These needs had been mentioned by A. H. Maslow, who was a British psychologist. He developed a 5-level need-based hierarchy of human beings in the form of a pyramid. At the bottom of the pyramid were the most basic needs of every human. His work was based on the concept of need priority of human beings. This pyramid provides for security of income which is provided by the instrument of insurance. [8]

The United Nations which works for the improvement of living standard of the people around the world has been working on it and recognised the fact that food, cloth, shelter, sleep as well as insurance are the basic needs of every individual in this world today. To satisfy the above mentioned basic needs of any individual income is necessary and as the needs are to be fulfilled throughout the lifetime so there should be continuous flow of income. Insurance mechanism can neither postpone the risk nor eliminate the risk but it only provides an alternate arrangement for facing the happening of the unfavourable event. Therefore, it can be said that there is a beautiful correlation between United Nations preambles with insurance which shows that insurance is needed simultaneously to protect these basic requirements of human beings.

Risk mostly brings loss which is sometimes absorbed by the individual or the organization themselves. However, those risks where the financial consequences can be measured and predicted can be transferred to others by following the risk management techniques. The risk which is faced by an individual or an organization can be transferred to an insurer on regular payment of a consideration called premium for allowing insurer to undertake the risk. This premium is the cost paid by the party for relieving it of the contingent unknown loss that may or may not arise in near future. In return the insurer
promises to compensate the transferring party any loss of asset suffered. Risks for an insurer are moving targets which keep on constantly changing or newly developing. And as such it becomes difficult to quantify and judge risk. The risk to which the present civilization is exposed is very different to what was experienced in the past. In today’s world the insurance industry is confronted with new challenges, the key drivers of this changing risk include technological, economic, growing interdependence upon nations, socio-political and environmental developments etc.

2.6 HISTORY OF NON-LIFE INSURANCE WORLD PERSPECTIVE:

Necessity is the mother of invention and so is the origin and development of insurance. The Great Fire which broke out in London on 2-5th September in 1666 swept 70,000 houses killing six thousand people changed the opinion of the people. This catastrophe led to the establishment of the first fire insurance company in England. Towards the end of the 18th century the most modern and global insurance company named Phoenix was set up by an association of sugar mill owners in England. The company started insuring risk in distant countries of the world by establishing offices abroad. So it was Britain with its unbeatable business model insuring risk of life and property and was colonising the world. With the end of series of war in Europe and Anglo-American conflict the wake of a new era was followed and the British model of insurance was adopted in white-settler colonies in New Zealand, America, Australia and South Africa. It was a practice of large Asian Corporation to undertake combined business approach; the entrepreneurs provided insurance coverage to their own property as well as others. The British companies were dominating the insurance business in the world and this created concern among many nations like Spain, Italy, France, Germany etc. Later many Latin
American countries carried out legal reforms to protect the local insurers against foreign insurers.\[9\]

After the World War I, the South African government created jobs for the large workforces who flocked towards the towns and cities for earning their livelihood. These jobs were providing them with pension as well as medical facilities. All this was done through domestic insurance companies. As a result within some decades, South-Africa registered the highest growth of life insurance business in the world while the non-life business was dominated by the English companies. The second half of the nineteenth century witnessed rapid increase in industrialisation; the effect of which was the immense growth in transportation, communication, traffic movement, urban development. All these required insurance coverage for the producer, the supplier as well as the consumer and as such paved the way for spanning of the insurance industry throughout the globe.\[10\] The crashing of the Wall Street in October, 1929 came as a great shock to all the foreign insurers who had huge investments made in US Stock market. In 1931 the effect of the crisis reached Europe and hit the insurers who were actively dealing in US market, some insurers even went bankrupt. As a precautionary measure to protect them from the affect of the crisis; America along with twenty five other leading nations of the world abandoned the gold standard. The other affects are fixation of import quotas by the trading nations, entering into bilateral trade agreements and tightening of supervisory laws by some countries.\[11\]

The insurance companies had not recovered from this crisis and were hit by the Hitler led World War II which again affected their financial position. By this time the Asia countries had witnessed the growth in the insurance sector. During this period Shanghai emerged as the biggest insurance market place in Asia, it is here in Shanghai the world’s
largest insurance company AIG was founded and emerged as world’s largest insurer. The attack on Pearl Harbour in 1941 forced all the foreign companies to quit out of Shanghai.

In 1944, the Bretton Woods conference was attended by 44 Allied nations to draft post-war financial and monetary policies to overcome the crisis of the War. But there were no inputs for the insurance industry; the agreement had neglected the role of service industries in improving the economy as a result the insurance and reinsurance business found it difficult to sustain, although many countries provided ample opportunities for growth in their home countries. Post war period witnessed a boom situation with profitable performance by insurers and development of new markets as well but there was lack of expertise to cater to the ever increasing needs of the society. Some banks and insurance companies joined hands together for comprehensive financial model, which included banking, pension and property insurance. So large conglomerates appeared in the US market, under which banks were acting as distribution channel for selling insurance products. This is similar to the bancassurance model which is an important channel for selling of insurance products in modern market.

