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History of insurance and development of insurance in India

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Abstract
The history of insurance in India reflects a dynamic interplay of economic, legislative, and social factors, shaping the sector's evolution from ancient times to the present day. This paper traces the journey of insurance in India, highlighting key milestones such as legislative acts, nationalization, and privatization. It explores the impact of these developments on the industry's growth, stability, and role in the economy. Through a historical lens, this study provides insights into the challenges and opportunities that have shaped the insurance landscape in India, ultimately underscoring its significance as a tool for risk management and financial protection.

Keywords: Insurance, India, history, legislative acts, nationalization, privatization, regulatory authority, economic development, risk management, financial security

Introduction
Insurance is of primary importance both in the national economy and international trade. Insurance premium cash-flows generate funds for investment in the economy.
The development of the insurance sector depends on the general level of economic development and prospects for the immediate future.
Hypothetically, there is a positive correlation between the economic development of a country and the amount which people spend on insurance - contractual, financial and other legal aspects of insurance.
Insurance is a contractual relation between insurer and the insured through which the former undertakes to indemnify the loss caused to the latter due to an uncertain risk involved or to pay a certain sum of money in the event of an incident happening or not happening, against a consideration called as premium.

Definition
Economist say ‘It is a process whereby the risk of financial loss arising from death or disability of a person or damage, deterioration, destruction or loss of property owing to perils of which they are exposed, is assumed by another’.
Henceforth, Insurance is a tool of risk management to cover the uncertainties – the risk of loss of assets or human life.
Individuals purchase such policies either in their individual capacity or the employee friendly organizations may extend such covers as the perks of employment.
According to Maclean ‘Insurance is a method of spreading over a large number of persons a possible financial loss too serious to be conveniently borne by an individual’
In the words of Riegel & Miller ‘It serves social purpose; it is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contribution by the individuals providing a fund out of which those who suffer losses may be reimbursed’

Valid Contract
Generally, an insurance agreement to be a valid contract must be

1. A contract between an ‘insurer’ and the ‘insured’; - Competency
2. The contract is based on the loss due to happening or not happening of a future incident;
3. A consideration in the form of payment of an amount by the insured and
4. The insurer promises to make good the loss in so far money can do it, in case the loss occurs on the happening of the contingency.

History
In India insurance was mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthashastra), which examined the pooling of resources for redistribution after fire, floods, epidemics and famine.
Trading through sea waters and marine trade loans – Historical aspects.
The life-insurance business began in 1818 with the establishment of the Oriental Life Insurance Company in Calcutta; the company failed in 1834. In 1829, Madras Equitable began conducting life insurance business in the Madras Presidency.
The British Insurance Act was enacted in 1870, and Bombay Mutual (1871), and Empire of India (1897) were founded in the Bombay Presidency. The era was dominated by British companies.

Jurisprudential Regime
In 1914, the government of India began publishing insurance-company returns. The Indian Life Assurance Companies Act, 1912 was the first statute regulating life insurance. In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about life and non-life-insurance business conducted in India by Indian and foreign insurers, including Provident Insurance Societies. In 1938 the legislation was consolidated and amended by the Insurance Act, 1938, with comprehensive provisions to control the activities of insurers.
The Insurance Amendment Act of 1950 abolished principal agencies, but the level of competition was high and there

were allegations of unfair trade practices. The Government of India decided to nationalize the insurance industry.

An ordinance was issued on 19 January 1956, nationalizingthe life-insurance sector, and the Life Insurance Corporation was established that year. The LIC absorbed 154 Indian and 16 non-Indian insurers and 75 Provident Societies. The LIC had a monopoly until the late 1990s, when the insurance industry was reopened to the private sector.

General insurance in India began during the Industrial Revolution in the West and the growth of sea-faring commerce during the 17th century. It arrived as a legacy of British occupation, with its roots in the 1850 establishment of the Triton Insurance Company in Calcutta. In 1907 the Indian Mercantile Insurance was established, the first company to underwrite all classes of general insurance. In 1957 the General Insurance Council (a wing of the Insurance Association of India) was formed, framing a code of conduct for fairness and sound business practice.

