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Life Insurance in India and its Historical Perspectives

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Abstract: *Life insurance provides individuals with a number of important financial services. In the face of increasing urbanization, mobility of the population, and formalization of economic relationships between individuals, families, and communities, life insurance has been considered as a way for individuals and families to manage income risk in future which is uncertain. Also, life insurance products encourage long-term savings and the re-investment of substantial sums in private and public sector projects, because life insurance products offer a means of disciplined contractual saving contrary to the investment in stock markets although long term returns are quite low in life insurance investments. This paper attempts to discuss theoretical aspects of life insurance in India and also history of life insurance in India.*

Keywords: Life Insurance, India, history, Penetration, Density

1. Introduction

The insurance sector in India has experienced a 360-degree journey over a period of more than a hundred years. Its transition from an open competitive sector to nationalization and then back to a liberalized market characterizes this phenomenon. The insurance sector was brought under the government wrap within ten years of independence. Since then, till the re-opening of the sector in the 1990s, the state-owned companies functioned under the deluge of bureaucracy and inefficiency but still had millions of policyholders, as there were no alternatives. During this period, any suggestion regarding the opening up of the sector was met with harsh criticism and agitation from insurance employees unions. The Congress government (1991-1996), that introduced reforms in various sectors of the economy could not bring about a change in the insurance sector and it was left to the BJP-led coalition to instate the present liberal structure, despite criticism from some of its left support groups. The argument behind opening up of the sector was consumer-centric, which claimed that opening up insurance would give better products and service to consumers; the opponents of privatization argued that in a poor country like India insurance needs to have social objectives and newcomers will not have that commitment. With such a large population and the untapped market area of this population insurance happens to be a very big opportunity in India. Today it stands as a business growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life Insurance and the Health insurancecover. This is an indicator that growth potential for the insurance sector is immense in India. It was due to this immense growth that the regulations were introduced in the insurance sector and in continuation "Malhotra Committee" was constituted by the government in 1993 to examine the various aspects of the industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform. Since then the insurance industry has gone through many drastic changes.The competition LIC started facing from these companies were threatening to the existence of LIC since the liberalization of the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. The entry of the private players and theincreased use of the new distribution is in the limelight today. The use of new distribution techniques and the IT tools have increased the scope of the Industry in the longer run. Though the insurance sector was opened to competition again in 1999-2000, it still has some way to go before we can gauge its true performance.

2. Objectives

The main objectives of this paper are:
1) To discuss about theoretical aspects of life insurance in India.
2) To evaluate the history of life insurance in India.

3. Research Methodology

The present study is primarily based on secondary data. The website of LICI, IRDA Annual Reports does contain necessary information relevant for present study. Information may also be available from various books publications, journals, reports, research papers etc.

4. Theoretical Aspects of Life Insurance

The main purpose of life insurance is to provide income for consumption in future. The ordinary life policy provides a lump sum or a guaranteed income to dependents when the breadwinner dies. Pension insurance or life annuities provide income to the retired and to other who obtain no income from their own work. Life insurance thus a form of saving for the rainy day and it is usually superior to the conventional forms of savings. The reason is simply that the consumer's savings must be sufficient to cover only his expected or average needs, and not his needs under the most unfavorable circumstances. Basically, we have seen that

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risk-averse people are willing to pay to avoid risk. In fact, if the cost of insurance is equal to the expected loss risk-averse people will buy enough insurance to recover fully from any financial losses they might suffer. In other words, who is risk neutral is indifferent between a certain income and an uncertain income with the same expected value. And also, an individual who is risk loving prefers an uncertain income to a certain one, even if the expected value of the uncertain income is less than that of the certain income. The market for insurance is characterized by a number of informational asymmetries. Most of these arise from differences between buyers and sellers of insurance in their information about the uncertain event being insured against. While the buyers of insurance (the insured individuals) have better information about the risks (illness, accident proneness, and such), the insurance company generally has a very limited information about them. Basically, the insurance company faces two types of problems: (a) the problem of adverse selection and (b) the problem of moral hazard. Adverse selection arises when the insured has better information about her accident probability. Moral hazard occurs when the actions of the insured can alter the accident probability and those actions are not observable to the insurer. The risk of loss from burglary can be reduced by installing security systems; from premature death by reducing smoking; from car accidents by driving more slowly and so on. These actions are often costly to individuals.

