CHAPTER I
INTRODUCTION

The beginning of 21st century has been the emergence of India as a knowledge-led economy. It is witnessed from remarkable growth in all sectors, and the services sector has been a key catalyst in unlocking India’s economic potential. The impressive growth in the services industry has covered the whole range of activity, including communication, transportation, consulting, health and hospitality. The country’s insurance industry has progressed significantly, which is amply evident in the tremendous growth of premium, extended outreach, increased number of players, product innovation as well as an enhanced regulatory framework. A combination of these factors, in addition to strong economic growth in the last few years, has positioned India as a rapidly developing financial centre. The entry of large number of private sector players through tie-ups with established foreign insurers, introduction of innovative products, aggressive marketing and effective distribution have enabled the rapid uptake of insurance products by Indian consumers.

Human beings, their family and properties, are always exposed to different kinds of risks. Insurance is a tool which reduces the cost of loss or effect of loss caused by a variety of risk. It accumulates funds to meet individual losses. It is not a device to prevent unwanted event from happening or cause of loss but protects them against that loss by compensating which as lost. Insurance occupies an important place in the modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance sector and evolution of various types of insurance covers. The insurance sector acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector.

As per the provisional estimates of Annual National Income (ANI), 2016-17 released by Central Statistics Office (CSO), Ministry of Statistics and Programme
Implementation, Government of India the Gross Domestic Product (GDP) at current prices for the year is estimated at Rs.151.84 lakh crore showing a growth rate of 11.0 percent over the estimates of GDP for the year 2015-16 of Rs.136.82 lakh crore. The Gross National Income (GNI) at current prices is estimated at Rs.149.94 lakh crore during 2016-17, as against the previous year’s estimate of Rs.135.22 lakh crore. In terms of growth rates, the GNI is estimated to have risen by 10.9 percent. In terms of financing, household financial savings - the most important source of funds for investment in the economy - picked up to 7.8 percent of Gross National Disposable Income (GNDI) in 2015-16 on the back of improvement in real income. As per preliminary estimates, household financial savings rate increased further to 8.1 percent of GNDI in 2016-17 on account of an increase in households’ assets in bank deposits, insurance and mutual funds, even though currency with the public contracted during the year. Higher financial savings were mainly supported by lower inflationary scenario as also portfolio adjustment from physical to financial assets by households.  

1.1 Insurance

Insurance, as known today, did not exist in ancient or medieval times, although practices having important elements of insurance existed. From the standpoint of the individual, the most important insurance element is relief from the potential burden of financial loss, commonly known as a transfer of risk. Humans today continue their quest to achieve security and reduce uncertainty. The group may be our employer, the government, or an insurance company, but the concept is the same. The function of insurance is to safeguard against misfortunes by having contributions of the many and pay for the losses of the unfortunate few. This is the essence of Insurance - the sharing of losses and, in the process, the substitution of a certain small loss called the premium for an uncertain, large loss. When referring to the insurance policies, the term Life Insurance means policies that pay benefits on survival to a certain age or for a set number of years. In some markets annuities and pension related coverage often are classified separately from life insurance policies. The term Health Insurance means policies covering the cost of injuries or sickness.

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and, sometimes, also for the policies that pay benefits because of physical or mental incapacity.²

Insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of loss, from one entity to another, in exchange for payment. Insurance is essentially an arrangement where the losses experienced by a few are extended among many who are exposed to similar risks. It is a protection against financial loss that may occur due to an unexpected event.³ Insurance is a mechanism that ensures an individual to thrive on adverse consequences by compensating the individual, his/her loss financially. Every individual in the world and all activities connected with him/her, be it life, profession, business, travel or any other pursuits are subject to unforeseen and uncalled for hazards or dangers.⁴

The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate each other at the time of loss. The risk cannot be averted but loss occurring due to a certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because of the changes of loss. i.e., the time, amount, to a person is not known. Anybody of them may suffer a loss to a given risk, so, the rest of the persons who are agreed will share the loss. In fact, the loss is shared by them by payment of premium which is calculated on the probability of loss. In olden time, the contribution by the persons was made at the time of loss. The insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising from risk to a person insured against the risk.

According to the American Heritage Concise Dictionary, Insurance is a contract that protects the insured from loss. An Insurance Company Guarantees payment to the insured for an unforeseen event (e.g. death, accident and illness) in

return for the payment of premium. The definition of insurance can be made from two points: Functional Definition and Contractual Definition.

