



## THE EVALUATION OF INSURANCE IN INDIA: FROM ITS HISTORICAL ROOTS TO A PROMISING FUTURE

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### ABSTRACT

*Prior to 1956, the insurance sector was predominantly privately owned; however, that year marked a significant turning point with the nationalisation of life insurance, which established a monopoly in the industry. This nationalisation is crucial for understanding the subsequent development of the sector. In 1972, general insurance was also nationalised and integrated under a single holding company that included four subsidiaries. Following recommendations from a government committee, private companies were allowed to enter the industry beginning in 1992. The private sector began participating in the insurance market in 2000, while foreign ownership of any insurance company is limited to 26%.*

*The early stage, up to 1870, is poorly documented. However, the era from 1870 to 1900 is marked by consistent growth. The period from the beginning of the twentieth century to 1912 saw rapid expansion, largely driven by the Swadeshi movement, which led to several setbacks and the implementation of the Insurance Act in India. The period from 1913 to 1930 is characterised by experimentation. This brings us to the present era.*

*The insurance industry in India has been growing rapidly, yet it still accounts for a relatively small share of the global market. This research paper explores the evolution and historical context of India's insurance sector, particularly in relation to digitalisation. As traditional practices give way to innovative solutions, the way insurance is purchased, sold, and managed is undergoing a significant transformation. The convergence of insurance and technology, known as Insurtech, is a noteworthy trend with profound implications and serves as a key driver of the evolving insurance landscape. This digital transformation not only represents a current trend but also offers a glimpse into the future of the insurance industry.*

*Keywords: Insurance Claims, Compensation, IRDAI, Premium.*

### 1. INTRODUCTION

The origins and early development of insurance are shrouded in mystery, with scant records to illuminate their beginnings. Unravelling the story of how insurance came to be is anything but simple; it requires navigating through a labyrinth of historical nuances and vague accounts. *However, several writers have accomplished commendable work, particularly Dr. C. F. Trenerry, the author of "The Origin and Early History of Insurance," states that the earliest form of insurance seems quite similar to modern marine insurance, appearing to be a kind of "Marine and Land insurance,"* In the past, travelers on land and sea could obtain insurance to protect their property, since caravan robberies and piracy were common and even considered respectable jobs. Many traders who could not pay their debts ended up enslaved, along with their families. The codes of **Hammurabi and Manu** included rules that allowed a trader who was robbed during a journey, provided they were not negligent or involved, to be freed from debt, including both the principal and interest, upon making a formal statement.

It has been stated that the Sanskrit term **Yoga-Kshema**, meaning 'Insurance,' is found in the Rig Veda and that some form of communal insurance was practised by the Aryan tribes of India nearly 3,000 years ago. — 'The Human Side of Insurance,' by F. J. Maclean, page 1.

The initial development of insurance was inconsistent and primarily focused on areas other than life insurance. Individuals concentrate on risks they deem most urgent at the time. They recognised that the ships they used for trade might not come back. Their homes were at risk of being consumed by flames or attacked by thieves and marauders. These threats could arise unexpectedly, but death and its consequences felt remote, beyond their mastery, and somewhat unsettling to think about. One could provide for their dependents by building wealth, and although this strategy was frequently insufficient, the idea of insurance did not occur to them.

Our ancestors were reluctant to treat death as an insurance risk, but they had no problem arranging proper and respectful burials. They believed a dignified farewell was important for the deceased's peace and happiness in the afterlife. This idea was

clear in the ancient Roman Collegia. These groups mainly helped pay for burials, but some later expanded to support the living and help less fortunate members. The Roman Collegia is one such example. Still, it is unlikely that the Romans had life insurance or annuities. In the mid-fourth century A.D., though, Ulpian, a Roman Prefect, tried to create a mortality table.

The next major step in the history of insurance came from the Anglo-Saxon Guilds, also known as the Insurance Associations of the Middle Ages. Records show that members of these early groups, called **the Frith Guilds**, agreed to help each other if fire damaged property or if ships were lost at sea. This practice set a clear insurance principle that met two basic human needs.

"Membership was limited to followers of the same religion. All social classes appeared to be integrated within the Frith Guilds, and each member contributed a set amount to a shared fund, which was used for festivities, fines, masses for the deceased, burials, and support for members in need."

