CHAPTER-III
CHAPTER-III

INSURANCE INDUSTRY IN INDIA

3.0. INTRODUCTION

Insurance may be described as a social device to reduce or eliminate risks of loss to life and property. It is a provision which a prudent man makes against inevitable contingences, loss or misfortune. Under the plan of insurance, a large number of people associate themselves by sharing risks attached to individuals as in private life; in business also there are dangers and risks of different kinds. The aim of all types of insurance is to make provision against such dangers. The risks which can be insured include fire, the perils of sea (marine insurance), death (life insurance) and accidents & burglary. Any risk contingent upon these may be insured against at a premium commensurate with the risk involved. Thus, collective bearing of risk is insurance.

In a period of less than half a century, the insurance sector in the country has developed a full circle from being an open competitive market to complete nationalization and then back to a liberalized market. The entry of private players in the Indian insurance market has changed the nature of competition and the vigorous companies of these players have increased customer awareness. This has led to rapid increase in insurance business and a sizeable gain of this has been reaped by LIC. The insurance industry in India is now open and the new players have already started capturing the market share of the LIC.

One estimate is that the LIC has lost some 18 percent already by the end of 2004-05. With reference to above reasons, the “Researcher” has decided to go through the study of the performance of LIC after the liberalization policy regime and also to examine the impact of private players in the insurance sector.
3.1. THE CONCEPT OF RISK

The term risk may be defined as the possibility of adverse results flowing from any occurrence. Risk arises therefore out of uncertainty. It can also represent the possibility of an outcome being different from the expected. The term risk is used in insurance business is also mean either a peril to be insured against (e.g. fire is a risk to which property is exposed) or a person or property protected by insurance.

3.2. DEFINITION OF RISK

The word "risk" has been defined in many different ways by economists, insurance manager, and scholars.

According to Knight, "Risk is a measurable uncertainty".

According to M. Ahmad, "Capability to estimate risk factor in a way to overcome any kind of uncertain burden and manage the organization for the sake of future survival".

According to Willett, "Risk is the objectified uncertainty regarding the occurrence of an undesirable event."

According to Pfeiffer, "Risk is a combination of hazards measured by probability."

According to above definitions it is evident that the risk involves nature of uncertain losses.

3.3. ORIGIN AND DEVELOPMENT OF INSURANCE

Life Insurance had its beginning in ancient Rome, where citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivals by making its payments.

The first stock company to get into the business of insurance was chartered in England in 1720. In the year 1735 saw the birth of the first insurance company in American Colonies in Charleston. In 1759, the Presbyterian Synod of Philadelphia sponsored the first
Life Insurance Corporation in America. However, it was after 1840 that Life Insurance really took off in a big way. The 19th century saw huge developments in the field of insurance with the newer products being devised to meet growing needs.

3.4. HISTORY OF LIFE INSURANCE IN INDIA

The history of insurance in our country is somewhat darken. The earliest reference of life insurance was available in the days of East India Company, when the policies were taken only by the British officers. The policy was issued by British officers in sterling currency. Oriental was the first foreign insurance company established in India in 1818. Foreigners, orphans and widows were become subject matter for the oriental company. The company started accepting the Indians in 1934 due to the efforts of Babu Muttylai seal. ‘Bombay Life’, a company had issued short term policies for 2-3 years in 1823. Raja Ram Mohan Roy, the man who pleaded for protecting widows through government insurance. 'Bombay Mutual Life Assurance Society was established by some prominent citizens of Bombay in 1871. European merchant also started 'Bombay Insurance Society' in 1893 by voluntary efforts. Mr. Curstjee Furdoonju was the first insured person of India. This policy was insured in 1848 by royal Insurance which started in 1845. It was the beginning of the Indian insurance venture.

3.5. GENERAL INSURANCE

The general insurance business in India, can trace its roots to the 'TRITON INSURANCE COMPANY, the first general insurance company established in the year 1850 in Calcutta by the Britisher. 'INDIAN MERCHANTILE INSURANCE LTD.' was set up in 1907. It was the first company to transact all classes of general insurance business. General insurance council as a wing of the insurance association of India framed a code of conduct and count business practices in 1957. During 1968, the Insurance Act amended to regulate investments and set minimum solvency margins and the TARIFF ADVISORY
COMMITTEE set up in 1972 the General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with effect from 1st January 1973. One hundred and seven insurers amalgamated and grouped into four companies like

1. National Insurance Company Ltd.
2. The New India Assurance Company Ltd.
3. The United India Insurance Co. Ltd.
4. Oriental Insurance Co. Ltd.

General Insurance Company incorporated as a main company which held the power to control and manage above said four subsidiaries companies. Bombay Mutual Assurance Society Ltd., Oriental Government Security Life Assurance Co. Ltd., Bharat and Empire of India were the well-organized units in the field of insurance business established in India. The history can be explained on the basis of following periods

a) Before Independence
b) After Independence
c) During Globalization Period

3.5.1. Before Independence

Indian national congress and other Swadeshi Movement started in earlier part of twentieth century, which became cause for refused to purchase English goods and the matter became root for preferring Indian insurance. Thus, many Indian insurance companies came into existence. The First World War Indian life, the national, The Hindustan Co-operative, The Bombay Life, The Asian Life and The General Assurance were some prominent companies. Many industrialists started their own insurance companies during 1919 to 1932 due to the recession in the Indian economy. In 1919, New India was started by the TATA Group. The Jupiter General was started by Lalaji Narnji in 1919. Both of them were the most
prominent results of that economic recession. 'Laxmi', 'Vulcan', 'The British India', 'The Zenith' were other companies which had started their insurance business in that period.

The transactions of insurance companies were negligible till the end of the First World War. There after the position began to change, outbreak of Second World War stimulated the rapid progress of Indian Insurance business. The number of the Indian Companies transacting in insurance business were only 80 in the year 1920. It was increased up to about 240 during the Second World War. Speculative business was also involved in the insurance companies by themselves through such financial irregularities, so that government appointed a committee under the chairmanship of Sir Cowasjee Jahangir to examine the insurance structure. The committee found that the insurance companies were not working satisfactorily.

3.5.2. After Independence

After independence the network of insurance sector was drastically changed. The insurance act was passed by government in 1956. The period 1952 to 1955 was the period of pre nationalization of insurance company. The Indian insurer was not in satisfactory condition, due to great depression in Jute, Tea and other cash crops. In 1955, year of pre nationalization, the total business was 2207 crores on 749000 polices. The total investments were 318.9 crores. The government of India took decision of nationalization of insurance business in 1956 by taking management and control of all 245 existing companies. All insurance companies continued to exist as separate entities and the ownership also continued until the life insurance act, came into existence on 1-9-1956.

India is the first country in the whole world to nationalize the life insurance business. The objectives of insurance sector were as under.

➢ To establish socialistic pattern of society
➢ To provide complete security to the policy holders.
➢ To avoid mal practices.
➢ To protect the interest of citizen

3.5.3. During Globalization Period

The insurance sector regulated according to the industrial policy passed by government. Industrial policy 1990 was the milestone for globalization as well as liberalization. In April, 1993 government set up a high power committee headed by Mr. R. N. Malhotra to suggest reforms in the insurance sector and make it more efficient and competitive. The committee recommended the establishment of a strong and effective insurance-regulatory authority in the form of a statutory autonomous board on the lines of SEBI.

In 1999, the insurance sector opened up for private companies in life as well as Non-life insurance companies. It was followed by the establishment of IRDA (insurance Regulatory and Development Authority) in April 2000. The foreign companies looked upon the untapped profit potentials in Indian insurance industry and rushed over here.

3.6. FORMATION OF LIC

By the year 1955, approximately 170 insurance companies and about 80 provident societies has been registered for transacting life insurance business in India. A few of these were foreign companies with their head office outside India. In addition to these insurers a large number of other insurers who had registered themselves for transaction of life assurance business had either gone into liquidation or had been taken over by the existing insurers.

From a study conducted at that time it was found that the concept of trusteeship which should have been the cornerstone of life insurance was entirely lacking and most management had no appreciation of the clear and vital distinction that existed between trust
money and those belonging to stock companies owned by shareholders. Therefore, it became necessary to nationalize Insurance business with a view to –

➢ Provide 100 per cent security to policy holders
➢ Ensure to use the fund for national building activities
➢ Avoid wasteful effort in competition
➢ Save the dividend paid to the shareholders of insurance companies
➢ Avoid certain undesirable practices adopted by some insurance companies
➢ Speed up of insurance business in rural areas

The first step in this direction was taken on January 19, 1956 by promulgation of an ordinance vesting the management and control of life insurance business in India in the Central Government. On this occasion, the then finance minister Sir C. D. Deshmukh in his broadcast to the nation said, “The nationalization of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of second five year plan it is bound to give material assistance to the lives of millions in the rural areas.

It will introduce a new sense of awareness building, for the future in the spirit of calm, confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubter's and make it a resounding success.”

Thus, the life insurance industry was nationalized in the year 1956 and the "LIFE INSURANCE CORPORATION OF INDIA" came into existence on the 1st day of September 1956. To remember this historic event insurance week is celebrated from 1st to 7th September every year thereafter.
The objectives of nationalization were defined as conducting the business with utmost economy in true sense trusteeship, to charge premium no higher than narrated by strict actuarial consideration, and to invest the fund for obtaining maximum yield consistent with safely of capital and render prompt and efficient services to the policy holders, etc. The mission of LIC at that time can be summarized as —

- Providing protection of insurance to people in every nook and corner of the country
- Mobilizing savings for the development of country
- Responding to customer sensitivity

Consequent to that, tracing the development of life insurance industry is nothing but wading through the progress of LIC itself.

3.7. LIFE INSURANCE

Life insurance is a contract for payment of a sum of money to the person assured (or failing him/her to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or on unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment or premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution, which eliminates “risks”, substituting certainly for uncertainty and come to the death or of total permanent disability of the breadwinner. By and large, life insurance is civilization’s partial solution to financial uncertainties caused by untimely death.

3.7.1. Definition of Insurance

The term ‘insurance’ has been defined by different experts on the subject. The views expressed by them through various definitions can be classified into the following three categories for the convenience of the study:
I. General Definitions

The general definitions are given by the social scientists and they consider insurance as a device to protect against risks, or a provision against inevitable contingencies or a cooperative device of spreading risks.

Some of such definitions are given below:

1. In the words of John Magee, "Insurance is a plan by which large number of people associate themselves and transfer to the shoulders of all, risks that attach to individuals."

2. In the words of Sir William Bevridges, "The collective bearing of risks is insurance."

3. In the words of Boone and Kurtz, "Insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur."

4. In the words of Thomas, "Insurance is a provision which a prudent man makes against for the loss or inevitable contingencies, loss or misfortune."

6. In the words of Allen Z. Mayerson, "Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured."

7. In the words of Ghosh and Agarwal "Insurance is a cooperative form of distributing a certain risk over a group of persons who are exposed to it."

