A STUDY ON THE INDIAN INSURANCE & PRINCIPLES OF INSURANCE

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ABSTRACT

The Insurance sector in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. With such a large population and the untapped market area of this population Insurance happens to be a very big opportunity in India. Today it stands as a business growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP. In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. This is an indicator that growth potential for the insurance sector is immense in India. It was due to this immense growth that the regulations were introduced in the insurance sector and in "Malhotra Committee" was constituted by the government in 1993 to examine the various aspects of the industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform.

Since then the insurance industry has gone through many changes. The competition LIC started facing from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. The entry of the private players and the increased use of the new distribution are in the limelight today. The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.

INTRODUCTION

The life insurance sector in India has completed a full circle in less than five decades. From a competitive market at the time of independence, it was completely nationalized in 1956 and again reverted back to a liberalized market with both public and private players operating in a level playing field by the year 2000. After the enactment of IRDA Bill in December, 1999, the insurance industry was opened up to foreign insurers in joint ventures with Indian companies. The opening up has resulted in a horde of private life insurers entering into the market. Consequently, there have been a number of developments such as increased awareness among the masses about insurance needs, introduction of innovative products, development of alternate distribution channels and improvement in the level of customer satisfaction. The growth in life insurance business in India is reflected in the amount of capital infused by different players as well as in the number of branches opened during the first decade of privatization. While the number of policies written and the amount of new business premium collected have puffed up, it has boosted the level of employment opportunities, both direct and indirect. There has been a remarkable improvement in the level of insurance density as well as penetration. This paper aims at a critical appraisal of the growth of life insurance industry during the post-IRDA era in India vis-à-vis the global scenario. The Indian insurance industry, after over four decades of protectionism, was deregulated with effect from the year 2000. All entry barriers were lifted with the enactment of IRDA Bill, 1999 and private players as well as foreign insurers were allowed to enter the market with 26% limits on foreign direct investment. The objective was to introduce a competitive environment in order to achieve improved customer services and increased insurance penetration in the country. The opening up of the insurance sector in India witnessed the gradual entry of a fairly large number of Indian companies both in the life and non-life segment. Foreign insurers from the all over the globe also displayed interest and stepped into the Indian market forming joint ventures with their Indian counterparts. Within a span of less than a year, between October, 2000 and August, 2001 as many as 10 life insurers and 6 non-life insurers were registered by the regulator, IRDA. Currently, the insurance industry in India comprises of 23 life insurers, 23 non-life insurers and just one re-insurer (General Insurance Corporation of India). With few more joint ventures under formation, Indian insurance industry is poised for still more competition and increased level of activities in the near future.

INSURANCE SCENARIO IN INDIA

Insurance business in India may be classified as follows:

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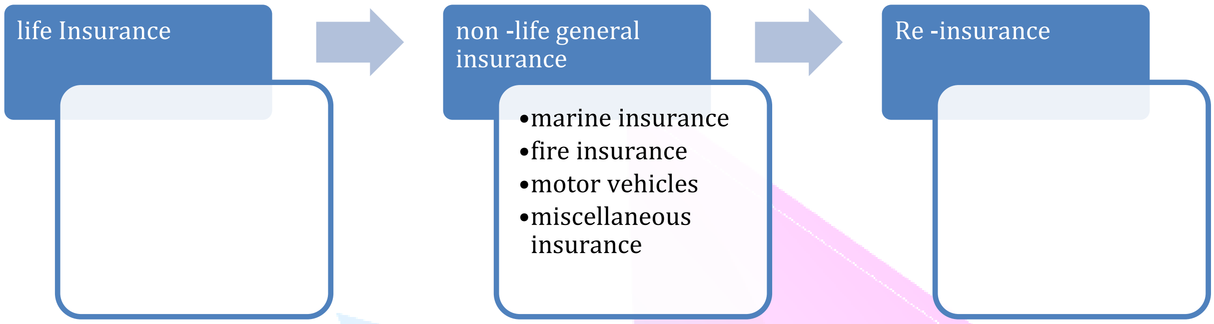

Miscellaneous Insurance:

Personal Insurance

The evolution of risk starts with human life. There was great a need of protection of human life from future uncertainties. It gave birth to life insurance. It has element of life protection as well as investment. When a person takes a life insurance either on his own life or another`s life about his health or personal accident, the nature of the interest affected is the life and body of a person so, these are said to be personal insurance.