After the World War II the highest growth was recorded in Motor industry the reason being the removal of restriction on the use of private cars imposed during War period. After the War there was an upsurge in the use of private cars as well as increase in motor policies which went beyond the control of the insurers. It is observed that till date the motor segment is most profitable one to the insurance companies. The Oil crisis of 1973 and 1979 were the greatest shock after the War and to overcome the situation countries like Switzerland and Germany even prohibited driving of motor vehicles on Sundays to save fuel.
During the World War Second the German government was in need of huge resources to finance the War. Consequently, the banks and insurance companies were ordered to invest their resources in government bonds, thus making the resources available at the behest of the government. This practice still continues to be followed in terms of investment regulation to be followed by insurers in Germany. The business of Motor Car insurance emerged as the highest growing sector after the Second World War. The premium on car during the war period was low as use of private cars was totally restricted. Post war spur in the use of motor vehicles brought an increase in the demand for motor insurance. But this was also associated with less control and spur in insurance claims ratio which become difficult to monitor.

The twenty first century has witnessed many events since the very beginning. The terrorist attack on the World Trade Centre in 2001 not only cost three thousand lives and billions of dollars in property damage, it also changed insurers thinking about the possible size of losses and the interconnectivity and accumulation of seemingly unrelated risks. The incident of 9/11 was the most costly man made insured disaster ever in the world after the Hurricane Andrew. This incident cost the insurers around USD 23.8 billion in terms of claim payment. [13] The terrorist attack on the World Trade Centre on 11th of September, 2001 set alarm for global security as well as halt to the stock market worldwide. The losses sustained as a result of the failure of the stock market were not confined only to New York alone but extended to many other nations as well. The affect was not confined to stock exchanges only but even fell on the airline industry. As restrictive security measures either airline services were grounded as events around the world were cancelled or restrictive security measures were implemented. As the losses of 9/11 attack accelerated with it went up the cost of insurance underwriting.
However, the beginning part of the twenty-first century has witnessed several socio-economic and political catastrophic events adversely affecting the insurance business in India. If we talk about the natural calamities, the Amarnath Yatra Tragedy in 1996, Gujarat / Bhuj earthquake in 2001, Tsunami in 2006, Cyclone Nargis in the Northern Indian Ocean in 2008, Uttarakhand flood in 2013 are a few to name. Besides the natural disasters faced by the insurers, there are manmade recurring disasters that affected the insurers at different times throughout the globe. To name a few terrorist attacks are the Wall Street Bombing in 1920, attack on the World Trade Centre on 11th September 2001, Mumbai terrorist attack on 26th November 2008 due to which the insurance industry had to face enormous losses. This is not the end; the challenges to the insurers also came from the economy and the recurring crises which at times cause bigger losses than the worst insured catastrophes. The 1929 stock market crash in the US and subsequent Great Depression showed insurers and reinsurers for the first time that they were exposed to significant risks on the asset side of the balance sheet. Also, monetary issues caused difficulties with floating exchange rates and fluctuating interest rates. The insurance industry proved resilient to the problems created because of the subprime crisis and the failure of Enron in 2001, Lehman Brothers in 2008, and General Motors Company Bankruptcy in 2009 etc.

The financial crisis of 2008 was a catastrophe for the global banking sector. It was a severe crisis after the Great Depression of 1931. The impact of 2008 crisis was more on banks and the least on insurance companies. Insurers were better prepared than the banks to weather this financial storm.

Taking clue from the global insurers emerging in the insurance sector, we can gradually come down to the state of evolution of the insurance industry in India during the pre-reform
period and the state of affairs after liberalisation of the insurance industry in the beginning of the century.

2.7 EVOLUTION OF INSURANCE IN INDIA

Now we discuss on the evolution of the non-life insurance business in India. The study of the evolution of non-life insurance business has been divided under the following period.

i. Pre-Independence Scenario

ii. Nationalisation of the insurance industry

iii. Economic Reforms and Insurance Industry

iv. Liberalisation of Insurance Industry

2.8 PRE-INDEPENDENCE SCENARIO

The evolution of insurance in India is nearly 200 years old. In the year 1818, the first modern insurance company was incorporated in India by a Scotsman. By 1868, nearly 285 companies were doing business of insurance in India. Earlier these companies were governed by Indian Company Act, 1866. With the enactment of the Insurance Act, 1870 by the British parliament all the 174 companies existing in the market ceased to exist. These companies were however, insuring only European lives. Insurance was restricted to British subjects as locals were suspected of not being morally fit to withstand the temptations of fraud. Also, they were thought to be too big a risk for life insurance on account of their perceived lower living standards. Ironically, the worst risks for life insurers turned out to be the premature death of young British soldiers and officers who were often exposed to severe health problems in the tropical climates of the colonies and tended to die prematurely. These soldiers appointed at different colonies of the British
suffered from health problems due to unfavourable tropical climate of the colonies. [14]
And also those Indians who were offered insurance cover were treated as sub-standard lives and were accepted with an extra premium of 15% to 20%.

First Indian insurance company under the name “Bombay Life Insurance Society” started its operation in 1870, and started covering Indian lives at standard rates. Later “Oriental Government Security Life Insurance Company”, was established in 1874, which later on emerged as a leading Indian insurance company. This was followed by many companies being set up.

India with its long tradition of trade has a history which goes back several millennia. But the underwriting of risk in India with the insurer’s office in London was almost impossible as it took about two years to exchange letters with India. The British insurance companies operated in India through their agency houses. So the alternative available to the agency houses was to charge higher premium to write-off the higher cost of underwriting. This resulted in the setting up of insurance entities by the agency houses in India, thereby spreading the business of insurance into Asia.