II. Fundamental Definition

These definitions are based on economic or business orientation, since it is a device providing financial compensation against risk or misfortune.
1. In the words of D.S. Hansell, "Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme."

2. In the words of Robert I. Mehr and Emerson Cammack, "Insurance is purchased to off-set the risk resulting from Hazards which exposes a person to loss."

3. In the words of Riegel and Miller, "Insurance is a social device whereby the uncertain risks of individuals may be combined in a group and thus made more certain, small periodic contributions by the individuals providing a fund, out of which, those who suffer losses may be reimbursed."

III. Contractual Definition

These definitions consider insurance as a contract to indemnity of the losses on happening of certain contingency in future. It is a contractual relationship to secure against risks. Some of such definitions are:

1. In the words of Justice Tindall, "Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency."

2. In the words of E. W. Patterson, "Insurance is a contract by which one party, for a compensation called the premium, assumes particularly risks of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency."

3. In the words of Justice Channel!, "Insurance is a contract whereby one person, called the insurer, undertakes in return for the agreed consideration called premium, to pay to another person called the insured, a sum of money or its equivalent on specified event."
3.7.2. Human Life Value

Human life concept propounded by S. S. Huebner of the Wharton School of Finance & Management, US, has been increasingly accepted for measuring the quantum of life insurance one should go in for, to provide for his family.

Every object has its own economic value, may be a house, land, car, TV or any other goods. In a materialistic environment one often thinks of the value of tangible assets, one loves, & cherishes life & prays for a long one. But, surprisingly, many tend to overlook that one's own life is of great economic value to one's dependents. The head of the family is responsible for meeting the various social & economic needs of his wife, son & daughter.

"The success of many enterprises depends upon work of one or two key individuals. His value is determined by his character, judgment, insights, industry vision, and inventiveness and so on - none of which has a scope of measurement. Thus human values are not determinable exactly, they, are nevertheless real. The assumption is that human lives are invaluable."

Apart from this, he is the nucleus around whom the dependents weave their dreams for a sound source and bright future. The son expects a good education and sound start in life; the daughter aspires for a good academic achievement & hopes to marry her prince charming befittingly, wife dreams of owning a house. These are in addition to his primary responsibility of providing basic necessities of the family. The net value of all these contributes in other words is "The Human Life Value."

As long as the head of the family is alive & active, he provides the necessary economic support for the present. Assuming for a moment the breadwinner unexpectedly wilts away, what happens to the hopes of his dependents for building a better & brighter future? Should they be caught in the whirlpool of sorrow & tears? Should their aspirations for
a rosy future disintegrate? "No" says the Life Insurance & it plays a vital role in continuing the economic potential of the breadwinner.

Till recently life insurance was considered as an economic sector to offset the immediate loss of income due to the death of the breadwinner. This view is gradually changing due to the economic conditions of the society. It is true that the basic factor, which determines the earning or economic potential of an individual, is his longevity. Though longevity is a variable one & different from person to person, still it is possible to assess the capitalized value of probable net future income and this is the fundamental yardstick to measure the economic potential or Human Life Value of a person.

The assessment of economic potential closely follows the fundamental principles of financial managements. The Human Life Value takes into account the earnings of an individual. In a nutshell, the Insurance agent should plan life insurance of his client in such a way that at least policy holder’s present monthly income contribution is available to the family in case his family is deprived of this income due to any unforeseen event.

Generally all are attracted by high interest yielding investments but for ensuring, the economic security of a family there is no substitute for life insurance. Life insurance is the only means by which one can ensure total protection to one’s family in case the family gets orphaned due to the untimely death of the breadwinner.

3.7.3. Moral Hazard

Moral Hazard involves good faith, character, personal reputation, occupation, environment, speculation, relationship, etc. of the applicant. In any proposal the quantum of insurance should be related with the capacity to pay. However, it may be noted that it is difficult to establish moral hazard.

Some common situations, which may give rise to moral hazard, are:
Insurable interest does not exist.

Insurance proposed is not commensurate with the income of the proponent.

The proposal is submitted at a place other than the normal residence of the proponent.

Seeking large amount of insurance for first time at advanced age.

Non-disclosure of previous insurance history regarding declinature or extra charged.

"The proposer may have various reasons deliberately hide or distort some information or inadvertently do so thinking it as of no importance."

Moral Hazard can be accessed from proposer's reaction to human relations, occupation, social and financial status, personal habits; he respects rights and obligations, capacity to withstand stress and strain at home, in office and outside. An insurer is not interested in moral judgment but departure from accepted mode of social conduct does lead to increased risks resulting in extra mortality. Such extra mortality cannot be measured. Extra premium can be charged for physical hazard but no amount of premium can adequately compensate moral hazard.

In order to protect the life fund from anti-selection, the underwriter has to exercise due care and caution. Moral Hazard reports by Development Officer, Branch Manager, etc. are required to be submitted for large amount to provide information regarding object of insurance, financial underwriting, etc. so as to enable the insurer toward off selection against the insurer.

3.8. DIFFERENCE BETWEEN ASSURANCE AND INSURANCE

The terms, 'Assurance' and 'Insurance' are commonly used in insurance contracts. On historical point of view, the word 'Assurance is older and used in all types of insurance contracts by the end of 16th century. But, from the year 1826, this term is used to indicate life insurance only and the word 'Insurance' for all other types of insurance like marine, fire, etc.
This is because that in life insurance, there is an assurance from the insurer to make payment of the policy either on the maturity or on death. Thus, the word 'Assurance', indicates certainty. On the other hand, the word insurance is used against indemnity insurance, like fire insurance, marine insurance, etc.

In these types of insurance, the insurer is liable to indemnity only in case of loss to property or goods, otherwise not. In brief, the differences, between the two terms are given in the following table 3.1 below:
### Difference between Assurance and Insurance
(or Life Insurance and Indemnity Insurance)

<table>
<thead>
<tr>
<th>Basis of Difference</th>
<th>Assurance</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Scope</td>
<td>This term is used only in life insurance and therefore the scope is comparatively limited.</td>
<td>This term is used for all other types of insurance and therefore, the scope is wider.</td>
</tr>
<tr>
<td>2. Renewal of Policy</td>
<td>The life insurance contract is a continuing contract and it will not lapse unless the premium is regularly paid.</td>
<td>It is not certain that the event insured against may happen or not.</td>
</tr>
<tr>
<td>3. Certainly of event</td>
<td>The event is bounded to happen sooner or later.</td>
<td>It is not certain that the event insured against may happen or not.</td>
</tr>
<tr>
<td>4. Insured sum</td>
<td>Insurance policy for any amount or any number of policies can be taken in this case.</td>
<td>In insurance, the policy amount is restricted to market value of assets; not more than that. This is because that indemnity cannot be more than the value of asset.</td>
</tr>
<tr>
<td>5. Certainly of payment of claim</td>
<td>Payment of claim either on maturity of the policy or on death of the assured is certain.</td>
<td>There is no certainly to receive payment since it is paid only in case of loss of the property insured.</td>
</tr>
<tr>
<td>6. Element of investment</td>
<td>The element of investment is present in assurance since there is certainty of receiving payment either on death or on maturity of the policy.</td>
<td>It lacks the element if investment since there is no certainty of receiving payment.</td>
</tr>
<tr>
<td></td>
<td>7. Amount of claim</td>
<td>The policy amount is paid to the assured in full on the maturity or on death along with bonus, etc. announced by the insurance company from time to time.</td>
</tr>
<tr>
<td>---</td>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>8. Principle of indemnity</td>
<td>Principle of indemnity does not apply in life assurance. The sum assured is payable unrespectable of any profit or loss and the full extent of the amount insured.</td>
</tr>
<tr>
<td></td>
<td>9. Assurance</td>
<td>The insurer gives assurance to the insured to pay the claim in any case, either on maturity or on death.</td>
</tr>
<tr>
<td></td>
<td>10. Insurable Interest</td>
<td>In a life policy, the insurable interest is one that required by law and such interest is not measurable in terms of money.</td>
</tr>
<tr>
<td></td>
<td>11. Relationship</td>
<td>The word ‘assurance’ indicates a relationship with the principle of insurance.</td>
</tr>
<tr>
<td></td>
<td>12. Insurable interest on the date of the policy or the policy falls due.</td>
<td>In life insurance insurable interest is to be proved at the date of the contract and it is not necessarily be present at the time when the policy falls due for claim.</td>
</tr>
</tbody>
</table>
3.9. NATURE AND CHARACTERISTICS OF INSURANCE

Insurance has the following characteristics.

1. Sharing of Risk

Insurance is a co-operative device to share the burden of risk, which may fall on happening of some unforeseen events, such as the death of head of the family, or on happening of marine perils or loss of by fire.

2. Co-Operative Device

Insurance is a co-operative form of distributing a certain risk over a group of persons who are exposed to it. A large number of persons share the losses arising from a particular risk.

3. Evaluation of Risk

For the purpose of ascertaining the insurance premium, the volume of risk is evaluated, which forms the basis of insurance contract.

4. Payment of Happening of Specified Event

On happening of specified event, the insurance company is bound to make payment to the insured. Happening of the specified event is certain in life insurance, but in the case of fire, marine or accidental insurance, it is not necessary. In such cases, the insurer is not liable for payment of indemnity.
5. **Amount of Payment**

The amount of payment in indemnity insurance depends on the nature of losses occurred, subject to a maximum of the sum insured. In life insurance, however, a fixed amount is paid on the happening of some uncertain event or on the maturity of the policy.

6. **Large Number of Insured Persons**

The success of insurance business depends on the large number of persons insured against similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the premium rate at the minimum.

7. **Insurance is not A Gambling**

Insurance is not a gambling. Gambling is illegal, which gives gain to one party and loss to the other. Insurance is a valid contract to indemnity against losses. Moreover, insurable interest is present in insurance contracts and it has the element of investment also.

8. **Insurance is not Charity**

Charity pays without consideration but in the case of insurance, premium is paid by the insured to the insurer in consideration of future payment.

9. **Protection against Risks**

Insurance provides protection against risks involved in life, materials & property. It is a device to avoid or reduce risks.
10. Spreading of Risk

Insurance is a plan, which spread the risks and losses of few people among a large number of people. It is a plan by which large number of people associates themselves and transfer to the shoulders of all, risks attached to individuals.

11. Transfer of Risk

Insurance is a plan in which the insured transfers his risk on the insurer. It is a device to transfer some economic losses to the insurer, and otherwise such losses would have been borne by the insured themselves.

12. Ascertaining of Losses

By taking a life insurance policy, one can ascertain his future losses in terms of money. This is done by the insurer to determining the rate of premium, which is calculated on the basis of maximum risks.

13. A Contract

Insurance is a legal contract between the insurer and insured under which the insurer promises to compensate the insured financially within the scope of insurance policy, and the insured promises to pay a fixed rate of premium to the insurer.