**Functional Definition**

Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk. Thus, the insurance is (a) a co-operative device to spread the risk; (b) the system to spread the risk over a number of persons who are insured against the risk; (c) the principle to share the loss of each member of the society on the basis of probability of loss to their risk; and (d) the method to provide security against losses to the insured.

**Contractual Definition**

Insurance has been defined to be that in which a sum of money as a premium is paid in consideration of the insurer’s incurring the risk of paying a large sum upon a given contingency. The insurance, thus, is a contract whereby (a) certain sum, called premium, is charged in consideration, (b) against the said consideration, a large sum is guaranteed to be paid by the insurer who received the premium, (c) the payment will be made in a certain definite sum, i.e., the loss or the policy amount whichever may be, and (d) the payment is made only upon a contingency.\(^5\)

### 1.2 History of Insurance

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasstra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a forerunner to modern-day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in

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particular. The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. In the year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies. In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance Sector and Life Insurance Corporation came into existence in the same year. The LIC had monopoly till the late 1990s when the insurance sector was reopened to the private sector. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Limited was set up. This was the first company to transact all classes of general insurance business. In the year 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices. In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972 with the passing of the General Insurance Business (Nationalisation) Act, 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. and the United India Insurance
Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973. The process of reopening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of R.N. Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 where in, among other things, it recommended that the private sector is permitted to enter into the insurance industry. They stated that foreign companies are allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following recommendations of the Malhotra Committee Report, in 1999, the Insurance Regulatory and Development Authority (IRDA), was constituted as an autonomous body to regulate and develop the insurance industry.6

1.3 Indian Insurance in the Global Scenario

According to the ‘World Insurance’ in 2016 report published by Reinsurance Major, Swiss Re, growth in the global economy was little changed in 2016 from the previous year with real Gross Domestic Product (GDP) up 2.5 percent. As per the report, the real global direct life and non-life insurance premiums written grew by 3.1 percent in 2016, down from 4.3 percent in previous year. The slowdown was mainly driven by considerable lower growth in advanced markets. Globally, the share of life insurance business in total premium was 55.3 percent. However, the share of life insurance business for India was very high at 77.95 percent while the share of non-life insurance business was small at 22.05 percent. In life insurance business, India is ranked 10 among the 88 countries, for which data is published by Swiss Re. India’s share in global life insurance market was 2.36 percent during 2016. However, the share of Indian non-life insurance premium in global non-life insurance premium was small at 0.83 percent and India ranked 15 in global non-life insurance markets.7

7 ibid 1, p.4.
The significant penetration of insurance is to almost all the sections of Indian society becomes one the most important concerns in days to come for the overall development of India on different parameters of human development. Insurance penetration which is used as measures for assessing the level of insurance in a country are really low for India even when compared to world average figures. The table 1.1 and figure 1.1 shows the positioning of India vis-à-vis World ‘insurance penetration’ in life and non-life insurance category from the year 2013 to 2017.

Table: 1.1 Insurance Penetration in India Vis-a-vis World (in Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>World</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Life Insurance</td>
<td>Non-Life Insurance</td>
</tr>
<tr>
<td>2013-2014</td>
<td>3.10</td>
<td>0.80</td>
</tr>
<tr>
<td>2014-2015</td>
<td>2.60</td>
<td>0.70</td>
</tr>
<tr>
<td>2015-2016</td>
<td>2.70</td>
<td>0.70</td>
</tr>
<tr>
<td>2016-2017</td>
<td>2.72</td>
<td>0.77</td>
</tr>
</tbody>
</table>


The achievement of life insurance and non-insurance sector shows higher during the year 2013 – 2014. At present India’s share in World insurance market is 2.72 percent in life insurance business and 0.77 percent in non-life insurance business. Thus insurance penetration is measured as the ratio of premium to Gross Domestic Product.
1.4 Nature of Insurance

Insurance is an economic activity that helps to reduce the risk of loss. It is a contract of indemnity where the indemnifier (called insurer/assurer), agrees for consideration (called premium) to indemnify the loss caused to the indemnified (called insured/assured). It is in writing and the insurance deed is called policy. The period for which policy is taken is called "term of policy."

1.4.1 Insurance is One of the Aids or Auxiliaries to Business

There are various hindrances that come in the way of trade and business. These hindrances are of person, place, time, finance, knowledge, information and risk. They are removed with the help of trade, transport, storage and warehousing, banking, advertising, and insurance. Insurance removes the hindrances of risk by ensuring the risks of loss or damage due to theft, fire accidents, etc.