The beginning of the 20th century witnessed the patriotic fervour of Swadeshi Movement in 1905, Non Co-operation Movement in 1919, Civil Disobedience Movement in 1929. During that period the Insurance business was subjected to Indian Company Act, 1866 without any specific regulation. In 1905, the slogan “Be Indian-Buy Indian” declared by “Swadeshi Movement” gave birth to dozens of indigenous insurance and provident fund companies in India. And the pioneering efforts of many reformers and social workers in India like Raja Ram Mohan Roy, Dwaraka Nath Tagore, Ramatam Lahiri, Rustomji Kowashji led to the entry of Indians in the insurance business which was earlier completely controlled by the British. As a result large number of Indian
companies entered the insurance sector. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life insurance business. Insurance regulation formally began in India through the passing of the two acts; Life Insurance Companies Act of 1912 and Provident Fund Act of 1912. In the year 1914, the Government of India started publishing returns of Insurance Companies operating in India. At that time there were only 44 companies operating in the market which grew to 195 by the end of 1940. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

The year 1930 was the year of Great depression and the major changes that occurred in that period was the severe recession faced in 1934, which affected USA, Europe and the British colonies. There was no revenue generation as well and henceforth actions were taken to strengthen the working of British colonies in different parts of the world. In 1934-38 the British were trying to come out of own efforts of running their colonies instead they started consolidating their economic institutions for strengthening the regulatory framework, institutional framework and to achieve economic growth for the purpose of generating commerce and profit from the colonies. The British authorities in Great Britain under the Queen Victorian regime enacted the RBI Act in 1934 paving the way for establishment of Reserve Bank of India on 1st April 1935.

There was no formal registered institute to monitor the business of insurance in India. Even there was not any principal of granting license to commence business of insurance. The business of insurance was conducted at the commercial consideration of the private individuals. This kind of free situation in India had adversely affected the insured’s. In
all situations the insurers pinched the pockets of the policy holders and as a result
insurance business could not grow in desired lines. The buyer of insurance product
became the first victim in an insurance contract. Keeping in mind the interest of
policyholders paved the way for the enactment of the Insurance Act of 1938. This Act
was enacted to regulate the insurance business in India because the insurance business
was carried on by individuals at their own sweet will without any regulation on
collection of premium which was without any bearing on risk undertaken.

2. 8.1 THE INSURANCE ACT, 1938

The Government of India set up a consultative committee under the chairmanship of Mr.
Sushil C. Sen, a well known solicitor of Calcutta in 1937. The committee consulted a
wide range of interested parties including the industry and prepared the draft bill which
faced debate when presented in the Legislative Assembly in January, 1937. The
government finally passed the Insurance Act in 1938. This piece of legislation was the
first comprehensive one in India. With the enactment of this act the earlier legislation on
insurance was consolidated and amended by the Insurance Act, 1938 with
comprehensive provisions for effective control over the activities of insurers. This act
was passed with the primary objective of protecting the interest of the Insured public
covered under both life and non-life insurance companies and clearly defined the area of
business to be covered by life and non-life insurance. The Act covered issues like
supervision of insurance companies, investments made by the insurers, commissions of
agents, directors appointed by the policyholders among others. From here onwards the
growth of insurance business in India was quite steady except for a setback in 1947-48
due to aftermath of partition of India.

The major regulatory instruments created by the Insurance Act, 1938 are as follows –
1. It set up the “Insurance Council of India” which oversees the functioning of private players in insurance sector.

2. The charging of tariff has been brought under the control of Insurance Council of India.

3. It further streamlined the level of operating expenses to be incurred in order to deprive the policyholders by way of eating up the premium income in the name of operating expenses. In order to check this act for the first time stipulated a ceiling limit on operating expenses at 19% of the premium collected.

Perhaps this concept of a council of insurance at apex central governmental level ultimately led the central administration of our country to set up independent monitoring agency for the entire professional and service providing institutions in the country. Mention may be made of names like Medical Council of India, Distance Education Council of India, University Grants Commission, and All India Council for Technical Education. The setting up of Insurance Council of India would ensure that the operations of the insurance companies are not detrimental to the interest of the policyholders. The tariff to be charged for rendering insurance services has to be proportionate to the volume of risk undertaken; so that equality in terms of cost of insurance is maintained. This would facilitate better performance by the insurance companies operating in the market.

2.9 NATIONALISATION OF INSURANCE SECTOR

Post independence the new government of the independent nation carried out developmental activities in different sectors of the economy. As a part of these
development activities undertaken throughout the country insurance business was nationalised by the government.

