INDIAN STREAMS RESEARCH JOURNAL
ISSN NO : 2230-7850
IMPACT FACTOR : 5.1651 (UIF)
VOLUME - 14 | ISSUE - 10 | NOVEMBER – 2024

HISTORICAL BACKGROUND OF LIFE INSURANCE BUSINESS IN INDIA

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ABSTRACT

Today's modern and matured form of insurance, though, seems new, it has got a very long history and is the outcome of slow and gradual development of human civilization. In the past, initially, insurance was confined to protection against financial losses in ocean transport. The concept of insurance has undergone a number of changes over a period of time. We find references in religious scriptures like Manu Smriti and Vedas suggesting that insurance was practiced long ago on Indian soil.

KEYWORDS: *modern and matured , slow and gradual development , human civilization .*

INTRODUCTION

The term *'Yogakshema'* which is used as name of the headquarter of LIC of India has been derived from *'Rig-Veda'* which confirms that a form of Community Insurance was practiced by the Aryans in India over 3000 years ago. Even, during the Mughal period, practice of insurance war risks and loss due to the passage of Royal troops through farms was common. In the year 1710, the first insurance company in the field of marine insurance, named Sun Insurance Office Ltd. was set up at Calcutta. Fire insurance in India was also started during the British regime. Most of the fire insurers in India were from abroad. Some of the earliest insurance companies in India were: Sun Insurance Office Ltd (1710), Royal Exchange Assurance Ltd. (1720), Phoenix Assurance Company Ltd. (1782) and Triton Insurance Company (1850).

In 1928, Indian insurance Companies Act was passed, that gave right to government to collect statistical information from the insurers. This Act was amended in 1938 for effective control over the activities of insurers doing business India. General Insurance Business (Nationalization) Act 1972 passed by the Indian government by amalgamating 107 insurance companies was the milestone in the development of fire and marine insurance in India. The aims of this Act were: to regulate investments, solvency margins, licensing of surveyors, maintenance of statutory accounts, investment guidelines. According to this Act the GIC of India along with its four subsidiaries were the only players allowed to transact fire insurance business in India. The subsidiaries of GIC are:

1. National Insurance Company Ltd., Calcutta
2. The New India Assurance Company Ltd., Bombay
3. The Oriental Insurance Company Ltd., Delhi
4. The United India Insurance Company Ltd., Madras

Life Insurance in India:

The Britishers were the first to initiate life insurance business in India. However, in the beginning they were issuing life insurance policies exclusively on the lives of European soldiers and European civilians. They used to issue policies on the lives of Indians very rarely, but at the higher rate of premium. Britishers started many insurance companies in life insurance sector. For example: Bombay Insurance Company (1793), Oriental Life Assurance Company, Calcutta (1818), Madras Equitable Life Insurance Society (1829). Later on, Oriental Life Assurance Company, Calcutta failed in 1834. With the enactment of the British Insurance Act in 1870, the Bombay Mutual Life Insurance Society Ltd. (1871), Oriental (1874) and Empire of India (1897) were established to transact the life insurance business in Bombay Residency. During the period of Eighteenth century, Albert Life Insurance, Royal Insurance, Liverpool and London Globe Insurance dominated the Indian life insurance market. The total number of life insurance companies working in India by 1871 was 15, of which 7 were Indian.

Before independence, the working of insurance was restricted to a particular province and the particular industrialist had control over the particular insurance company. For example- Tatas- New India, Birlas- Rauby General, New Asiatic and Bombay Life, Jalans- General Insurance, Goenka- Hercules and Standard General, Mafatlal- Jay Bharat etc.

The following table shows origin of insurance companies in India before of independence:

Table 1
Origin of insurance companies in India before of independence

Sr. No.	Name of the insurance Company	Province of Origin	Year of Commencement
1	Indian Ordnance	Bombay	1883
2	Indian Christian	Madras	1884
3	Goanese Mutual	Bombay	1885
4	Mangalore Roman Catholic	Madras	1888
5	B.B. and C.I. Zoroastrian	Bombay	1888
6	Parsi Zoroastrian	Bombay	1888
7	Bombay Zoroastrian	Bombay	1889
8	Guzerath Zoroastrian	Bombay	1891
9	Hindu Mutual	Bombay	1891
10	Indian Life	Bengal	1892
11	Punjab Mutual	Punjab	1893
12	Sindh Hindu	Bombay	1894
13	Bharat Insurance Company	Punjab	1896
14	Empire of India	Bombay	1897
15	Simla Mutual	Punjab	1899

Source: *1) Choudhary, Santosh K. and Kulkarni Kishore, (1991),'Role of the Life Insurance in Economic Development in India' Himalaya Publishing House 1991, p6.*
2) 'Saga of Security Story of Indian Life Insurance', (1970), Published by LIC of India, Central Office, Jeevan Beema Marg, Bombay- 20, p62.