5. History of Life Insurance in India

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta, which failed in 1834. However, the success of Indian life insurance can be traced back roughly to the second decade of the nineteenth century when the Madras Equitable began transacting life insurance business in the Madras Presidency in 1829. After that, it was a rather dull phase with regard to the growth in life insurance enterprise. This dullness was due to the very critical phase through which the British insurance companies were passing due to mismanagement and inexperience, thus resulting in the failure of several British offices before 1870 and leading to the enactment of the British Insurance Act, 1870. Till the 70s of the nineteenth century, insurance had found no real place in the scheme of things and only certain European companies operating in parts of India did life insurance business on some scale. But Indian enterprise in this sphere later began to expand and in the last three decades of the nineteenth century, there were companies which started in the Bombay Presidency such as a) Bombay Mutual (1871), b) Oriental (1874) and c) Empire of India (1897).Few other companies were also set up in other parts of India. However, this period was dominated by foreign insurance offices, which did good business in India, namely – Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance. The Indian offices that were set up during this period came up the hard way and had to struggle against the prevailing prejudice against life insurance and natural ignorance of the people. The recorded history of Insurance business in India, however, began in 1914 when 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 insurance business. Later in 1928 the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of insuring public, the earlier legislation was consolidated and amended by the Insurance Act 1938 with comprehensive provisions detailed and effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize the insurance business. An Ordinance issued on 19th January, 1956, nationalized the Life Insurance sector and Life Insurance Corporation of India (LICI) came into existence in the same year. The LICI absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies. Since thenLICI was the only player till the late 90s when the Insurance sector was reopened for the private sector. Life Insurance Corporation of India (LICI) was established on 1 September 1956 to spread the message of life insurance in the country and mobilize people's savings for nation-building activities. LICI with its central office in Mumbai and seven zonal offices at Mumbai, Calcutta, Delhi, Chennai, Hyderabad, Kanpur and Bhopal, operates through 100 divisional offices in important cities and 2,048 branch offices. LICI has 5.59 lakh active agents spread over the country. The Corporation also transacts business abroad and has offices in Fiji, Mauritius and United Kingdom. LIC is associated with joint ventures abroad in the field of insurance namely, Ken-India Assurance Company Limited, Nairobi; United Oriental Assurance Company Limited, Kuala Lumpur; and Life Insurance Corporation (International), E.C. Bahrain. It has also entered into an agreement with the Sun Life (UK) for marketing unit linked life insurance and pension policies in U.K. A Social Security Fund (SSF) administered by the LIC was set up in 1989-90 to meet the insurance requirements of the weaker and vulnerable sections of the society. As on 31 March 1999, about 49 lakh people belonging to 24 occupational groups/areas have been covered under various social security group schemes financed from the SSF. Under these schemes people in the age group of 18-60 years are covered for a sum of Rs 5,000 on death due to natural causes, and Rs 25,000 on death caused by accident. While the SSF subsidises 50 per cent of the premium, the beneficiary has to pay the remaining 50 per cent. Under Landless Agricultural Labourers Group Insurance Scheme (LALGI) in operation since 1987, the heads of the families in the age group of 18 to 60 years and not appearing as a land holder in the revenue records and not having inheritable right in agricultural land are eligible to be covered for an insurance cover of Rs2,000 payable only on death before 60 years. Upto1 April 1990, it was operated by LIC on behalf of the Central government which used to reimburse to LIC the premium payable by the beneficiaries is being met out of the SSF. At present, about 1.2 crore landless agricultural labourers are covered under the Scheme. During 1998-99, 47,122 claims were settled. All over the country, the Integrated Rural Development Programme (IRDP) beneficiaries between the age group of 18 to 60 years are

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covered under a Group Life Insurance Scheme being operated by the LIC for which the entire premium is paid by the Central government. An amount of Rs 5,000 is payable to the beneficiary in case of normal death and Rs 10,000 in case of accidental death. During 1998-99, 5,896 claims were settled. The Rural Group Life Insurance Scheme (RGLIS), announced on 15 August 1995, is a group insurance scheme which provides a life cover of Rs 5,000 for persons in rural areas. The premium payable is Rs 60 per year for those who enroll up to the age of 40 years and Rs 70 per year for those who enroll beyond 40 years and up to 50 years. The entry age is restricted to 20 years (minimum) and 50years (maximum). In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor was formed to evaluate the Indian insurance industry and give its recommendations. The committee came up with the three major provisions such as (i) Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the industry, (ii) Foreign companies may be allowed to enter the industry in collaboration with the domestic companies, (iii) Only one State Level Life Insurance Company should be allowed to operate in each state.It was after this committee came into effect the regulatory body for insurance sector was formed with the name of IRDA. The IRDA since its incorporation as a statutory body has been framing regulations and registering the private sector insurance companies. IRDA being an independent statutory body has put a framework of globally compatible regulations. Ending a long wait, the Insurance Regulatory and Development Authority (IRDA) has issued the first set of guidelines governing the operation of the insurance industry in a liberalized scenario. The guidelines released relate to registration of insurance companies with IRDA, reinsurance norms for companies dealing in general insurance, rural and social sector exposure and actuaries. The regulator will accept applications for insurance licenses from August 1.The minimum equity share capital for life and general insurance has been kept at Rs100 Crores and that for re-insurance has been kept at Rs200 Crores. The insurance and re-insurance hopefuls ill have to provide evidence of having the required paid-up capital. IRDA has clarified that equity holdings by foreign institutional investors (FIIs) and domestic mutual funds (MFs) in an Indian company will be delinked from the 26 per cent cap on foreign equity in insurance joint ventures. However, these holdings will have to be within the approved limits specified by the Securities and Exchange Board of India (SEBI). Direct equity holdings in the Indian promoter by a foreign company or its subsidiary or nominees, non-resident Indians (NRIs), overseas corporate bodies (OCBs) and multinational agencies will be part of the 26 per cent limit. The proportion of the paid-up equity share capital held by these entities to the total issued equity capital of the Indian promoter would be taken into account when calculating the 26 per cent. Leaving no scope for manipulation by the market players, IRDA has said it will have the sole discretion to interpret this regulation and its decision will be binding. Companies whose applications have been rejected will be debarred for two years. On reapplication, they will have to present a new set of promoters and apply for a different class of business than originally proposed. Indian companies, public financial institutions, cooperative societies and banking entities will be eligible to seek registration as Indian promoters.