14. Based Upon Certain Principle

Insurance is a contract based upon certain fundamental principles of insurance, which includes utmost good faith, insurable interest, contribution, indemnity, causa proxima, subrogation etc., which are the basis for successful operation of insurance plan.
15. Institutional Setup

After nationalization, the insurance business in the country is operation under statutory organization set up. In India, the Life Insurance Corporation, the General Insurance Corporation and its subsidiary companies are operating in the various fields of insurance.

16. Insurance for Pure Risk Only

Pure risks give only losses to the insured, and no profits. Examples of pure risks are accident, misfortune, death, fire, injury, etc., which are all one sided risks and the ultimate result in loss. Insurance companies issue policies against pure risks only, not against speculative risks. Speculative risks have chances of profits or losses.

17. Social Device

Insurance is a plan of social welfare and protection of interests of the people.

18. Based on Mutual Goodwill

Insurance is a contract based on good faith between the parties. Therefore, both the parties are bound to disclose the important facts affecting to the contract before each other. Utmost good faith is one of the important principles of insurance.

19. Regulation under the Law

The government of every country enacts the law governing insurance business so as to regulate and control its activities for the interest of the people. In India the Life Insurance Act 1956 and General Insurance (Nationalization) Act 1972 are the major enactments in this direction.
20. Wide Scope

The scope of insurance is much wider and extensive. Various types of policies have been developed in the country against risks on life, fire, marine, accident, theft, burglary, etc.

To conclude, insurance is a device for the transfer of risks from the insured to the insurers, who agree to it for a consideration (known premium), and promises that the specified extent of loss suffered by the insured shall be compensated. It is a legal contract of a technical nature.

3.10. SIGNIFICANCE OF INSURANCE

As the industrial revolution comes with cut throat competition, the chances of uncertainty are also increasing day by day. Insurance plays significant role for not only an individual or for a family but it has spread over the entire nervous system of the nation. According to the famous philosopher J. Royce, Insurance Principles comes to be more and more used and useful in modern affairs. Not only does it serve the ends of individuals, it tends more and more both to pervade and transform the modern social order. Insurance provides various advantages to various fields. That can be shown in the following table no. 3.2 can classify the significance as under.
Significance of Insurance

Individual Aspects
- Security
- Encourage the habit of forced thrift
- Provide mental peace
- Increase efficiency
- Contribution to the conservation of health

Economic Aspects
- Safety Against Risk
- Basis of Credit
- Protection from the loss of key man
- Encourages loss prevention methods
- Reduction in cost

Social Aspects
- Stability in family life
- Development of employment opportunity
- Promotes philanthropy
- Encourage alertness
- Contributes to the development of basic

National Aspects
- Increase the national Savings
- Helps in developing the industry
- Contribute to the national Plans
- Increase the employment opportunities
- Develops the money market
- Earns foreign exchange
- Capitalizes the saving

Poster Economic Independence
- Locourages savings
- Provision for the future
- Awareness for the future
- Credit Facility
- Tax exemption
3.11. FUNCTION OF INSURANCE

Insurance becomes very useful in today's life. It plays significant role in this competitive era. One should know the functions of insurance. According to Sir William Beveridge, the functions of insurance can be divided into three categories as under

1. Primary functions
2. Secondary functions
3. Indirect functions

1. Primary Functions

(A) To Provide Protection

The most important function of insurance is to provide protection against the risk of loss. It is one type of guarantee against the losses if they occurred. It can check the reality of the misfortune happening, and pay the cost of damages of losses.

(B) To Provide Certainty

The future is totally uncertain. Any misfortune happening may occur at any stage of life. The amount of loss and time of losses both are uncertain. No doubt better planning and administration- can reduce the chances of happening these types of accidents but it requires lots of attention towards strengths and weaknesses, special knowledge of the field. After all these precautions, the uncertainty remains steady. Insurance provides certainly towards the losses. The policy holders pay the premium to buy the certainty.

(C) Distribution of Risk

It is a cooperative effort where the risk is distributed among the group of people. Thus, no one have to bear the losses occurred due to uncertainty.
2. SECONDARY FUNCTIONS

(A) Helps in Economic Progress

Insurance plays an important role in economic progress. It gives fully certainty to the industrialists towards the risks. The entrepreneurs can more concentrate on innovative and profitable techniques of the production. They should not require thinking over the risks. The industrialists can establish new industries in certain environment. Thus, industries have got development in economic and commerce of the nation.

(B) Prevents Losses

Insurance plays vital role in preventing the losses. The amount of premium may be minimized by using such appliances like the Fire extinguisher. If one uses interior machinery which may be caused for misfortune, the amount of premium will be high. Thus, indirectly, insurance provides help to minimize the chances of risks. It will be useful for the agencies which are directly related with the same function like.

a. Loss prevention association of India
b. The salvage crops of loss prevention association of India.
c. Survey and inspection of risks, etc.

3. INDIRECT FUNCTIONS

(A) Forced Savings

Life Insurance is also a method of savings in India. Income Tax Act gives relief in payment of income tax because government wants to habituate general public to save money. It encourages the habit of thrift and savings among the people. Thus, it becomes compulsory savings to people of nation.
(B) Promote Foreign Trade

It is compulsory to take marine insurance policy in foreign trade in India. Foreigners can't issue the foreign trade bill unless the cargo is fully insured. Thus foreign trade totally depends upon the insurance sector of the nation. It gives relief to entrepreneurs from the uncertainty of foreign trade.

(C) Others

Insurance provides certainties towards risks in entrepreneurship. It gives confidence in general public. It is one of the important source of investment which develops the trade and commerce of the nation.

3.12 BENEFITS OF INSURANCE

1. Investment of Funds

In the course of their business, insurers collect vast sums of premium. Especially in life business much of it can be invested profitably over long periods. This benefits the nation as a whole because insurers are required by law to invest the major portion in government securities and other approved investments, out of which nation-building activities are undertaken.

2. Reduction of Cost Insurance

Income earned by investment of accumulated funds further increases the fund and goes to reduce the cost of insurance for otherwise the premiums would have to be higher to that extent.
3. Effect on Prices

Manufacturers pass on the consumer, the cost of insurance along with other production cost. Still it is beneficial to the consumers because without insurance the cost would have been much more.

4. Invisible Export

Providing insurance service overseas is invisible export, like export of material goods, and the profit brought in is a contribution to the favorable balance of trade.

5. Reducing Cost of Social Services

Life Insurance particularly is a way of saving for the future. The sum assured often goes to persons who have lost earning members and thereby relieves their dependents in distress that would otherwise be an additional burden on social security and other public funds.

Also no victim or heirs of a deceased victim of motor accidents now a days goes without compensation from insurance funds built out of compulsory insurance of motor vehicles and this is no small benefit social relief.

3.13. IMPORTANT TERMS USED IN INSURANCE

Different terms are used in the theory and practice of insurance. Important among them are given below:

1. Insured

The party or the individual who seeks protection against a specified risk and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally an insurance policy holder.
2. Insurer

The party who promises to pay indemnity the insured on the happening of any contingency is known as insurer. The insurer is an insurance company.

3. Beneficiaries

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called the beneficiary.

4. Policy

The term 'policy' is derived from the Italian word 'polizza', which means "receipt". The document which contains the terms and conditions of the insurance contract and issued by the insurer is known as insurance policy.

5. Premium

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half-yearly, yearly or as agreed upon. It is the price for an insurance policy.

6. Insured Sum

The sum for which the risk is insured is called the insured sum, or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.

7. Peril

A peril is an event that causes a personal or property loss, by fire, windstorm, explosion, collision, premature death, sickness, floods, dishonesty, etc.
8. Hazard

Hazard is a condition that may create, increase or decrease, the chances of loss from a given peril.

9. Exposure

An exposure is a measure of physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposures.

10. Chance of Loss

It is the probable number of times in any given number of exposures that loss will occur. The highest chance of loss is 100 per cent that means the loss in certain. When the chance of loss is zero, the degree of risk is also zero.

3.14. THE FUNDAMENTAL PRINCIPLES OF INSURANCE

The mechanism of insurance involves a contractual agreement in which the insurer agrees to provide financial protection against a specified set of risks for a price called the premium. It is hence essentially an intangible product. The insurance customer cannot see or feel the product he or she is buying. And though the policy document does give the comfort that the coverage is on; generally no real service is delivered until a claim occurs. In normal commercial transactions, the legal maxim "Caveat Emptor," Latin for "Let the Buyer Beware" operates. This means that the buyer takes the risk regarding the quality or condition of the property purchased.

This, in turn, implies that the buyer has the opportunity to examine the product before purchase. Since, in view of what is stated in the preceding paragraph, the insurance customer has no such opportunity, insurance transactions need be governed by special principles in order to protect the interests of the contracting parties, particularly the customer. It is in view
of this that the contracts are governed by certain special fundamental legal principles. These make insurance contracts very unique and different from other kinds of commercial contracts. There are, however, differences between life and general insurance with regard the application of the principles.

The fundamental principles are:

- The Principle of Utmost Good Faith
- The principle of insurable interest
- The principle of indemnity
- The principle of contribution
- The principle of subrogation
- The principle of proximate cause

1. The Principle Of Utmost Good Faith

The principle of utmost good faith, uberrimae fides (in Latin), literally means perfect good faith or abundant good faith. The phrase is used to express that an insurance contract must be made in perfect good faith, concealing nothing. The principle is mostly discussed in the context of the duty of the insured towards the insurer, though it is equally applicable to the insurer's duty towards the insured. It is the duty of the insured and the insurer to disclose all relevant facts. This is relevant to both life and general insurance.

From the point of view of the insured, the principle of Utmost Good Faith could formally be defined as "A positive duty to voluntarily disclose, accurately all facts to the subject matter being proposed, whether requested or not." The subject matter could be a person, a house, a motorcar, old machinery being carried on a truck or even an oceangoing vessel.
However, Utmost Good Faith is the duty to disclose full facts and is to be observed by both the parties to an insurance contract, viz., insured as well as the insurer. The insurer thus should not attempt to mislead the insuring public about the terms of the contracts and scope of their cover. The prospectus and other documents issued, like the policy, should carry a full and accurate disclosure of the terms of contract. Similarly, the proposer (one seeking to buy an insurance policy) has to disclose everything that is relevant to the subject matter of insurance.

In the case of the insured, the duty arises since the insurer thus has often to rely entirely on the proposer for information. In many cases the insurer has no opportunity to inspect the house or factory insured. Again, in all cases there may be some facts, which by their very nature, are known only to the proposer. They can be known only when divulged by the latter.

For example, information about one's property or person including one's health, habits, personal history, family history, etc., are known only to the person taking insurance and rarely are public knowledge. Yet, these issues are important for assessing the risk and deciding the rate of premium to be charged. The insurance company can know most of these facts only if the prospect comes forward to disclose them truthfully. It may be argued that insurers could take steps to ascertain the facts.

For example in property insurance, the insurer could survey the property while in long-term insurance one can insist on medical reports and special reports from a panel of doctors/specialists appointed by them. The risk can be assessed accordingly.

