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DEVELOPMENT OF PRESENT INDIAN INSURANCE INDUSTRY

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Development of Present Indian Insurance Industry

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Abstract – Life insurance is universally acknowledged to be an institution which eliminates 'risk.' Substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner. By and large, Life insurance is civilization's partial solution to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life – path of every person that of dying prematurely leaving a dependent family to send or itself and that of living old age without visible means of support.

- x -

INTRODUCTION

In April 1993, Government set-up a high powered committee headed by Mr. R. N. Malhotra to suggest reforms in the insurance sector and make it more efficient and competitive. The committee recommended the establishment of a strong and effective insurance regulatory authority in the form of a statutory autonomous board on the lines of SEBI. In December 1999, the insurance sector was thrown open to private sector, followed by the establishment of IRDA (Insurance Regulatory and Development Authority) in April 2000. Realizing the big potential in Indian market, companies all over the globe rushed to find a foothold in the lucrative Indian market. Development of technology and convergence of services witnessed the insurance products being offered by banks also.

It is submitted that the potential for growth of the Indian Insurance Industry can be gauged by the fact that the Indian Insurance market registered the highest growth in the Asian region even though India's share of global insurance premium is much less as compared to developed countries like U.S., Japan, England etc.

MEANING OF INSURANCE

Insurance is a tool by which fatalities of a small number are compensated out of funds (premium payment) collected from plenteous. Insurance is a safeguard against uncertainties. Insurance is a protection against financial loss arising on the happening of an unexpected event. It is worth mentioning here that in our country, through a number of Acts of parliament, specific types of insurances are legally enforced. For example, third party insurance under motor Vehicles Act, public liability insurance for handlers of hazardous substances under Environment Protection Act etc.

It is a well acknowledged phenomenon that there are countless risks in every sphere of life. For example, for human life there are risks of death or disability, for property, there are fire risks, for shipment of goods, there are perils of sea; and so on.

The chances of happenings of these events causing losses are quite uncertain because these may or may not take place. Therefore, with this view in mind, people facing common risks come together and make their small contributions to the common fund. However, it is not possible to tell in advance, which person will suffer the loss. But it may be possible to estimate and work out that how many persons on an average out of the group may suffer losses. When risk occurs, the loss is made out of the common fund collected thereby. In this way, each and every one shares the risk. In fact, they share the loss by payment of premium, which is calculated on the likelihood of loss. The above noted notion of insurance can be made clear through following example:

EXAMLE

In a city, there are 5000 persons residing thereby. 4000 persons are between the ages of 20 to 60 years and are healthy & get themselves insured. It is expected that of these 30 persons may die during a year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs. 50,000, the total loss would be worked out to Rs. 15, 00,000. If each person of group contributes Rs.500 a year, the common fund would be Rs. 20, 00,000. This would be enough to pay Rs. 50, 000 to the family of each of the 30 dying persons. Thus the risks in cases of 30 dying persons are shared by 4000 persons.

The term 'Insurance' may be defined as a co-operative mechanism to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. The insurance is also defined as a social apparatus to accumulate funds to meet the uncertain losses arising through a certain hazard to a person insured for such hazard.

Insurance has been defined to be that in which a sum of money as a premium is paid by the insured in consideration of the insurer's bearing the risk of paying a large sum upon a given contingency. The insurance, thus, is a contract whereby (a) certain sum, termed as premium is charged in consideration, (b) against the said consideration, a large amount is guaranteed to be paid by the insurer who received the premium, (c) the compensation will be made in a certain definite sum, i.e., the loss or the policy amount whichever may be, and (d) the payment is made only upon a contingency.

More specifically, insurance may be defined as a contract where in one party (the insurer) agrees to pay to the other party (the insured) or his beneficiary, a certain sum upon a given contingency (the risk) against which insurance is required.

Insurance may be defined as a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk.

This meant that insurance provides a pool to which the many contribute a certain sum of money called the premium, and out of which the few who suffer losses are compensated by the insurer.

Insurance is a contract between two parties whereby one party, insurer, undertakes, in exchange for a fixed sum called premium, to pay the other party on happening of a certain event. Insurance is a protection against a financial loss arising on the happening of an expected event. Insurance companies collect premium to provide for this protection. A loss is paid out of this premium collected from the insuring public. The insurance company acts as trustee to the amount collected through premium.

Insurance may be described as a social device to reduce or eliminate risk of loss to life and property. Under the plan of insurance, a large number of people associate themselves by sharing risks attached to individual. The risks, which can be insured against, include fire, the perils of sea, death, accidents and burglary. Any risk contingent upon these may be insured against at a premium commensurate with the risk involved. Thus collective bearing of risk is insurance.

Professor Rober Mehr and Professor Emerson Cammack have defined insurance "a social device for reducing risk by combining a sufficient number of exposure units to make these individuals losses collectively predictable. The predictable loss is then shared proportionally by all those in the combination."

It is submitted that insurance cannot prevent loss of life, property or goods by death, fire or other perils. Insurance can merely provide financial compensation for the effects of misfortune. Insurance, therefore, does not protect the material property or life which is the subject –matter of the insurance, but the pecuniary interest of the insured. It is further submitted that above noted definition's and meanings of insurance are true in the case of marine, fire and accident insurance which cover contingencies, but these do not so fully apply to life insurance where every policy becomes a claim ultimately. Hence it becomes essential to know, what is life Insurance?

(a) What is life insurance?

Life insurance is a contract for payment of a sum of money to the person assured (or failing him/her, to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the corporation or insurance company by the assured.

Life insurance is universally acknowledged to be an institution which eliminates 'risk.' Substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner. By and large, Life insurance is civilization's partial solution to the problems caused by death. Life insurance, in short, is concerned with two hazards that stand across the life – path of every person that of dying prematurely leaving a dependent family to send or itself and that of living old age without visible means of support.

It becomes pertinent to mention here that Life insurance guarantees full protection against risk of death of the assured. In case of death, full sum assured is payable. Life insurance encourages long-term saving. By paying a small premium in easy installments for all long period a handsome saving can be achieved. Loan can be obtained against a policy assured whenever required. Tax relief in income tax and wealth tax can be availed on the premium paid for life insurance.

(b) What is contract of insurance?

A Contract of insurance is a contract whereby one party undertakes, in return of a consideration called premium, to pay to the other party a certain sum of money on the happening of a certain event (death or attainment of a certain age) or to indemnify the other party against a loss arising from the risk insured (in case of property). The party which promises to pay a certain sum of money to, or to indemnify, the other party is called the insurer, and the party to whom this protection is given in exchange of premium is called the insured (or assured). The documents containing the term and conditions of the contract of insurance is called a policy, and the insured is, therefore, called a policy holder. The consideration which the insured has to pay to the insurer for the protection given to him is called premium. The amount for which a policy is issued is known as the insured amount or policy amount.

A contract of insurance is a type of contingent contract and is a perfectly valid contract. A contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen. Although a contract of insurance resembles to some extent to a wagering or gambling agreement, but in reality it is not a wagering agreement. Thus, a contract of insurance, being a contingent contract, is an absolutely valid contract. The general principles of the law of contract apply equally to such contract. As such to be a valid contract it must fulfil the following requirements

1. There must be an agreement between the parties.

2. The agreement must be supported by consideration

3. The parties must be capable of contracting.

4. The consent of the parties to the agreement must be, free consent, and

5. The object must not be illegal or immoral.

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