Abstract
The word insurance is not new to our society. It is as old as our Indus Valley civilizations. Our ancestors were practicing the insurance concept in some other ways. The references to this phenomenon are available in our religious scriptures like Hammurabi and Manusamriti. The term Yogakshema is used in the Rigveda suggesting that some form of community insurance was practiced by Aryans in India over 3000 years ago. After India’s trade extended to Babylon and beyond, the merchant guilds at important trading centres devised means to insure ships and caravans. This set the trend to provide community help in matters of risk sharing which was mutual in character. We have ample evidence to mention that in ancient times, the entire community used to come forward for mutual help in protecting the widows, marrying of orphan girls, educating children and helping the unemployed youth where the head of the family died prematurely.

The industrialization put the world on the trajectory of growth and development. The general standard of living and quality of life around the globe has experienced positive change in all spheres of life. The unforeseeable developments in the area of medical science have given a longer chance to individuals to live, while the transportation has made the world as small as a village. At the same time, the modern industrialized society has rendered man and his property most vulnerably exposed to different kinds and varying degrees of risks and uncertainties. The annual
losses to individuals and businessmen from premature deaths, health
problems, fire, water, accident, crop destruction, cattle death, windstorms,
sea perils, earthquakes, floods, dishonesty, negligence, unemployment
etc. are beyond estimation and indicate the importance of meeting them
intelligently. In order to avoid these unexpected and unfortunate
calamities, man has devised various plans to protect himself. One such
rational method is insurance.

Insurance developed rapidly with the growth of British trade and
commerce in the 17th and 18th centuries. Prior to the formation of
insurance corporations devoted solely to the business of writing
insurance, policies were signed by a number of individuals, each of them
writing his name and the amount of risk he was assuming underneath the
insurance proposal, hence the term underwriter.

The development of insurance was irregular and was confined to
fields other than life. Modern life insurance is a heritage from England
where the first life policy was issued for a temporary cover of twelve
months in the year 1583 AD. At that time people were more concerned to
provide insurance protection to their property than to their lives.

The first joint stock companies to engage in insurance were
established by Charter in England in 1720 and in 1735. The first
insurance company in the American colonies was founded at Charleston.
Later, SC Fire Insurance Corporation was founded in New York city in
1787. The Presbyterian Synod of Philadelphia was founded in 1759. This was the first life insurance corporation in America, for the benefit of Presbyterian ministers and their dependents. After 1840, with the decline of religious prejudice against this practice, life insurance entered a boom period. In the 1830s the practice of classifying risks began. The New York fire of 1835 called attention to the need for adequate reserves to meet unexpectedly large losses. Massachusetts was the first State to require companies, by law of 1837, to maintain such reserves. The great Chicago fire (1871) emphasized the costly nature of fires in structurally dense modern cities. Reinsurance, whereby losses are distributed among many companies, was devised to meet such situations and is now common in other lines of insurance. The Workman’s Compensation Act of 1897, in Britain, required employers to insure their employees against industrial accidents. Public liability insurance, fostered by legislation, made its appearance in the 1880’s. It attained major importance with the advent of the automobile.

Marine insurance is the oldest form of insurance followed by life insurance and fire insurance. Evidence shows that marine insurance was practiced in India about three thousand years ago. Moreland\(^1\) has stated that the practice of insurance was quite common during the rule of Akbar.

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to Aurangzeb. But the nature and coverage of insurance in this period is not well known. It were British insurance companies, which introduced general insurance in India in its modern form. The oldest of these foreign companies was the Sun Insurance Office Limited, which started its operation in Calcutta in the year 1710. Alongside the marine insurance the British companies also started life insurance business in India, by issuing policies exclusively on the lives of European soldiers and civilians. They sometime issued policies on the lives of Indians by charging extra premium.

