



## INSURANCE BUSINESS ACT IN INDIA

## Commerce

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## ABSTRACT

In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. Insurance is a subject listed in the Union list in the Seventh Schedule to the Constitution of India where only centre can legislate. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment of up to 49%, the insurance sector has been a booming market. However, the largest life-insurance company in India is still owned by the government. In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmriti), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to insurance in these texts have reference to marine trade loans and carriers' contracts. Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer.

## KEYWORDS

## INTRODUCTION

However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company Ltd., which was founded in 1906. It is in business.

The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1, 1973.

The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies.

With effect from December 2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited.

## Industry Structure

Currently India is a US\$41 billion industry. Currently, in India only two million people (0.2% of the total population of 1 billion) are covered under Mediclaim, whereas in developed nations like USA about 75% of the total populations are covered under some insurance scheme. With more and more private companies in the sector, the situation may change soon.

## Specialization

ECGC, ESIC and AIC provide insurance services for niche markets. So, their scope is limited by legislation but enjoy some special powers. ACTS

The insurance sector went through a full circle of phases from being unregulated to completely regulate and then currently being partly deregulated. It is governed by a number of acts. The Insurance Act of 1938 was the first legislation governing all forms of insurance to provide strict state control over insurance business.

Life insurance in India was completely nationalized on January 19, 1956, through the Life Insurance Corporation Act. All 245 insurance companies operating then in the country were merged into one entity, the Life Insurance Corporation of India.

The General Insurance Business Act of 1972 was enacted to nationalize the about 100 general insurance companies then and subsequently merging them into four companies. All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance and United India Insurance, which were headquartered in each of the four metropolitan cities.

Until 1999, there were no private insurance companies in India. The government then introduced the Insurance Regulatory and Development Authority Act in 1999, thereby de-regulating the insurance sector and allowing private companies. Furthermore, foreign investment was also allowed and capped at 26% holding in the Indian insurance companies.

In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries. A minimum capital of US\$80 million (Rs.400 Crore) is required by legislation to set up an insurance business.

## Authorities

The industry recognizes examinations conducted by IAI (for actuaries), III (for agents, brokers and third-party administrators) and IISLA (for surveyors and loss assessors). TAC is the sole data repository for the non-life industry.

IBAI gives voice for brokers while GI Council and LI Council are platforms for insurers.

AIGIEA, AIIEA, AIIIEF, AILICEF, AILIEA, FLICOA, GIEAIA, GIEU and NFIFWI cater to the employees of the insurers. In addition; there are a dozen Ombudsman offices to address client grievances.

## Insurance Education

National Insurance Academy, Pune, has a 32 acre campus & 30-plus faculty, specialized in teaching, conducting research and providing consulting services in the insurance sector. NIA offers a two year PGDM program in insurance. NIA was founded as Ministry of Finance initiative with capital support from the then public insurance companies, both Life (LIC) and Non-Life (GIC, National, Oriental, United & New India). Amity School of Insurance Banking and Actuarial science (ASIBAS) of Amity University, located in Noida and established in 2000, offers MBA programs in Insurance, Insurance and Banking, and M.Sc./B.Sc. actuarial sciences.

The Institute of Insurance and Risk Management (IIRM) is an international education and research organization. The Institute was set up jointly by the Insurance Regulatory and Development Authority (IRDA) of India and the State Government of Andhra Pradesh, in 2002 for promotion of International Post Graduate Diploma Courses in Insurance / Risk Management (Regular and Distance learning) . International School of Actuarial Sciences (ISAS) opened on 6th August 2007 leading to a Post Graduate Diploma in Actuarial Sciences.

Birla Institute of Management Technologyn a graduate business school located in Greater Noida, established in 1988, offers a PGDM-IBM program in insurance business management. This program was launched in 2000 by the Centre for Insurance and Risk Management and is accredited by the Insurance Regulatory and Development Authority. Life Office Management Association (LOMA), USA is BIMTECH's educational partner and BIMTECH is an approved centre for LOMA examination. The Chartered Insurance Institute(CII), UK has accorded recognition (by way of credits) to the BIMTECH PGDM-IBM program. Their two year PGDM program in insurance business has been recognized as equivalent to the Associate level of the Insurance Institute of India, Mumbai. NLU, Jodhpur, offers a two year MBA and one year MS (for engineering graduates) program in insurance.

IRDA controls all the Insurance business in India. They are setting structure and boundaries for the insurance companies to act within. Starting from licensing to approving the products, IRDA directs the companies in India. They also protect customer interests in the country.

#### Insurance Regulatory And Development Authority

Insurance Regulatory and Development Authority (IRDA) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by a Parliament of India act called Insurance Regulatory and Development Authority Act, 1999 and duly passed by the Government of India.

The agency operates its headquarters at Hyderabad, Andhra Pradesh where it shifted from Delhi in 2001.

#### Duties, Powers And Functions

The duties, powers and functions of IRDA are laid down in section 14 of IRDA Act, 1999 as:

1. Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.
2. Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include, -
  1. issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
  2. protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
  3. specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents
  4. specifying the code of conduct for surveyors and loss assessors;
  5. promoting efficiency in the conduct of insurance business;
  6. promoting and regulating professional organizations connected with the insurance and re-insurance business;
  7. levying fees and other charges for carrying out the purposes of this Act;
  8. calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other

- organizations connected with the insurance business;
9. control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
10. specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
11. regulating investment of funds by insurance companies;
12. regulating maintenance of margin of solvency;
13. adjudication of disputes between insurers and intermediaries or insurance intermediaries;
14. supervising the functioning of the Tariff Advisory Committee;
15. specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (2.6);
16. specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
17. exercising such other powers as may be prescribed

#### Chartered Insurance Institute

The Chartered Insurance Institute (also known as the CII) is a United Kingdom based professional organization for those working in the insurance and financial services industries.

The Institute provides accreditation and professional qualifications to UK and international members. Current (designated) qualifications include (in ascending level order): Cert CII, Dip CII, Advanced Dip CII (ACII - previously called Associate ship CII) & Fellowship CII (FCII). ACII and FCII accredited members are eligible to apply for election to Chartered Insurer status, which is based on experience in the insurance industry alongside these qualifications. These titles may be used by any person upon completion of the required level of qualification and confirmation from the institute

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