

CHAPTER 25

INSURANCE

Though the concept of insurance is largely a development of the relatively recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years. In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a large, possibly devastating loss. The insured receives a contract called the insurance policy which details the conditions and circumstances under which the insured will be compensated. Insurance is a federal subject in India. The insurance sector has gone through a number of phases and changes. Since 1999, when the Government opened up the insurance sector by allowing private companies to solicit insurance and also allowing foreign direct investment of up to 26%, the insurance sector has been a booming market.

Life Insurance:

Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against. The contract is valid for payment of the insured amount during: (1) The date of maturity, or (2) Specified dates at periodic intervals, or (3) Unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the Corporation by the policyholder. 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 civilisation'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: (a) dying prematurely leaving a dependent family to fend for itself, and (2) living till old age without visible means of support.

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. Later, the Indian Insurance Companies Act, 1928 was enacted to enable the Government to collect statistical information about both life and non-life insurance businesses.

The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

Today LIC functions with 2048 branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices and the corporate office. LIC's Wide Area Network covers 109 divisional offices and connects all the branches through a Metro Area Network. LIC has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC's ECS and ATM premium payment facility is an addition to customer convenience. Apart from on-line Kiosks and IVRS, Info Centres have been commissioned at Mumbai, Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. With a vision of providing easy access to its policyholders, LIC has launched its SATELLITE SAMPARK offices. The satellite offices are smaller, leaner and closer to the customer. The digitalized records of the satellite offices will facilitate anywhere servicing and many other conveniences in the future.

General Insurance:

General Insurance provides much-needed protection against unforeseen events such as accidents, illness, fire, burglary et al. Unlike Life Insurance, General Insurance is not meant to offer returns but is a protection against contingencies. Almost everything that has a financial value in life and has a probability of getting lost, stolen or damaged can be covered through General Insurance policy. Property (both movable and immovable), vehicle, cash, household goods, health and also one's liability towards others can be covered under general insurance policy. Under certain Acts of Parliament, some types of insurance like Motor Insurance and Public Liability Insurance have been made compulsory.

General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices in 1957. The Insurance Act amended in 1968 to regulate investments and set minimum solvency margins and the Tariff Advisory Committee were set up. The entire general insurance business in India was nationalised by General Insurance Business (Nationalisation) Act, 1972 (GIBNA). General Insurance Corporation of India (GIC) was formed in pursuance of Section 9(1) of GIBNA. It was incorporated on 22 November 1972 under the Companies Act, 1956 as a private company limited by shares. After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC (1) National Insurance Company Limited, (2) The New India Assurance Company Limited, (3) The Oriental Insurance Company Limited, and (4) United India Insurance Company Limited. The next landmark happened on 19th April 2000, when the Insurance Regulatory and Development Authority Act, 1999 (IRDA) came into force. This act also introduced amendment to GIBNA and the Insurance Act, 1938. An amendment to GIBNA removed the exclusive privilege of GIC and its subsidiaries carrying on general insurance in India. In November 2000, GIC is renotified as the Indian Reinsurer and through administrative instruction, its supervisory role over subsidiaries was ended. With the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003 GIC ceased to be a holding company of its subsidiaries. Their ownership was vested with Government of India. The Missions of GIC are: (1) building long-term mutually beneficial relationship with business partners, (2) practicing fair business ethics and values, (3) applying state-of-the-art technology, processes including enterprise risk management and innovative solutions, (4) developing and retaining highly motivated professional team of employees, and (5) enhancing profitability and financial strength befitting the global position.

Postal Life Insurance: Postal Life Insurance (PLI), introduced in 1884 is the oldest life insurance scheme for the benefit of Government employees. Initially, meant only for the Postal employees, today it caters to employees of the Civil and Military personnel of the Central and State Governments, Local bodies, Government aided Educational Institutions, Universities, Nationalized Banks, many Autonomous and Financial Institutions, Public Sector Undertakings of the Central and State Governments. The types of policies available under P.L.I. are: (1) Whole Life Insurance (Suraksha), (2) Convertible Whole Life Assurance (Suvidha), (3) Endowment Assurance (Santosh), (4) Anticipated Endowment Assurance for 15 & 20 years (Sumangal), (v) Joint Life Endowment Assurance, and (6) (vi) Children Policy (Bal Jivan Bima).

