

## **DEVELOPMENT OF INSURANCE SECTOR IN INDIA WITH THE SPECIAL REFERENCE TO HEALTH INSURANCE**

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### **ABSTRACT**

Insurance is a co-operative tool to spread the loss occurred due to any kind of unknown risk or unfortunate circumstance to life or any asset of the insured, to the number of persons who are exposed to it & agree to ensure themselves against that risk. In today's era no one is unexposed to innumerable risks connected with life, business or health. So people are discovering or inventing new plans to overcome the uncertain losses. And insurance provides a good or solid defence against these kinds of losses. Insurance is a very simple mechanism, which can be understood easily without any confusion. Main purpose is to share the risk of insured person with the common group of insured persons. The losses occurred due to happening of certain events cannot be prevented by insurance but can be distributed amongst the agreed persons. Risk is shared by payment of premium, which is calculated on the basis of probability of loss. Insurance can also be termed as social device as it covers large number of persons from the society.

**KEY WORDS: Insurance, Health Etc**

### **INTRODUCTION**

Insurance has an ancient and deep-rooted history in India. One of the most sacred books of Hindu India "Rig-Veda" also mentions the word "YOGAKSHEMA". Which suggests to the well – being and security of the people from the risks occurred due to calamities such as fire, floods, epidemics and famine. Main provision "for sharing the future losses" or "Pooling of resources that could be redistributed in times of calamities" was also recognised in the writings of Manu (Manu smriti), Yagnavalkya (Dharmasastra) and Kautilya (Artha-shastra). The concept of "YOGAKSHEMA" used in „Rig-Veda“ mentions that 3000 years Aryans carried some form of community insurance in our country. Some existence of insurance was also noticed during the Buddhist period, which was to help the family of a deceased person by building a house and protection for widows. Pooling of resources that could be redistributed in times of calamities also comes under insurance. The Earliest form of insurance was in the form (nature) of Marine Insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of „marine trade loans or carriers“ contract which comprised an element of insurance. Insurance in India has evolved overtime very well drawing from other countries especially from England.

## **GROWTH OF INSURANCE INDUSTRY**

Insurance industry started its beginnings up to the end of 19th century. In the year 1818, first life insurance Company was established in Kolkata named as “The Oriental Life Insurance Company”. However this company did not succeeded & failed in 1834. Because, Madras equitable started its dealings in life insurance business in the Madras Presidency in 1829. Foreign insurance companies had good dominance up to the end of 19th century with the enactment of “The British Insurance Act in 1870, The Bombay Mutual (1871), oriental (1874) and Empire of India (1897) got started in the Bombay Residency and did good business in India. The first general insurance company commenced its operations at Kolkata in 1850. Over the years, the Indian insurance industry stepped into the new era with various entities operating in both life and non-life insurance segments. Before, 1912 the Indian Companies Act 1883 was applicable on insurance companies and banking companies. And, the Indian insurance companies were not financially and act of 1883 was not adequate for the purpose of serving insurance companies. Therefore Provident Insurance Societies Act v of 1912 and Indian life insurance companies Act VI of 1912 were passed. These two acts were confined to the Life insurance only. It does not included general insurance business. The Indian Life Assurance Companies Act 1912 footed life insurance business soundly in India. This was the first statutory measure which regulated and created much healthier atmosphere in life insurance business ever before. Due to First World War the general insurance companies like fire, marine and accident insurance companies developed at a great & fast speed during 1914-1918. So, the act of 1912 was replaced because it did not controlled general insurance business. And a proper guidance was concerned and essential to control such new companies. In 1924, Government of India placed a bill to deal with the general demand. In 1928 Government of India passed a stopgap legislation to enable the government to collect statistical information about the insurance business in India. Since the Act of 1928 did not had a wide scope and forceful demand was made to comprehend a new act. To control both the Indian and foreign insurance companies. Government accepted the demand for the public interest and a new committee was formed. Which made several changes in earlier act? The Government of India introduced the bill in the Legislative assembly in 1937<sup>1</sup>.