In the Middle Ages, craftsmen made and sold their own goods, acting as both producers and sellers. As more craftsmen joined Merchant Guilds, they eventually split off to form Craft Guilds. As trades became more specialised, Craft Guilds appeared across Europe. Modern life insurance originated in England and Europe during the 16th century. Early attempts at life insurance were similar to what we know today, but they were seen as gambling because people did not yet understand mortality tables, which are key to the industry. Also, borrowing to finance production was uncommon until the early 18th century, so investing in life insurance funds was almost impossible. Overall, the history of life insurance can be divided into two main phases: first, the collaborative efforts before the 18th century that paved the way for modern insurance, and second, the scientific approach to insurance that started in the 18th century.

The life insurance sector originated in England and gained momentum during the Industrial Revolution, with regions like Europe and the Americas gradually developing their own systems. In India, the first insurance policies were sold to Europeans working for the East India Company. However, many foreign companies faced challenges in the Indian market, and the failures of English firms like the European and Albert around 1870 affected many policyholders. This prompted efforts to establish Indian insurance companies, leading to the founding of Bombay Mutual in 1871 and Oriental in 1874. The Colonial Life Assurance Company also began insuring Indian lives in 1870, marking the start of modern Indian insurance and contributing to the growth of the country's insurance framework.

Insurance entails collecting funds and investing them over the long term. However, until recently, there were limited avenues for such investments in this country. **The teachings of Islam also oppose usury.** Given that the modern insurance system allows interest to thrive, it was unlikely to gain acceptance among the Muslim population in this country, which poses a significant barrier to progress. The poverty, ignorance, and biases prevalent among Indians have obstructed the growth and development of the insurance industry in India. In the following chapter, we will present a brief overview of the historical context. The early history of insurance firms, including those from foreign entities operating in India, is not well-documented, even among those generally knowledgeable about insurance matters in our country. This is primarily due to the lack of any authoritative resources on the topic.

## 2. OBJECTIVE OF THE STUDY

This study primarily examines the origins and development of the insurance industry in India across various historical periods.

## 3. RESEARCH METHODOLOGY

The data used in this research come from secondary sources, carefully selected from a diverse range of materials. This includes the comprehensive annual reports, insightful journals, and detailed manuals published by the Insurance Regulatory and Development Authority of India (IRDA), all of which are rich in relevant insurance statistics.

### 3.1 ORIGIN AND DEVELOPMENT OF INSURANCE IN INDIA

- I. The Initial Phase up to 1870: Limited Available Information
- II. The Era from 1870 to 1900: Period of Consistent Growth
- III. The Period from the Early Twentieth Century to 1912
- IV. From 1913 to 1930: The Era of Challenges
- V. The Contemporary Era

#### I. THE INITIAL PHASE UP TO 1870: LIMITED AVAILABLE INFORMATION

The period from 1818 to around 1870 marked early attempts to introduce modern scientific insurance in India, inspired by the English system. This era saw many pioneering Indian and English insurance companies merge or go bankrupt. While the life

insurance sector grew significantly in England, deceptive practices proliferated, with fraudulent enterprises selling undervalued annuities. These companies often set up impressive offices, engaged in heavy advertising, and amassed funds before disappearing. Between 1824 and 1868, 285 life insurance companies were established in England, of which 174 ceased operations by 1870 for various reasons. The history of Indian insurance was first documented when the Government of India began releasing Returns of Life Assurance Companies in 1914, as noted by Mr. N. R. Sarkar during his welcome address at the Indian Insurance Conference in Calcutta in 1937.

As early as 1818, the Oriental Life Assurance Company was established in Calcutta, primarily by European investors. Eventually, this company failed in 1834 and was transformed into 'New Oriental\*'. Let me add that this company has no connection with our premier Indian company in Bombay. Through the efforts of Babu Muttylal Seal, the company prevailed in accepting Indian lives. Since then, Indian enterprises have made excellent progress in Bengal, and prominent individuals in the province, such as Dwarkanath Tagore, Ramtanu Lahiri, and Rustomji Cowasjee, have played an active role in developing the insurance industry in this country. It was also left to a great reformer and eminent son of Bengal, Raja Ram Mohan Roy, to direct the nation's attention to the need to protect widows and orphans. As early as 1822, he issued an appeal through the columns of the Calcutta Journal, requesting the wealthy Hindus of Calcutta to establish an institution for the maintenance of poor widows.

This company, along with another Indian life insurance firm, is referenced in the Insurance Encyclopaedia, which was authored by Walford and published between 1872 and 1880.

The Bombay Life Assurance Company was founded in Bombay on May 1, 1823. The company issued no whole-term life policies. It offered three classes of short-term insurance, namely, one-year policies that were not renewable without a certificate of health. Premium: Aged 30—3.4%. For 3 years, renewable without a fresh certificate of health—Annual premium: Aged 30—3.7%. For 5 years, renewable without a fresh certificate of health—Annual premium: Aged 30—4%.” No further information is available about the company.