Property Insurance

When life is insured then comes security and safety against the risk of property. Thus, the interest affected by the happening of the event insured against is the proprietary interest of the insured the contracts are called property insurance contracts so, insurance against burglary home breaking theft or fire etc. Fall under this category. Under this category come fire, marine or other accidental insurance. This category of insurance is called general insurance.

Liability Insurance

Industrial era led to emergence of liability insurance. Liability insurance is the major field of general insurance whereby the insurer promises to indemnify the damages to property or to compensate the losses to a third party. There the amount of compensation is paid to the third party but not to the insured.

There may be various reasons for the arising of liability accident, accident of worker at the workplace, defective goods, explosion in the factory, escape of dangerous substance used in manufacture or production formation and emission of poisonous gases in the factory etc. More common examples of liability insurance are motor vehicles insurance, industrial insurance aviation insurance etc.

PRINCIPLE OF INSURANCE

1. Principle of co-operation
2. Principle of probability
3. Principle of insurable interest
4. Principle of utmost good faith
5. Principle of warranties
6. Principle of indemnity
7. Principle of subrogation
8. Principle of contribution
9. Principle of causa proxima
10. Principle of mitigation of loss.

Principle of Uberrimae fidei (Utmost Good Faith)

Principle of **Uberrimae fidei** (a Latin phrase), or in simple English words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle of **Uberrimae fidei** applies to all types of insurance contracts.

Principle of Insurable Interest

The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object

Principle of Indemnity

Indemnity means security, protection and compensation given against damage, loss or injury. According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss. In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit. However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

Principle of Contribution

Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

Principle of Subrogation

Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

Principle of Causa Proxima (Nearest Cause)

Principle of Causa Proxima (a Latin phrase), or in simple English words, the Principle of Proximate (Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farthest) must be looked into.

However, in case of life insurance, the principle of Causa Proxima does not apply. Whatever may be the reason of death (whether a natural death or an unnatural death) the insurer is liable to pay the amount of insurance.

WHY DO YOU NEED INSURANCE?

This is one question most people ask themselves; some find the right answers and some don't. Insurance is a shield which protects the financial interests of you and your family in case of unseen and unpredicted circumstances. For example, anything that guarantees that your family will not have to pay the home mortgage if something happens to you, is insurance. No matter how efficient a planner you are, life is full of unforeseen events in which you might need cash; accident injuries, medical emergencies, car accident, home invasion, natural calamity, etc. Therefore, to make sure that you or your loved ones are prepared against such events you need insurance.

Do you really need insurance?

Life Insurance

Yes, because you might be healthy today, but what happens if there is an accident or sudden medical emergency or worse, death? If you are the solo bread earner in your family, then you would definitely want to cover the mortgage payments, credit card bills, living expenses (rent, food and clothing), etc. Life insurance makes sure that your family does not have to run post to pillar to arrange for these expenses.

Health or Medical Insurance

Definitely, as you or any member of your family might develop a medical condition that will require immediate surgery or treatment, in which case you will need major amount of funds. Health insurance covers the expenses of such medical nature. In India, medical insurance provides for hospitalization, pre and post hospitalization care, surgery, medical bills and any other cost incurred. You can get a micro medical insurance for as little as INR 5,000 or a general medical insurance starting from INR 1 lakh.

WHAT ARE THE BENEFITS OF GETTING INSURANCE?

Think of the insurance as a tool to manage your financial risks in the future. We are living in an age where providing for your loved ones, even if you are not around, has become possible and so easy by just buying an insurance policy. In fact, ask yourself that do your old parents, spouse, children or younger siblings depend on your income? If the answer is yes, then you certainly need insurance, as simple as that. For your further peace of mind, here are some more points which you can go through to ascertain that there is more to insurance than what you think. Those happy-family commercials you see, in which everybody is smiling, are not too far from reality.

1. Insurance will protect your loved ones; old parents and grandparents, spouse, young children, and other family members who depend on you for their medical care, education, food, shelter, commuting, in other words, regular life.

2. A medical insurance will cover the cost of, for example, weekly dialysis, diabetes injections, surgery, malfunctioning kidney or liver, dental care, eye care and many more such conditions suffered by the insurer.