### **THE INSURANCE ACT, 1938**

In 1938, the earlier legislation was replaced; a well balanced consolidated and amended a new act enacted as The Insurance act 1938, which was applicable on both

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<sup>1</sup> Insurance Core Principles, Standards, Guidance and Assessment Methodology, available at [www.iaisweb.org](http://www.iaisweb.org) (Last visited on May 6, 2014)

life and general insurance. This act was the first comprehensive piece of insurance legislation in India. The Insurance act, 1938 was comprehensive and had wide scope with new provisions for effective control over the activities of insurers with a view of protecting the interest of general public or insured. The Insurance act 1938 came into effect from 1st July 1939. And was the new and good step in the legislative framework of our country India. The provisions of this act were to work on the sound principles and to prevent misappropriation, which prevailed in insurance business before enactment of this act. With the enactment of this act the strict supervision was increased on all the companies, which were practising insurance business in India. Since 1938, this act got amended from time to time and six amendments were done up to 1945. In 1945, a need was felt to amend some sections and to introduce new sections to protect the interest of Insured companies. This act contained the aspects of the functioning of insurance companies with wider scope, investments, managerial expenses, Registration, deposits and inception of risk. This act also covered the provisions of licensing and remuneration of insurance agents and their intermediaries, Re-insurance, annual accounts & audit. With the introduction of new sections this act was enacted on 18th April, 1950 by the parliament. “The Controller of insurance office was established in 1950. This act shifted total right of control to the central Government of administration over the conduct of insurance business in India. It became mandatory for insurance companies to follow the rules and regulations of this act unless will be penalised under this act.

#### **DUTIES AND POWER OF “CONTROLLER OF INSURANCE”**

Controller of insurance as works under the central government. So, have many general duties and special duties and special duties. He also has some specific powers to investigate the documents of companies. The Controller has authorisation to receive reports, and accounts of insurer, grant the certificate of registration and inquire about the deposits. Right to issue license to agents also lies with him. To table with the dispute regarding small claims and also may ask to report about him. These are some of general duties. Some of special duties or powers which lies with the Controller is that he is authorised to get the important reports, documents, information and certificate whether complete or incomplete form. He may also take some important actions in case of inaccuracy or deficiency found while tallying the records of past years and to rectify the errors if any.<sup>2</sup>

#### **LIFE INSURANCE ACT, 1956**

Since 150 years Insurance industry flourished in India with both the Indian and foreign players. The scenario of Life insurance in India changed 58 years ago. An ordinance was passed on 19 January 1956 with a view to nationalise Life insurance in

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<sup>2</sup> Hardy Ivamy E.R, General Principles of Insurance Law, 4th eds.

India. With the termination of private management & abolishment of private ownership. On March 21, 1956 elimination of private ownership replaced the corporation management governed by the Life Insurance Corporation act, 1956. The Act commenced from 1 July 1956. Life Insurance Corporation got established under The Life Insurance Corporation Act, 1956. Total control vested in the hands of central government. And no other insurance business will be covered under this act except life insurance. Many companies such as 154 Indian, 16 non-Indian, insurers & 75 provident societies, 245 Indian and foreign insurers were absorbed by LIC with the nationalisation of Life insurance in India.

The process of official management of life insurance continued for 6 months from January 19, 1956 to June 30, 1956. Any kind of contracts made by the insurer company whether express or implied by the management of controlled business be wholly terminated and cancelled on the appointed date or on the commencement of Life Insurance Corporation Act, 1956. All kind of life insurance business was controlled by LIC. Private ownership was completely abolished. Life Insurance Corporation witnessed rapid growth during the years. It is true that LIC had a monopoly uptill 90's and did a commendable job in spreading the insurance In 90's insurance sector was reopened to the private sector & LIC facing healthy competition from private sector. But still LIC is the largest Life insurer in India and is a first choice for people seeking for the life insurance policies in India. LIC also ceased issue of new policy of life insurance at the commencement of this act<sup>3</sup>.