According to the Returns of Life Assurance Companies (1914), Madras Equitable was founded in 1829 and did not have to submit returns under the 1912 Act because it was governed by a separate Act of the Madras Legislature. The company stopped issuing new policies in 1910 and went into liquidation soon after the Great War, mainly because its investments lost value and its income dropped when it stopped selling new policies. Madras Widows, a mutual organisation started in Madras in 1834, also went into liquidation after the war. Poor oversight allowed funds to be embezzled, and the organisation was forced to close. Two more companies were established in 1847 and 1849: Christian Mutual in the Punjab and the Tinnevely Diocesan Council Widows' Fund in Madras. Both are still operating, but on a small scale. As of December 31, 1938, Christian Mutual had 2,262 active policies, covering Rs. 27,75,000, with premium income of Rs. 1,27,000 and a life fund of Rs. 9,12,000. The company declared a reversionary bonus of Rs. 12-8 per thousand. The Tinnevely Diocesan Council Widows' Fund had 268 policies as of December 31, 1936

According to Walford's Encyclopaedia, two English companies, the Albert Life Assurance Company and the European Life Assurance Company, were key players in the early Indian insurance market. In 1860, the Albert Life Assurance Company acquired the Medical Invalid and General, originally established in the UK in 1841, which had strong ties in India. The Medical Invalid had taken over New Oriental of Calcutta in 1853, and another company, Agra, was also mentioned briefly with no details on its operations. Additionally, the Albert Life Assurance Company merged with two other firms in India: Family Endowment, founded in 1835, and Indian Laudable.

The Universal Life Assurance Company was founded in England in 1836 and began operations in India in 1840, continuing until it was taken over by the North British in May 1901. Many of its policies issued in India remain valid with the Calcutta office of North British, which set guidelines for amounts assured over Rs. 10 Crore.

Another English life insurance company, the Colonial Life Assurance Company, was established in 1846 with support from the Standard Life Assurance Company. Its initial prospectus aimed to provide life assurance benefits to the colonies, including India. The company appointed agents and established local boards in Calcutta, Bombay, Madras, and Colombo.

In the early years, life insurance was mainly available to Europeans and their descendants in India. The Standard Life Assurance Company merged with the Colonial Life Assurance Company in 1866, continuing under the Standard name. The Royal Insurance Co., Ltd., established in the U.K. in 1845, began offering fire and life policies in India around 1860, issuing its first life policy through the Bombay Branch in 1871. The Bengal Christian Family Pension Fund was founded in 1852 and,

like other Christian Funds, was not required to submit returns under the 1912 Act, existing at the time of the initial statement in the chapter.

**Table 1: Insurance Company During the Period Up to 1870**

SN	Name of company	Year of inception or Commencement of business in India	Head Office
1	Madras Equitable	1829	Madras
2	Madras Widows	1834	Madras
3	Christian Mutual	1847	Punjab
4	Tinnevely Diocesan	1849	Madras
5	Bengal Christian Family Pension Fund	1854	Bengal
6	Indian Life	1871	United Provinces
7	Bombay Mutual	1871	Bombay
8	The Standard Life Assurance Co. (formerly The Colonial Life Assurance Incorporated in the UK in 1836)	1846	Bombay
9	Universal Life Assurance Co., Ltd	1840	Bombay
10	The Liverpool, London, and Globe Insurance Co., Ltd. (Incorporated in the UK in 1836)	1853	Bombay
11	North British	1864	Bombay
12	The London Assurance	1864	Bombay
13	The Royal Insurance Company (Incorporated in the UK in 1845)	1860	Bombay (Office Policy)
14	Commercial Union Assurance Co., Ltd. (Incorporated in the UK in 1861)	1870	Bombay
15	Pelican and the British Empire and Mutual	1870	Bombay

Source Table 1: Life Insurance in India: Its History, Law, Practice, and Problems. adapted from R.M. Ray, 1941

## II. THE ERA FROM 1870 TO 1900: PERIOD OF CONSISTENT GROWTH

The Oriental Government Security Life Assurance Co., Ltd., established on May 5, 1874, charged the same premium rates for insuring Indian and European lives. To protect policyholders and the company, it included various provisions in its Articles of Association. Its Jubilee pamphlet (1874—1924) states:

“Having regard to the interests of policyholders as a primary consideration, certain definite and original rules were formulated to remedy the defects thought to exist in the methods of European companies already operating in the country. Thus in addition to providing policyholders with a controlling interest, provisions were made in the constitution of the company, strictly prohibiting amalgamations and furnishing the highest order of security for its engagements; giving a fixed monetary value for every premium paid, by investing 80 per cent, thereof in Government securities in trust for policyholders as their sole property to meet payment of claims; by shareholders and policyholders appointing their trustees, auditors and consulting actuary to protect their respective interests; by funds being invested in Government securities only, and remaining in India, to afford absolute safety to both shareholders and policyholders.”

