CHAPTER-1
EVOLUTION OF INSURANCE BUSINESS

All human history, as H.G. Wells has observed, is in essence the history of ideas. Since the beginning of civilization, ideas have ruled the world. Every nation has brought forth tyrants and benefactors. Their names are written with a bold flourish on the pages of history. Yet in the long perspective of life they are seen to have been but instruments for translating ideas into actions. The nations that have prospered most are those that have produced the greatest number of the new ideas/innovations. To the western world, the greatest of ideas have always been those that contribute most to man's freedom and security. One of the most notable and practical of these is the idea of insurance. An idea that has been described as "victory of human thought over the rude violence of life."

In its technical development and world wide expansion, insurance has made more progress in the last hundred years than in the previous thousand. Its rise as a social force has paralleled the rise of capitalism and the extension of the democratic system.

Insurance is indispensable to a free economy and a free society because it not only protects the value produced by men and women
who work for themselves but fosters in them confidence to produce more. What oxygen is to air, insurance is to the economic and social life of our time.

There can be little doubt of the significance of the insurance for the student of economic development. The service it has provided has facilitated the management of risk in trade, industry and family life. Few would dispute that insurance has encouraged investment and initiative. Insurance institutions have stimulated saving and accumulated funds to an extent that has affected the level and direction of national investment. As outlined in Professor Supple’s Introduction, insurance has played an important role in British Economic Development.

Insurance was involved to such an extent in so many businesses and, in so many aspects of economy that its history reflects the evolution of at least the modern business and social life in a most intimate and revealing way. To describe the main divisions of the insurance business – Marine, Fire, Life and Accident Insurance – is to emphasize how they interpenetrate the central themes of the economic history. The growth in terms of Foreign Trade, Capital Formation, Social Security, Transport Systems, Consumer Durable industries; all these and more can be directly/indirectly, traced and
examined, through the systematic and comprehensive documentation that has been generated through insurance. The expansion of insurance and the value of its contribution have been based on its capacity to develop efficient forms of market organization and to innovate creatively.

Considered as an economic and social activity, insurance is an ambiguous phenomenon. It originated as a means of guarding against the most basic and individual of risks (the loss of a ship or it’s cargo, the outbreak of fire in domestic properties, premature death) and has matured into a set of complex arrangements facilitating economic transactions and harmonious social existence throughout the sophisticated societies. It combines elements of gambling and certainty – speculative hazard and the reduction of or even elimination of chance by using the predictability to ‘random’ occurrences in large numbers of instances. Appealing above all to the desire for stability and predictability, the business of insurance has evolved through competition and vigorous exploration of novelty, as well as by some of the most effective collusive devices in modern business history. The act of insurance is based on the mutual pooling of resources and hazards, but has flowered through proprietary profit making as well as (occasionally) mutual
organizations and even over the last few decades public provision. Moreover, the very word ‘insurance’ implies a unity, or at least consistency between activities, which from an economic standpoint, are quite disparate in character. Admittedly, the principal types of insurance (Marine, Fire, Life, Accident and Theft in their various forms, employer’s liability) all involve the same basic principle: the provision against the individual loss by the pooling of funds (premiums) by those at risk (insured). Yet the fact remains that, from the perspective of the insurers or of the economic role of the act of insurance, such transactions have little more in common than say, the respective purchase of clothing, furniture, gardening implements and food. In contrast to the purchase of most other goods and services, payment for insurance is prospective rather than instantaneous or retrospective.

Insurance is essentially a simple proposition. As Calvin Coolidge once remarked “Insurance is part charity and part business, but all common sense.” Basically, insurance is a plan by which the many make good the losses of few. It scatters the effects of the hazards, which beset human affairs so widely among the whole community that no member is heavily burdened. It is in essence a modern refinement of old age custom of passing the hat to relieve distress.
Nowadays, of course, the hat is passed before the unlucky event occurs, and as a result it is no longer necessary for a member of the community who suffers economic misfortune to rely on impulsive, erratic charity. Insurance makes recompense certain and equitable. The practice of insurance involves the gathering of small, regular sums from many to form a pool. The contributors agree that a loss to one will be treated as a loss to all. When losses occur, sums are drawn from the pool in line with agreement. The machinery used to administer the pool is known as an insurance company.