### **MARINE INSURANCE ACT, 1963**

Earliest traces of insurance are found in the form of marine insurance. Marine insurance comes under the non-life insurance or general insurance. Many provisions are laid down under „The Insurance Act, 1938“ about the marine insurance. In 1963, with some amendments and improvements a new act was enacted by the parliament in the 14th year of the Republic of India. A new act „The Marine Insurance Act, 1963“ came into being which completely depicts, the law relating to marine insurance. This act covers business relating to only marine insurance and did not cover any of the other insurance business except marine insurance. Marine insurance is a different form of insurance as compared to other insurance. Terms and conditions like insurable interest and value nature of risk pertaining to ships like Hull cargo and freight also differ from the other insurance. So, a need was felt for a separate act to control the marine business. Marine insurance is an agreement between insurer and insured against the „perils“ relating to marine business such as marine losses or losses incidental to marine adventure. This act consisted many warranties such as express or implied warranty. Which depicted that there will be no implied warranty of

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<sup>3</sup> Huebner S.S, Kenneth Black,Jr, Life Insurance, Prentice-Hall.Inc(10th eds).

nationality of ship cannot be changed during the incidence of risk. And also contained a warranty for the safety of goods.

The marine insurance act 1963 also describes clearly the methods of fixation of premium by the numerical rating method and Judgement method concerning the various factors responsible for rating such as repair cost are recoverable from respective marine insurers but not exceeding the insured value. Whether a new act marine insurance act 1963 got enacted in the year 1963. But the Nationalisation of marine business took place along with the nationalisation of general insurance ordinance 1971, which was replaced by the general insurance act 1971. The progress of marine insurance took place both before the nationalisation. The share of marine business in the total general business in 1969 was 80.2% of total net received by all general insurers, which increased to 81.7% in 1971. Marine insurance doing commendable job even after the nationalisation and contributing to the economy of a country. This results in the development of country.

#### **GENERAL INSURANCE ACT, 1972**

In 1971, The Central Government of India extended the nationalisation to the general insurance business. These companies were given full privilege to control and operate the general insurance in India. The GOI also transferred rights to GIC and other four public sector general insurance companies to carry on the all operations pertaining to general insurance business in India. Before the enactment of this act the companies according to the Insurance Act, 1938, carried on the general insurance business. But after nationalisation general insurance did a commendable job and transformed Indian Insurance from volume driven into class based business. GIC provided insurance cover to all kind of non-life insurance business. GIC also bothered about the rural India and also provided insurance covers to farmers in the form of „crop insurance“ and other form of personal life insurance. This was also made a remedy to protect farmers from committing a suicide that is growing across the rural India.<sup>4</sup>

#### **INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT, 1999 IRDA**

The winds of globalisation also affected the Indian insurance sector. This led to setup a high powered committee headed by Mr R.N Malhotra, former Governor, Reserve Bank of India by the Government to examine the structure of insurance sector in India and suggest reforms to make it more vital and competitive and compliment the reforms initiated in financial structure of economy. The Malhotra committee submitted its report on 7<sup>th</sup> January 1994 with the recommendation of privatisation in insurance sector should be activated even in the present set up of nationalised sector

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<sup>4</sup> John Lowry and Philip Rawlings, Insurance Law : Doctrines and Principles, Oxford and Portland, Oregon, 2005.

in India. After the discussions on recommendations at different forums including the ministry of finance, management of GIC and its subsidiary companies, trade unions, LIC and groups of consumer interest. Opening up of insurance sector for private sector and foreign players found a wide scope. And interim Insurance Regulatory Authority formed in 1995. Accepting the recommendations of committee in 1999, The Insurance Regulatory and Development Authority (IRDA) Act was passed. IRDA was constituted as an autonomous body to protect the interest of holder's of insurance policies, and to regulate and promote the insurance business in India. This was the new change in insurance sector in India as the insurance industry was re-opened for the private sector and foreign players. This provided a healthy and competitive environment in insurance sector. The IRDA performed all the functions that were earlier vested in the hands of „The Controller of insurance“ under the insurance act 1938. It provided various regulations to business of insurance with the view of insured interest and to set up a emerging and healthy competitive environment. Before the enactment of IRDA act 1999, there was only LIC as a sole life insurer with a monopoly. And GIC and its four subsidiaries had a monopoly on the general insurance business in India and additional a specialised institution Export Credit Guarantee Corporation of India was there.