2.9.1 NEED FOR NATIONALIZATION

The post Second World War (1939-1945) created high demand for insurance protection to the life and property arising out of disastrous activities. Insurance protection was required for the British soldiers who were trans-located from Great Britain and serving in the Indian colony and also there was need for protection of assets and properties from the war related perils. The Quit India Movement played a significant role in creating high demand for insurance. Although there seemed to be a growth in the number of insurers operating in the market yet the profitability of the insurance entities was very low. The banking and insurance sector were being controlled by big business houses and were indulging in malpractices which resulted in a number of liquidations. This shook the faith of insuring public in insurance companies as custodians of their savings and security. After independence the National Planning models were implemented in India by the new government, these models were similar to those followed in Soviet Russia. The main vision was to bring the key industries under the public sector whereas the financial services did not find any strategic importance in the model. The life insurance industry was nationalised in 1956 and the non-life industry was not. The reasons for not nationalising the non-life sector were mentioned in the speech delivered by the Finance Minister which stated that non-life was not deemed necessary for the economic development of the country and as such it was felt necessary to bring life insurance to the rural population. Fifty percent of the population of the country lives in villages and rural areas and contribute 25% towards the Gross Domestic Product of the country. So the nationalisation was done with a social objective of improving the insurance penetration
in rural areas. But the nationalisation did not give the proper results as expected. The penetration level of LIC after nationalisation was not a very rosy picture as the purchase of insurance was made mostly by the well-to-do households with good income and not by the average rural households. Although there was an expansion in business in rural areas but it was not serving the purpose with which the nationalisation was carried out. [16]

The grounds on which the nationalisation of non-life insurance was desirable were:

- Emergence of public sector would be bringing in economic development by selling policies in the remote areas of the country which were otherwise outside the net of private sector insurers.

- The performance and operations of the private entities was very expensive therefore raising the premium rates; therefore it was necessary to do away with these expensive entities.

- India being a socialistic nation it becomes necessary to go for nationalisation.

- Lack of trust and faith of the public in the insurance companies because of unethical practices resulted in bankruptcy of insurers. It was expected that nationalisation will be the solution.

- To improve the distribution of insurance products to far flung areas of the nation through nationalised insurers.

  - To minimize frauds created because of misuse of power and position would be resolved by incorporating government owned entities.

  - To create the much needed funds for rapid industrialization and self-reliance in heavy industries in the country. [17]
2.9.2. NATIONALISATION OF LIFE INSURANCE (1956)

The Government of India nationalized the life insurance industry in January 1956 by merging about 250 life insurance companies and forming Life Insurance Corporation of India (LICI), which started functioning from 1st September, 1956. The LIC Act 1956 brought all life insurance business within the ambit of regulatory mechanism. Henceforth, the non-life insurance sector was the one left with the private entities.

2.9.3 NATIONALISATION OF NON-LIFE INSURANCE (1972) -

The Insurance Act of 1938 had been amended from time to time as per the changing needs of the insurance industry. Inspite of these continuous efforts by the government to maintain an open market for the non-life insurance industry yet the practice of malpractice by insures escalated beyond control. Thus, this led to the nationalisation of the non-life insurance industry in India in 1972. On May 13th 1971 an ordinance was promulgated taking state control of general insurance business with custodians in charge. In the year 1972 the General Insurance Nationalization Act was passed allowing the formation of General Insurance Corporation of India (GICI) in 1972. It was further declared that the Indian Non-life insurance sector was to be nationalised with effect from 1st January, 1973 by merging all the 107 companies operating in India into four subsidiaries of the General Insurance Corporation of India (GICI) which were collectively known as the NOUN. These four subsidiaries of the General Insurance Corporation (GICI) of India were namely –

a. National Insurance Company Ltd,
b. Oriental Insurance Company Ltd,
c. United India Assurance Company Ltd,
d. New India Assurance Company Ltd.
The subsidiary companies were expected to set up standards of conduct and sound practices in providing customer service in the non-life insurance business. The GICI was entrusted with the role of monitoring the investments and expenses of the subsidiaries and spreading the non-life insurance to the rural and remote areas of the country. The GICI was designated as the National Reinsurer. It was made mandatory for all insurers operating in the market to cede 20% of their gross direct premium in India to the National Reinsurer (GICI). The purpose behind this was to retain the maximum risk domestically. To foster the competition in the insurance market all four subsidiaries of the GICI were to compete with one another.

The operations of the nationalized non-life insurance sector started on 1st Jan, 1973 with GICI at the apex and its four subsidiaries operating through their Head offices at one metro city of the country. These four public sector insurers were taking care of the non-life insurance business in the country till 2000 totally. The objective of nationalisation of the non-life sector was to curb the malpractices that were prevailing in this sector and to spread insurance to nook and corner of the country and to utilize the premium collected from the policyholder for the upliftment of socio economic condition of the country. Although at the time of nationalisation it was understood that these subsidiary companies would compete with one another in the market and would set up their own investment portfolios. But in reality that did not happen.

2.10 ECONOMIC POLICY, 1991:

Post independence the execution of the five year plans initiating for growth and development of the nation did not work in the right direction. Although reforms and plans were initiated throughout the period after independence yet the economy crashed
leading to rise in the rate of inflation (as measured by point to point changes in the Wholesale Price Index) touching 12.1 percent in the year 1990-1991 and this had put the nation under severe financial crisis. This economic crisis was created due to the unmanageable balance of payments position and a socially intolerable high rate of inflation faced by the nation; which did not happen in a day but was the result of too much regulatory control by the government and inflationary trend which continued since eighties. The economic crisis which the nation faced ignited the fire of economic reforms in the country in 1991. To overcome the situation the Indian Economic Policy of 1991 was undertaken and the Liberalisation-Privatisation-Globalisation (LPG) of the insurance sector were a part of these reforms undertaken in the country.

2.10.1 REGULATION OF INSURANCE SECTOR:

The nationalisation of insurance industry has not brought the results as desired and thus in the backdrop of the new Economic Policy it was found necessary to bring about changes in the financial sector of which the insurance sector is a part. There was a heavy need to regulate the business of Insurance in India because firstly the Insurance companies operating in India are repositories of public trust and so to make the business of insurance detrimental to the benefit of the customer it was extremely necessary to regulate their operations. Secondly, the insurance cash flows are directed towards investments in the infrastructural development activities.