Indian Insurance Act 1938:

The first statutory measure to regulate life insurance business in India was the Indian Life Insurance Companies Act 1912 which was on the model of British Act of 1909. This Act was not suitable to meet the needs of insurance business and its control. In the light of this the government constituted S. C. Sen committee. The committee was expected to examine the amendments to the Indian Life Insurance Companies Act 1912. Later on, when the committee submitted its report, one more committee was appointed to review the recommendations of the former committee and the bill was piloted in 1937. Accordingly, Indian Insurance Act 1938 was enacted and it came into force from July, 1 1939. The most important feature of this Act was that all the earlier legislations were consolidated and amended by this Act. This Act was /is the first wide and comprehensive legislation to regulate the insurance sector in India. The Act was amended many a times so as to suit the ever changing insurance market. In the year 1945, government appointed a committee under the chairmanship of Sir C. Jahangir to study the undesirable developments in the insurance companies in India and to recommend the measures to check manipulation of funds, interlocking between banks and insurance companies by the financiers having control of the companies. As per the recommendations of this Committee, The Insurance Amendment Act was passed in the year 1950. The Act brought a number of changes such as requirement of Equity Capital for companies, ceiling on share holdings, stricter control on investment and ceiling on management expenses. The latest amendment is IRDA 1999 which regulates both life and non-life insurance business in India.

Nationalization of Life Insurance:

The Indian Insurance Companies Act was passed in the year 1938 which led to growth in the number of insurance companies. In spite of the regulations, there were malpractices, deficiencies and frequent liquidations of insurance companies in India. As many as 25 insurance companies were liquidated between 1944 and 1954. This led to losing confidence of the public. In those days most of the insurance business in India was in the control of big industrialists. The result was interlocking of funds between banks and insurance companies, speculations and use of funds collected for personal interests of the parent industry excessive cost of operations and ineffective mobilization of savings. The per capita life insurance was far lower than the developed countries. (Per Capita Life Insurance stands for the total premiums collected during a financial year divided by the total population in that year). This is shown in the following table-

Table 2
Per Capita Life Insurance of Selected Countries in 1956

Sr. No.	Country	Per Capita Life Insurance (in Rs.)
1	UK	600
2	USA	2000
3	Canada	1300
4	Denmark	330
5	India	25

Source: *Tryst With Trust: The LIC Story, (1991), edited by Dharmendra Kumar, Published by Bajpai G.N., Manager (PR &Publicity), LIC of India, Central Office. Yogakshema, Bombay-400 021, p.16.*

From the above table it is noticed that before nationalization, India was lagging far behind in Per Capita Life Insurance as compared to the developed countries. It was just Rs. 25 as compared to Rs 2000 of USA and Rs. 1300 of Canada.

The condition before this was even worst. The Per Capita Life Insurance in India was Re 1 & 8 *anas*[1] i.e. Rs. 1.50 between 1914 and 1940. Dr. Babasaheb Ambedkar prepared a draft Constitution/Tentative Plan of the Indian Constitution and submitted it to the Constituent Assembly under the title "States and Minorities" was published in March 1947. Along with many other suggestions in it, there was an important suggestion to nationalize the insurance companies.

All these factors invited public demand for nationalization of life insurance companies. Accordingly, government of India decided to nationalize the life insurance companies in India including foreign business of Indian insurers and Indian business of foreign insurers after too much controversy

[1] Eight *anas* = Fifty paisa, where 1 rupee = double of fifty paisa

with both the interest groups for and against the issue. C. D. Deshmukh, the then Union Finance Minister of India strongly justified the move to nationalize the life insurance companies and stated "Misuse of power, position and privilege that we have reasons to believe occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalize life insurance." He explained the rationale behind the nationalization of life insurance industry as:

- It was logical step, after the takeover of the Imperial Bank and the formation of the State Bank of India, in mobilizing the savings of the people for nation building activities.
- With the Second Five Year Plan in the offing, the Government had to harness and accelerate the rate of investment and development; therefore it was necessary to widen all the channels of public savings.
- The Government was convinced that nationalization of life insurance was required not only for public interest but also for the success of ambitious plans of the newly born republic.
- Private companies were concentrating on select regions, and the rural sector of the insurable population was completely neglected. The *Life Insurance Fact Book* substantiated this by recording rural business from 1961 onwards.
- He assured that the Government would build up a vibrant organization capable of taking insurance to every sector of the society in the country, to mobilize their savings and, at the same time, offering them the security of life insurance.