3. Vehicle insurance is important either you have bought a new car or have been driving for a while now. Think of the times when you put up with a flat tire, empty fuel, faulty engine or worse, an accident. Especially if the vehicle is driven by your spouse or children, you need to make sure that you have an auto insurance because these days auto-insurance comes with a pack of helpful services in any region your vehicle has broken down; even if it’s a highly remote area.

4. Then there is travel insurance which covers the interests of those who are travelling against cancellation of flight, lost luggage, theft of personal and valuable belongings, and any other kind of unforeseen event while your trip.

5. If you run a small business, then too you need to ensure it so that your family does not need to fret over the business expenses if anything happens to you. Business costs could be anything from payment to the creditors to procurement of materials for further operation of business; they could be insured by buying business insurance.

6. If you own a house or have bought a house with mortgage, it is advisable to purchase the home insurance to cover the costs of monthly loan payments, as well as the risk of home invasion, fire accidents, damage due to natural calamities or any other kind of damage.

What do you need to do?

When you buy insurance from an insurance company, you transfer the risk of any future and unforeseen circumstances to them in exchange of a sum of money paid by you monthly, quarterly or annually. There are numerous insurance agencies in the market and with the help of insurance premium calculators and their terms and conditions; you can choose the best insurance which you are satisfied with.

Repudiation of Claim Illegal

In Shujauddin Ahmad Jeddy v.LIC A.I.R.2012(NOC)70(AP). Held that claim under policy cannot be repudiated simply on the basis of assumption of death of insured by drawing intake.Such assumption of suicide was not only hyper technical,but also bereft of any reliable and valid material.Repudiation of claim is illegal. Insurer directed to pay amount covered by policy to the nominee of the deceased insured.

CONCLUSION

The insurance industry of India consists of 57 insurance companies of which 24 are in life insurance business and 33 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.Out of 33 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialised insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance. Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes are expected to catapult this key ratio beyond 4 per cent mark by the end of this year, reveals the ASSOCHAM latest paper.The number of life covered under Health Insurance policies during 2015-16 was 36 crore which is approximately 30 per cent of India's total population. The number has seen an increase every subsequent year as 28.80 crore people had the policy in the previous fiscal.Premium income of the life insurance segment had increased 14.04 per cent in FY17 to Rs 4.18 trillion (US$ 64.92 billion). In August 2017, the Life Insurance industry reported a 24 per cent growth in overall annualised premium equivalent with the help of both private players and Life Insurance Corporation.

The following are some of the major investments and developments in the Indian insurance sector.

Pradhan Mantri Fasal Bima Yojana (PMFBY) covered 50.9 million farmers in India in 2016-17. India's leading bourse Bombay Stock Exchange (BSE) will set up a joint venture with Ebix Inc to build a robust insurance distribution network in the country through a new distribution exchange platform.Revenues of the healthcare sector are projected to grow by 15 per cent between FY18-20 on the back of rise in health insurance coverage through government-sponsored schemes@.

The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows:

Government of India launches Pradhan Mantri Vaya Vandana Yojana, a pension scheme which will provide guaranteed 8 per cent annual return to all the senior citizen above 60 years of age for a policy tenure of 10 years.The Union Cabinet has approved the public listing of five Government-owned general insurance companies and reducing the Government’s stake to 75 per cent from 100 per cent, which is expected to bring higher levels of transparency and accountability, and enable the companies to raise resources from the capital market to meet their fund requirements.The Insurance Regulatory and Development Authority of India (IRDAI) plans to issue redesigned initial public offering (IPO) guidelines for insurance companies in India, which are to looking to divest equity through the IPO route.IRDAI has allowed insurers to invest up to 10 per cent in additional tier 1 (AT1) bonds that are issued by banks to augment their tier 1 capital, in order to expand the pool of eligible investors for the banks.

RECOMMENDATION & SUGGESTION

1. Awarness and eductional drives.
2. Increase Role of government for making policy related insurance.
3. Make Insurance policy who deem fit to everyone poor and rich.

The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. India with 3.42 per cent penetration rate in the insurance sector offers greater penetration potential when compared to global average of 6.2percent.The country’s insurance market is expected to quadruple in size over the next 10 years from its current size of US$60 billion.Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

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