Marine is the oldest known type of insurance. One of the earliest records of a marine policy relates to a Mediterranean voyage in 1347. This was followed by life insurance some 300 years later. The business soon gained popularity and some persons were able to earn a living exclusively from insurance transactions. In the year, a book was written by a merchant of Florence which provides a clue of premium rates charged for goods transported by land from Florence to Milan and for shipments by sea from London to Pisa. From Italy, Marine insurance spread along the trade routes to other countries of Europe. In Bruges there is a record of court judgment in an insurance matter in 1377, when wool being sent from there to

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1 M. Arif Khan, “Theory and Practice of Insurance, Educational Book House, Aligarh, 1977 pg. 211"
northern Italy frequently insured, while in 1435 a law was passed in Barcelona (Spain) to regulate the insurance business. Even at that time, the law recognized the moral hazards created by over insurance and gave an advantage to domestic industry over foreign competition. An ordinance of Florence, dated 1523, codifies the practice of insurance in Italy. Later on in the year 1556, Philip II made marine insurance regulations for Spain and in 1563 for Antwerp (America). After the discovery of America, the importance of Mediterranean trade declined and the scene shifted to Antwerp (America) and London.

Marine insurance was brought to England from Italy by the Lombard merchants who settled in England and controlled a large portion of British trade in 15th and 16th centuries. Lombards were great traders and in addition to their goods, they brought their business methods and practices, including insurance. Their place in British commercial history is recorded in the name of Lombard street in the city of London. The records of the British admiralty court indicated that marine insurance was in existence in the early 1500’s. In a law suit in 1562, the underwriters refused to pay a claim on grounds that the plaintiff had no insurable interest in the ship covered by the policy. Luckily the court held otherwise and the
underwriter had to pay the compensation. This policy was written in Italian. In 1575, in the reign of Elizabeth I, the chamber of assurances was opened in the Royal exchange for the registration of marine policies and subsequently, an act of parliament was passed in the year 1601, for dealing with the disputes pertaining to marine insurance.

During 16\textsuperscript{th} and 17\textsuperscript{th} centuries insurance was considered only a part-time profession and was exclusively practiced by professional merchants, who used to undertake the risk in association with their fellow traders. However, in the early eighteenth century it was established that insurance can no longer be considered as a part-time profession. During the period 1720-1824, the two chartered companies viz; London Assurance and the Royal exchange Assurance, dominated and enjoyed the sole right to transact marine insurance as corporations, though they were subject to successful competition from individual underwriters who, in, London, came together at Lloyds. Later on, with the coming of the steamship and growth of international trade, specialist marine offices were introduced. Subsequently, the Lloyds association, founded in 1692 and originated from a coffee house run by Edward Lloyd, became
the centre of marine insurance world. Even today the Lloyds organization forms an important part of British Insurance market.

Fire Insurance was born in England. Its birth was one of the few happy results of the Great Fire of London in 1666\(^1\). On Sunday night, September 2, the kings’ baker, who is known in the history as “One Faryner”, left a pile of fagots carelessly by the open oven in his house on pudding lane. By Monday morning the Great Fire of London was underway. It blazed for five days eventually spreading over an area of 436 acres. It laid waste 13,200 houses, 89 churches including St. Paul’s Cathedral, the Custom house, the Royal exchange and dozens of other public buildings. Only six people perished in the flames, but hundreds died from shock and exposure. The heart of London, three quarters of the city’s building had stood, was reduced to ashes. According to Stow’s survey, the total property loss was well over pound 10,689,000.

Fire insurance was started by Nicholas Barbon, a doctor by profession but better known as a builder. Within a year after the great fire, when Barbon was twenty-seven, he set up an “office for insuring houses and buildings”. At that time he was building houses on a rather extensive scale, and his insurance system probably

\(^1\) ibid. pg 5
consisted inducing each of those to whom he sold a property to pay something extra in return for Barbon's promise to rebuild the house in case of fire. Fortune evidently favoured this enterprise, for he branched out to offer a similar proposition to the owners of the houses other than those he had built. Barbon operated his insurance scheme as one man show for thirteen years. During this time he was an individual underwriter. Since his office was in his hat and he was operating on a strictly caveat emptor basis, there are no existing records showing the manner in which he conducted his business.