The major reasons for initiating the reforms in the insurance sector are enumerated below.

- Non-fulfilment of objectives of Life Insurance Corporation Act, 1956 and Non-fulfilment of objectives of General Insurance Business Nationalisation Act, 1972 in providing better services to the policyholders.
- The huge cost of operations incurred by the insurers increased the premium liability of the policyholders. Even after nationalization the insurers failed in controlling the cost of operation. This was the reason why customer lost trust in the companies.

- Lack of competition among the nationalized insurers as they were less concerned with the growth of insurance penetration and insurance density in the country.

- Excessive monitoring and control over the operations of subsidiaries by the GIC.

- Low contribution towards the growth of the rural sector insurance which is a must for the economic development.

- The Economic Policy, 1991 initiated by the government to overcome the economic crisis faced by the nation required regulation and monitoring of the financial system of which insurance is a part.

- To follow global best practices reforms were initiated in the insurance sector.

- Global compulsions in the form of GATT treaty, by signing the GATT accord, the government of India committed to opening of insurance sector to local and global operators.

- Lack of initiatives on the part of the insurers for research and development activities. So, the above discussion gives a clear picture of the scenario which initiated the reforms in the general insurance sector. [19]

### 2.10.2 SETTING OF THE MALHOTRA COMMITTEE

The Malhotra Committee was formed in 1993 under the chairmanship of R.N.Malhotra to examine and provide suggestions on the structure of the insurance industry; to
evaluate the insurance sector and suggest measures to improve the efficiency, to evaluate the strength and weaknesses in terms of the objective of providing high quality services to the public and serving as an effective instrument for mobilization of financial resources for development and supervision of insurance sector and to suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment. [20]

The Malhotra Committee was formed by the government with the following objectives:

a) To assess the strength and weaknesses of insurance sector in terms of the objective of providing high quality services to the public and serving as an effective instrument for mobilization of financial resources for development,

b) To review the existing structure of regulation and supervision of insurance sector,

c) To suggest reforms for strengthening and modernizing regulatory system in tune with the changing economic environment,

d) To make specific suggestions regarding Life Insurance Corporation and General Insurance Corporation in order to improve their functioning,

e) To make recommendations on the role and functioning of the intermediaries and surveyors in the insurance sector,

f) To make any recommendations on the matters incidental to the development of insurance in the country.

2.10.3 RECOMMENDATIONS OF THE MALHOTRA COMMITTEE

The Malhotra Committee conducted a market survey among present and prospective policyholders, insurance agents, corporate clients, general public etc. to access the level
of efficiency and effectiveness in the performance of the insurers operating in India; and to suggest measures for the improvement of the sector. The findings of the research conducted by the committee were submitted in their report. Some of the major recommendations that were put forward by the R.N.Malhotra committee in respect of insurance sector reforms are discussed as follows: [21]

a. Establishment of an independent regulatory body for monitoring the insurance business just as Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI) regulating the banking and capital market in India,

b. Allowing private sector both domestic and foreign to enter the insurance industry with a minimum paid up capital of Rs. 100 crore.

c. The capital requirement for co-operatives entering the insurance business should be lower.

d. Allowing the foreign insurance companies to enter the market but only in joint venture with an Indian entity.

e. To convert Life Insurance Corporation of India and General Insurance Corporation into a company and raise its capital to Rs. 200 crores, and 50% to be owned by the government and the rest by the public at large with suitable reservations for its employees.

f. The capital requirements and composition of capital should also be made similar to the LIC,

g. All insurance companies should be treated on equal footing and governed by the provisions of the Insurance Act, 1938. The Office of the Controller of Insurance, a part of Finance Ministry should be restored its full function under the Act,
h. Postal life insurance should be permitted to transact life insurance business in rural areas,

i. GIC should function exclusively as a reinsurance company and the four subsidiaries should be completely de-linked by acquisition of entire stock by the Government,

j. Capital of each subsidiary of GIC should be raised to Rs.100 crores with 50% equity held by the government and the rest by the public at large,

k. Commission structure of agents should be improved to make it an effective instrument for procuring business from rural and even non-obligatory areas,

l. Insurance companies to ensure a specified portion of their business from the rural areas and to develop products for rural and economically backward sections,

m. Claims should be settled within specific time frame failing which interest to be paid on delay in payments beyond 30 days,

n. Insurance companies to be encouraged to set up Unit Linked Insurance Plans,

o. Computerisation of operation and updating of technology should be carried out in the insurance sector,

p. Thrust should be laid upon selective recruitment and training programmes of insurance intermediaries,

q. Tariff Advisory Committee should function as a separate statutory body,

r. GIC and its subsidiaries also, not to hold more than 5% in any company.

