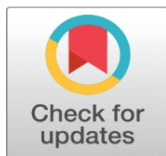


# EVOLUTION OF INSURANCE COMPANIES IN INDIAN, AND IT'S REGULATION

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## ABSTRACT

Insurance is a helpful instrument. If one person is providing for his / her own resources to another person and it is no need to consider as insurance. Because, losses are shared and distributed to groups or those who are willing to bear. Insurance agreements must be mutual faith and supporting each other. It has to exchange all type of information to each other. Main objective of this article is to understand the evolution of Indian insurance company. This evolution is classified into three major parts: (1) Pre independence Period or British- India Period (1818 – 1947) (2) Post Independence Period (1947 – 1991) and (3) Liberalization period (1991 – till date). This study is based on the secondary data. This source of data was collected from books, journals, government of reports and websites.

**Keywords:** Claims, Premium, Compensation, IRDA

## 1. INTRODUCTION

There are many important functions of insurance. Through this, the victims were able to get relief. Generally, individuals and corporations have lot of insecurity in their life, business, industrial and professional activities. They want to come out from this circumstance. For this reason, insurance can be a tool for recovering from the economic trouble caused by accidents and damages (Motihar, 2006). Although insurance is a new principle, it has been functioning in India since from the ancient periods. Indian antique texts such as Manusmriti, Dharmasastra and Arthasastra have various references related to insurance. It is mentioned in these texts that the kings of the time were compensated for the damage caused by floods, fires and other causes. Growth of Indian insurance is characterized by changes in government and economic policy.

## 2. OBJECTIVES

- To understand the evolution of Indian insurance sector.

## 3. METHODOLOGY

This study is based on secondary data.

This source was collected from various books, journals, government reports and websites.

This study is classified into three major parts;

1. Pre Independence or British India (1818 to 1947)
2. Post Independence Period (1947 to 1991)
3. Liberalization Period (1991 to till date)

#### **4. EVOLUTION OF INDIAN INSURANCE SECTOR**

##### **EVOLUTION OF INDIAN INSURANCE SECTOR**

1. Pre independence or Bristish India
2. Post Independence Period
3. Liberalization Period

##### **4.1. PRE INDEPENDENCE PERIOD OR BRITISH-INDIA PERIOD**

- During 1818, Oriental Life Insurance Company was established in Kolkata and it is first life insurance Company in Indian soil and it was started by Britishers. Its main objective is to control the entire Indian insurance sector. This company exited in the year 1834 (Tapen Sinha, 2002).
- In the period of 1829, Madras Equitable Company was started for performing for life insurance trade in Madras Presidency. Before 1870's, this sector did not performing well, because of mismanagement and lack of experience was main reason of failure. British Insurance Act was implemented from 1870 and main purpose of this act was to proper management of insurance companies in organised structure.
- During 1870 – 1900, some of European based insurance companies like Albert Life Insurance, Royal Insurance, Liver Pool and London Global were dominating entire insurance industry. In this reason, Indian based insurance companies like Bombay Mutual (1871), Oriental Government Security Life Assurance Company Limited (1874) Indian Life of Karachi (1892), The Bharat of Lahore (1896) and Empire of India (1897) were not achieved proper place.
- Indian life Assurance companies' act was established in 1912. It was the first statutory measure to constructive life insurance business.
- From the period of 1914, Government of British-India began to publish on returns of insurance companies in India.
- From the beginning of 1919, there was a heavy competition between Indian and foreign based insurance companies. Domestic-based were performed well to compare other nations. And, its main problem was too much of administrative and management expenditure.
- In 1928, new insurance companies act was implemented by government of India. Main purpose of this
- act was to provide the information related to life insurance and non-life insurance for Indian and foreign insurance companies including provident insurance societies.
- Insurance act 1938 helped to consolidate and reconstruct earlier legislation. It was implemented for View to protect the interest of the public interest and comprehensive provisions for effective control over the activities of insurers.
- From 1939 to Some of these companies were functioned in North-Eastern region and these companies are: (1) The Sadam Insurance Co. Ltd (1939),
- (2) Sadam Provident Insurance Co. Ltd (1940),
- (3) East India Insurance Co. Ltd. (1940),
- (4) Industrial & Prudential Assurance Co. Ltd (1940),
- (5) The Metropolitan Insurance Co. Ltd (1940),
- (6) Aryastham Insurance Co. Ltd (1943) and finally Prithi Insurance Co. Ltd (1943).

In this period, almost all insurance companies were functioning by private people or companies. British- Indian government did not engage in this sector. Some of European based private companies particularly Britishers and Indian based companies were interested to run this segment of business. And, it was mostly failures. Most of these companies operated from urban areas.

According Mahatma Gandhiji quoted that "India lives in rural areas and it is backbone of Indian economy". Because, the majority of the people were living in rural areas and majority of national income was obtained from this area only (and this situation is applicable even now). This sector did not reach to them. Most of these companies had failed. There were various reasons for this failure and they are as follows: (a) mismanagement (b) inadequate experience (c) lack of

communication, (d) majority of people were illiterates and under-educated and they could not understand it (e) the majority of the population was focused on the freedom struggle (f) they lived in very poor environment.

## **4.2. POST – INDEPENDENCE PERIOD:**

### **4.2.1. COWASJEE JAHANGIR COMMITTEE:**

In 1950's, high level of competition between the insurance companies and some of s this concern did the mismanagement, lot of allegation and unfair trading activities. Government of India appointed Sir. Cowasjee Jahangir for the betterment of insurance sector and this committee's main objective was

- To acquisition total control of this sector;
- to handle the entire financial management
- to understand the possibilities to integrate the banks and insurance companies' fund. this committee was recommended some of the following points:
- it recommended that restriction on investment funds;
- it suggested that prohibit interlocking of funds of insurance and banking companies
- these companies should reduce their expenditures.
- and finally, these companies should function in rural areas and it was most important proposal from this committee.