Table 1: Insurance Penetration and Density in India

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)
2001	9.10	2.15	2.40	0.56	11.50	2.71
2002	11.70	2.59	3.00	0.67	14.70	3.26
2003	12.90	2.26	3.50	0.62	16.40	2.88
2004	15.70	2.53	4.00	0.64	19.70	3.17
2005	18.30	2.53	4.40	0.61	22.70	3.14
2006	33.20	4.10	5.20	0.60	38.40	4.80
2007	40.40	4.00	6.20	0.60	46.60	4.70
2008	41.20	4.00	6.20	0.60	47.40	4.60
2009	47.70	4.60	6.70	0.60	54.30	5.20
2010	55.70	4.40	8.70	0.71	64.40	5.10
2011	49.00	3.40	10.00	0.70	59.00	4.10
2012	42.70	3.17	10.50	0.78	53.20	3.96
2013	41.00	3.10	11.00	0.80	52.00	3.90
2014	44.00	2.60	11.00	0.70	55.00	3.30
2015	43.20	2.72	11.50	0.72	54.70	3.44
2016	46.50	2.72	13.20	0.77	59.70	3.49
2017	55.00	2.76	18.00	0.93	73.00	3.69
2018	55.00	2.74	19.00	0.97	74.00	3.70
2019	58.00	2.82	19.00	0.94	78.00*	3.76

Source: Swiss Re, Sigma, Various Issues

The measure of insurance penetration anddensity reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). From table 1 we observe that during the first decade of insurance sector liberalization, the sector has reported increase ininsurance penetration from 2.71 per cent in 2001to 5.20 per cent in 2009. Since then the level of penetration was declining and reached 3.30 percent in 2014. However, the insurance penetration started again increasing from 2015 and in 2019, penetration was 3.76 per cent. The level of insurance density has reported consistent increase from USD 11.5 in 2001 to USD 64.4 in the year 2010. Since then the level of density was decliningup to 2016. But, it started increasing from 2017and in the year 2019, the insurance density wasUSD 78. The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. Since then it hasexhibited a declining trend up to the year 2013 and it started increasing continuously from 2016. During the year 2019, the level of life insurance density was USD 58. The life insurance penetration had gone up from 2.15 per cent in 2001 to 4.60 percent in 2009. Since then, it has exhibited a declining trend up to the year 2014. Then from 2015 to 2017, it was increasing. After a small decline in 2018 to2.74, it increased to 2.82 per cent in 2019. The penetration of non-life insurance sector in the country has gone up from 0.56 per cent in2001 to 0.94 per cent in 2019. Non-life insurance density has gone up from USD 2.4 in 2001 to USD19 in 2019.

Table 2 shows Life insurance industry recorded a premiumincome of Rs 5.73 lakh crore during 2019-20 asagainst Rs 5.08 lakh crore in the previous financialyear, registering growth of 12.75 per cent (10.75per cent in

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previous year). While private sectorinsurers posted 13.42 per cent growth (21.37 percent in previous year) in their premium income, LICrecorded 12.41 per cent growth (6.06 per centgrowth in previous year).Also from table 2 we see thatthe market share of LIC remains 66.22 percent in 2019-20 marginally decreased from 66.42 per cent in the previous year. Themarket share of private insurers has slightly increased from 33.58 per cent in 2018-19 to 33.78 per cent in 2019-20.

Table 2: Premium Underwritten by Life Insurers

Insurer	Premium (Rs. Crore)		Market Share (%)	
	2018-19	2019-20	2018-19	2019-20
LIC	3,37,505.07 (6.06)	3,79,389.60 (12.41)	66.42	66.22
Private Sector	1,70,626.96 (21.37)	1,93,520.59 (13.42)	33.58	33.78
Total	**5,08,132.03 (10.75)**	**5,72,910.19 (12.75)**	**100**	**100**

Source: IRDA Annual Report 2019-20

6. Conclusion

Life insurance market occupies an important role in the Indian financial market in terms of providing finances to various socio economic and infrastructural schemes, inducing domestic capital formation, acting as a stabilizing agent in the stock market and providing insured protection against death and old age economic insecurity. Life Insurance will grow very rapidly over the next decades in India. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness. State-owned insurance companies still have dominant market positions. In the life sector, new private insurers are bringing various types of new products to the market. They also have used innovative distribution channels to reach a broader range of the population. Finally, the rural sector has potential for both life and general insurance. To realize this potential, designing suitable products is important. Insurers will need to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products.

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