Life insurance appears not to have been introduced in Bengal until much later, and it was not until 1906 that many companies were established either in that Presidency or elsewhere in India.

**Table 2: Insurance Company During the Period Between 1870 and 1900**

SN	Name of company	Province of Origin	Year of inception or Commencement of business
1	Bombay Widows* Pension Fund.	Bombay	1876
2	Indian Ordnance	Bombay	1883 (Subject to 1912 in 1926)
3	Indian Christian	Madras	1884
4	Goanese Mutual	Bombay	1885
5	Mangalore Roman Catholic	Madras	1888
6	B. B, and C. I. Zoroastrian	Bombay	1888
7	Farsi Zoroastrian	Bombay	1888
8	Bombay Zoroastrian	Bombay	1889
9	Gujerat Zoroastrian	Bombay	1891
10	Hindu Provident Fund (Hindu Mutual)	Bengal	1891 (First established in Simla)

Source Table 2: Life Insurance in India: Its History, Law, Practice, and Problems. adapted from R.M. Ray, 1941

**Table 3: Insurance Company During the Period Between 1870 and 1900**

Sr. No	Name of company	Province of Origin	Year of inception or Commencement of business
1	Indian Life	Bombay	1892
2	Punjab Mutual	Punjab	1893
3	Indian Empire Branch of Rechabites	United Province	1893
4	Sind Hindu	Bombay	1894
5	Bharat	Madras	1896
6	empire	Bombay	1897

Source Table 3: Life Insurance in India: Its History, Law, Practice, and Problems. adapted from R.M. Ray, 1941

### III. THE PERIOD FROM THE EARLY TWENTIETH CENTURY TO 1912

At the beginning of the twentieth century, the life insurance sector in India was primarily dominated by several foreign companies, alongside a handful of Indian firms, most of which were established less than a decade prior. After initially struggling due to a plague epidemic, the industry rebounded quickly as the public began to recognise the advantages of insurance. However, Indian companies did not receive the level of support they deserved, as British firms maintained a strong and established presence in the market. *Several British companies began their operations during this period. The Scottish Amicable Life Assurance Society appointed Messrs. Balmer Lawrie & Co., Ltd., of Calcutta as their Agents and commenced writing business in December 1902.*

The Swadeshi movement emerged from a deepening awareness of the pervasive influence of foreign interests over India's economy, especially in trade and industry. This powerful movement galvanised Indian citizens, igniting a passionate spirit of self-reliance and nationalism. It empowered existing Indian insurance companies to expand their reach and flourish, while simultaneously paving the way for numerous new and esteemed firms. Among the notable companies that came to life during this transformative period were:

**Table 4: Insurance Companies Established During This Era Between 1870 and 1900**

SN	Name of company	Province of Origin	Year of inception or Commencement of business
1	United India Life Assurance Company	Madras	1906
2	National Indian Life Insurance Company	Calcutta	1906
3	National Insurance Company	Calcutta	1906
4	Hindustan Co-operative Insurance Society	Calcutta	1907
5	India Equitable Insurance Company	Calcutta	1908
6	Co-operative Assurance Company	Lahore	1906
7	General Assurance Society	Ajmer	1908
8	Swadeshi Life (later changed to Bombay Life of Bombay)	Bombay	1908

Source Table 4: Life Insurance in India: Its History, Law, Practice, and Problems. adapted from R.M. Ray, 1941.

### IV. FROM 1913 TO 1930: THE ERA OF CHALLENGES

The period following the enactment of the Insurance Act of 1912 extended until 1930. One significant consequence of the Insurance Act was that certain English companies opted to discontinue underwriting new business as a strategy to avoid the requirement to submit reports to the Government of India. Several Indian companies that had conducted schemes based on the principle of "Assessmentism" (setting premiums each year to match the claims) or on an actuarially unsound basis had to either drop them or modify them to conform to actuarial requirements.