On the basis of the recommendations of the Malhotra Committee, various changes have been introduced in the insurance sector. Insurance Regulatory Authority was formed as a
voluntary body in the year 1996; finally the Insurance Regulatory and Development Authority Act (IRDA) was passed on December 29, 1999. [22]

2.10.4 THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT, 1999:

The year 1999 was marked as golden year in the history of insurance industry as the Insurance Regulatory and Development Authority Act was enacted by the Indian Parliament on the 29th of December, 1999. This Act provided the insurance industry in India with a new impetus. The objectives behind forming the IRDA Act are as follows:

1) To provide for the establishment of an authority,

2) To protect the interests of holders of insurance policies,

3) To regulate, promote and ensure orderly growth of the insurance industry,


Section 3(1) of the act provides for the establishment of the Insurance Regulatory and Development Authority (IRDA), and as a result the Insurance Regulatory and Development Authority (IRDA) was established in 1999 as the regulating authority of insurance business in India.

The Act has made various amendments to the Insurance Act, 1938 by prohibiting insurers other than Indian insurance companies to carry on insurance business in India and also restricted investments of the funds of the policy holders outside India. Further, the amendments provided for the following:

a) Requirements as to paid-up equity capital for both insurers and re-insurers,

b) Manner of divesting of excess shareholding by promoters,
c) Manner and conditions of investment,

d) Maintenance of required solvency margins at all times by the insurers,

e) Issue of licence to insurance agents, intermediary and surveyors by the Authority and also suspension and cancellation thereof;

f) Obligation of insurers to compulsorily undertake specified percentage of insurance business in rural and social sector,

g) Enhanced penalties for contravention of and failure to comply with the provisions of the Act and offences by companies;

h) Powers of Authority to make regulations as required by the Act.

The Third Schedule to the Act seeks to amend the General Insurance Business (Nationalisation) Act, 1972 by inserting Section 24A which reads as follows:

This amendment removed the exclusive monopoly of General Insurance Corporation of India and its subsidiaries to carry on non-life insurance business in India. Section 14(1) of the Act prescribes the duties of IRDA. It says that the authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business. Again, section 14(2) of the Act lays down the powers and functions of the Authority which shall include the following:

a) issue to the applicant a certificate of registration; renew, modify, withdraw, suspend or cancel such registration;

b) protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance,
c) specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;

d) specifying the code of conduct for surveyors and loss assessors;

e) promoting efficiency in the conduct of insurance business;

f) promoting and regulating professional organisations connected with the insurance and re-insurance business;

g) levying fees and other charges for carrying out the purposes of this Act;

h) calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business;

i) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);

j) specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

k) regulating investment of funds by insurance companies;

l) regulating maintenance of margin of solvency;

m) adjudication of disputes between insurers and intermediaries or insurance intermediaries;

n) supervising the functioning of the Tariff Advisory Committee;
o) specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f);

p) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

q) Exercising such other powers as may be prescribed.

2.10.5 SETTING-UP OF IRDA

Reforms in the insurance sector were initiated with the passing of the IRDA bill in the parliament in 1999 and the passing of the IRDA Act. An independent statutory authority as Regulator for insurance business came into existence in 1999. The Insurance Regulatory and Development Authority (IRDA) was established in the year 2000 as an autonomous body to regulate and monitor the insurance (both life and non-life) and reinsurance business in India.

The main functions of IRDA are:

1) To regulate, promote and ensure orderly growth of the insurance and reinsurance business in India

2) To protect the interests of policy holders.

As an implementation of the recommendations given by the Malhotra Committee the IRDA was set up at the apex of the insurance industry to regulate, monitor and control the business of insurance in India. Along with the setting up of IRDA as the regulator of insurance business the following measures were also initiated in the insurance sector in India.

In terms of Structure of the insurers:

- Government stake in the insurance companies brought down to 50%.
• Government took over the holdings of GIC and its subsidiaries and thus these subsidiaries are performing as independent corporations.

• Insurance companies under both public and private sector enjoy the same freedom to operate.

In terms of Competition:

• Insurance market opened up to private companies both domestic and foreign, registration being granted to operate in the market with a minimum paid up capital of Rs.1 billion.

• A Company can either deal in life or non-life insurance business but cannot operate both life and non-life through a single entity.

• Foreign companies allowed to start operation only in collaboration with a domestic entity companies or in joint venture with an Indian company. While domestic entities can operate as a single entity.

• Postal life insurance allowed to enter the rural insurance market.

In terms of Regulatory body:

• Amendments made to the Insurance Act to serve in a better manner to the needs of the changing insurance environment in the country.

• Setting up of the IRDA as an independent entity to regulate and control the Insurance business in India.

In terms of Investments:

• General Insurance Corporation along with its subsidiaries required not to hold more than 50% investment in any company.
In terms of Customer services:

- To increase the coverage of insurance and to improve the quality of services provided to customers there was immense necessity to open the sector to competition. But at the same time with the entry of private players the role of regulator assigned to IRDA to monitor and control the functioning of the industry without any discrimination to the policyholders.

2.11 LIBERALISATION OF INSURANCE INDUSTRY

In the Uruguay Round of GATT in 1993 it was advocated that there should be removal of restrictive and non-tariff trade barriers so as to have free flow of international services to the less developed countries of the world. This would also improve efficiency, competitiveness and productivity and accelerate economic growth. [24] The result was the setting up of “Insurance Regulatory and Development Authority” to regulate and develop the insurance industry by opening it up to the private sector. Foreign insurance companies can enter into the insurance sector in India only with an Indian partner, as a joint-venture, with a capital contribution up to a maximum of 26 percentage of the capital in the joint-venture. Entry of new foreign and local players in the market had again injected competition for the insurers. Privatisation of Indian insurance industry was done by keeping the public sector companies intact and allowing private players to participate. Over the years in the last century the insurance industry has witnessed a cyclical change of ownership from private to public and back to public. The financial sector which includes the capital market, banking and insurance is highly regulated throughout the globe. Although the IRDA had progressed slow for granting licenses to entities to operate as insurers in India. The IRDA has set up fairly strict standards for all
aspects of the insurance business. The regulators who set the regulations are also very clear that too many regulations may kill the incentive for the newcomers to apply for registration; and also too relaxed regulations may induce failure and fraud, which had led to nationalization in the first place.