1.4.2 Insurance is all Pervasive

All human activities need the umbrella of insurance, e.g. goods may be damaged during transit or stolen or damaged by fire or weather in the godown. A person may be injured by accident or may fall ill. Insurance covers all these risks. The
list is endless since every conceivable aspect of human activity is being insured in advanced counties.

1.4.3 Insurance is a Service

It is difficult to sell insurance service as compared to other services. One who can sell insurance can sell everything. A Chinese saying, “Don’t open a shop without a smiling face” applies cent percent to insurance business.

1.4.4 Insurance Contract is a Species of General Contract.

A contract of insurance is species of general contract. It is governed by the same principles of law as other countries. Section 10 of the Indian Contract Act, 1872 states that an agreement made by the free consent of parties who are competent for lawful consideration and with lawful object and not expressly forbidden by law is a contract.

1.4.5 Insurance Contract is not a Gamble or Wager

An insurance contract looks like contract of gamble or wager. A wager or gamble depends upon the happening or not happening of an uncertain event. In the insurance contract the liability of the insurer also depends upon happening or not happening of an uncertain event. The contract of insurance is an alienator contract but is not a wager.⁸

1.5 Functions of Insurance

The functions of Insurance can be studied into two parts- Primary Functions and Secondary Functions.

1.5.1 Primary Functions

Insurance Provides Certainty

Insurance provides certainty of payments at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But, the insurance relieves the person from such difficult task. Moreover, if the subject matters are not adequate the self provision may prove costlier. Insurance removes all these uncertainties and the assured is given certainty of payment of loss. The Insurer charges a premium for providing the said certainty.

Insurance Provides Protection

The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer a loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

Risk Sharing

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the persons who are exposed to the risk. The risk sharing in ancient time was done only at the time of damage or death; but today, on the basis of the probability of risk the share is obtained from each and every insured in the shape of premium without which protection is not guaranteed by the insurer.

1.5.2 Secondary Functions

Prevention of Loss

The insurance joins hands with those institutions which are engaged in preventing the losses of the society because the reduction in loss causes lesser payment to the assurer and so more saving is possible which will assist in the reduction in the premium. Lesser premium invites more business and more business
cause lesser share to the assured. Therefore the insurance assist financially to the health organisation and other organisations which are engaged in preventing the losses of the masses from death or damage.

**Provides Capital**

The insurance provides capital to the society; the accumulated funds are invested in the productive channel. The scarcity of the capital of the society is minimized to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.

**Improves Efficiency**

The insurance eliminates worries and miseries of losses at death and destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not only his efficiency, but the efficiencies of masses are also advanced.

**Helps Economic Progress**

The insurance, by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

**1.6 Kinds of Insurance**

The insurance can be divided from two angles: first, from the business point of view and the second, from the risk point of view.

**1.6.1 Business Point of View**

The Insurance can be classified into three categories from the business point of view: Life Insurance, General Insurance and Social Insurance.
Life Insurance

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is a life of human being. The insurer will pay a fixed amount of insurance at the time of death or at the time of expiry of the certain period. At present, life insurance enjoys maximum scope because life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives an adequate amount at the old age when earning capacities are reduced. The insurance is not only a protection but a sort of investment because a certain sum is returnable to the insured at the death or expiry of a period. The business of life insurance is wholly done by the Life Insurance Corporation of India.

General Insurance

General Insurance includes health insurance, property insurance, liability insurance and other forms of insurance. Fire and marine insurances are called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent. This strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

Social Insurance

Social Insurance is to provide protection to the weaker section of the society who is unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the increase of the socialistic ideas, the social insurance is an obligatory duty of the nation. The government of a country must provide social insurance to its masses.

1.6.2 Risk Point of View

Insurance is divided into property, liability and other insurance from risk point of view.
Property Insurance

Under the property insurance, the property of a person or persons is insured against a certain specified risk. The risk maybe fire or marine perils, theft of property or goods, damage to property by accidents, etc. Marine Insurance provides protection against loss of marine perils. The marine perils are a collision with the rock, or ship attacks by enemies, fire, and captured by pirates, etc. Fire insurance covers the risk of fire. With the help of fire insurance, the losses arising due to fire are compensated and the society is not losing much. The property, goods, machine, furniture, automobile, valuable articles, etc., can be insured against the damage or destruction due to accident or disappearance due to theft. There are different forms of insurances for each type of the said property whereby not only property insurance exists but liability insurance and personal injuries are also insured.