Before 1912, Indian companies conducted significant business, but no statistical data exists. After the 1912 Act, many companies shut down. The Great War in 1914 further diminished business, and new underwriting fell to Rs. 175 lakhs in 1916. Since then, the number of new life businesses established by Indian companies has significantly increased each year. The post-war prosperity spurred business growth, attracting two foreign companies: Prudential Assurance Co., Ltd., which began operations in India in 1924 and became the largest life insurance company in the British Empire, and China Underwriters Ltd., incorporated in Hong Kong the same year, which started in Burma and later expanded into India.

## V. THE CONTEMPORARY ERA

The Civil Disobedience movement of 1930 and the demand for swadeshi helped Indian companies navigate trade depression, leading to the emergence of new firms and a record number of bonuses awarded to policyholders. The Insurance Amendment Act of 1950 abolished Principal Agencies amid high competition and allegations of unfair practices, prompting the nationalisation of the insurance business. In 1956, the Life Insurance Corporation Act established the LIC, which absorbed 154 Indian insurers, 16 foreign insurers, and 75 provident societies, creating a total of 245 organisations and monopolising the sector until the late 1990s. The Insurance Act of 1938 further consolidated laws governing life and general insurance.

In 1968, the Insurance Act of 1938 was amended to create the Tariff Advisory Committee (TAC), which regulates premium rates and policy conditions. In 1971, the General Insurance (Emergency Provisions) Act allowed the Central Government to manage general insurance companies. This led to the 1972 General Insurance Business (Nationalisation) Act, which established the General Insurance Corporation of India (GIC) and its four subsidiaries: UIIC, NIAC, NIC, and OIC, granting them exclusive rights in India. In 1994, Shri R.N. Malhotra's committee recommended allowing domestic and foreign operators in the sector and creating an independent regulatory authority for insurance.

In 1999, the Insurance Regulatory and Development Authority (IRDA) Act was introduced to protect insurance policyholders and regulate the insurance industry. This Act amended the Life Insurance Corporation Act of 1956 and the General Insurance Business (Nationalisation) Act of 1972, ending the exclusive operating rights of the Life Insurance Corporation (LIC) and General Insurance Corporation (GIC). In 2002, the General Insurance Business Act was further amended, resulting in the four GIC subsidiaries becoming fully independent entities, with GIC's role limited to reinsurance.

In the fast-paced and ever-evolving 21st-century landscape, industries worldwide are undergoing radical transformations driven by technology. The insurance sector in India is no exception. As we navigate the complexities of the digital age, it becomes imperative for insurance companies to embrace digital transformation to remain relevant and competitive, and, more importantly, to better serve their customers' evolving needs. Insurance providers began selling policies online, decreasing their reliance on intermediaries and facilitating easier comparisons and purchases for customers. This transition enhanced accessibility and convenience.

## 4. CONCLUSION

The study concluded that the history of insurance in India could be divided into two parts: Life insurance and general insurance, spanning a varied time period. As mentioned in ancient texts such as **Manu's Manusmriti and Kautilya's Arthashastra**, which highlight resource pooling during calamities. The first life insurance company, Oriental Life Insurance Company, was established in Calcutta in 1818 but failed by 1834. The Madras Equitable began life insurance in 1829, and the British Insurance Act was enacted in 1870. Several insurance companies, including Bombay Mutual and Oriental, emerged in the late 19th century, facing competition from foreign firms. In 1914, the Government began publishing insurance returns, and significant legislation, including the Indian Life Assurance Companies Act (1912) and the Indian Insurance Companies Act (1928), was enacted to regulate the industry. The Insurance Act of 1938 consolidated previous laws to protect policyholders. The Insurance Amendment Act of 1950 led to the nationalisation of the insurance sector in 1956, creating the Life Insurance Corporation (LIC), which absorbed numerous insurers. The LIC maintained a monopoly until the insurance sector was reopened to private companies in the late 1990s.

The **history of general insurance** began during the Industrial Revolution in the West, notably linked to sea trade in the 17th century. In India, it was introduced by the British with the establishment of Triton Insurance Company Ltd. in 1850. The first company to conduct all types of general insurance in India was Indian Mercantile Insurance Ltd., established in 1907. The General Insurance Council was formed in 1957 to promote fair business practices. The Insurance Act was amended in 1968 to regulate investments and minimum solvency margins, leading to the creation of the Tariff Advisory Committee. In 1972, the General Insurance Business (Nationalisation) Act was passed, nationalising the industry from January 1, 1973. 107 insurers were merged into four major companies: National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd. The General Insurance Corporation of India was established in 1971 and began operation on January 1, 1973.

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