In the light of the above, on Saturday, January 19, 1956, an ordinance was passed by the President of India to take over the management of 154 Indian insurers, 16 non- Indian insurers and 75 Provident Societies carrying life insurance business in India. Then, on September 1st, 1956, government of India amalgamated these private insurance companies under a corporation by passing Life Insurance Corporation of India Act.

The parliament set up Life Insurance Corporation of India (LIC of India) as a public undertaking having monopoly over life insurance business expecting- Elimination of competition, better and more economical management, safety and liquidity of the invested funds, reduction in administrative expenses, improvement in the quality of service, increase in volume of business and maximization of social security.

AIMS OF NATIONALIZATION:

Nationalization of life insurance business was not an abrupt or accidental resolution; rather, it was a very prudent and thoughtful decision with some specific aims on agenda. The main aims of nationalization of life insurance business were:

1. To spread insurance services to rural area which were restricted to urban area.
2. To provide complete security to the policyholders that was lacking previously.
3. To encourage public savings so as to finance the India's five year plans.
4. To avoid wasteful efforts in competition and bring economy in the insurance business.
5. To prevent malpractices, misuse of powers and positions which was prevalent in the past.
6. To regulate insurance business scientifically.
7. To achieve the goal of the socialistic pattern of society which the government of India accepted after independence.

POST NATIONALIZATION TO REFORMS:

With the Nationalization of life insurance business in India, the era of monopoly of LIC of India began. After nationalization, LIC of India integrated all different units engaged in life insurance in India into a confined organization. It absorbed different types of assets and liabilities as well. LIC absorbed more than twenty thousand employees and more than two lakh life insurance agents working in the private insurance companies. The government of India provided an initial capital of Rs. five crores to newly formed Life Insurance Corporation of India.

Since its establishment, LIC of India has shown a tremendous growth and development in its overall performance. As a state owned national insurance agency, LIC serves as an important centre of spreading risks related to the lives of crores of policyholders. It plays a vital role as a major financial intermediary in the country. LIC has succeeded in spreading its business even at international level. It operates in global market directly through its own branches as well as through Joint Ventures. LIC of India operates in Fiji, Baharin, Nepal, Sri Lanka, UK, Dubai, Saudi Arabia, Kuwait, Katar and Oman either through its own branches or through chief agents or brokers or in joint venture.

ESTABLISHMENT OF IRDA AND ENTRY OF PRIVATE INSURERS:

Constitution of Narasimhan Committee for banking sector was the beginning of reforms process in the Indian financial sector. The Union Government went a step ahead to make the financial sector reforms meaningful and complete by announcing on February 28, 1993 to appoint a committee under the Chairmanship of R. N. Malhotra, Retired Governer of Reserve Bank of India to review the structure of both life and non-life insurance industries in India. The committee was assigned the job to examine and recommend the measures for the introduction of the reforms process in the insurance sector. Considering recommendations of the committee, government of India constituted an interim authority called Insurance Regulatory Authority (IRA) to look into the implementation aspects of the said report. In August 1997, when the IRA bill was put before Lok Sabha, it could not pass. The same bill with some changes was renamed as Insurance Regulatory and Development Authority (IRDA) Bill and was passed by Lok Sabha in December 1999. The establishment of IRDA ended the monopoly of state in insurance sector. IRDA started functioning from April 19, 2000

CONCLUSION:

Life insurance business in India has undergone a number of strategic changes since independence. It has completed a full circle from privatized era to nationalized era and again to globalised era. Since its nationalization to the year 2000, Life Insurance Corporation of India, a government undertaking enjoyed monopoly over the life insurance market. It provided social security to crores of Indian citizens and showed a remarkable performance. However, with the entry of private life insurers in this sector LIC has to bring strategic changes so as to compete with the changed life insurance market.

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