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A Comprehensive Review of Life Insurance Legislation and Industry Practices in India

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Abstract

This paper provides a well-defined point of view on the arguments that are going on right now in relation to insurance companies abolishing their privatization and becoming globally available, with a special focus on the case of India. A detailed study of the historical development, and the structural change about the Indian insurance sector will be conducted by this research. Key sale points in the market will be some key perspective of the study. Lessons also include the operational impact, together with the broad economic effects of these changes. The analysis will begin with an in-depth study of the emergence of the insurance industry in India and their progress to the development of the sector as well contribution of private entities and the situation of life insurance following privatization. Another aspect, which will be covered, will be the emerging challenges, the life insurance sector is likely to confront in India. By means of this research, it becomes possible to make bring out the most vital lessons and conclusions from the educational way that is going to deal with the operational and the economic impact of the privatization and the global development of the insurance companies.

Keywords: *Life Insurance*, Insider Trading, *privatization*, *global development*

Introduction:

Insurance is not just a financial obtain; it's a pillar of an enterprise that brings welfare and prosperity to the economy. Using the sages of the past as our teachers, we are able to connect to the evergreen prose of texts like the Epic of Mahabharata, which speak of life's uncertainties, beyond the ages. The Bible is full of wisdoms which discourage from uttering words of sorrow as we regret losing the ability to control certain events; therefore, the reasons which persuade people to seek ways of minimizing risks during their lifetime start from the time they plan their existence. (Life Insurance Compendium 1999- 2000)

The essential fabric of the human existence has many knots of risk intertwined, extending beyond mere personal being to even the industry. (Burton v. Islington Health Authority 1993)

The risks associated with environmental contamination start at birth and go through an individual's whole life, insofar as every single region of human life is concerned. With the ever-changing face of business management as well as personal achievement, individuals grapple with myriad of ambiguities. The hurdles and risks pertain to powerful actors and may comprise hindrances to development and prosperity. (Lucena v.Craufurd, 1806)

The basis for insurance appears at this very stage: the need for an adequate measure to cover the risks that emerge unpredictably in different ways. In the contract of insurance, which is redefined in the Lucena case, risk protection is the principle under which the agreement is made. According to this agreement, one party, as an obligatory confirmation of the premium, undertakes to cover the other party from defined risks and all losses arising from him. This kind of definitional is a correct explanation of insurance as transferring risk, which is that of giving a financial safety net to individuals and businesses that will help them attain their goals with absolute security.

The development of life insurance as a product has also witnessed a shift from mere protection to becoming a multi-disciplinary financial instrument. It deals with the specific customer’s need through features a wide range of products and consumers policies that are engaging the customer at each stage of the shopping venture. For many, the very word "insurance" conjures up an image of a way of securing the best possible financial future for one’s loved ones. However, life insurance has recently been successfully rooted as a convenient and versatile investment option. The combination function has created a multi-tasking product for policy holders which fulfils the roles of both protection and investment.

Besides individual lives, the importance of life insurance is all the visible in the corporate world, especially everywhere among big commercial and industrial companies. Risk management in this discipline provides a powerful tool in the risk transfer processes, which is greatly needed and beneficial to both the insurer and the insured. Through this, the company's insurance enterprise helps achieve the desired objective of eliminating any financial turbulence the organization could be facing. As a result, it has an impact on the credit health of the insured institution or a person. The unfortunate circumstance of death requires life insurance policies to be a critical resource of finance that is needed to settle debt and payment of other obligations which helps the beneficiaries to keep their lives financially stable.

Origin of Insurance in India

The evolution of insurance industry in India is most notably a captivating story that can be traced back to the very beginning of the history of the country, thereby capturing its every aspect and growth in response to the changing economic environment. The shaping a journey can be broken into key periods which identify crucial phenomena and massive change in technology’s patterns.

The idea of insurance in India is not just a more recent invention but rather it has its base and origin from old age Indian manuscripts and writings. Among these alone is Manusmriti, Dharmasastra by Yagnavalkya, and Kautilya's Arthashastra. These works suggest that even from the time of antiquity the inhabitants were already vaguely aware of such concepts as risk management and the mutual resource pooling of individuals to keep to a minimum the effect of turmoil, including wildfires, floods, epidemics, and famines. These allusions in the ancient texts echo the fact that Indian scholars had the vision even to the extent of conceiving the lines of the basic systems of insurance which are presently comprehensive. (*History of Life Insurance In India* 2013, May 23).