### **4.2.2. NATIONALIZATION OF INSURANCE SECTOR (1956)**

In 19th January 1956, government of India was issued one ordinance and it related to nationalization of insurance companies. It was fascinated by Life Insurance Corporation of India. 245 Indian and foreign private companies merged with this corporation. It acted as monopoly and till the late 1990's. After that private companies are also participated this sector. In the year 1957, General Insurance Council formed and it was branch of Insurance Association of India. It established a code of conduct for ensuring fair conduct and sound business practices (Neelam Gulati & C.M. Jain, 2001).

### **4.2.3. INSURANCE ACT, 1968**

This bill was introduced on 8th April 1968. According to this bill "A bill further to amend the Insurance Act, 1938, so as to provide for the extension of social control over insurers carrying on general insurance business and for matters connected there with or incidental thereto, and also to amend the Payment of Bonus Act,1965". The law enacted with various changes and the following points included: a change in order to regulate its investments and set a minimum credit limit. Tariff committee was replaced by Tariff Advisory Committee (TAC). It was an independently functioning organization. It was an authorized body to design the rules relating to rates in general insurance business.

### **4.2.4. GENERAL INSURANCE BUSINESS (NATIONALIZATION) ACT, 1972 (GIBNA)**

General insurance companies nationalized under the section of 9(1) in the year 1972 and this legal ordinance was implemented by government of India. Main purpose of this act was monitoring, managing and spreading the entire trade all over the India and it planned to hand over the entire share to GIC. Through this act, Government of India undertook 55 Indian Insurance Companies' share and 52 insurers for this trading activity and

It created as the holding company with four subsidiaries and they are as follows:

- (1) The New India Assurance Company Limited (Mumbai);
- (2) National Insurance Company Limited (Kolkata);
- (3) Oriental Insurance Company Limited (New Delhi) and
- (4) United India Insurance Company Limited (Chennai).

## **4.3. POST LIBERALIZATION**

### **4.3.1. PUBLIC LIABILITY INSURANCE ACT, 1991:**

This act was implemented on 22th January 1991. Main reasons for implementation of this act, Nearly 3,000 people were killed and more people were injured in a gas leak in Bhopal. The main purpose of the Act was

- (1) To provide for the relief of the losses, injuries and damages of life and their all types of own properties caused to the people by the factories or to provide welfare of public;
- (2) Provide immediate relief through insurance to the general public on accident related to handling of hazardous chemicals or substances.

#### **4.3.2. MALHOTRA COMMITTEE, 1994**

In the year 1993, this committee was set-up by Government of India and it was submitted this report in 1994. Main objective was (i) to examine the prospective potential reforms that could be undertaken in the insurance sector (ii) to complement them with reforms initiated in the other sectors. This committee recommended creation of powerful and efficient insurance regulatory authority.

#### **4.3.3. INSURANCE OMBUDSMAN REDRESSAL OF PUBLIC GRIEVANCES RULES, 1998**

The Governing Body of Insurance Council had been created under Redressal of Public Grievances Rules 1998. Main objective was to set-up and facilitate the Institution of Insurance Ombudsman in India. There were seventeen Ombudsman centres established all over India. They were appointed by the Governing Body and they were empowered to entertain complaints on the following aspects in respect of personal line insurances: These rules were published to give clients as forum with negligible rules and regulations to get their grievances resolved.

#### **4.3.4. INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (IRDAI), 1999**

According to Malhotra's committee recommendation, Government of India initiated on interim of Insurance Regulatory Authority and it was converted into Insurance Regulatory and Development Authority was established. It was a statutory body to regulate, monitor, and ensure systematic development of insurance and reinsurance as also to defend the welfare of policy holders. It is being believed as one of the most important redeeming features of insurance sector reforms in our country (IRDA 1999).

#### **POWERS AND FUNCTIONS OF IRDAI**

- Registration / modification / cancellation of registration of insurers;
- to distribute of license to insurance mediators or agents;
- control over management of insurers;
- search and seizure
- protection of interest of policy holders,
- promotion and regulation of professional organizations conducting insurance business,
- regulation of investment of funds by insurance companies,
- investigation and inspection of the affairs of the insurers,
- adjudication of disputes between insurers and insurance intermediaries,
- supervising functions of Tariff Advisory Committee

#### **4.3.5. PRIVATE PARTICIPATION, 2001**

Government of India brought another major change in insurance sector. IRDA allowed to private sector to participate and invest in this sector. After the independence, this conceptual decision was created some of revolutionary transformation in this sector (Madabhushi Sridhar 2007).

#### **4.3.6. BROKERAGE SYSTEM, 2003**

A new broker system has been introduced by Indian insurance companies to enhance and expand their business. Their main task is to develop insurance companies that are parallel to India's population growth. And to make people who do not participate in this field participate.

### **5. CONCLUSIONS**

After the independence of India, the growth of the insurance industry had reached all parts. Even so, the various economic constraints had not accelerated the pace of trade. In the 1990s, the sector moved to a different platform due to changes in world and Indian economic policies, i.e., private companies were also participated in this trade. in this reason, they introduced new schemes and benefits to insurance holders.

## **CONFLICT OF INTERESTS**

None.

## **ACKNOWLEDGMENTS**

None.

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