General Insurance Business (Nationalisation) Act, 1976.

Eleven years later, the Insurance Act was amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee was established. In 1972, with the passage of the General Insurance Business (Nationalization) Act, the insurance industry was nationalizedon 1 January 1973. One hundred seven insurers were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. The General Insurance Corporation of India was incorporated in 1971, effective from 1 January 1973.

The re-opening of the insurance sector began during the early 1990s. In 1993, the government set up a committee chaired by former Reserve Bank of India governor R. N. Malhotra to propose recommendations for insurance reform complementing those initiated in the financial sector. The committee submitted its report in 1994, recommending that the private sector be permitted to enter the insurance industry. Foreign companies should enter by floating Indian companies, preferably as joint ventures with Indian partners.

Following the recommendations of the Malhotra Committee, in 1999 the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry and was incorporated in April 2000.

Objectives of the IRDA include promoting competition, to enhance customer satisfaction with increased consumer choice and lower premiums while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with an invitation for registration applications; foreign companies were allowed ownership up to 26 percent.

The authority, with the power to frame regulations under Section 114A of the Insurance Act, 1938, has 7 framed regulations ranging from company registrations to the protection of interests of policy-holders, since 2000.

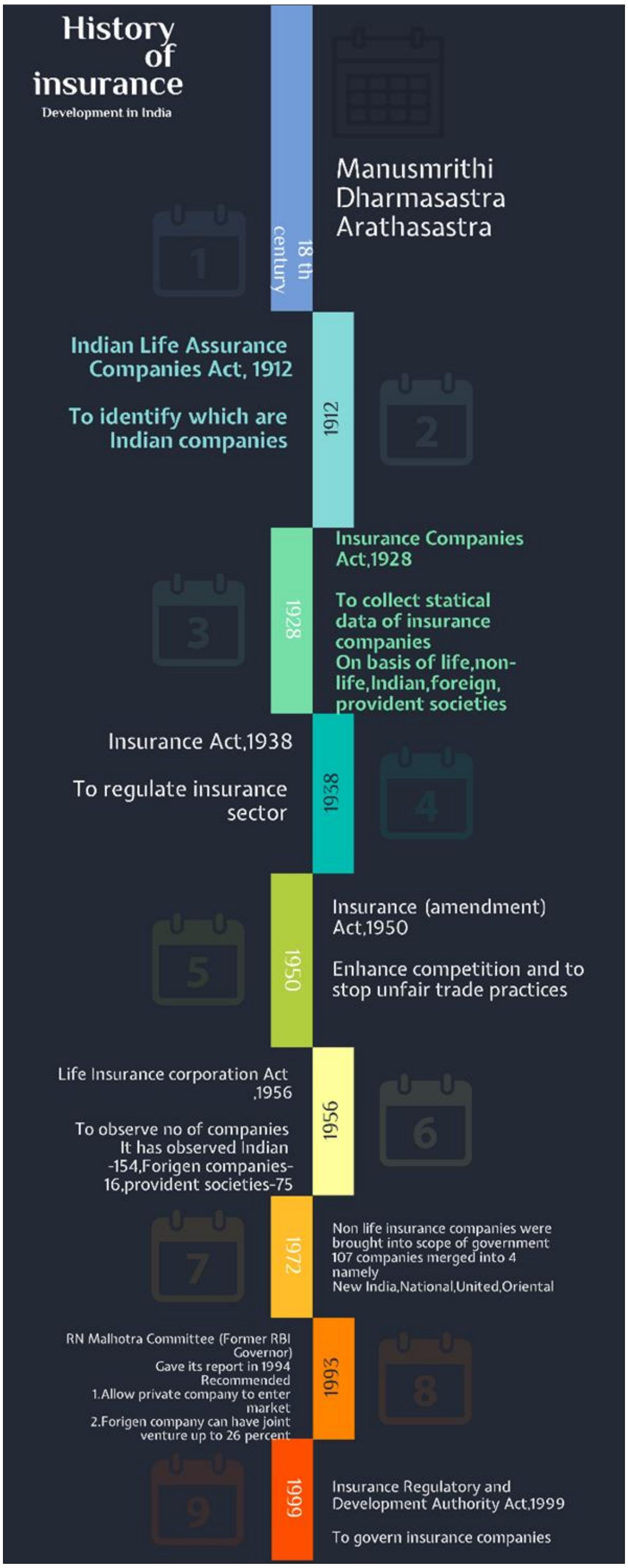

Chart 1: Flow chart of History of insurance

History of insurance in India

Period of Mushroom growth (1900-1912)