The Pre-Independence Era

The formal insurance industry as one of the largest opticians of modern India was started by ophthalmologists in the colonial period, when British rules were popular in the area. The insurance of life business is traced back to the birth of the Oriental Life Insurance Company in Calcutta in 1818. This period although concluded in 1834 with the fall of the East India, Company, gave rise to many entities like the Madras Equitable that commenced life insurance business in Madras Presidency in 1829.

The phrase, "the later 19th century" referred to the beginning proliferation of several insurance companies, such as the Bombay Mutual Life Assurance Society (1871), the Oriental (1874), and the Empire of India (1879) in the Bombay Presidency. However, between 1854 and 1925, Indian policyholders owned double the insurance amount of their British counterparts, which is accounted for by the expensive premium rates for Indians. This at times could go up to 20% extra on the premium rates, which demonstrated the discriminatory policies of the time. (*Ibid*)

The period around early 20th century turned out to be a watershed in the history of a financial institution in India as legal measures and regulations were introduced, leading to nationalization of the industry. The first Indian Life Assurance Companies Act was the legislative step of 1912 to regulate the life insurance business, and later, Triton Insurance Company Ltd., owned by British nationals and Indian Mercantile Insurance in Bombay by an Indian entity in 1907 was the first general insurance company established in Calcutta were the next two. The other milestones in the journey were the Companies (Requirement of Insurance) Act, 1928, which was intended to obtain details regarding the insurance business operations, and the Insurance Act, 1938, which actually aimed at the policyholders' benefits and control of insures' activities. (Tuli, N. & Taimni, R. 2019, October 23).

The new dependencies after the independence were characterized with increasing factors of the unfair trade practices and the major competitions between the numerous insurance companies. After this, the leadership of the government of India brought about a transformative decision of nationalization of the insurance sector. The dawn of the birth-giving Insurance Amendment Act, 1950 began a new era of evolution in the Indian insurance industry, as it was clear to all, that it is the beginning of a new chapter in the development of the Indian insurance sector.

The post-Independence Era

Although the nationalization of the Indian life insurance sector has proven a key window to the adoption of even stronger socialism system in the country, that has been the big vision of the first PM of the nation after independence, Jawaharlal Nehru. He proposed a system in which state's two-fold task of providing for the individual's welfare and pursuing common good is performed simultaneously and, therefore, one supports the other. Objective was to guarantee that masses will not be deprived from this consequential advantage which in essence is a strong defensive shield for all around 1.3 billion population.

This process started with a series of regional acts, involving state government, aimed at introducing life insurance to a controlled environment. This crucial step that took place no earlier January 19, 1956 saw and changed the management of about 245 insurance companies and social security organizations to be placed under the central governments control. This was an era prior to the enactment of the specific Act of LIC, in September 1956, while the whole legislative process was going on. This flight unquestionably made the LIC into a being it is today with an exclusive right to conduct life insurance business within the India and establish a ground for the monopolized market. (Lall, S. 2018, February 19)

On 1 January 1973, the realms of general insurance also were affected after the nationalization of general business (under the General Insurance Business (Nationalization) Act). The aim of this consolidation was to deal with the situation where the general insurance sector had fragmented and in turn led to poor efficiency and control. Through the Act, assets and operations of existing Indian general insurers and other entities were inherited by the newly formed entity GIC (General Insurance Corporation). GIC was set up in November,1972 under Companies Act which took duties related to supervision and the promotion of general insurance industry in India. Prior to this, market was crowded with 107 companies, including foreign entities, which were subsequently merged into four GIC subsidiaries: GIC mainly concentrated on reinsurance, while both overseas and local insurance services were handled by its subsidiary companies i.e. National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Assurance. *(Supra* note 6)

The domination of both of these companies, LIC & GIC, can be called a period of substantial growth and development for the insurance industry of India. During this period, it had experienced the growth and impact of the insurance services that had expanded to the whole country. Nevertheless, liberalization spreading over the insurance sector was catalysed by the 1991 economic reforms that shook the status quo in most other sectors alike. The formation of an eight-member committee in 1993 that was headed by R.N. Malhotra, a former Deputy Governor of RBI responded to the need for additional reforms. The role of Malhotra committee, was to analyse the scenario and provide suggestions on the sector's rejuvenation. However, the committee submitted its report to the government in 1994 which was a watershed moment and revolution for the life insurance industry in the country. Life insurance and nonlife insurance has witnessed this and these players are now allowed to operate inside the sector as private entities. Together, these went a long way towards the country's financial security and stability, and recommended the establishment of the oversight body which would oversee the orderly growth of the industry with the aim of safeguarding the interests of the policyholders. With this in mind, the IRDA was set off in 1999 with the goal to supervise the industry's growth, preserve its stability by introducing regulatory frameworks trying to maintain the same conditions for insurers, as well as to protect interests of the customers. (*Supra* note 7)

Now, the Indian insurance industry is very multi-dimensional and dynamic because there are about 34 general-purpose insurance companies plus ECGC Grantee and Agriculture Insurance Corporation of India and 24 life insurance companies in operation in the Indian market. Creating a hybrid financial market from a state-owned monopoly to a competitive, regulated one serves as a positive example of India's dynamic policies for reforming its banking system, with the ultimate aim of providing a better quality of life for its people while being a stimulant of economic growth.