Liability Insurance

Liability insurance is whereby the insured liable to pay the damaged property or to compensate the loss of personal injury or death. This insurance is seen in the form of fidelity insurance, automobile insurance or machine insurance, etc.

Other Forms

Besides the property and liability insurances, there are certain other insurances which are included in general insurance. The examples of such insurances are export credit insurances, state employees insurance, etc. whereby the insurance guarantees to pay a certain amount at the certain events insurances extending rapidly these days.  

1.7 General Insurance Corporation of India - Global Reinsurance Hub

Insurance can be classified as life insurance and general or non-life insurance. Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay the designated beneficiary a sum of money upon the occurrence of the insured individual’s death or other events, such as a

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9 _ibid_ 5, pp. 3 – 20.
terminal or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. General insurance or non-life insurance policies provide payments depending on the loss from a particular financial event. General insurance typically comprises any insurance cover that is not deemed to be life insurance. Some categories of general insurance policies are: health, vehicle, home, property, accident, sickness and unemployment, casualty, liability, and credit. The terms of insurance generally depend on the company providing the cover.

The entire general insurance business in India was nationalised by General Insurance Business (Nationalisation) Act, 1972 (GIBNA). The Government of India (GOI), through Nationalisation took over the shares of 55 Indian insurance companies and the undertakings of 52 insurers carrying on general insurance business. General Insurance Corporation of India (GIC) was formed in pursuance of Section 9(1) of GIBNA. It was incorporated on 22 November 1972 under the Companies Act, 1956 as a private company limited by shares. GIC was formed for the purpose of superintending, controlling and carrying on the business of general insurance. As soon as GIC was formed, GOI transferred all the shares it held of the general insurance companies to GIC. Simultaneously, the nationalised undertakings were transferred to Indian insurance companies. After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC-National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited, United India Insurance Company Limited. An amendment to GIBNA removed the exclusive privilege of GIC and its subsidiaries carrying on general insurance in India. In November 2000, GIC was renotified as the Indian Reinsurer and through administrative instruction, its supervisory role over the four subsidiaries was ended. With the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003; GIC ceased to be a holding company of its subsidiaries. The ownership of the four subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India.

Now, numerous regulatory changes in the recent past have paved way for the entry of new entities like Lloyd’s India, ITI Re (as the new Indian reinsurer along

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11 [https://www.gicofindia.com](https://www.gicofindia.com).
with GIC Re), and Foreign Reinsurers’ Branches (namely Swiss Re, Munich Re, Scor SE, RGA, Hannover Re, XL Catlin, Gen Re). The Indian reinsurance sector now has a good number of players to promote a healthy, competitive relationship to spearhead India’s reinsurance sector in particular and financial growth in general.  

General Insurance can be categorized into Health Insurance, Motor Insurance, Home Insurance, Marine Insurance and Commercial Insurance. India offers a wide variety of health care services to its population. On one hand there are the advanced hospitals and diagnostic centers in urban areas and in contrast, the rural areas depend significantly on government health centers. Between these two extremes, there are government hospitals, private hospitals, private practitioners, dispensaries and clinics. To address healthcare affordability, commercial health insurance was introduced in India by the government owned general insurers as a standardized annual indemnity product in the mid 1980s. Today, with the increased liberalization of the insurance industry, many private players have entered the health insurance resulting in increased awareness and growth of health insurance.

1.8 Health Insurance

Owing to a rise in lifestyle diseases and double-digit medical inflation in India every year, health insurance has become a necessity for every individual. The term ‘Health Insurance’ relates to a type of insurance that essentially covers our medical expenses. A health insurance policy like other policies is a contract between an insurer and an individual / group in which the insurer agrees to provide specified health insurance cover at a particular “premium” subject to terms and conditions specified in the policy.

Health Insurance is a generic term, encompassing several types of insurance contracts that, although related, protect against different types of risk. Until recently there was little agreement on Health Insurance terminology. It was called Health Insurance, Accident Insurance, Accident and Health Insurance, Accident and Sickness Insurance and Disability Insurance, all of which are gradually changing to the term

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12 ibid 1, p.41.
13 ibid 10, pp.1-10
Health Insurance. There are two separate types of Insurance included in the generic term Health Insurance: disability income insurance and medical expense insurance.

