HISTORY OF INSURANCE

- History of Insurance is as old as human society.
- Started in the form of Non-money or Natural economy.
- More ancient than money economy.
- Still existing in few parts of the world (former Soviet Union territories)
- Chinese merchants started in 3 B.C. by distributing their goods across many vessels.
- Babylonians system (as recorded in Code of Hammurabi 1750 BC) – Loan cancellation in case shipment is stolen.
- Achaemenian monarchs insure people and registering the process in notary offices on Norouz (Iranian New Year).
- Rhodes invented the concept of 'General Average'.

HISTORY OF INSURANCE

- Greeks and Romans introduced Health and Life Insurance in 600 A.D. by creating ‘benevolent societies’.
- Prior to 17^{th} Century, ‘friendly societies’ existed in England.
- Separate Insurance contracts were invented in 14^{th} Century in Genoa.
- London being centre for trade fuelled growth of Marine Insurance.
- Mr Nicholas Barbon opened “The Fire Office” in 1680, aftermath of Great Fire of London in 1666 is England’s 1^{st} fire insurance company.
- First fire insurance company in USA was set up in 1732 in Charles Town.

HISTORY OF INSURANCE IN INDIA

- Insurance has a mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).
- Developed overtime by developments of England and other countries.

CHRONOLOGICAL SEQUENCE OF EVENTS IN INDIAN INSURANCE SCENARIO

- ❖ 1818 – Oriental Life Insurance Company in Calcutta
- ❖ 1829 – Madras Equitable in Madras Presidency (life insurance)
- ❖ 1850 – Triton Insurance Company Ltd in Calcutta (General Insurance)
- ❖ 1870 – British Insurance Act enacted
- ❖ 1871 – Bombay Mutual, Oriental (1874) Empire of India (1897) in Bombay
- ❖ 1896 – Bharat Insurance Company Limited in Delhi
- ❖ 1907 – Indian Mercantile Insurance Ltd

EVOLUTION OF INSURANCE IN INDIA

- 1938 – Insurance Act was enacted
- 1956 – Life Insurance business in India was nationalised and LIC was formed on 1st Sep 1956.
- 1973 – General Insurance business was nationalised and GIC and four subsidiaries were formed.
- 1999 – IRDA was established through Insurance Regulatory and Development Authority (IRDA) Act.
- 2000 – Insurance sector opened for private players. (R N Malhotra recommendations), FDI upto 26% was allowed.
- 2002 – General Insurance Business (Nationaliation) Amendment Act 2002. Subsidiaries of GIC were restructured as Independent companies and GIC was made National Reinsurer.
- 2003 – Introduction of Broker in Indian Insurance market.

Overview of Indian Insurance Sector

- IRDA is the regulator for both Life and Non-Life Insurance
- 24 Life Insurance Companies
- 29 General Insurance Companies (including two specialised insurers)
- 01 Reinsurer
- Insurance Advisory Committee
- Insurance Ombudsman (17)
- Insurance growth projection 12-15%
- Life Insurance is the biggest in the world with 360 million policies
- Fifth largest in the world in terms of premium volume
- FDI up to 49% announced in 2016-17 budget

INTERMEDIARIES

- Brokers
- Surveyors or Loss Assessors
- TPA Health Services
- Web Aggregators
- Insurance Repositories
- Insurance Marketing Firm
- Agents

Purpose and Need of Insurance

- Protection against certain unwanted events
- Tool to eliminate /reduce risks
- Sharing of Losses
- Spreading Risk
- Risk Management tool
- Capital Protection
- Continuous living standard
- Assurance of financial future of business / family
- Reduces burden on Governments
- Propel national growth

Purpose and Need of Insurance

- Reduce the impact of peril on the owner of asset
- Compensate economic or financial losses
- Support to Business development efforts
- Enter new markets / areas of business with confidence
- Assured Income

<u>RISK MANAGEMENT</u>

RISK – An <u>uncertain event or condition</u> which would have an undefined or unknown impact if it happens.

The process of identification, analysis and either acceptance or mitigation of uncertainty.

<u>TYPES OF RISKS</u>

- INTERNAL RISK / CONTROLLABLE RISKS / UNSYSTEMATIC RISKS
- EXTERNAL RISKS / UNCONTROLLABLE RISKS /SYSTEMATIC RISKS

RISK MANAGEMENT

- RISK IDENTIFICATION
- RISK ANALYSIS
- RISK MITIGATION
  - RISK AVOIDANCE
  - RISK TRANSFER
  - RISK SHARING
  - RISK RETENTION

Insurance – Tool to manage risk

- Risk Averse
- Risk Neutral
- Risk Lovers
- Self Insurance
- Social Insurance
- Micro Insurance

Cost to Individuals

- Premium payment
- Sacrificing some part of earnings
- Sacrificing purchases
- Reduced living standard
- Giving up few comforts /luxuries
- Sacrificing present earning for future
- Increased purchasing cost in future
- Reduction in savings

Benefits to Individuals

- Peace of mind / Reduce anxiety
- Assurance to family
- Maintain almost same living standard
- Not forced to depend on relatives / society / government
- No need to sell property / house / assets
- Fulfil the dreams of children
- Protection from medical expenses
- Continuous income / Stabilised earnings
- Tax Savings
- Investment tool
- Financial Planning with certainty
- Safety net for businesses
- Capital protection

Benefits to Individuals

- Continuity of Business
- Safeguard against loss of income
- Protection for assets

Cost & Benefits to Society

- No cost to society if individuals / businesses are buying insurance policy.
- No necessity to take care of families of deceased earning member.
- Reduced medical expenditure on government
- Reduced burden on government for providing subsidised food / energy / healthcare / education.
- Lower taxes on general public
- Growth of GDP, Gross National Income and Living standards
- Limited resourced are utilised in optimal manner
- Drives economy and growth of society