However, the important point to note is that there may be certain aspects of health that may not be easily detected in a routine medical examination. To illustrate, a person suffering from hypertension or diabetes can manage to hide these facts if he were to appear for medical
examination after taking the appropriate medicines. Similarly it may not be easy to detect past history of health and family history in a routine medical examination.

In property insurance it may not be feasible to examine each and every property being proposed for insurance, and the hazards to which it is being exposed in minute detail. Good Faith Contracts become Utmost Good Faith contracts when it comes to insurance. The proposer has to disclose everything that is relevant to the subject matter of insurance, as the insurer knows nothing about them.

2. The Principle of Insurable Interest

The second major principle of insurance is that of insurable interest. The existence of Insurable interest is an essential ingredient of any insurance contract. Insurable interest is the legal pre-requisite for insurance. A common definition used for insurable interest is "the legal right to insure arising out of financial relationship, recognized under law, between the insured and the subject matter of insurance". Therefore, just as the owner of a house or a factory has an insurable interest in the house or the factory, the bank that has lent money for the construction of the house or the factory too has an insurable interest in these to the extent of the outstanding loan amount, since in the event of the damage or destruction of the property, the bank stands to lose a part or the whole of the money lent.

In brief, insurable interest is said to exist when the insured stands in such a relationship to the subject matter of insurance (the house or the factory in the above example) that he stands to benefit from its existence and suffer loss in case of its damage or destruction. It can be seen that insurable interest has three essential elements:

i. There must be property, right, interest, life or potential liability capable of being insured.
ii. Such property, right, interest, life or potential liability must be the subject matter of insurance.

iii. The insured must bear a legal relationship to the subject matter such that he stands to benefit by the safety of the property, right, interest, life or freedom of liability. By the same token, he must stand to lose by any loss, damage, injury or creation of liability.

An insurance contract essentially promises to make good the financial loss caused by the operation of an insured peril. It could, therefore, be said that, in the strictest sense, fire insurance policy covers not the property per se, but the insured's financial interest in the property. This is so since in the event of a loss, the insurer would provide financial compensation to cover the damage or loss. The banker who has lent money would be eligible to recover his outstanding loan amount from the claim amount.

The above points would be clearer when one makes a distinction between the subject matter of insurance and the subject matter of an insurance contract. The former (subject matter of insurance) relates to property being insured against, which has an intrinsic value of its own. The subject matter of an insurance contract on the other hand is the insured's pecuniary interest in that property. It is only when the insured has such an interest in the property that he has the legal right to insure. An example of this, as stated earlier, is the interest of the bank. Such interest is required to make the insurance contract enforceable by law. Lack of it would render the contract void.

It is worth mentioning that it is the principle of insurable interest that distinguishes insurance from gambling or wager agreements. In the latter instance, for example, one could insure somebody else's property and then be tempted to deliberately bring about the loss to collect the claim under the policy. Referring to life insurance, a person is deemed to have insurable interest on his own life to an unlimited extent, as in the event of his premature
death, there will be loss of his future earnings for his family. It may be difficult to compute the future earnings of individual.

However, by application of the human life value (HLV) concept, reasonable estimate can be made. Insurance companies, therefore, limit the amount of insurance, taking into account the proposer's present income and age. The limiting factor in life insurance is the proposer's capacity to pay premium for insurance on own life. Spouses are presumed to have insurable interest in each other's life. However in case of other members of the family, insurable interest is not presumed to exist. A person cannot, therefore, insure, say, his brother or sister though they may be dependent on him.

3. The Principle of Indemnity

The principle of indemnity, as applicable to general insurance policies, means that the policyholder, after experiencing a loss, is compensated so as to put him or her in the same financial position as before the loss. The policy indemnifies him or guarantees that he would be compensated for the loss, no more. That is, he cannot make a profit by insuring his assets and recovering more than the loss. This is possible since the economic value of an asset at the time of the loss as well as the extent of loss can be determined and compensation payable determined accordingly. In the case of life insurance, however, the economic value of a human life cannot be measured precisely before death. It could in fact be unlimited.

Hence, life insurance cannot strictly be a contract of indemnity. This does not, however, mean a person can be granted life insurance for an unlimited amount. For the purpose of arriving at this amount, as stated earlier, a concept called the Human Life Value (HLV) has been developed. As we saw, this is based on the fact that premature death would cause loss of earnings in case of an employed or self-employed person or loss of services and support provided to the family, say, by a housewife.
4. The Principle of Subrogation

This is another principle that is peculiar to general insurance. Subrogation is the legal right of the person (the insurer, for example) who has paid for the damage caused by another (say, the ship-owner) to recover that money from the ship-owner. Subrogation is thus the right of the insurance company that pays the claim to recover the same from those who are responsible for causing the loss. Contribution, in fact, is a corollary of the principle of indemnity.

5. The Principle of Contribution

This is peculiar to general insurance. Contribution, again, is a corollary of the principle of indemnity. Contribution implies that if the same property is insured with more than one insurance company, the compensation paid by all the insurers together cannot exceed the actual loss suffered. That is, all the insurers would together indemnify the policyholder for the loss suffered and no more. If he were to collect insurance money from all the insurers for the full value, this would violate the principle of indemnity, as he would make a profit from the loss.

For example, if a person takes out a fire policy on his house for the full value, say Rs.10 lacs, with two insurance companies and claims Rs.10 lakhs each from the two insurers, he would be attempting to collect Rs.20 lakhs, thus making a profit. Since the policyholder is required to declare his insurance with both the companies under the principle of Utmost Good Faith, the two insurers would share the loss in proportion to the sum insured in relation to the total sum insured, viz., Rs.20 lakhs. In this case, since each has insured to the extent of 50% (Rs.10 lakhs each) of the total sum insured, each would pay 50% of the loss, viz., Rs.5 lakhs each, thus ensuring that the insured collects no more than the value of the house.
In contrast to general insurance policies, which are indemnity-based policies, life insurance policies are benefit policies or valued policies. That is, the policy specifies the value to be paid on the occurrence of a contingency, say, death or maturity. Depending upon the type of policy, it pays the fixed sum insured (benefit) to the policy holder on maturity or to the family in the event of his unfortunate death. If he has taken out policies from two companies, both would pay the full sum irrespective of what the other company pays. Hence the principle of contribution, does not apply here. It is, however, expected that he discloses his insurances while taking out additional policies to enable the insurer so that the total amount for which he is covered does not exceed the HLV.

3.15. CLASSIFICATION OF INSURANCE

Table No-3.3 Classification of Insurance
3.16 IMPORTANT ASPECTS OF INSURANCE BUSINESS

1. Actuary

An Actuary is a person who has passed specialized examinations conducted by the Actuarial Society of India or the Institute of Actuaries, London. Actuaries are technical experts who have received specialist training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities like calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, a good actuary has to be a good economist, a good statistician as well as a good security analyst. Every insurance company requires good actuaries to continuously study its operations and advise the management on the appropriateness of their policies.

2. Underwriting

An Underwriter scrutinizes, analyzes and takes the decisions on the proposals received for insurance. While analyzing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. Any applications that pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates" of premium than normal. Any applications posing unreasonable risks are declined. The job of accepting or declining the proposals of insurance received by a company and deciding on the premium at which to accept the proposals is done by the underwriting department.
3. Policy Owner Services

The employees in this area are the ones, who issue the actual policy documents. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract like nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, progress notices, customer requests and informing policy-owners about any material changes that affect their policies.

4. Claim Administration

The employees in this area are responsible for the actual settlement of claims. They analyze the claims received against various policies. After thoroughly studying the claims, they decide whether the claim is valid. They calculate the benefit amounts for settlement of all valid claims. Any claims that are found invalid are rejected.

5. Marketing

The marketing department studies consumer behavior needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy those needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.

6. Investment

The employees in this area manage the company's assets and investments. They study the financial markets in order to give recommendations on the best avenues of investments so that the company can maximize its returns.
7. Accounting

As in any other organization, the accountants in an insurance company keep records of the income and expenses. They keep track of the income from premiums and investments as also the expenses for running the office, agents' commission, claim payments, etc. They prepare the reports and statements which show the financial position of the company. The policy holders, shareholders, and insurance regulators can get to know the financial status of the insurance company from these reports.

8. Information System

The employees looking after this area provide their services to all the departments of an insurance company. They design and maintain computer systems so that any required information can be easily retrieved at any time. They also develop and test new systems and procedures for the company, install them and ensure that they operate efficiently and effectively.

9. Legal and Compliance

The employees in this department play an important role in ensuring that the company is complying with all the regulations and laws in the country. They develop the policy forms, contracts for agents, etc., in line with the existing rules and regulations and also advise the staff and management on any legal issues. In case there is any dispute arising out of a claim, the attorneys from the legal department defend the company's position. These, then, are the different activities carried out by the various departments in an insurance company. An equally important activity which has not been covered above is the distribution of the different products of the insurance companies. This distribution is carried out by various components of the distribution channel.
10. Distribution Channels

These are routes by which the product prepared by the producer reaches the ultimate consumer. Thus, the distance between the producer and the consumer is bridged by the distribution channel. In the case of insurance companies, the distribution system is a network of individuals and organizations that are involved in making the insurance products available to the customers. They form a link between the insurance company and the buyers of insurance products. The various components of the distribution channel in an insurance company are:

11. Agents

An insurance agent is an agent licensed under section 42 of the Insurance Act, 1938. He/she receives payment by way of commission for procuring insurance business. He/she is also responsible for business relating to the continuance, renewal or revival of policies of insurance. An agent could also be a corporate agent i.e. a company or firm could also be an agent. The primary function of an agent is to procure business for the insurance company. However, the agent can only procure business for the particular insurance company which he/she represents, and for no other company.

Once the insurance contract has been put into force, the agent has to ensure continuance of the policy through regular payment of renewal premiums. In case of a claim, the agent should help the insured in proper settlement of claims.

12. Insurance Brokers

An individual or firm, whose full-time occupation is the placement of insurance business with insurance companies, is known as an insurance broker. The broker receives brokerage as a percentage of the premium from the insurer.
The main difference between an agent and a broker is that there are no restrictions on the procurement of business by a broker for various different insurance companies, while the agent can only procure business for that particular company which he represents. Insurance brokers give advice to the insured without charging them.

13. Insurance Consultants

Insurance consultants are usually specialists who give advice to consumers. However, unlike the brokers, they get paid by the insured for this advice.

14. Banking Outlets

These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of bank assurance has gained importance in the banking sector which is good for the insurance sector.

3.17 LIMITATIONS OF INSURANCE

In spite of number of advantages of insurance, it has certain limitations. On account of such limitations, the benefits of insurance could not be availed in full. These limitations are:

1. All the risks cannot be insured. Only pure risks can be insured & speculative risks are not insurable.

2. Insurable interest (financial interest) and the subject matter of insurance either at the time of insurance or at the time of loss, or at both the times must be present, in the absence of which the contract of insurance becomes void.

3. In case the loss arises from the happening of the event cannot be valued in terms of money, such risks are not insurable.
4. Insurance against the risk of a single individual or a small group of persons are not advisable, since it is not practicable due to higher cost involved.