Barbon Nicholas abandoned his one man venture in 1680 and with several other men formed a new insurance project, which they called the "Fire Office." The Fire Office was the first stock company organized to write fire insurance. It was capitalized at about $200,000. After three years the company had some 4000 houses insured; it had taken $90,000 in premiums and paid claims amounting to $35,000.

The first competitor of fire office was Friendly Society. It issued circulars telling of a new way or method for securing houses from any considerable loss by fire by way of subscription and mutual contribution. People who insured according to this new way were
required, first to pay an annual premium, the size of which depended on the amount of insurance taken and whether the house insured was brick or frame, second, to deposit in advance with the society a sum equaling five premiums; third, to contribute to the settlement of each fire loss of the society up to an amount not exceeding $7.50 on each of $500 of insurance carried. The Friendly Society, like the Fire Office, took all the business it could get, accepting bad risks as well as good in the hope that the average would work in their favour. A little more than a year after it’s founding, the Society had 1,265 houses insured. Later on Fire Office changed its name to Phenix.

The increasing industrialization in various parts of world has 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 practically all spheres of life. The unforeseen developments in the area of medical science have given a longer chance to individual to live, while the transportation has made the world as a small village.

At the same time, the modern industrialized society has rendered man and his property most vulnerable, 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 deaths, windstorm, sea perils, earthquakes, floods, dishonesty, negligence, unemployment, lightening etc., are beyond the estimation and indicate the importance of recognizing and 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.

The prime functions of insurance include the following.

1. It provides certainty of payment at the uncertainty of loss. There are different types of uncertainty in a risk, like, the risk will occur or not, how much loss will be there, when the loss will occur, etc. Insurance removes all these uncertainties and the assured is assured of getting the compensation on loss.

2. Risk sharing is the basis of insurance. When risk takes place, all the persons who are exposed to the risk share the loss. It is thus a cooperative devise. On the basis of probability of risk, the share is obtained from each and every insured in the shape of premium.

3. It provides protection against the probable chance of loss. Insurance guarantees the payment and thus protect from
sufferings. It cannot check the happening of risk but can provide for losses at the happening of the risk.

4. Insurance companies join hands with those institutions that are engaged in preventing the losses of the society and also are engaged in taking various measures of minimizing the risk factor. This assists in reducing the premium, which means more business and protection to the masses, thus contributing to the financial health of the organization itself and of other organizations.

5. It provides capital to the society by investing its accumulated funds in various productive channels. The industry, the business and the individual are benefited by the investment and loans of the insurers.

Insurance can seen as a hedge against the unexpected calamities like death, theft or damage of property due to reasons like accidents, fire, etc. The underlying logic is that while the property that is insured may not exist, the value imbibed in that object should not be lost to its owners. Similarly, even when a person dies or become disabled his or her economic worth should be preserved. There are two things involved in achieving this objective:
1. A proper assessment of the worth imbibed in an asset/property should be carried out before an insurance policy is worked out.

2. Whatever money is collected in the form of premium should be judiciously invested to create or preserve the worth of the person or object insured.

Failure on any of these fronts defeats the underlying philosophy of insurance. The insurance potential untapped renders the physical assets unprotected and their worth unpreserved. Thus, it is necessary to evaluate these resources accurately and preserve the streams of income that this asset is expected to generate in its lifetime.

Insurance is a kind of contract and therefore, it must fulfill all the essential requirements of a valid contract as laid down in the Indian contract Act, 1872, namely:

a. Proposal and acceptance, i.e., an agreement.

b. Parties should be competent enough to enter into a contract.

c. Lawful consideration.

d. Free and genuine consent.

e. Object should not be illegal or immoral.
f. Legal relationship.

g. Not opposed to any law prevailing in the country.

h. Certainty and possibility of performance.

i. Legal formalities.

Apart from these, there are certain principles that are unique to the insurance business and therefore should be taken care of. Insurance without these would be just reduced to wagering, where risks involved in it would be so large that no insurance company can gain from its operations, rather would have to close down at the first instance. The absence of any of the following will make the contract unenforceable by law, except in certain cases.

a. Utmost good faith.

b. Insurable interest.

c. Indemnity.

d. Mitigation of loss.

e. Attachment of risk.

f. Causa proxima.

g. Subrogation.

h. Contribution.

