

A BRIEF HISTORY OF INSURANCE

Insurance is a necessary feature of everyday life – and forms a large part of the economic world. The insurance market in the UK is the largest in Europe and the third largest in the world, and according to the Association of British Insurers (ABI) it employs approximately 314,000 people.



Ancient Babylon

In what is now Iraq, the Code of Hammurabi set out ancient Babylonian laws including on the topic of “bottomry” – a maritime insurance loan. A merchant would borrow money to fund his shipment, and could pay an extra sum to guarantee that the loan did not have to be repaid if the ship sank.

Ancient China

Around the same time, Chinese merchants had started mixing their goods between vessels, so if one sank on its treacherous river journey it would not wipe out a single merchant’s stock.

16th Century

Alpine Farmers

In the early 16th Century, farmers in the Alps arranged mutual aid societies, agreeing to look after each other if livestock or family members fell ill. This system views risk as something to be shared, as opposed to something to be traded on.

17th Century

London

In 1687, Edward Lloyd opened a coffee house on Tower Street, near the London docks. The shop became known as a place for gossip on topics including the plague, the Great Fire of London, the ships sailing in and out and what they carried.

Gamblers placed bets on whether they would arrive safely or not.

Edward Lloyd began to assemble a network of reporters and informers, and create a newsletter full of information about port comings and goings known as “Lloyds List”.

If someone wished to insure a ship, insurers in the coffee shop would draw up a contract and sign his name underneath – hence the term “underwriter”.

Key events

Destroying more than 13,000 houses, the Great Fire of London in 1666 had catapulted property insurance into the limelight. Sir Christopher Wren included a site for “the Insurance Office” when rebuilding London after the disaster.

In the late 19th century, accident insurance was invented. Operating much like life insurance today, the Railway Passengers Assurance Company was formed in 1848 in England to insure against the rising number of fatalities on the railway system.

Evolution of insurance in India

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).

The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

The advent of life insurance business in India

1818

Advent of life insurance business in India

1818 saw the **advent of life insurance business in India** with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies..

1914

Government of India started publishing returns

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. 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. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

1950

The Insurance Amendment Act of 1950 abolished Principal Agencies

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business..

1956

Life Insurance Corporation came into existence

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The history of general insurance

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation.

1850

The British establish the Triton Insurance Company Ltd

General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British.

1907

The Indian Mercantile Insurance Ltd, was set up

In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957

General Insurance Council is formed

1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

1968

Insurance Act was amended

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

1973

General insurance business was nationalized

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st 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 1st 1973.

The process of re-opening

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

April, 2000

The IRDA was incorporated as a statutory body

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

August 2000

The IRDA opened up the market

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

December, 2000

the subsidiaries of the General Insurance Corporation of India were restructured as independent companies

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer.

July, 2002

Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 34 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.