The IRDA act also amended the Insurance Act, 1956 and the General Insurance Business (Nationalisation) act, 1972. With the amendments LIC, GIC and its four subsidiaries ended the monopoly in the insurance sector. Indian insurance sector got liberalised and new private players gave healthy competition to the public sector. By the August 2007, there were 16 life insurers and 15 non-life insurers in operations. This has increased to 28 general insurance companies and Life insurance companies operating in India. In 2002, the supervisory role of GIC over its four subsidiary companies was ended. The GIBNA act was amended and the new act was formed as The General Insurance Business (Nationalisation) Amendment Act of 2002. The four subsidiaries were re structured and became independent companies wholly controlled and owned by the Government of India. These companies got delinked with G.I.C. This reform restricted the GIC to the re-insurance business. GIC became the sole Re-insurer in India with a new name as “GIC Re”<sup>5</sup>

#### **DEVELOPMENT AND EXPANSION OF INSURANCE SECTOR IN INDIA WITH SPECIAL REFERENCES TO HEALTH INSURANCE**

Health insurance comes under miscellaneous insurance carried on by general insurance there are many products available in the country regarding health insurance. Health insurance is available in the form of individual and group level government has also introduced many kind of health insurance policies covers can BPL families

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<sup>5</sup> MacGillivray on Insurance Law. London, Sweet &Maxweell,(10th eds, 2003).

so every citizen can be covered under health benefits. Mostly group insurance is very popular in the industrial areas.employ0yers provide health insurance to their employees as they are always at a risk of health due to injury while working in the heavy machines. it is very beneficial for the workers in case of any unfortunate incidences during the work because medical expenses are very expensive and in lump sum basis and can get reimbursed form all these expenses. Health insurance provides certainly and has risk bearing capacity. it provides a financial aid to the insured up to the sum insured. The health insurance has as many benefits for the society. Earlier only medi claim was provided as a health insurance but now companies has improved their products and wide variety of health insurance products are available in the insurance market.

### **HEALTH INSURANCE SCENARIO IN INDIA**

Health care facilities are not very easily available in India. In India health care is still an area not properly developed as a nation with large population and most of population dwelling in the rural areas and urban slums. Medical care have accessibility and affordability as concerned with well to do segments of the population of both rural and urban areas .The large amount of medical cost are still not in the reach of common man and is not at all affordable among the people who belong to poor families below poverty lines. Health insurance is still a untapped market in India as compared to the rest of the nations of the world. Most of the health insurance facilities cover the employees of the government sector among total health insurance covered population in the country which is less than 15% of total population. Health insurance has a wider scope in India as private players have entered the insurance market and private companies do share 80% of health financing. Health sector requires a proper administration and awareness among the people and companies also needs a proper plan to import new products in the market and earn good revenue through the health insurance sector.<sup>6</sup>

### **EVOLUTION AND GROWTH OF HEALTH INSURANCE IN INDIA**

In India various types of health insurance schemes are available some are mandatory schemes are available some are government namely ESIS and CGHS. Voluntary health insurance schemes are mainly deemed as commercial health insurance or insurance products for the private for profit schemes. ESIC employees state insurance scheme was introduced in year 1948 and CGHS was introduced in year 1954.thereschemes were provided for the workers in government sectors and ESIC for the workers employed in private sector as mandatory are still available to the society by the government. In India, a proper standardised product of health insurance was