5. Another important limitation is that the premium rates are higher in our country and as such, certain category of people cannot avail the advantage of insurance. The main reason for the higher rate of premiums is the higher operating cost.

6. It becomes difficult to control moral hazards in insurance. There are certain people who mystify the insurance plans for their self-interest by claiming false claims from insurance companies.

7. Insurance is not a profitable investment. Its main object is to provide security against risks; insurance business cannot be a source to acquire profits.

8. Certain specified risks can be insured with co-operation of the government only; such as, unemployment insurance, insolvency of banks, food insurance, etc.

3.18. LEGAL FRAMEWORK OF INSURANCE

History of Insurance Legislation in India

Up to the end of nineteenth century, the insurance was in its inception stage in India. Therefore, no legislation was required till that time. Usually the Indian Companies Act, 1883 was applicable in business concerns, banking and insurance companies. New Indian Insurance companies and Provident Societies started at the time of national movement; but most of them were financially unsound. It was asserted that the Indian Companies Act, 1883 was inadequate in that aspect. Therefore, two Acts were passed in 1912, namely, Provident Insurance Societies Act V of 1912 and Indian Life Insurance Companies Act VI of 1912. These two Acts were in pursuit of the English Insurance Companies Act of 1909 with the difference that the Indian Life Insurance Companies related to life insurance only and excluded the nonlife business from its fold. The Act put the life insurance business in India on sound footing and resulted in creating a healthier atmosphere than earlier. It was also
instrumental in the dissolution of some unsound Indian as well as non-Indian life offices or in the merging of some of them with the others. The legislation in India was confining to life business because there were very few general insurance companies and did not call for any legislation. To prevent financial weakness the insurers were required to keep certain stated deposits. The Indian insurers were required to submit returns giving particulars of their business. The foreign insurers were exempted from submitting separate particulars regarding the business done in India. Some English companies ceased to underwrite further business with a view to avoid submission of reports to the Government of India. Some Indian Companies, which conducted business on assessments or on actuarially unsound basis, either dropped or mortgaged them to conform to actuarial requirements.

The policies issued by these companies were not less than Rs. 1,000. The aim of the Provident Insurance Societies Act, 1912 was to govern Provident Insurance Societies which were engaged in issuing life policies worth Rs. 1,000 or less and marriage and disease policies, of every nominal amount. This act was purely based on the Friendly Societies Act.

These two enactments were governing only life insurance. There was no control on general insurance since such businesses were not so developed. Besides, there were the following defects of these Acts:

1. The control and enquiry was slight. Non-compliance of rules and regulations was not strictly penalized.

2. The foreign companies were to submit report of their total business both in India and outside India. But separate particulars regarding business done in India were not demanded and the absence of these made it impossible to get any idea of the cost of procuring business in India for foreign companies and comparing them with similar data of the Indian companies.
3. The Government Actuary was not vested with the power to order investigation into
the conduct of a company even when it appeared that the company was insolvent
under the power of exemption.

4. Anyone can start life insurance business only with the sum of Rs. 25,000. It was too
low to prevent the mushroom growth of companies. Foreign insurer was not bound to
deposit a certain sum of life policy issued in India.

These defects were compelling the above Acts to be replaced. Public was aware of the
fact that the Indian companies in foreign countries or in England were directed to have a
certain sum in the shape of reserve as contrary to above regulation. The law in India was not
in line with the law in force in other countries. Persistent demands were made by various
important Public bodies in the country for statutory provisions which would provide for
disclosure and publication of the business carried on in India by foreign companies.

After a few years it was realized that there should be another efficient and adequate
act. So, the Government placed a bill for essential amendment of the Act, in 1924. The bill
was containing a wide scope of insurance business. The bill came to the legislative assembly
after thorough comments by different bodies.

During the time, an important thing happened miraculously about the enactments of
insurance business in England. The Government of India thought it fit to watch the course of
new legislation on Insurance Law in England. Great Britain appointed Clauson Committee to
report the possible and required changes in the Legislation. Therefore, the Government of
India thought it to postpone the bill to include the reports of Clauson Committee. The
Clauson Committee submitted its report in February 1927, but the Government of England
took no action on its recommendations. The Government of India in 1928 passed stopgap
legislation with the main object of collecting statistics regarding insurance matters so that the
information collected would be of value when the time would come to pass a comprehensive
Act. This act was not very comprehensive. The Government of India wanted to wait the English Legislation, which was expected to be passed in 1929 or so and base the law for India on the British model, but the legislation was not passed in Britain.

The slow progress of events in Britain again reviewed the agitation for amendment of the law of Insurance in India. Since the Act of 1928 was not very comprehensive, demand for another act was made. The Government accepted the genuine demand and appointed one special officer for investigations the special and required reform of legislation in 1935. He was a well-known Calcutta Solicitor and was placed on special duty to report on the amendments necessary to modernize insurance legislation in India. His report was considered by the Advisory Committee (comprising representatives of all branches of insurance) appointed by the Government of India. The committee made several changes and the Government of India introduced the bill in the Legislative Assembly in 1937 and after much debate and several changes; it emerged as the Insurance Act of 1938.

3.18.1. Insurance Laws in India

There are mainly four laws are concerned with the insurance business of India are as follows.

A. Insurance Act, 1938
B. Life Insurance Corporation Act, 1956
C. General Insurance Business (Nationalization) Act, 1972
D. Insurance Regularity and development authority Act, 1999 (IRDA)

A. INSURANCE ACT, 1938

The insurance act originally passed in the year 1938 however It amended for several times, It's latest amendment of the insurance act was the IRDA itself when it became the authority to perform many tasks required to be done under the insurance act such as issuing

112
licenses, issuing registration certificates, monitoring compliance with the provisions of the Act, issuing directives, laying down norms. The all above said functions were performed by the controller of Insurance as per the Insurance Act, 1938. The provisions of the Act may be briefly described as follows.

Registration

To obtain the certificate of Registration is compulsory to the every insurance company. The Registration should be renewed annually. The paid up capital must be of Rs. 100 crores for Life Insurance or general and Rs. 200 crores for re-insurance business. Every insurer has to deposit in cash or approved securities, a sum equivalent to 1% in life insurance or 3% in general insurance of the. Total gross premium in any financial year commencing after 31st March, 2000 with the Reserve Bank of India should not exceed Rs. 10 crores. The deposit amount is Rs. 20 crores for re-insurance businesses.

Every insurance company must keep the accounts separately of all receipts and payments in respect of each class of insurance business such as marine or miscellaneous insurance. Insurers must invest his assets only in those investments which approved under the provisions of the Act. Every insurance company has to do a minimum insurance business in the rural or social sector, as may be specified in the order. The authority can be investigated the affair of the insurer at any time.

Licensing of Agents

License is the pre requirement for becoming the agent. Person can’t work as an insurance agent unless he has obtained a license from the authority. There is some disqualification for being as per the act expects the minor age or having unsound mind as follows:

1. Being unsound mind.
2. Being convicted of criminal misappropriation or criminal breach of trust or cheating or Forgery or Abetment or Attempt to commit any such offence.

3. Being found to have been guilty of or connived at any fraud, Dishonesty or misappropriation against any insured on insurer.

Licensing of Surveyors and Loss Assessors

No insurer can settle any claim equal to or exceeding Rs. 20000/- without the report on the loss from a licensed surveyor. The person can act as a surveyor or loss assessor only after obtaining license from the authority. The authority can't issue the license without get satisfaction about the applicant that he:

a) Has been in presence as a surveyor loss accessory on the date of commencement of the IRDA Act, 1999.

b) Possesses any of the qualifications specified in the act e.g. degree in engineering, chartered accounting, diploma in insurance etc.

c) Does not suffer from any of the disqualification specified for grant of agent's license.

If the applicant for the surveyor is the company of a firm, the requirements must be satisfied to all the directors or the partners, as the case may. Limits have been laid down for the extent of the management expenses of the insurers. The commission to an insurance agent shall not exceed 15% of the premium payable under fire, marine or miscellaneous insurance policies. Rebate is not only parting of commission by the agent but also changing less than the tariff rate of premium by the way of inducement to the insured.
Solvency Margin

The authority for the insurer also decides the solvency margin. The act clarifies how the assets and liabilities have to be determined and the extent to which the assets are to exceed the liabilities. These provisions exist to ensure the adequacy of insurer’s solvency:

Payment of Premium before Assumption of Risk

A risk can be assumed by the insurance company after receiving the premium or a guarantee that the premium will be paid within the prescribe time. Sometimes agents collect the premium amount and dispatch or deposited to the insurance company. They have to deposit the money within the 24 hours except the bank and postal holiday. The agent has to deposit the premium in full without deducting his commission. If any refund of, the premium will be due, the insurer directly shall paid the amount to the insured by crossed or order cheque or by postal money order.

B. LIFE INSURANCE CORPORATION ACT, 1956

Life Insurance Business in India was nationalized with effect from January 19, 1956. On the date, the Indian business of 16 non-Indian insurers operating in India and 75 Provident Societies were taken over by Government of India. Life Insurance Corporation of India, Act was passed by the Parliament on June 18, 1956 and came into effect from July 1, 1956. Life Insurance Corporation of India commenced its functioning as a corporate body from September 1, 1956. Its working is governed by the LIC Act. The LIC is a corporate having perpetual succession and a common seal with a power to acquire hold and dispose of property and can by its name sue and be sued. Certain important provisions of the Act (as amended by IRDA Act, 1999) are discussed as follows:

Important Provisions of Life Insurance Corporation Act, 1956

1. Constitution
2. Capital
3. Functions of the Corporation
4. Transfer of Services
5. Set-up of the Corporation
6. Committee of the Corporation
7. Authorities
8. Finance, Accounts and Audit
9. Miscellaneous

C. THE GENERAL INSURANCE BUSINESS NATIONALIZATION ACT (GIBNA)

The General Insurance Business Nationalization Act was passed in 1972 to set up the general insurance business. It was the nationalization of 107 insurance companies into one main company called General Insurance Corporation of India and its four subsidiary companies with exclusive privilege for transacting general insurance business. This act has been amended and the exclusive privilege ceased on and from the commencement of the insurance regulatory and development authority act 1999. General Insurance Corporation has been working as a reinsurer in India. Their subsidiaries are working as a separate entity and plays significant role in the public sector of general insurance.

D. INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT, 1999

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor. R. N. Malhotra was formed to evaluate the Indian Insurance Industry and recommend its future direction. The committee was set up with an objective of complementing the reforms in the Indian Financial Sector. The reforms were aimed at "Creating a mere efficient and come positive financial system suitable for the requirement of the economy keeping in mind the structural changes currently underway and recognizing that
insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms.

MALHOTRA COMMITTEE RECOMMENDATIONS

In 1994, the committee submitted the report and gave the following recommendations now in the point forms.

STRUCTURE

➤ Government stake in the insurance companies to be brought down to 50%.
➤ Government should take over the holdings of GIC and its subsidiaries so that there is subsidiaries can act as Independent Corporation.
➤ All the insurance companies should be given greater freedom to operate.