Privatisation of the insurance sector in India does not mean disinvestment. In India it was not carried out by selling the sector to private entities rather it was done by keeping the public sector untouched and allowing private players to enter the market. With the opening up of the sector in the year 2001 the non-life sector witnessed the registration of the following private entities.

- Bajaj Allianz General Insurance Company Limited,
- ICICI Lombard General Insurance Company Limited,
- IFFCO Tokio General Insurance Company Limited,
- Reliance General Insurance Company Limited,
- Royal Sundaram Alliance Insurance Company Limited, and
- Tata AIG General Insurance Company Limited.

Of these companies Reliance, Royal, Tata AIG and IFFCO Tokio started operations in the very first year whereas Bajaj Allianz and ICICI Lombard started operations in the following year. This number kept on increasing year by year and today there are seventeen non-life insurers (other than Health insurers) providing services in miscellaneous business. Of these seventeen insurers operating today only three insurers namely L&T General Insurance Company Limited, Reliance General Insurance Company Limited and Shriram General Insurance Company Limited are fully owned by
domestic investors without any share in the capital of a foreign entity. The remaining companies are under joint ventures with a foreign entity.[25]

2.12 NON-LIFE INSURANCE COMPANIES OPERATING IN INDIA (AS ON 31ST, MARCH 2015):

At the end of March 2015, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business; in addition, GICI is the sole national reinsurer. Of the 53 companies presently in operation, eight are in the public sector and the remaining forty five companies are in the private sector.

A total of 27 non-life insurance companies in the public and private sector are operating in the country. Of these two insurers under the public sector are performing specialised functions. They are:

- Export Credit Guarantee Corporation of India, and
- Credit Insurance and Agriculture Insurance Company Limited.

Out of these four private companies are exclusively registered to underwrite policies in the Health, Travel and Personal Accident segment. They are:

- Apollo Munich Health Insurance Company Limited
- Max Bupa Health Insurance Company Limited
- Religare Health Insurance Company Limited
- Star Health and Allied Insurance Company Limited

And the remaining are underwriting the business of non-life insurance in India. Most private companies had foreign participation up to the permissible limit of 26% of equity.
At the same time, in a few joint ventures, Indian banks shared the domestic equity portion with other non-bank entities.

Four of the non-life multi-line insurers are public sector undertakings (PSUs) competing actively with each other domestically and, in the case of New India, internationally. Seventeen of the private multi-line nonlife insurers are Joint Ventures between local enterprises and international insurance groups and three are owned by local promoters. The 26 percent maximum foreign holding also applies to nonlife insurers. Since the year 2010-11 no new non-life insurer has joined the market, keeping the number of private players at seventeen.

Table 2.1 Number of non-life insurers operating in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of insurer (excluding Health Insurers)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public</td>
<td>Private</td>
</tr>
<tr>
<td>2000-01</td>
<td>4</td>
<td>Nil</td>
</tr>
<tr>
<td>2001-02</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2002-03</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>2003-04</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2004-05</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2005-06</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>2006-07</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>2007-08</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>2008-09</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>2009-10</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>2010-11</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>2011-12</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>2012-13</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>2013-14</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>2014-15</td>
<td>4</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: IRDA annual reports for various years.