Period of struggle & steady growth (1913-1938)

Period of stability & Consolidation (1938-1950)

Period of Boom & Nationalization (1950- up to date)

Era of Privatization (1991 onwards)

Mushroom Growth

Period of Mushroom growth (1900-1912) – during this period there was a mushroom growth of Indian companies and this was mainly due to the swadeshi movement which prompted the boycott of British goods, British institutions and everything British.

The indiscriminate mushroom growth of insurance companies led to the appearance of some evil which had to be checked by passing Indian Life Assurance Act, 1912. For the first time publishing of returns of life insurance began from 1914.

Struggle & Steady Growth

Period of struggle & steady growth (1913-1938) – the period between two world wars. The indigenous companies had to pass through tough time. Sudden growth of companies due to impetus given by swadeshi movement brought with it evil of accumulation of wealth and inexperience in business.

This has led to economic slump, business had to struggle for its growth. Many small offices had to be wound up and few that survived had to face the competition of many flourishing foreign offices.

Government was compelled to protect the interest of Indian insurance business and hence in 1934 Sri SC Sen was appointed as special officer to investigate and report on reform of insurance law in India.

In 1936 a committee under chairmanship of Sri NN Sircar was appointed to examine the report of special officer, which led to the passing of Insurance Act, 1938 which provides for uniform control by government over all insurers. Foreign offices discontinued their business in India.

Stability and Consolidation

Period of stability & Consolidation (1938-1950) – being free from foreign competition Indian offices gained stability. After second world war swadeshi movement gained strength and national spirit increased. Large amounts of capital were available with them for investment in the developing industries.

In 1945 Cowasji Jehangir committee condemned the malinvestment by insurance companies, this led to regulation of investment and Insurance Act 1938 had to be amended several times. Partition of the country had made situation worse. Sri SR Ranganathan committee reviewed the entire insurance law and based on this report amendment of 1950 was carried out which made far reaching changes to make insurance institutions more useful for the country's economic growth.

Boom & Nationalization

Period of Boom & Nationalization (1950- up to date) – by Five-Year Plans India has grown from agrarian society to industrialised society. Confidence in domestic companies increased. All this contributed to a boom in insurance business.

Huge amount of capital was available with insurers and government found in handy to utilise these funds for its developmental plans and also to ensure the investing public, a better security. Later in 1956 Life Insurance Act, 1956 was passed nationalising life insurance business in India. Further in 1972 the General insurance was nationalised by passing of General Insurance (Emergency Provisions) Act, 1972. General insurance corporation was formed with four subsidiaries.

Era of Privatization

Era of Privatization (1991 onwards) – insurance sector open to private entities on the recommendations of Malhotra Committee. Both public and private companies played important roles simultaneously. Growth of more private entities has led to the passing of Insurance Regulatory and Development Authority Act, 1999 to control and regulate insurance sector in India

Conclusion

The evolution of the insurance sector in India has been a journey marked by significant milestones, from its early roots in ancient texts to the modern era of privatization. Through various legislative acts and regulatory bodies like the Insurance Regulatory and Development Authority (IRDA), the industry has witnessed phases of mushroom growth, struggle, stability, nationalization, and finally, privatization. The nationalization of both life and general insurance sectors in the mid-20th century paved the way for a period of boom, characterized by the infusion of capital into developmental plans. Subsequently, the era of privatization since the early 1990s has fostered competition, innovation, and increased consumer choice, under the watchful eye of regulatory authorities. Today, the insurance sector in India stands as a vital component of the nation's economic landscape offeringindividuals and businesses alike a tool for risk management and financial security.

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