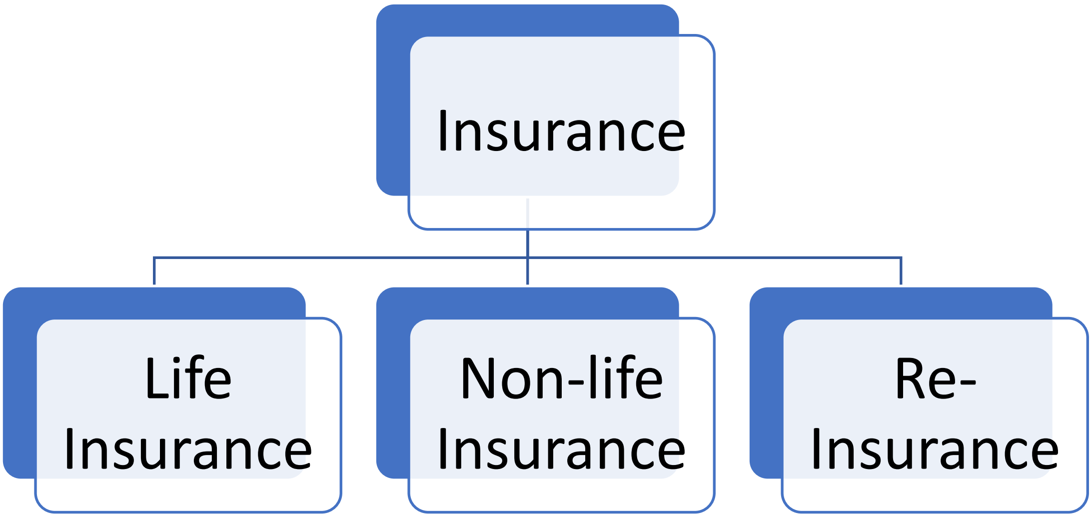
Insurance

Insurance is a mechanism that helps to reduce the effects of adverse situations in an economical way. It promises to pay the owner or beneficiary of the asset a certain sum if the loss occurs.

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).

Indian insurance sector is broadly classified into three categories: Life insurance, non-life or general insurance, and re-insurance. This has been explained through the following chart:



General Insurance

- General Insurance = Every Insurance plan EXCEPT life insurance plan

Life Insurance Types

Whole life plan	• You pay the premium till you retire or till the term of the policy. • Your family will get money ONLY after you die.

	• You **MUST DIE** to get back the money.
Endowment	• Insurance company collect premium form the insured for the certain period of time like 15, 20, 25, 30 years. • If you die within that term, the company will pay huge money to your family. • If you don’t die within that term, company will return the premium you paid + some interest or bonus on it. • So, you **DONOT NEED TO DIE** to get back the money.
Term Plan	• You keep paying premium for given period (5,10,20 etc. years) • If you die within that period, your family gets huge money. • But if you don’t die within that period, you will not get a single penny from the company. • So, you **MUST DIE** to get back the money. • Good part- Term Plans have cheaper premium than other plans.
ULIP(Unit Linked Insurance Policy)	• You pay regular premium to the company. • Company invests it in Debt and Equity markets. • The profit generated by this investment, will be given to you no matter you die or not. • Thus you get the benefit of risk cover as well as the investment gains. • You **DONOT NEED TO DIE** to get back the money. • They pay higher return than Endowment.

Life Insurance Corporation (LIC) of India

On January 19, 1956, the Central Government of India took over the charge of all 154 Indian, 16 Non-Indian and 75 provident societies (consolidated 245 private insurance companies) which were working in India at that time.

The Parliament of India passed the Life Insurance Corporation Act on the **19th of June 1956.**

LIC was created on **1st September 1956** with the merger of more than 245 insurance companies and provident societies.

It is the largest life insurance company in India. The headquarters of LIC is in **Mumbai**.

Objective of LIC
The primary objective of LIC is **to provide life insurance policies to all the section of society.**
To provide life insurance services and financial cover to the low-income segment at an affordable cost in rural areas of the country.

LIC acquire IDBI Bank
In December 2017, LIC increased its stake in the Punjab National Bank (PNB) to 13.93% through qualified institutional placement.
On January 21, 2019, LIC completed the **acquisition of 51% controlling stake** in IDBI bank making it the majority shareholder of the bank.
The cabinet approved the acquisition of controlling stake by Life Insurance Corporation (LIC) as a promoter in the IDBI Bank in August 2018.

Some Interesting Facts
From 1956 to 2000 LIC was the only company for the life insurance business in India.

The LIC is a 100% government-owned company. Therefore, the government has given a guarantee to provide the claim amount in case LIC defaults.

LIC is the most significant institutional investor of Indian Share market. It invests about 50,000 crores every year in the share market.

LIC is one of the top -10 most trusted brands in India.

General Insurance refers to those insurance policies which do not come under the ambit of the life insurance sector. It includes the non-life insurance sector such as fire, automobile and home owners policies, accidents or loss from a financial event etc.

The General Insurance Corporation of India (GIC) is a state-owned reinsurance company in India.