Rural Postal Life Insurance: Rural Postal Life Insurance (RPLI) Scheme was introduced in 1995 with a specific mandate to provide insurance cover to the rural public in general and benefit weaker sections and women workers of rural areas in particular. RPLI offers the following plans: (1) Whole Life Assurance (Gram Suraksha), (2) Convertible Whole Life Assurance (Gram Suvidha), (3) Endowment Assurance (Gram Santosh), (4) Anticipated Endowment Assurance for 15 & 20 years (Gram Sumangal), (5) 10 years RPLI (Gram Priya), and (6) Children Policy (Bal Jivan Bima).

Both Postal Life Insurance and Rural Postal Life Insurance were being marketed by Postal employees and GDS and some direct agents since 2007. However, the Direct Agency system was not in step with industry practices as engagements of Direct Agents was centralized and the incentive structure was based on Sum Assured. The incentive structure was brought in sync with the industry practice by shifting from commission based on sum assured to one based on first premium and renewal premium. The rate of commission was fixed at 10% of first premium and 2 ½ % of renewal premium for Rural Postal Life Insurance.

The concepts and definitions of some important terminologies are as under:

Contract of Insurance: A contract of insurance is a contract of utmost good faith technically known as *uberrima fides*. The doctrine of disclosing all material facts is embodied in this important principle, which applies to all forms of insurance. At the time of taking a policy, policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void.

Protection: Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is payable.

Aid to Thrift: Life insurance encourages 'thrift'. It allows long-term savings since payments can be made effortlessly because of the 'easy instalment' facility built into the scheme. (Premium payment for insurance is monthly, quarterly, half yearly or yearly).

Accident: An event or occurrence causing damage/injury to an entity, and is unforeseen and unintended.

Accident Benefit: Provides for payment of an additional benefit equal to the sum assured in instalments on permanent total disability and waiver of subsequent premiums payable under the policy.

Age Limits: Stipulated minimum and maximum ages below and above which the company will not accept applications or may not renew policies.

Agent: An insurance company representative licensed by the state, who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder for the insurer.

Business Insurance: A policy which primarily provides coverage of benefits to a business as contrasted to an individual. It is issued to indemnify a business for the loss of services of a key employee or a partner who becomes disabled.

Fire Insurance: Coverage for losses caused by fire and lightning, plus resultant damage caused by smoke and water. Flood insurance Coverage against loss resulting from the flood peril, available at low cost under a programme developed by the Central government.

Franchise Insurance: A form of insurance in which individual policies are issued to the employees of a common employer or the members of an association under an arrangement by which the employer or association agrees to collect the premium and remit them to the insurer.

Guaranteed Insurance Sum (GIS): A lump sum purchase price is given to purchase future pensions under the Jeevan Akshay Plan of Life Insurance Corporation of India. This amount is referred to as GIS. The monthly pension that is payable one month after payment of first premium is calculated on the basis of the age at entry.

Gross Insurance Value Element (GIVE): The amount payable on the deferred date under Jeevan Dhara Life of Life Insurance Corporation of India. An annuity of 1% of the GIVE is payable per month after the deferment period. And the entire GIVE is payable on death after deferment period.

Group Life Insurance: Life insurance usually without medical examination, on a group of people under a master policy. It is typically issued to an employer for the benefit of employees or to members of an association, for example a professional membership group. The individual members of the group hold certificates as evidence of their insurance.

Maturity: The date upon which the face amount of a life insurance policy, if not previously invoked due to the contingency covered (death), is paid to the policyholder.

Maturity Claim: The Payment to the policy holder at the end of the stipulated term of the policy is called maturity claim. LIC settles maturity claims/survival benefit on or before the due date. Policyholders are intimated well in advance by the Branch Office which services the policy regarding the payment, and the necessary Discharge Voucher is also sent for execution by the assured. In case the policyholder does not get any intimation from the Branch Office concerned, he/she should contact them, quoting the Policy Number. Survival Benefit payment up to ₹60,000/- are settled without insisting for Policy Bond and Discharge Voucher.