During the period from 1870 to 1900, a large number of Indian companies were formed under the Indian Companies Act, 1866. But the business was confined to few communities and occupations only. During the period from 1900 to 1912, the insurance companies popularized insurance business among middle class people. As a result, Government of India passed the Insurance Act on the model of British Assurance Act. However, during the period from 1912 to 1930, the insurance business witnessed a set back. A number of changes took place between 1930 to 1938 and the Government of India passed the Indian Insurance Act, 1938. The Act still applies to all kinds of insurance business by instituting necessary amendments from time to time. As a first step, on January 19, 1956, the management of the life insurance business of 245 Indian and foreign insurers and provident societies then operating in India, was taken
over by the Central Government through the Life Insurance (Emergency Provisions) Ordinance 1956. The Ordinance was replaced by an Act of Parliament known as the Life Insurance (Emergency Provisions) Act, 1956. The Bill to provide for nationalization of the life insurance business was introduced in the Lok Sabha in February 1956, and the same became an Act in September 1956 with capital contribution of Rs. 5 crores from the Central Government.

Economic liberalization brought a large number of reforms in different areas of the Indian economy to create congenial environment for foreign investors. The insurance sector also came under the purview of liberalization process. A committee was constituted way back in April 1993 under the chairmanship of Dr. R.N. Malhotra, Ex-Governor of Reserve Bank of India. The committee submitted its report to the Finance Minister. The committee, inter alia, stressed on the liberalization of insurance industry in terms of deregulation and restructuring of insurance industry.

The opening up of insurance sector on December 2, 1999 was only a part of the ongoing liberalization process in the financial sector of India. The changing face of insurance sector in the wake of allowing several companies in the field of life and non-life insurance segment is one of the key results of these liberalization efforts. The foreign companies visualized India as a major market with great potential. As part of
regulation by Insurance Regulatory and Development Authority (IRDA) to ensure the entry of only those companies which have sound financial backing, direct insurers were required to have a minimum paid up capital of Rs. one billion. They are also required to invest policyholders’ funds only in India and to restrict international companies to a minority equity holding of 26 per cent initially. Now, this limit of equity holding has been extended to 49 per cent very recently by the Government of India.

The Indian insurance industry was the monopoly of the government for the last over forty years and operated throughout the length and breadth of the country through the Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) along with its four subsidiaries i.e. National Insurance Company, New India Assurance Company, United India Insurance Company and Oriental Insurance Company. Today, the Indian insurance industry has about twenty-one private insurance companies. They are world-renowned players in insurance business.

It is evident that the Multinational Companies (MNCs) come with better pay packages and absorb a better quality labour force. Private players from foreign countries are interested in India because their home markets are at saturation point. Insurance business survives on the principle of spreading of risk. Being long term players they would avoid sudden dips in earnings to instill confidence among investors to invest.
long term funds. The private insurers, taken together, have created a pool of over one lakh well trained Life Advisors during the last four years. Insurance companies are today investing heavily on the training of agency workforce. Today, the insurance agents are not just agents only with their job to sell any policy. They have transformed into ‘Advisors.’

Another important development in the Indian insurance industry is that of intermediary marketing using banks as outlets. This emerging trend is likely to impact the distribution channels for insurance products. Already, most of the large public and private banks are busy experimenting with the marketing of insurance. It is conceivable in India that the Banacassurance model could emerge as the eventual market leader in sales volumes.

The 21\textsuperscript{st} century has been an era of great upheavals and disasters so far, whether it is terrorist attacks, earthquakes, hurricanes and storms and floods. The recent Tsunami disasters have once again made us think as to how such catastrophic calamities can be handled and controlled. The insurance companies which are in this business and are supposed to offer cover for these uncertainties are in a great dilemma and it is comprehended that it is beyond their capacity to handle such catastrophic disasters which have already resulted in the bankruptcy of so many strong and well established insurance companies. The only way to overcome this problem is that there should be common concentration among the insurers
that may create a common pool of fund with the help of their respective governments.

The present study makes an attempt to trace out the changing shape of the insurance sector in India under the liberalization process. These changes have mainly impacted upon the organization and structure of the sector, the nature and types of the insurance product, the channels of product distribution and the volume of business conducted and the investment pattern of the Indian insurance sector. The study has been divided into five chapters as follows:

The first chapter is a brief introduction of insurance industry. It also reviews the available literature on the subject, describes the need and importance of the study, sets out the objectives of the study, hypotheses and research methodology of the study.