COMPETITION

➤ Private companies with a minimum paid up capital of Rs.1 billion should be allowed to enter the industry.
➤ No company should deal in both life and general insurance through a single entity.
➤ Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.
➤ Postal Life Insurance should be allowed to operate in the rural market.
➤ Only one State Level Life Insurance Company should be allowed to operate in each state. The Insurance Act should be changed.
➤ An Insurance Regulatory body should be set up.
➤ Controller of Insurance (Currently a part from the Finance Ministry) should be made independent.
Investment

Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company.

Customer Service

LIC should pay interest on delay in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology is to be carried out in the insurance industry. The committee strongly felt that in order to improve the customer services and increase the coverage of the insurance industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. The act passed in 1999, which has the main objective as follows "To provide for the establishment of an authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry.

The authority has been established under the provision of the act. The authority shall consist of some members as follows

a. A chairperson,
b. Not more than five whole time members,
c. Part time members (not more than four)

All the members are appointed by the central government. The persons are able, who have ability, integrity, knowledge or experience in life insurance, general insurance, actuarial science, finance economics law, accountancy; administration or any other discipline which would be useful to the authority in the opinion of the central government.
Duties, Powers and Functions of the Authority

The authority has the powers and functions include

i. Registration of insurers, intermediaries and agents.

ii. Regulation of the terms and the conditions of the contracts of insurance

iii. Promoting and regulating professional organizations connected with the insurance and reinsurance business.

iv. Monitoring investment of funds and solvency margins of insurance companies.

The Insurance Advisory Committee consists of not more than 25 members excluding ex-officio members. The members are the representatives of the interest of commerce, industry, transport, agriculture, consumer forum, surveyors agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees association in the insurance sector. The insurance advisory committee is advised the authority on the matters relating to the making decision of the regulations.

The authority has issued a number of regulations, which have to be complied with the insurance companies. Only Indian insurance companies will be given Registration to transact in insurance business.

The paid up capital of the insurance (whether life or general) company will have to be not less than Rs. 100 crores and in the case of companies to transact reinsurance business, the paid up capital will have to be not less the Rs. 200 crores. The insurers have to maintain their assets up to specified limit as per the provisions of the authority at any time. Every insurance company has to appoint an actuary, who must be approved by the authority. The duty of the actuary will be

a. The assets are valued in the appropriate manner.

b. The liabilities are evaluated as required.
c. The prescribed margins for maintaining solvency are complied with.

The authority has also issued regulations with regard to advertisement. These regulations are applicable to all advertisement whether it issued by the insurance company or an insurance intermediary includes an agent. The scope of the advertisement is wide which includes almost any public communication, which recommends a sale of an insurance policy. The provision mentions that each advertisement should have full disclosures of the product mentioned and of the advertiser including license and Registration number. Advertisement, which is issued by agents, must be approved by the insurer in writing before issue.

The Government of India realized the necessities of setting-up Insurance Regulatory and Development Authority (IRDA) in 1999. The IRDA was set-up to provide for the establishment of an Authority, for protecting the interests of holders of insurance policies, to regulate, promote and insurer orderly growth of the insurance industry and for matters connected therewith or incidental thereto.

With the birth of IRDA, the Government amended the insurance Act, 1938, the Life insurance Corporation Act, 1956 and the General Insurance Business (Nationalization) Act, 3972 for the sake of proper control at apex level."\textsuperscript{18}

Salient Features of IRDA Act, 1999

The Government introduced IRDA Bill in 1999, which was passed by the parliament. The salient features of IRDA Act, 1999 are as under:

1. The Authority may make rules and regulations dealing with various matters such as to provide for fee relating to registration of insurers, manner of suspension or cancellation of registration, manner and procedure of disinvesting excess share capital, time and manner of investment of assets held by an insurer, the requisite qualifications and practical training of insurance agents/intermediaries, passing of
examination by them, the preparation of balance sheet, profit and loss account and a separate account of receipts and payments and revenue account, valuation of assets and liabilities, etc. amongst various other matters

2. "Indian Insurance Company" defined to mean a company registered under the Companies Act, 1956 with foreign equity not exceeding 26% of total equity shareholding including equity holding of Non-resident Indians (NRIs), Foreign Institutional Investors (FIIs), and Overseas Corporate Bodies (OCBs) have been allowed to carry on Insurance Business (Life Insurance, General Insurance and Re-insurance).

3. After commencement of Insurance Company, the Indian promoters can hold more than 26% of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian Shareholders that will not include equity of foreign promoters, and shareholding of FIIs, NRIs and OCBs.

4. After the permissible period often years, excess equity above the prescribed level of 26% will be disinvested as per a phased programmed to be indicated by IRDA. The Central Government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on shareholding of Indian promoters in excess of which disinvestments will be required

5. Of foreign promoters, the maximum of 26% will always be operational. They will thus be unable to hold any equity beyond this ceiling at any stage.

6. The Insurance Company, in the event of shares are sought to be transferred by an Individual, Firm, Group, Constituents of a Group or Body Corporate under the same management, jointly or severally exceeds the paid-up capital of the insurance company, shall register, such transfer only after obtaining the previous approval of the authority.
7. All the powers presently being exercised under the Insurance Act, 1938 by the Controller of Insurance (COI) will be transferred to the Insurance Regulatory and Development Authority (IRDA).

8. The Central Government by notification supersedes the Authority for such period not exceeding 6 months and appoints a person to be the Controller of Insurance. This power is to be exercised only in the event the Authority is unable to perform its functions or discharge its duties or has persistently defaulted in complying with the Central Government directions or when such super-session is necessary in public interest.

9. The minimum amount of paid-up capital is Rs. 100 crore in case of life insurance as well as general insurance and Rs. 200 crore in case of reinsurance.

10. Solvency margin (excess of assets over liabilities) to be maintained at not less than Rs. 50 crore for life as well as general insurers and Rs. 100 crore for re-insurer.

11. Insurance Companies to deposit in cash and/or approved securities with RBI a sum equal to 1% of the gross premium written in India in any financial year commencing after 31.03.2000 subject to a maximum of Rs.10 crores. However, in case of re-insurance business the maximum limit is Rs. 20 crores.

12. In non-life sector, IRDA would give preference to companies providing health insurance.

13. No insurer shall directly or indirectly invest the funds of the policyholders outside India. The authority may specify the time and manner and other conditions of the investments of assets of the insurer and may also issue directions relating thereto.

14. Insurance agents to undergo training for a period not exceeding 12 months and to pass the examination as may be specified by regulations to be framed by the authority. Existing License Holders are however exempt from it.
15. The intermediary and/or insurance intermediary will also have to undergo a 12 months training and will be required to pass the specified examination. Intermediary will include insurance brokers, re-insurance brokers, insurance consultants, surveyors and loss assessors.

16. Every insurer shall provide life insurance or general insurance policies (including insurance for crops) to the persons residing in the rural sector, workers in the unorganized or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as may be specified by regulations made by IRDA. Failure to fulfill the social obligations would attract a fine of Rs. 25 lakhs in case the obligations are still not fulfilled, license would be cancelled.

There are certain other acts which directly or indirectly affects the general insurance businesses which are as follows:

MARINE INSURANCE ACT, 1963

The act is specially formulated for the marine insurance business. It codifies the law relating to Marine Insurance. There are only few exception from the U.K. Marine Insurance Act, 1905. Underwriters have thorough knowledge about how to pursue rights of recovery from carriers or baileys under subrogation proceedings. In addition to the Marine Insurance Act, 1963 the following laws govern the practice of marine insurance.

THE CARRIAGE OF GOODS BY SEA ACT, 1925

The act specifies the minimum rights, liabilities and immunities of a ship owner in respect of loss or damage to cargo carried. The act specifies three aspects of a ship owner's liabilities towards cargo owners as follows:

i. The circumstances when the ship owner is deemed to be liable for loss or damage to cargo,
ii. The circumstances when the ship owner is exempted from liability such as when loss or damage is caused by events outside his control, e.g. perils of the sea.

iii. The limits of liability of a ship owner for loss of a damage to cargo calculated in monetary terms per package or unit of cargo.

**THE MERCHANT SHIPPING ACT, 1958**

It provides protection to ship owners. The ship owners liability arises up to certain maximum sums for certain losses, provided the incident giving rise such claims has arisen without the actual fault or priority of the ship owner, whether the claims relates to loss of life, personal injury, or damage to property on land or water. It also confers an obligation on the ship owner to send his ship to sea in a sea worthy and safe condition,

**THE BILL OF LADING ACT, 1855**

Bill of leading is an evidence of the contract of carriage of goods between the ship owner and the shipper, as an acknowledgement of the receipt of the goods on board the vessel. It is a document of title. This document requires in connection with settlement of marine cargo claims.

**THE INDIAN PORTS ACT, 1963**

The act described the liability of port trust- authority for loss of or damage to goods whilst in their custody. It also defines the prescribed time limit for filling monetary claim on, or suit against the Port Trust Authorities.

**THE CARRIERS ACT, 1865**

The act defines the rights and liabilities of truck owners or operators who carry goods for public hire in respect of loss or damage to goods carried by them. It also mentions the time limit within which notice of loss or damage must be filed with the road carriers.
INDIAN RAILWAYS ACT, 1989

The act deals with various aspects of railway administration; there are also provisions, which are relevant to marine insurance. The provisions of the act relate to rights and liabilities of railways as carries of goods. The tribunals deal with claims for cargo loss, personal injuries, and refund of excess freight.

THE INDIAN POST OFFICE ACT, 1898

The act defines the liability of the government for loss, wrong delivery, delay of or damage to any postal article in course of transmission of post.

THE CARRIAGE BY AIR ACT, 1972

This act defines the liability of the air carrier for death of or injury to passages and for loss of or damage to registered luggage and cargo. It also prescribes the maximum limits of liability for death, injury, damage etc., it specifies the time limits within which claims have to be filed on the air carrier. The provisions also apply to domestic carriage with some changes.

MULTIMODAL TRANSPORTATION ACT, 1993

This is the act for the persons who engage in more than one mode of transportation such as rail, road, sea or air. The act specifies limits of liability of the operator, contents of documents issued by them, notice of loss etc.

THE MOTOR VEHICLES ACT, 1988

The act specifies for compulsory third party insurance of motor vehicles, no fault liability, solution fund for victims of ‘Hit and run’ victims of motor vehicle accidents.

THE INLAND STEAM VESSELS ACT, 1977

The act is in relation to the insurance of mechanically propelled vessels against third party risks. It makes the same insurance compulsory for owners or operators of inland vessels.
to insure against legal liability for death or bodily injury of third parties or of passengers carried for hire or reward and for damage to property of third parties. It prescribes the limits of the liability.

PUBLIC LIABILITY INSURANCE ACT, 1991

It deals with the immediate relief to the persons affected by accidents arising out of hazardous substances. It also deals with that this liability, which is on 'no fault' basis, has to be compulsorily insured.