The Function of Private Participants in the Indian Life Insurance Market

The stereotypical picture of the Indian insurance industry seems to have undergone a dramatic change during the latest century, which could be well characterized as a fierce competition with the other players instead of LIC’s sole dominance. The process of transformation that is largely associated with the liberalization policies welcoming the foreign and private players with impunity into the course of events, has been a key factor in shaping the competitive landscape . Before, LIC was imperilled by an insulation which was expressed in Insurance Regulatory and Development Authority Act. Initially, the situation was monopolized; albeit, the scene was gradually lifted to allow companies to take part in the insurance sector. Not a mere regulatory change was happening, this was something of a disruptive paradigmatic transformation in the Indian insurance services provision.

After completing of 5 calendar years in September 2013, which allowed entry of 24 companies into the insurance market, it was noticeable that a majority of these 23 companies originated from the private sector, while just one company was a public sector entity, namely LIC. This early involvement of private players gave rise to the increased competition, thereby leading to the LIC's loss of total bakery market share that it previously enjoyed. (*Supremo Amicus* 2021).

The concentration of market power led to the formation of several objectives of the liberalization of life insurance industry. The core purpose of this code was to destroy monopolising of LIC and bring following issues into existence i.e. competition, efficiency, and greater range of choices for consumers. The entrance of the private investors, both local and international ones, was aimed to breathe life into industry by socializing the latest products, services, and consumer’s engagement strategies through it.

The liberalization and privatization of the life insurance sector have had multifaceted impacts:

- Private insurers have introduced a broad array of life insurance products tailored to the diverse needs and preferences of the Indian populace. These offerings include a variety of premium structures, rider options, and maturity benefits, enriching the choices available to consumers.
- The entry of private players has been accompanied by substantial investments in marketing and consumer education. This has not only expanded the reach of insurance products but has also heightened awareness regarding the importance of life insurance as a critical component of financial planning.
- Since the liberalization in 2000, there has been a noticeable increase in life insurance penetration in India. From a penetration rate of approximately 2.15% in 2001-02, it surged to about 4.0% in 2009-10. This growth reflects the sector's expansion and the innovative engagement strategies employed by private insurers.
- The insurance penetration rate, indicative of the sector's contribution to the GDP, underscores the positive correlation between life insurance and income levels. The Indian market, with its blend of emerging opportunities and a burgeoning consumer base, has become an attractive arena for both domestic and international insurance players.

Conclusion

India is included one of the surest developing economies of the world place in international insurance market. The significant drivers incorporate sounding the light of Economic determinants and, middle class growth. class income and urban. Better quality of living the challenges of council and govern in the advent of the technology development which poses many risks and uncertainties awareness. Through observation as we saw it is not evident that Earth revolves around the Sun makes sense the entrance of Private Companies in the insurance line business becoming obligatory for the generation of profits. contribute to achieving, palm oil provides a wide range of benefits to the humanities. Higher density and insurance coverage leading to increased burden on medical facilities and providers. To boost the economy and for a significant rise in the long-done savings. infrastructure perfects. New players ought to be not tools to be used against people, but tools to empower as fighter of injustice. the idea that collaboration is tearing apart societies but it improves the things in a community. Overall, achieving the objective of promotion for development.

The insurance sector tends to play only after the event and therefore is perceived to have moderating effects on behaviour of major companies. The report cites numerous opportunities that the LIC around the area could create. The LIC dominates the region not only as the one that owns the land but is over it. Another type of private sector insurance company also joined the game.is to expand their market share by encompassing as many markets as possible industry. Through individual life insurers, the people can also take advantage of the measures they offer and even enhance their financial wellbeing the sector of business marketing and advertising has been transformed greater extent. Capital ratio of private life insurance rates was markedly in favour of the Life Course participants who were offered a range of health benefits. Insurance company to be contracted to get rid of the large major stakes' loss suffered by them. Lapsation portion of Actual claims recorded by Private Insurers was more than recorded by LIC and comprising it as whole in this case could mean that you are missing out on a large segment of the market. Non-glass claims had better adjustment measures. LIC has been widely associated with public service, with most of its customers who are often/always the ordinary taxpayers.

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