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<sup>6</sup> Murthy K.S.N & Sarma K.V.S, Modern Law of Insurance in India, M.N.Tripathi(P) Ltd,(3 rd eds, 1995)

launched in 1986.earlier to this health insurance was provided by the non life insurance companies before as well as after the nationalisation of insurance industry. so history of health insurance in India is near about 1986 in the proper commercial manner till than insurance industry in health sector has grown rapidly due to awareness and economic liberalization. With the starting of health insurance first product introduced was in name as “mediclaim” for the individuals but it has brought many new changes in the health policies and various new policies for all groups are available in the Indian market

### **COMMERCIAL HEALTH INSURANCE**

In 1986, the first private standardised health insurance policy was introduced by the four subsidiary companies of GIC in the name of “mediclaim” this product was introduced to provide medical insurance to the individuals and their families, mediclaim is still a main product in case of health insurance purchased by the people. Mediclaim was introduced to provide coverage for the hospitalization up to the sum insured by the insurer. This policy did not cover the pre-existing disease and maturity benefits. The health insurance industry has developed very fast due to general awareness and liberalisation of economy. Medicalim product has undergone many changes and last revisions were done in 2007 in 2010,25% of country’s population is covered in form of private paid commercial health insurance which is very less as compared to social health schemes provided by the government .the most prevalent form of private health insurance is the hospitalization. Expenses covered annual contract in India. At present there are variety of mediclaim products available in the health insurance market under the names of mediclaim covers. Many awareness campaign had been launched by the insurance regulatory and development authority to increase awareness about the benefits of the health insurance products to the people of the nation .earlier only public sector nonlife insurance companies were providing commercial health insurance but in 1999 with the enactment of IRDA act .private players also entered the insurance market there are more than 30 general insurance companies, standalone health and life insurance companies providing more than 300 health insurance products in the Indian market.

There has been increase in the number of insurance policies issued in the country due to increase in income of middle class and liberalization of private insurance market with the entrance of private players in the insurance sector in 2001,customers have various choices to buy the health insurance product according to their convenience. On 1st January 2007, insurance regulatory and development authority eliminated the entire tariff on non life insurance. This helped in the growth of private insurance products in India. After all the development health insurance market in India, only 25% is having health insurance covers. According to the reports of World Bank 2002,a large number of population is coming below poverty ine due to heavy



expenses on hospitalization and people selling their property and borrow money to meet their expenses because they are unaware of the health insurance products and are not covered under their policy benefits. There is a urgent need for better marketing of health insurance products in India, because these policies are of extreme importance to meet unexpected expenses, due to health reasons This is also beneficial for the companies to earn extra revenue and also to help the people to get compensated of the losses, and the extreme importance should be given to cover the poor people also under the health policies<sup>7</sup>.

### **CONCLUSION**

From the study it is evident and concluded that GIC and its four subsidiaries contributed in a positive manner for the development of health insurance sector both at national level and division level. Most of the figures shown positive growth in the amount of premium of overall performance of companies and a positive co-relation between the premium & claim amount. Firstly the health insurance in a proper standardised manner started in 1986 by the public sector general insurance companies. Boom period in health insurance came 221 near about 1990's. From starting the oriental is a leader in health insurance sector. Oriental insurance company regarding health insurance also does most of retention work. And still Oriental is performing very satisfactorily in sector of health insurance. Insurance sector including health insurance business marked the beginning of new era in India. With the establishment of IRDA, the insurance sector was opened for private and foreign players. Whereas, earlier the insurance business was completely nationalised and GIC and its subsidiaries had monopoly in general insurance. With the privatisation in Insurance sector it created a healthy environment for both the public and private insurance companies. This proved to be a boon to society as various numbers of policies were available in the market for all the segments of the society. Later in 2003 government took a initiative and advised the public sector insurance companies to introduce the universal health insurance sector for the formal sector. In the study it was revealed that health insurance sector faces many obstacles & challenges like some common problems of unawareness & improper execution of the policies. And even some major problems like internal & external frauds regarding claims. These companies have made a very strong management system to overcome these problems.

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