THE WORKMAN’S COMPENSATION ACT, 1923

It describes the payment by employers to their employees/workmen, of compensation for injury by accident or disease, arising out of and in the course of employment.

THE INDIAN STAMP ACT, 1899

A policy of insurance must be stamped as per the schedule of rates for various classes of insurance prescribed in the act. A policy can't be enforced 'in a court of law' if it is not stamped.

EXCHANGE CONTROL REGULATIONS

Generally, premiums and the amount of the claim are payable in Indian currency, rupees. The regulations describe the circumstances when premiums and claims can be paid in foreign currency and the procedure for obtaining permission from the reserve Bank of India.

CONSUMER PROTECTION ACT, 1986

The objective to pass this act is to provide for better protection of the interests of consumers and for the settlement of consumers disputes. It is applicable to the buyers of goods and services. Insurances have been defined as a service, for the purpose of the act. The buyer of insurance is a consumer. The customer or consumer, who thinks that the service
given to him was deficient, can file a complaint under the act before the respective forum for redressal. Forums are appointed at different levels to hear grievances. The procedure for filling a complaint is very simple in all the redressal agencies namely, District Forum, State Commission, and National Commission. There is no fee for filling a complaint or filling an appeal. No advocate is required for the purpose of filling a complaint. If the forum is satisfied about the allegations contained in the complaint, the forum can issue the order directly to the opposite party to do one or more of the following things such as.

- To return to the complainant the price (premium) or as the case may be the charges paid by the complainant.
- To pay such amount as may be awarded by it as compensation to the consumers for any loss or injury suffered by the consumer due to the negligence of the opposite party.
- To remove the defects or deficiencies in the services in question.
- To discontinue the unfair trade practices or the restrictive trade practice or not to repeat them.
- To provide for adequate cost to parties.

The majority of insurance consumer disputes with the three forums are in the nature of

a) Delay in settlement of claims
b) Non settlement of claims
c) Repudiation of claims
d) Assessment of loss
3.19. INSURANCE OMBUDSMAN

Ombudsman traces its history to Sweden was back in 19th century and it literally means an authority who is empowered to-investigate individual complaints against public authorities, departments etc. later it has been adopted in many countries including UK, Australia etc. In India, the idea of insurance ombudsman (IO) was first mooted in the year 1998. Central government by the powers conferred on it by sub section (I) section 114 of insurance act 1938, has set up an ombudsman specifically for insurance sector. Main objective of insurance ombudsman is redressal and settlement of disputes arising between insured and insurer. Insurance ombudsman is a quasi-judicial body established for speedy settlement of disputes in fair, impartial and judicial manner. The main advantage of insurance ombudsman is its cost effectiveness and expeditious settlement of disputes. Insurance ombudsman is open to all individuals where the claim amount is less than Rs. 20 lakhs. Powers of insurance ombudsman include examining the complaints regarding:

- Partial or total repudiation of claims
- Delay in settlement of claims
- Legal construction of policy (Policy wordings)
- Premium paid or payable
- Non-issuance of insurance documents to customers after the receipt of premium.

Therefore the insurance ombudsman cannot attend to all complaints. Following are the instances where the insurance ombudsman cannot entertain a complaint.

- Complaint, that is outside the territorial limits of the ombudsman.
- Complaint, whose claim amount is more than 20 lakhs.
➢ Any dispute / issue / complaint which is under trial in any other judicial or quassi judicial body.

➢ Where the complaint is not regarding personal lines of business.

➢ Where the complaint is filed by any artificial juristic person.

➢ Any complaint which is lodged after one year from the date of issue of first reply by the insurer.

First step to seek redressed under insurance ombudsman scheme is that insured has to apply in writing to the insurance ombudsman under whose jurisdiction the insurer falls. Complaint can be filed either by the insured or his legal heirs and should clearly state the name and address of the insurer against whom the complaint is made, nature and circumstances giving rise to dispute, nature of loss sustained by the complaint and relief sought from insurance ombudsman. Further, complainant has to substantiate his claim with all the documentary evidences. It would be for a maximum of month. After hearing both the parties' insurance ombudsman may pass an award, which if acceptable to the complaint, is sent to insurer for final execution. Insurer has to comply with the award within 15 days and same has to be informed to the insurance ombudsman.

If the grievance is not settled on a mutually agreeable basis, insurance ombudsman gives a speaking award within a period not exceeding three months. If the complainant is not satisfied with the award, he can appeal in any other forum or court, however such facility is not available to the insurer. To this extent insurance ombudsman is a one sided system. Here it may be noted that award passed by the insurance ombudsman has to be complied with, by the insurer within the specified time i.e., 15 days. However, if the insurer opts for non compliance of the award, there is nothing an insurance ombudsman can do that is to say that it has no judicial powers for the execution of award given by it, like other judicial systems like consumer forums, civil courts etc.
A specific feature of the insurance ombudsman is that no advocates are allowed to represent insurer/complaint to argue their respective cases. Further insurance ombudsman being a non-judicial authority, does not have the powers of summoning particular persons/witness and examining them on oath. Another specific feature of insurance ombudsman is that it can pass award for ex-gratia settlement of disputes, while such powers of ex-gratia settlement are not vested with other redressal mechanisms such as consumer courts etc.

3.20. MILESTONES OF INSURANCE REGULATIONS IN THE 20TH CENTURY

Table No-3.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Significant Regulatory Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1912</td>
<td>The Indian Life Insurance Company Act</td>
</tr>
<tr>
<td>1928</td>
<td>Indian Insurance Companies Act</td>
</tr>
<tr>
<td>1938</td>
<td>The Insurance Act: Comprehensive Act to regulate insurance Business in India</td>
</tr>
<tr>
<td>1956</td>
<td>Nationalization of life insurance business in India with a monopoly awarded to the Life Insurance Corporation of India</td>
</tr>
<tr>
<td>1972</td>
<td>Nationalization of general insurance business in India with the formation of a holding company General Insurance Corporation</td>
</tr>
<tr>
<td>1993</td>
<td>Setting up of Malhotra Committee</td>
</tr>
<tr>
<td>1994</td>
<td>Recommendations of Malhotra Committee published</td>
</tr>
<tr>
<td>1995</td>
<td>Setting up of Mukherjee Committee</td>
</tr>
<tr>
<td>1996</td>
<td>Setting up of (interim) Insurance Regulatory Authority (IRA) Recommendations of the IRA</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted but not made public</td>
</tr>
<tr>
<td>1997</td>
<td>The Government gives greater autonomy to Life Insurance</td>
</tr>
</tbody>
</table>
Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector

1998 The cabinet decides to allow 40% foreign equity in private insurance companies - 26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors

1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%

The IRA bill is renamed the Insurance Regulatory and Development Authority Bill

1999 Cabinet clears Insurance Regulatory and Development Authority Bill

2000 President gives Assent to the Insurance Regulatory and Development Authority Bill

Source:- Tapan Sinha, CRIS Discussion Paper Series- 2005 III, The University Of Nottingham, Mexico

3.21. TYPES OF INSURANCE

1. TERM INSURANCE

Term Insurance pays a death benefit to the legal heirs if the person insured dies during the term of the policy. Such a policy provides cover for a specified period only and may be described as temporary insurance. Term 'insurance plans' offer pure risk cover without any element of saving. Hence, they are the most inexpensive. The sum assured is payable only if the insured dies during the selected period. In case the insured does not die during the tenure
of insurance, nothing is payable. Term insurance plans could be of the following different
types-

A. Level Term Insurance

Under this plan, there is a uniform premium and benefit throughout the term of the
policy. In the event of death anytime during the term, the same sum assured is payable.
Where the term is for over a year, the renewal premium is the same each year. This policy
plan is the most popular term 'insurance plan mainly' because of its simplicity. It is an answer
to neither a temporary need increases nor decreases over that period of time. For example, a
lump sum amount which is due at a certain point of time.

B. Decreasing Term Insurance

Under this plan, the premium is constant throughout the term, but the benefit
decreases over a period of time. Hence, the amount payable on death depends on the timing
of the death, even though the premium being paid is constant. This plan is suited to cases
where there is a temporary need, which is reducing. For example, where a mortgage loan has
to be repaid, which reduces on a monthly or annual basis.

C. increasing term insurance

Under this plan, the premium as well as the benefit amount increases periodically, as
agreed. The increases could be at a fixed percentage or in line with an agreed index. This plan
is helpful in keeping the benefits in line with the time value of money, so that inflation does
not erode the value of the benefits received.
D. Renewable Term Insurance

Though term 'insurance' is for a fixed period, a renewable Term policy gives the right to renew the policy without submitting fresh evidence of health. The new premium however, is increased to reflect the increased age of the life insured.

E. Convertible Term Insurance

Such a plan includes a conversion privilege, which gives the proposer the right to convert the policy to a permanent plan (endowment) without evidence of health. If such an option is exercised, the premium for the new plan must be the standard rate for such a plan and the actual age of the life insured on the date of conversion of policy. Convertible policies are useful for people who have low income today and hence cannot afford to pay high premium in the initial years.

2. WHOLE LIFE INSURANCE

Whole life insurance guarantees a death benefit cover throughout the course of life, provided the required premiums are paid. The advantage of whole life insurance is that the policy, if kept current, covers the entire life, as opposed to term 'insurance' that covers only for a certain term of years. Whole life insurance policies pay out on the death of the assured, whenever it occurs. Premiums may need to be paid throughout the life of the assured, or a lesser limited period.

3. ENDOWMENT INSURANCE

Pure endowment is a plan where the benefit is payable to the insured only on survival of the specified term. Combining the features of term assurance and pure endowment are endowment policies which pay out either on the death of the assured, whenever it occurs, or after a fixed number of years.
4. ANNUITIES

Annuities are a form of pension in which an insurance company makes a series of periodic payments to a person (annuitant) or his or her dependents over a number of years (term), in return for the money paid to the insurance company either in a lump sum or in installments. Annuities start where life insurance ends. It is called the reverse of life insurance. Annuity stops on death of a person, whereas theoretically, life insurance starts on the death of the assured. Annuities are of two types-

a. Immediate Annuity

Immediate Annuity begins at once or immediately on expiry of the designated period. Immediate annuity is purchased with a single premium called purchase price. This type of annuity is typically purchased when a person reaches retirement age and has a lump sum to invest. If the person buying the annuity dies during the term, his/her legal heirs or nominees get the remaining installments of the annuity.

b. Deferred Annuities

Under a deferred annuity plan, the annuity payments to the annuitant commence at some specified time or specified age of the annuitant. This type of annuity can be funded either by a single payment or a series of regular payments. The annuity payment starts after the lapse of a selected period called the deferment period.

5. UNIT LINKED POLICIES

A unit linked policy is a life insurance policy in which the benefits depend on the performance of a portfolio of shares. Each premium paid by the insured person is split. A part is used to provide life insurance cover, while the balance is used to buy units in a unit of Mutual Fund after deduction of costs, expenses, etc. In this way, a small investor can benefit
from investment in a managed fund without making a large financial commitment. The unit-linked policies can go up or down in value as they are linked to the value of the shares.