Highlights:

- The life insurance revenue of the Life Insurance Corporation of India increased from ₹ 737.80 billion in 2001-02 to ₹ 2002.81 billion in 2008-09, whereas, the claims by death increased from ₹ 21.44 billion to ₹ 59.62 billion and the claims by survival increased from ₹ 122.18 billion to ₹ 347.44 billion during the same period. While, the amount of

surrenders including bonus in reduction of premium increased from ₹ 22.94 billion to ₹ 97.32 billion, the annuities less re-insurance increased from ₹ 10.16 billion to ₹ 28.12 billion and the transfer of reserve increased from ₹ 2.72 billion to ₹ 12.24 billion during the same period.

- The amount sum assured and bonus of the total life insurance business in force at the end of the year increased from ₹ 6450.42 billion in 2000-01 to ₹ 23194.06 billion in 2008-09, whereas, amount of sum assured per annum of new business increased from ₹ 1249.51 billion to ₹ 3952.57 billion during the same period.
- The liabilities as well as assets of the Life Insurance Corporation of India increased from ₹ 2453.27 billion in 2001-02 to ₹ 8735.51 billion in 2008-09. The liabilities of Life insurance funds increased from 2270.11 billion to 7088.52 billion, whereas, the liabilities of other insurance funds increased from ₹ 23.86 billion to ₹ 1006.14 billion during the same period. The assets of Government securities and government guaranteed bonds including treasury bills increased from ₹ 1283.86 billion to ₹ 4014.42 billion during the same period.
- The receipts of postal life insurance increased from ₹ 47.26 billion in 2000-01 to ₹ 149.86 billion in 2008-09, whereas, its' total payment increased from ₹ 2.64 billion to ₹ 8.33 billion during the same period resulting an increase in its' balance at the end of the year from ₹ 44.62 to ₹ 141.53 billion during the period.
- The total number of postal insurance policies at the end of year increased from 2.42 million in 2000-01 to 3.84 million in 2008-09, whereas, its' amount increased from ₹ 101.55 billion to ₹ 384.03 billion during the same period.
- The number of postal life insurance (PLI) policies in force increased from 2.0 million in 2001-02 to 4.4 million in 2009-10, whereas, its' sum assured amount increased from ₹ 118.70 billion to ₹ 507.08 billion during the same period. Corpus of fund increased ₹50.90 billion in 2001-02 to ₹ 141.53 billion in 2008-09. The number of rural postal life insurance (RPLI) policies in force increased from 1.13 million in 2001-02 to 13.59 million in 2009-10, whereas, its' sum assured amount increased from ₹ 44.04 billion to ₹ 685.05 billion during the same period and corpus of fund increased ₹ 3.41 billion in 2001-02 to ₹ 39.94 billion in 2008-09.

This chapter contains the following tables:

Table 25.1: presents year-wise life insurance account of the Life Insurance Corporation of India categorized by Income, outgo and expenses of management and further each sub-categorized into various heads since 2001-02.

Table 25.2: presents year-wise new life insurance business by Indian insurers and total life insurance business in force, each categorized by various heads since 2000-01.

Table 25.3: presents year-wise liabilities and assets of the Life Insurance Corporation of India categorized by various heads, since 2001-02.

Table 25.4: presents year-wise account of receipts and payments for Post Office Life Insurance Fund Account categorized by various heads since 2000-01

Table 25.5: presents year-wise 'postal life insurance policies issued' since 2000-01.

Table 25.6: presents year-wise postal life insurance (PLI) and rural postal life insurance (RPLI) categorized by number of policies in force, sum assured amount and corpus of funds since 2001-02.

Table 25.7: presents year-wise growth in postal life insurance (PLI) and rural postal life insurance (RPLI) categorized by policies procured during the year, sum assured and premium income since 2001-02. It also presents the Growth in premium income of PLI and RPLI categorized by premium income and increase over previous year since 2006-07.

Table 25.8: presents year-wise particulars relating to premium derived from fire, marine, and miscellaneous insurance business of Indian insurers categorized by 'in India' and 'outside India' since 2000-01.