

INSURANCE INTRODUCTION

- **Insurance is a subject which is very relevant for any humanbeing.**The life of a person is invaluable not only for the person but also to his family and the society at large.Life insurance is therefore relevant to the nation and the growth of the life insurance sector anywhere in the world is taken for granted.The governments all over the world encourage life insurance by various means to improve the personal and national well being as well as to ensure safety in the lives of its citizens.Life insurance is also recognised as a form of safety net to a person.**Thus life insurance serves two critical purposes i.e. risk cover and investment.**Life insurance therefore is recognised as very essential to the well being of any person.
- **Every human being is beset with varied and diverse risks during his whole life.**The risks range from bodily injury,financial loss to death of the human being.These risks can hit the human being at any point of time. This threat of the damage and loss is coexistent with the human being with the birth of the human being and is also omnipresent.The risks have threatened the human being since ancient ages and have been with the human being since the human being came into existence on the earth.. The risk of monetary loss was not present.In such times the human being cooperated with one another and this formed the earliest type of insurance against the risks.**The history of insurance is replete with this nature of insurance i.e.cooperation among the human beings.**

: HISTORY OF INSURANCE :
: International Evolution of Insurance :
: History of Life Insurance in India

- **It is understood that the concept of insurance originated alongwith the human existence.**
- **The Chinese and the Babylonian traders practiced insurance in the third and second Millennia BC which consisted of spreading their goods over many vessels instead of carrying them on one ship.**
- **This fundamental insurance principle of a group sharing the losses of a few had been practiced in India in some way or the other from very ancient times. Hinduism,like other ancient religions,teaches man to help his fellow men in distress. In India, the Sanskrit treatise,Rig Veda ,talks about “YOGAKSHEMA”i.e.well being of the society at large. The Aryan tribes carried out certain type of community insurance almost 3000 years ago in India. Thus in India insurance has a deep-rooted history.** This was probably a pre-cursor to modern day insurance.
- **1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta.**

The history of legislations governing the insurance industry in India

Year	The significant regulatory event
1912	The Indian Life Insurance Co. Act
1938	The Insurance Act: Comprehensive act to regulate the insurance business in India
1956	Nationalisation of the life insurance business in India .Formation of LIC
1972	Nationalisation of general insurance business in India with the formation of GIC
1993	Setting up Malhotra Committee to evaluate the Indian insurance industry and recommend its future direction.
1996	Setting up of (Interim) Insurance Regulatory Authority (IRA)
1997	The government gives greater autonomy to LIC,GIC in regard to the restructuring of board of directors and flexibility in investment norms in order to channel funds to the infrastructure sector
1999	The standing committee of parliament recommends that the foreign equity in private insurance companies should be limited to 26 %
1999	Union cabinet clears the Insurance Regulatory and Development Authority Bill
2000	President gives assent to the IRDA Bill.

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SWOT ANALYSIS OF LIFE INSURANCE SECTOR

- **01. Strengths of life insurance in India :**
- i) **LIC has a market share of around 70% and is a government company.** The financial strength of LIC and the government support exercises a stabilising force in case of sudden and exceptional external shocks. This affords stability to the life insurance sector in India. policyholders` are assured of the return of their savings and payment of claims
- ii) **The life insurance sector in India is a very well regulated sector** and is being regulated by IRDA and the government both on the legislative and operational issues. This creates a level playing field for all the companies and ensures growth of the sector.
- iii) **The critical aspects of life insurance like calculation of mortality rates, actuarial calculations, scientific calculations of premium rates and other operational processes are well established in India** on account of the existence of life insurance business in India since the last 200 years. This attracts new companies and foreign capital into the sector and the healthy competition ensures growth of the sector.
- iv) The insurance penetration and the insurance density in India are quite low as compared to global standards. **The potential of life insurance business to grow in India is huge and is largely untapped.** With the competition in the sector, the life insurance sector can grow both horizontally and vertically in India in respect of the untapped areas, untapped population, potential for new products etc.
- v) **The existing cap of 26% participation of the foreign companies in the capital of a life insurance company will be gradually raised to 74% in the near future.** This will attract foreign funds on a huge scale in India. This has attracted many foreign companies and capital in the sector in the past 13 years.

: WEAKNESSES OF LIFE INSURANCE SECTOR :

- i) **The nationalisation of the life insurance business from 1956 to 2000 gave rise to many deficiencies like operational inefficiencies**, customer dissatisfaction, lack of accountability in the working of LIC. The information technological support in operations and customer service was absent resulting into higher costs of operations.
- ii) **The low insurance penetration and low insurance density also resulted into concentration of life insurance business into urban and metro centres in India**. The spread of life insurance was limited in the sense the rural population was not served by LIC.
- iii) **Due to lack of competition and lack of accountability the basket of insurance products was very limited**. The insurance products were not designed for the particular needs of the customers and as a result life insurance remained restricted to certain sections of society.
- iv) **The workings of the private sector life insurance companies during the last decade has not still produced net profits for them**. A major contributor to the income of the private companies has been the income earned on the investments. The life insurance business has not yet reached the scale which will help these companies earn profits. The financial position of these companies will deteriorate in case the income from investments gets reduced on account of external shocks to the economy or on account of recession in the economy.

OPPORTUNITIES IN LIFE INSURANCE

- 01. **The low insurance penetration and low insurance density pose a significant opportunity for the life insurance companies** to increase their business on a large scale. The life insurance has only reached around 23% of the Indian population and the scope for increase in the life insurance business is huge.
- 02. **The limited range of the insurance products presents another opportunity for the life insurance companies.** The life insurance business in India can grow exponentially if suitable insurance products for every section and working class of Indian population are made available.
- 03. In India a large number of people still rely on the services of the agents for buying life insurance. **In order to increase the distribution channels which are cost effective the life insurance companies should rely more on the bancassurance channel and online insurance selling.** This will help the companies reduce costs of distribution and also benefit the customers in the form faster and transparent service. The companies can also cut down on their distribution costs by proper reorganisation of their marketing and distribution strategies and with proper organisation structure.
- 04. **The consistent growth in the Indian GDP and particularly in the services sector is another opportunity for the life insurance companies to exploit.** The consistent growth in Indian economy will enable the life insurance companies to grow their business year after year without any volatility and this stability in business will further help increase business in future.
- 05. **Insurance also can be sold through the use of mobiles which is very cost effective as compared to the online format**

THREATS :

- 01. The threats to the life insurance sector in India can emanate from the government and regulatory interventions. **The legislative or policymaking initiatives may pose problems to the life insurance sector.** A major policy change like withdrawal of income tax concession for the life insurance premium or the policy change of taxing the maturity proceeds will impact the life insurance sector.
- 02. Any external shock like **world recession, natural calamities etc. insolvency of foreign partner** can affect the life insurance industry adversely.
- However, the above threats will result into temporary disruptions in the growth of the life insurance sector since the relevance of life insurance will always be there.