The second chapter of the study deals with an outlook of Indian Government on different reforms in different sectors of the Indian Economy. Economic liberalization is the firm policy of the State to ameliorate operational environment for foreign investors in the country. The New Economic Policy has removed unnecessary restrictions placed on operations of large business houses after independence and flow of foreign investments. As a result of procedural and structural reforms, the country is heading towards strong economy. It includes streamlining of procedures, raising of permissible equity limits, wider scope for
investments in sectors of choice of the investors. Further, the currency has been devalued to current market level. In foreign trade, import licencing has been abolished and tariff rates reduced. Exports have been deregulated by dismantling regulatory framework for exports. Steps have been taken to liberalize domestic market. However, trade regulatory authority of India has been established to observe compliance of the existing rules and regulations.

The third chapter provides a brief account of the developmental history of the insurance industry in India. It is largely an account of over last hundred years that the insurance industry has taken to come of age into its modern form. It is taken as a supporting system to the ongoing business activities against mishappenings. It largely covers that part of the risk which occurs due to accidental mishappening and is based on the principle of pooling of resources of larger groups and spreading the losses of a few over the larger groups.

Initially insurance sector was not liberalized. The sectors that were liberalized experienced flow of foreign capital, latest technology and expertise that rejuvenated the market. As a second generation reforms it was felt that insurance sector can also not work in isolation. As a result of the recommendations of Malhotra Committee, appointed in 1993 by the then Narasimha Rao Government, the process of liberalization of insurance sector became a hot bed for the concerned policymakers.
However, despite strong recommendations, it took six years for their acceptance by the government.

The chapter also describes the causes of low penetration of insurance business in India. Apathy of the state, poor customer services, lack of customer friendly products, poor marketing, ignorance of rural market and inadequate training to agents have been highlighted as some of the basic reasons for low penetration or generation of insurance business in India. In fact, Indian Insurance business is passing through the transitional phase. The sector that was closed earlier has been opened up and is being restructured so as to facilitate faster growth and development in the sector. The market shifting from the state monopoly to the competitive market now has brought a large number of players with even larger number of products. The public organizations of the sector riding on the widely spread network are giving run for many a private organizations. The new entrants are trying to penetrate through new products, variety, prompt claim settlement and high quality speedy service.

The fourth chapter analyses the impact of economic liberalization on Insurance Sector in India in general. In fact, liberalization and reforms have the potential to change the complexion of an industry and the Indian insurance sector is no exception to this phenomenon. The Indian insurance sector has come a full circle from privatization to
nationalization and back to privatization. Nationalization lent the industry solidarity, growth and most desired reach. However, along with these achievements, there also grew a feeling of insensitivity to the needs of the market, tardiness in adoption of modern practices to upgrade technical skills coupled with the sense of lethargy which probably led to a feeling amongst the public that the insurance was not fully responsive to customer needs. The country has moved from a monopolist environment to a liberalized, dynamic insurance atmosphere with relative loss. The opening of the gates, four years ago, also gave the insurance sector a positive push towards growth. The ripples of competition are being felt across the sector and challenges before almost all players, be it the state owned companies or the private players, are evident. On their part, almost every other company has gone in for increased product innovation, a completely new distribution network, a prudent investment management, customer service and education.

In fact, it is not a question of snatching the customers and the market share but there is much larger scope for the expansion of the insurance business. It is expected that it is a win-win situation for public as well as private organizations through the expansion of business pie along with the victory of customers with the reduced prices and quality services. However, the competition is so felt that every organization will have to put in all its efforts in order to get its economically viable share in
the market. These insurers will have to consider the basic marketing issues like market segmentation, product development, pricing, distribution channel, communication, promotion and the customer service.

The fifth and final chapter draws conclusions based on different chapters of the project and presents suggestions for the improvement of insurance business for the already existing domestic as well as foreign players in the country.