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Insurance Sector & Consumer Protection

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Abstract – The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born. Nationalization was justified on the grounds that it would create much-needed funds for rapid industrialization. This was in conformity with the Government's chosen path of State lead planning and development.

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INTRODUCTION

The history of life insurance in India dates back to 818 when it was conceived as a means to provide for English widows. Interestingly in those days a higher premium was charged for Indian lives than the non-Indian lives, as Indian lives were considered more risky for coverage. The Bombay mutual life insurance society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian. The oriental Assurance Company was established in 1880. The general Insurance business in India, on the other hand, can trace its roots to the Triton (Title) Insurance Company limited, the first general insurance company established in the year 1850 in Calcutta by the British. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

Insurance regulation formally began in India with the passing of the life insurance companies Act of 1912 and the provident fund Act of 1912. Several frauds during 20's and 30's sullied insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business. The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon.

The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born. Nationalization was justified on the grounds that it would create much-needed funds for rapid industrialization. This was in conformity with the Government's chosen path of State lead planning and development.

The (non-life) insurance business continued to thrive with the private sector till 1972. Their operations were restricted to organized trade and industry in large cities. The general insurance industry was nationalized in 1972. With this, nearly 107 insurers were amalgamated and grouped into four companies- National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC).

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian insurance companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of parliament, LIC Act 1956- with a capital contribution of Rs. 5 crore from the government of India.

LIFE INSURANCE REFORMS

In 1993, **Malhotra Committee**- headed by former Finance Secretary and RBI Governor R.N. Malhotra- was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted the report and some of the key recommendations included:

i) Competitive Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector. No Company should deal in both Life and General Insurance through a single entity. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies. Postal Life Insurance should be allowed to operate in the rural market. Only one State Level Life Insurance Company should be allowed to operate in each state.

ii) An Insurance Regulatory body should be set up. Controller of Insurance- a part of the Finance Ministry- should be made independent.

iii) Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company (there current holdings to be brought down to this level over a period of time).

iv) Customer Service LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology to be carried out in the insurance industry.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crores.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority.

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products.

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