As on 31st March, 2016 there are 23 non-life insurance companies under the public and private sector including the Export Credit Guarantee Corporation and Agriculture Insurance Corporation of India.
<table>
<thead>
<tr>
<th>Serial no.</th>
<th>Name of the company</th>
<th>Indian entity</th>
<th>Foreign entity</th>
<th>Date of registration</th>
<th>Regis no.</th>
<th>Year of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC SECTOR INSURERS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>National Insurance Company Limited</td>
<td>-</td>
<td>-</td>
<td>1906</td>
<td>58</td>
<td>1906-07</td>
</tr>
<tr>
<td>2</td>
<td>New India Assurance Company Limited</td>
<td>-</td>
<td>-</td>
<td>1919</td>
<td>190</td>
<td>1919-20</td>
</tr>
<tr>
<td>4</td>
<td>United India Insurance Company Limited</td>
<td>-</td>
<td>-</td>
<td>1919</td>
<td>545</td>
<td>1919-20</td>
</tr>
<tr>
<td>PRIVATE SECTOR INSURERS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>ICICI Lombard General Insurance Co. Ltd.</td>
<td>ICICI Bank Limited</td>
<td>Lombard Canada Limited</td>
<td>03-08-2001</td>
<td>115</td>
<td>2001-02</td>
</tr>
<tr>
<td>3.</td>
<td>IFFCO Tokio General Insurance Co. Ltd.</td>
<td>Indian Farmers Fertilizers Co-operative (IFFCO)</td>
<td>TOKIO Marine And Asia Pte Ltd, Japan</td>
<td>04-12-2000</td>
<td>106</td>
<td>2000-01</td>
</tr>
<tr>
<td>8.</td>
<td>HDFC- ERGO General Insurance Co. Ltd.</td>
<td>HDFC limited</td>
<td>ERGO International AG, Germany</td>
<td>27-09-2000</td>
<td>125</td>
<td>2002-03</td>
</tr>
<tr>
<td>No.</td>
<td>Insurance Company Limited</td>
<td>Future Group, Mumbai.</td>
<td>Participatie Maatschapij Graafsschap Holland NV, Netherlands (Generali)</td>
<td>04-09-2007</td>
<td>132</td>
<td>2007-08</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------</td>
<td>----------------------</td>
<td>-------------------------------------------------</td>
<td>------------</td>
<td>-----</td>
<td>--------</td>
</tr>
<tr>
<td>10</td>
<td>Future Generali India Insurance Company Limited</td>
<td>Future Group, Mumbai.</td>
<td>Participatie Maatschapij Graafsschap Holland NV, Netherlands (Generali)</td>
<td>04-09-2007</td>
<td>132</td>
<td>2007-08</td>
</tr>
<tr>
<td>12</td>
<td>Shriram General Insurance Company Limited</td>
<td>Shriram Group</td>
<td>-</td>
<td>08-05-2008</td>
<td>137</td>
<td>2008-09</td>
</tr>
<tr>
<td>14</td>
<td>Raheja QBE General Insurance Company Limited</td>
<td>Rajan Raheja Group</td>
<td>QBE Holdings (AAP), Pty Ltd Australia</td>
<td>11-12-2008</td>
<td>141</td>
<td>2008-09</td>
</tr>
<tr>
<td>15</td>
<td>SBI General Insurance Company Limited</td>
<td>State Bank of India</td>
<td>Insurance Australia Group Limited (IAG), Australia</td>
<td>15-12-2009</td>
<td>144</td>
<td>2009-10</td>
</tr>
<tr>
<td>16</td>
<td>Magma HDI General Insurance Company Limited</td>
<td>Magma Fincorp, Kolkata.</td>
<td>HDI-Gerling Industrie Versicherung AG, Germany</td>
<td>22-05-2012</td>
<td>149</td>
<td>2012-13</td>
</tr>
<tr>
<td>17</td>
<td>L&amp;T General Insurance Company Limited</td>
<td>Larsen &amp; Toubro Limited</td>
<td>-</td>
<td>09-07-10</td>
<td>146</td>
<td>2010-11</td>
</tr>
</tbody>
</table>

**SPECIALISED INSURERS:**

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporation of India Limited</th>
<th>-</th>
<th>-</th>
<th>1957</th>
<th>124</th>
<th>1957-58</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Export Credit Guarantee Corporation of India Limited</td>
<td>-</td>
<td>-</td>
<td>1957</td>
<td>124</td>
<td>1957-58</td>
</tr>
<tr>
<td>2</td>
<td>Agricultural Insurance Company of India Limited</td>
<td>-</td>
<td>-</td>
<td>2003</td>
<td>126</td>
<td>2003-04</td>
</tr>
</tbody>
</table>

**REINSURER**

| No. | Corporation of India | - | - | 2001 | 112 | 2001-02 |
### 2.13 MILESTONES IN INSURANCE SECTOR IN INDIA

#### Table 2.3 Milestones in the Indian Insurance sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Significant Regulatory Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of non-life insurance business.</td>
</tr>
<tr>
<td>1912</td>
<td>The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.</td>
</tr>
<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.</td>
</tr>
<tr>
<td>1938</td>
<td>Earlier legislation consolidated and amended by the Insurance Act with the objective of protecting the interests of the insuring public.</td>
</tr>
<tr>
<td>1956</td>
<td>Nationalized of the life insurance business and formation of Life Insurance Corporation of India (LICI) by an Act of Parliament.</td>
</tr>
<tr>
<td>1957</td>
<td>General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.</td>
</tr>
<tr>
<td>1968</td>
<td>Setting up of Tariff Advisory committee.</td>
</tr>
<tr>
<td>1993</td>
<td>Setting up of Malhotra Committee.</td>
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<tr>
<td>1994</td>
<td>Recommendations of Malhotra Committee.</td>
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<tr>
<td>1995</td>
<td>Setting up of Mukherjee Committee.</td>
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<tr>
<td>1996</td>
<td>Setting up of (interim) Insurance Regulatory Authority (IRA)</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted but not made public.</td>
</tr>
<tr>
<td>1999</td>
<td>The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%.</td>
</tr>
<tr>
<td>1999</td>
<td>The Cabinet clears the IRA bill and it is renamed the Insurance Regulatory and Development Authority Bill.</td>
</tr>
<tr>
<td>2000</td>
<td>Assent given to the Insurance Regulatory and Development Authority Bill</td>
</tr>
<tr>
<td>2007</td>
<td>Detariffication of the non-life insurance business except motor third party liability.</td>
</tr>
<tr>
<td>2013</td>
<td>IRDA (Health Insurance) Regulations, 2013 (health, personal accident and travel insurance products will be governed by the IRDA Health Insurance Regulations, 2013.)</td>
</tr>
<tr>
<td>2015</td>
<td>Insurance Laws (Amendment) Bill, 2015 allowing 49% FDI in insurance sector.</td>
</tr>
</tbody>
</table>
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