The primary function of insurance is to provide relief to the loser by spreading of the financial losses among many. Besides, the
practice of insurance has many secondary or subsidiary functions, which contribute to the welfare of the individual and the society as a whole. It tends more and more to transform our modern social order, fosters both public and private interests, individual prudence, acts as an accelerator and stabilizer of economic growth. It has the shock absorbing capacity and provides protection and confidence to the individual as well as the industry. It is hard to visualize its far-reaching impact and benefits to the policyholders. But one must remember that though insurance reduces risk yet it does not eliminate the loss. It acts as a middleman and brings in the antithesis of gambling, though it also does not amount to charity.

The importance of insurance is immense and incalculable. This would become clear from the following points.

1. Spreads the financial losses of the insured members over the entire community equitably by compensating the unfortunate from the contributions of all members. The amount of premium is calculated after taking into account the merit of each case so that the insurance functions equitably.

2. Provides protection and sense of security. The mental states of fear and apprehension are eliminated to build
up confidence. Thus, in case of death of the breadwinner, the insurance provides security for the family and in case of reduction in earning power due to old age, injury, sickness, unemployment, a certain sum is guaranteed. Many new ventures, overseas trade, etc. would not have developed had there been no insurance.

3. Encourages thrift and savings among the people out of current income by cutting down necessary expenses. As in case of life insurance the accumulated fund could not be utilized afterwards at the time of maturity for any important cause.

4. Plays a very important role in encouraging foreign trade, especially marine and aviation insurance. It covers the sea perils, collision, commercial risks, export risks, political risks, default risks, etc.

5. Helps in competition by providing protection to businessmen in various areas like, godown insurance, credit insurance, profit insurance, export insurance, burglary insurance, etc. The businessman works at his best, which means maximum efficiency with minimum worries.
6. Provides facility of loan and credit on the basis of insurance policy to the policyholder. This enhances his credit worthiness. A life insurance policy is an excellent collateral security.

7. Insurers operate in many parts of the world and earn substantial sums in overseas markets in terms of underwriting profit and investment income. In this way it forms part of the country's invisible exports.

8. Solves social problem of unemployment, old age, disability, death, industrial accidents, road accidents, etc. In the absence of insurance these would have become a burden on the society.

9. Losses are reduced to a great extent because of the efforts of the insurance companies with the help of loss prevention measures like regular inspections, safety surveys, advisory and consultative services by experts and research organizations.

10. Helps in national development by investing a major portion of money raised as premium in the long-term securities of the government, semi government and private enterprises, different institutions and social
development programmes, thus resulting in capital formation. It provides employment, increases production, national income, improves standard of living, and helps in preventing social problems, leads to industrialization and overall economic growth and prosperity.

The benefits of insurance are thus very significant, but they are not without any cost. A large part of the premium collected goes to pay the administrative expenses like wages, salaries, rent, interest, etc., besides paying for losses and some times for a number of fraud claims. It is due to this reason that various ways and means are being found out to reduce such risks of insurance companies.

The risk is evaluated before insuring to charge amount of share of an insured, called, premium. There are several methods of evaluation of risks. The amount of premium varies with the degree of anticipated risk in a positively correlated manner.

The payment is made at certain contingency insured. The amount of payment depends upon the value of loss occurred due to the particular insured risk, provided insurance is there upto that amount. In life insurance, the purpose is not to make good the financial loss suffered, but to pay a fixed sum on happening of an
event. While in case of property and general insurance, the amount of loss, as well as the happening of loss, are required to be proved so as to mitigate fraud.

**Marketing of Insurance Services**

The marketing concept in the banking and insurance services emerged with the publication of an article entitled “Banks and Savings Institutions in the Television Age.”

Insurance products are categorized as services. A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may not be tied to a physical product. Services is the fastest growing sector in the economy of the developed countries and albeit the developing countries have been found tapping the potentialities of this sector. In the global advanced countries, about sixty five percent jobs are being offered by the services sector. And thus this sector has currently emerged as an employment generating sector. Therefore the developing countries have diverted their attention of the services sector.

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The face of India is changing and is changing fast. We have seen the transition from the agrarian nature of economy to agro-based industry to industrial growth, now we tend to think in terms of developing the services sector. Probably this sector can create more jobs at a low cost.