6. TERM INSURANCE WITH RETURN OF PREMIUMS

Under pure Term Assurance plans, if death of the life assured does not take place within the selected term, the policy comes to an end on completion of term and premiums collected already are not refunded. However, a variation of this plan has been devised whereby all the premiums collected are refunded, if the life assured survives the term. In effect, it means that the interest earned on the premiums is utilized to keep the policy in force as well as to grant a free term cover for a few years beyond completion of the term, even though the premiums collected are refunded.

7. WITH PROFITS AND WITHOUT PROFITS

The insurance company charges premiums based on mortality rates, interest earned on investments and expenses. If these factors are favorable to the life insurance companies, then they can earn a profit or surplus. The surplus generated has to be retained. A major portion of the surplus, however, is distributed to the policyholders. A life insurance policy, that has additional amounts added to the sum assured, or paid separately as cash bonuses, as a result of a surplus or profit made on the investment of the fund by the life insurance company, is called a *with profits policy*. The surplus generated by the insurance company which is distributed to the policyholders is known as *bonus*. Policies that are not entitled to bonus are known as *without profit policies*. There are various different methods of calculating the bonus.
a. Simple Revisionary Bonus

This is a sum added to the amount payable on death or maturity of a 'with profits policy'. The bonus is added if the life insurance company has a surplus or a profit on the investment of its life funds.

b. Terminal Bonus

This is an additional amount added to payments made on maturity of an insurance policy or on the death of an insured person. This is a one-time addition made at the discretion of the life insurance company.

c. Compound Reversionary Bonus

This is a variation to simple reversionary bonus where the bonus which is declared attaches to the policy and increases the sum assured. Thus, the next year's bonus is calculated on the new sum assured.

d. Bonus on Accumulation Account

This is a recent introduction where the bonus is calculated on the amount that remains in the accumulation account of the policyholder, after the commissions and expenses are deducted. Having understood what bonuses are and how they are calculated, it is also needed to know the following terms-

RIDERS

A rider is defined as a special policy provision or group of provisions that may be added to a policy to expand or limit the benefits otherwise payable. Policy riders are additional benefits that supplement the basic benefit of sum assured. These are
i. Days of Grace

It is provided that the policy will not lapse if the renewal premium is paid within 'Days of grace'. Thus, premiums will be accepted within days of grace without any charge of interest or any penalty and irrespective of the health of the life assured.

ii. Revival of Policy

The policy lapses if the assured fails to pay the premium in time. However, the assured is given the privilege of reviving the policy by paying the outstanding premium with interest.

iii. Non-Forfeiture Regulation

This is a very valuable privilege to the life assured in case the premiums are not paid. The non-forfeiture regulations apply once the policy has acquired a surrender value.

HEALTH INSURANCE

Under the Insurance Act, 1938, insurance against sickness and medical treatment is not part of the life insurance business. It is covered under the miscellaneous insurance business, which is a part of the general insurance business. In many other countries, this is not the case. They consider health insurance as part of the life insurance business. On a trial basis, LIC of India covered health related risks along with traditional life insurance policy when they floated 'Asha Deep'. This was a close-ended scheme from 7.9.93 to 30.11.93. This plan offered certain fixed payments to the life assured in case they suffered from any of the specified four major diseases, namely cancer, kidney trouble requiring transplantation, heart problems needing by-pass surgery or paralysis. The payment to the life assured is not in the nature of reimbursement of medical expenses. The basic life cover is not affected by these payments. This experiment was a grand success. Encouraged by this, LIC has introduced
other schemes like 'Asha Deep II' and Jeevan Asha II etc. After deregulation of the insurance sector, new entrants have entered into the Indian market with innovative plans, to help policyholders cover health related risks with various riders.

Some examples of these riders are as follows-

1. Critical Illness Rider.
2. Dreaded Disease Rider
3. Major Surgical Assistance Benefit Rider.
4. Accident Disability Benefit Rider

In these cases, payment is made to the life assured on diagnosis of a terminal illness or when a major surgery requires being undertaken or when there is disability due to an accident. These riders are additions to the Life Insurance Policies and cannot be issued as a separate policy. Also, the rider benefits attached with Life Insurance policies cannot exceed the basic sum assured.

3.22. INDIAN INSURANCE IN THE GLOBAL SCENARIO

In life insurance business, India ranked 9th among the 156 countries. During 2010-11, the estimated life insurance premium in India grew by 4.2 per cent. However, during the same period, the global life insurance premium expanded by 3.2 per cent. The share of Indian life insurance sector in global market was 2.69 per cent during 2010, as against 2.45 per cent in 2009. The non-life insurance sector witnessed significant growth of 8.1 per cent during 2010. Its performance is far better when compared to global non-life premium, which expanded by 2.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium increased slightly to 0.58 per cent, thereby improvising its global ranking to 19th in comparison to 26th in last year.
3.23. INSURANCE PENETRATION AND DENSITY IN INDIA

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 55.7 in 2010. Similarly, insurance penetration had gone up from 2.15 per cent in 2001 to 4.60 in 2009, before slipping to 4.40 per cent in 2010.

3.24. ROLE OF INSURANCE IN THE DEVELOPMENT OF ECONOMY

From very rudimentary beginnings, the concept of insurance has travelled a long distance as to become an effective engine for the development of economy. The present day economy, it is said, would be unthinkable without the business of insurance. Factories and industries in the modern days involve investment of thousand of crores. Aero planes costing hundreds of crores of rupees fly in the sky. The ships of today cost a fortune. Each one of them faces the risk of damage to total destruction for reasons beyond one's control. If the owner is always to be worried of their possible loss due to some such reasons, would he be able to sleep in peace? Insurance provides that peace of mind, freedom from worries, confidence to take risk which alone drives the economy forward.

Today's economy, it is said, is a credit economy. The businessmen, the factory owner, even the ordinary service holder takes loan to provide self capital, to purchase goods, to start a factory, to purchase a house, or conveyance even a holiday. Such credits are available because of the mechanism of insurance. The creditor ensures that there is a provision for insurance in case of any unforeseen thing happening to the debtor. Life insurance, fire insurance, transit insurance, theft insurance, insurance against the risk of earthquake and flood are only some of the basic forms which have made the development of economy possible.
The application of the idea of insurance has gone much beyond the tangible assets. There are intangible assets like the voice of a singer, the skill of a surgeon, the finger of a sitarist, the toe of a dancer, the fidelity of a messenger which is the essential requirement for their importance. There is a provision to insure each one of the above intangible assets. The modern knowledge based economy i.e. the information technology has not much in terms of physical asset to exhibit. But it is the most thriving economy. The venture capitalists do take a lot of risk, but they do work on the principle of insurance, i.e. calamity will strike a few and others unaffected would compensate.

At a macro level, insurance provides long term capital for investment in the development of economic infrastructure. The basic reason which prompted the Indian Government to nationalize the life insurance business in 1956, was to provide long-term capital to finance the Five year plans. Even today, when the government has opened the economy to multiple players in the field of insurance, the objective is to get a lot of long-term investment to build roads, generate power, transport and other infrastructural facilities for the fast growth of the economy.

Life Insurance Corporation of India alone as on 31.3.2000 has invested almost 1.5 lakh crores of rupees in the furtherance of the Indian economy. More than half of it has gone directly to be invested in state and central Government securities and the balance for such nation building activities like electricity boards, housing, water supply, transport etc. The investment in the corporate sector is a mind boggling 28000 crores. If this one life insurance company could do, think of the expectation from the scores of the life and general insurance companies which are going to dot the economic horizon of the country.
Individual's income is dependent upon the investment of his time. Over a period of time, he saves sufficiently to provide for the time, when he is too old to earn. But nobody can guarantee him this time. This uncertainty of time leads him to the invention of insurance. The story goes off a newspaper hawker boy who used to go on cycle to distribute newspapers to earn his livelihood. One day, when he left his cycle outside a house and went in to deliver the newspaper, his cycle got stolen. He had thereafter no means to run around. Walking would be a slow process and his income would dwindle. The boy was a smart one. He called his other brother hawkers and narrated his story. Many others in the same job had similar stories to tell. They just hit upon an idea. A cycle say would cost Rs. 100/-. There were almost 100 hawkers. Almost every year one cycle was getting stolen. Only if they could have a fund of Rs.100/-such a loss suffered by any of them could be compensation. Creation of a fund of Rs.100/-, merely means a contribution of Rs.1/- per person per year.

The concept of insurance was born. A co-operative society was created, where each member of the family contributed a small portion to provide for a possible big loss which was too big for anyone to bear. This crude beginning could later on be applied to varied circumstances. The traders, who sailed on the uncharted high seas, faced the risk of damage or total loss due to storm on the high seas. House-owners found the risk of fire to their house too ruinous to bear. Life being the most precious of the productive assets similarly needed to be protected. Insurance, let it be noted, does not prevent the loss to occur. It cannot prevent thievery, fire, sinking of a ship due to storm or even death of the bread winner. Far from it, if they could be prevented, there would be no need for insurance. It is only the damages beyond the control of men, purely accidental, or due to fury of nature, which are subjects for insurance. An intentional damage caused by the insured is an act of sabotage and is therefore
a criminal action. In case of human life, even suicide, at least during the short period of one year, is beyond the pale of insurance.

Life insurance a social security tool because without the provision of insurance, the human society would consist of helpless old people, helpless widows, and unprotected orphans. The economy would not survive let alone grow. The factories would not restart after a fire, houses cannot be rebuilt after an earthquake or a cycle or a motorcycle for that matter cannot be replaced after being stolen. Unlike a socialist society or a highly developed capitalist society where the State takes care of individuals who become destitute or deprived, in a developing society like India, the State is too poor to take up such responsibilities.

In the Directive Principles of State Policy, the Constitution of India makes certain mission statements. In article 41, it states that the state, within the limits of its economic capacity and development, shall make effective provision for securing the right to work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement and in other cases of undeserved want.

3.26. IMPORTANCE OF CUSTOMER SATISFACTION IN INSURANCE SECTOR

There are a number of reasons why customer satisfaction is important in Insurance Sector:

➢ Meeting the needs of the customer is the underlying rationale for the existence of community service organizations. Customers have a right to quality services that deliver outcomes.

➢ Organizations that strive beyond minimum standards and exceed the expectations of their customers are likely to be leaders in their sector
Customers are recognized as key partners in shaping service development and assessing quality of service delivery.

The process for measuring customer satisfaction and obtaining feedback on organizational performance are valuable tools for quality and continuous service improvement.

CLASSES OF INSURANCE

- Insurance very broadly classified into life and non-life insurance
- Nonlife insurance is also termed as property and casualty insurance in some countries
- Life insurance policies are for longer durations
- Nonlife policies are usually of shorter duration of one year.
- There are some policies with long tail which means the liability of the insurers does not win the duration of the policy period. It may extend to several years or even after the expiry of the policy period.
- In non-life insurance there are three major classes – fire, marine and miscellaneous insurance.