1.8.1 Disability Income Insurance

Disability income insurance is the oldest of the health insurance coverage and has been marketed by over a century. The coverage provides periodic payments to the person insured when he or she is unable to work because of injury or illness. Coverage may be provided for disabilities resulting from accidents only or for disabilities resulting from accidents or sickness. Coverage for disability resulting from sickness only is rarely written. Benefit eligibility presumes a loss of income, but in practice, this is usually defined as the inability to pursue an occupation.

1.8.2 Medical Expense Insurance

Medical Expense Insurance provides for the payment of the costs of medical care that result from illness and injury. It helps to meet the expenses of medicines, hospital, nursing and related services. Benefits may be in the form of reimbursement of actual expenses or cash payment.14

1.9 Evolution of Health Insurance

Indian Insurance Markets are among the fastest growing markets in the world, but the growth potential of health insurance has always remained untapped in India for many reasons to find out the reasons for such poor penetration of health insurance and look out for ways and means for better prospect in health insurance in India, need to look into the past and present experiences in this sector with reference to perspectives both Indian and International.

1.9.1 Health Insurance and its Evolution in the World

Most societies have had an able mechanism to manage medical emergencies and health risk since long. This was originally in the form of mutual aid societies or semi-formal organizations like Tontines in West Africa. These associations collected money and supported patients who required expensive Health Care or Medical Care. It was based on the principle of solidarity and reciprocity. But this mechanism could not thrive much because of two main limitations being (i) arbitrary nature of arrangements and (ii) limited funds it could collect. History says, Health Insurance started in the 17th century with solidarity-based relief funds of the medieval guilds in Germany. Bismarck passed the first Insurance law in 1883, bringing all voluntary funds for the purpose of single health insurance scheme. Gradually, Social Health Insurance Scheme has been developed to the present practice of health insurance mechanism covering population in Germany and many countries in the West.

1.9.2 Health Insurance and its Evolution in India

In India, health insurance has been in existence for a number of years even prior to the nationalization of the Insurance sector. The formal system of health insurance in India started with the introduction of the Employees State Insurance Scheme under the Employees State Insurance (ESI) Act, 1948, which provides for both cash and medical benefits to employees in the organization that comply with certain requirements for registrations. In 1954, the government introduced another insurance called the Central Government Health Scheme (CGHS) for Central government employees. This scheme covers beneficiaries including all categories of current and retired Central Government employees, Members of Parliament, Supreme Court and High Court Judges and certain other categories of beneficiaries. The said scheme is financed mainly by the Central Government and nominal contribution by the government employees for the comprehensive health care, including both outpatient care and hospitalization in Government as well as private hospitals. In 1981, a limited cover was devised for individuals and families. This was structured only in 1986, 15 years after nationalization when the Public Sector Undertaking non-life insurers standardized the terms and conditions of health insurance and launched standard mediclaim policy both for individuals and groups under a market agreement.
A mini version of health scheme called ‘Jana Arogya Bima’ was introduced in 1996 for the weaker sections of the society. Since then mediclaim insurance has started growing both on individual and group schemes, though its penetration is far from the world standard for the reasons being critically examined to bring about the required reforms.

1.9.3 **Indian Health Insurance with Reference to International Perspectives**

Most of the countries use a mix of tax-based revenues, health insurance, and out of pocket payments by citizens to finance their healthcare. In some countries health insurance is the main mechanism as in India. They use Social Health Insurance, Private Health Insurance and Community Health Insurance to meet the healthcare of the country. The scope of Social Health Insurance is very limited as it consists of statutory programs designed mainly for government employees financed from the government budget and contributions of Government employees. The role of private insurance for health care will always remain predominant in low-income countries like India. But private insurances will be viable only when products will be priced low. The insurers need to reduce acquisition and administration and avoid moral hazards to reduce risk costs and increase the penetration to arrive at an affordable price for the mass. To avoid moral hazards, reduce cost and to arrive at an affordable price need to adopt risk-based underwriting and reach the masses.  

1.10 **Summary**

This Chapter describes the necessity of Insurance, evolution of insurance, functions of insurance, classification of insurance on the basis of business and risk point of view. Introduction of General insurance companies and its subsidiaries and Indian health insurance with reference to international perspective are highlighted. Forthcoming second chapter enlightens review of the literature, scope of the study, statement of the problem, objectives of the study, hypothesis framed, methodology, limitations of the study and organization of chapters of the study.

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