Marketing Insurance product is quite different from the marketing of common commodities as it is of an intangible nature. Infact, in insurance marketing the seller does not have a physical product in his hand to show the buyer. Marketing a service is marketing something intangible. It is marketing a promise. It is difficult to sell service than a tangible product as convincing by showing something physical is easy. Building of credibility consumes more time and requires more patience and excellence. Hence, it is dynamic marketing approach, which may simplify our task of selling insurance services.

In the present day world, services call for an innovative and dynamic marketing approach. The transformation of civilization and culture and incoming developments in the way and style of living and further positive trends in the disposable income have paved profitable avenues for the development of services sector.
The whole thing is to explore the opportunities and to tap them effectively in order that this sector of the economy contributes a lot to the process of socio-economic transformation. One such sector is the insurance sector. It has great potential, particularly in a country like India. The burning problems like unemployment, technological backwardness and poor exploration of material reserves would be eased to a considerable extent provided this sector is aligned with innovative marketing strategies. In the marketing of services, we discuss the problems concerned with buying and selling of services, knowledge, skill of provider and supplier, the offering of services, the designing of product mix, the framing of pricing and promotional strategies and so on. In this market customer buys time and knowledge. So providers’ role naturally assumes more significance.

The insurance marketing refers to the marketing of insurance services with the motto of customer orientation, which makes possible a fair blending of customer satisfaction and profit generation. The aim of marketing of the insurance products is to meet and satisfy the target customers needs and wants regarding uncertainties. The first commandment of marketing is to know the market which mean need oriented development of products,
formulation of product mix, making suitable pricing decisions, designing of sensitive promotional strategies and further it is also meant scientific approach to the management of agents so that qualitative improvements are made possible. It means managerial proficiency, which makes an assault on unethical practices. It is also meant rigid control on profiteering. Thus, it helps in attaining the organizational goals of expanding business, mobilizing savings, channelising investments, sub serving social interests and protecting the interest of users.

The field of consumer behaviour studies how individuals, groups and organizations select, buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and desires. Before developing their marketing plans, the insurance companies need to study consumer markets.

Insurance companies need to make an in depth analysis of the following:

1. Who constitutes the market (Occupants)
2. What the market buys (Objects)
3. Why the market buys (Objectives)
4. Who participates in the buying (Organisation)
5. How the market buys (Operations)

6. When the market buys (Occasions)

7. Where the market buys (Outlets)

Marketer should find out the clues about the factors influencing the consumer behaviour, which states how to reach and serve the consumers more effectively. To understand how consumers actually make their buying decisions regarding the insurance products, the insurance companies must identify who makes and has the input into the buying decision. People can be initiators, influencers, deciders, buyers or users and different marketing campaigns might be targeted to each type of person. The insurance company must also examine buyers levels of involvement and the number of brands available to determine whether consumers are engaging in complex buying behaviour, habitual buying behaviour or variety seeking buying behaviour. The selection of risks (product planning), policy writing (customer service), rating or actuarial (pricing) and agency management (distribution) all marketing activities put together make up an integrated marketing strategy. To be more specific in the yesteryears, there have been multifaceted developments in the organisational objectives that advocate spreading of insurance services much more widely and in particular
to the rural areas and specially to economically backward classes with a view to reaching all insurable persons. This naturally necessitates an integral marketing strategy or say market orientation in place of sale orientation. Hence the marketing concept in the insurance services throws light on the formulation of marketing mix or control over the whole groups of marketing activities that make integrated marketing strategy.

Within marketing planning, insurer should make decisions on–

1. Target markets
2. Market positioning
3. Product development
4. Pricing
5. Distribution channel
6. Physical distribution
7. Communication
8. Promotion

The recent trend of expanding insurance business, the reforms in this sector (liberalisation) and the entry of private and foreign players, the overall marketing decisions are required to be
innovated. This naturally necessitates realignment on insurance services with marketing.

General Insurance Companies, Public Sector as well as private sector organisations engaged in promoting insurance business have to formulate their marketing strategies. They have to review their product line, refine the way of offering services by injecting professionalism in their agents, make their pricing decisions rational and promote their business in the best interest of national socio-economic requirements.

On the basis of foregoing discussion it may be pointed out that India has a great potential for expansion of insurance business. What is required is the creation of congenial environment for the same. Perceiving this government of India has initiated the process of re-structuring of the insurance sector. Thus, before going into deeper details of insurance business in India, it appears logical to have a bird eye-view of the major reforms initiated as a process of restructuring the insurance industry.