The GIC had the monopoly in the reinsurance sector until the insurance market was opened for foreign direct investment in 2016 and foreign reinsurance players entered Indian market which included the companies from Germany, France, and Switzerland.

The evolution of general insurance can be traced back to the establishment of Triton insurance company limited in 1850 in Calcutta during the British Raj.

In 1972, the General Insurance Business (Nationalisation) Act was passed which nationalised the general insurance business in India.

Important features of the General Insurance Corporation (GIC)

- The general insurance business (nationalisation) act GIBNA, 1972 nationalised 55 Indian insurance companies along with 52 other general insurance operations of other companies.
- The General Insurance Corporation GIC was established as per section 9(1) of GIBNA act. The main objective of GIC was to control and operate the general insurance business in India.
- The Government of India transferred the assets and operations of the nationalised general insurance companies to the General Insurance Corporation of India (GIC) and other state owned insurance companies.
- This was followed by a process of mergers and consolidations. The general insurance Corporation of India was reorganized and four operating companies which were fully owned subsidiaries of GIC came into existence namely,
    - **National Insurance Company Limited (NICL)**
    - **New India Assurance Company Limited**
    - **Oriental Insurance Company Limited**
    - **United Insurance Company Limited**

- The GIC and its four subsidiaries enjoyed the monopoly in the general insurance business in India till the Insurance Regulatory and Development Authority (IRDA) Act, 1999 came into existence.
- The IRDA act came into effect on April 2000, which amended the insurance act, and GIBNA act and liberalized the insurance business in India. It ended the monopoly of GIC and its subsidiaries in the general insurance business in India.
- <u>In November 2000, the General Insurance Corporation of India (GIC) was declared as India's reinsurers, and it's supervisory role over its four subsidiaries came to an end.</u>
- The general insurance business (nationalisation) Amendment Act, 2002 which came into effect from March 2003 ended GIC s role as a holding company over its four subsidiaries and the ownership was transferred to the Government of India.
- At present, GIC is the sole reinsurer in India and it is now known as GIC Re . The Indian insurance companies have to feed 5 % of their policy value to the GIC Re after 1st April 2013.
- The vision of GIC Re is to be a leading Global reinsurer and risk solution provider .

GIC- Reinsurer

- Suppose LIC sells 1000 life insurance policies, each with a 1 crore policy limit (e.g. I, the customer pay Rs.10,000 premium every year and If I die my family should get 1 crore-that type of Policy).
- Theoretically, the LIC could lose 1000 crores in a day, if every customer dies on the same day!
- So to prevent itself from such a loss, LIC itself should take some insurance from a third insurance company (GIC).
- for example "I, the LIC Manager shall continue to pay the GIC 1 lakh every month, and in return GIC insures that if my company LIC has to pay more than 100 crores in policy claims within 1 week, then GIC will cover the cost.
- So, This third party, General Insurance Corporation of India (GIC) = Reinsurer.
- GIC is the ONLY Reinsurer in India.

Agriculture insurance company of India Limited (AICIL)

Agriculture insurance company of India Limited AICIL established on 20th December 2002 under the Companies Act 1956 is a government owned Crop Insurance Company which serves the needs of farmers. It is the largest crop insurer in the world in terms of the number of farmers served and provides crop Insurance schemes around 20 million farmers. It started its operation from first April 2003 and provides its services in around 500 districts of India. The company is headquartered out of New Delhi.

Objectives and vision of the AICIL

- To provide financial stability to the farmers in rural India to accelerate the economic growth of the country.
- To developed farmer friendly and rural oriented insurance schemes and products for all the agricultural and allied risks.
- To provide a protective net over agricultural and allied activities from natural threats and risks.
- To design and develop agricultural insurance products in a scientific manner with sound insurance principles for dealing with the diverse requirements of farmers.
- To improve the delivery and service of agricultural insurance schemes for bringing the remotest and poorest farmers under the agricultural insurance cover in a cost effective manner.
- To promote awareness about agricultural insurance schemes as the principal a risk mitigation tool.
- To encourage the farmers for adopting scientific and progressive farming techniques, inputs, and higher technology.
- One of its goals to stabilize farm income especially in the disaster years.

Salient features of the AICIL

- AICIL started business operations from 1st April 2003 and it took over the responsibility to implement the National Insurance Scheme (NAIS) from the General Insurance Corporation of India (GIC).
- AICIL was designated as the implementing agency of the country wide crop insurance program NAIS by the government.
- AICIL as 17 regional offices across India in the state capitals.
- AICIL is a public sector company in which the GIC holds 35% stake and the National bank for Agriculture and Rural Development (NABARD) the holds 30 % shares. The National Insurance Company Limited, Oriental Insurance Company Limited, United Insurance Company Limited and the New India Assurance Company Limited hold 8.75 % stake eac

Insurance Regulatory and Development Authority (IRDA)

It was constituted by the Insurance Regulatory and Development Authority Act, 1999. The agency's headquarters are in Hyderabad, Telangana, where it moved from Delhi in 2001.

- Insurance Regulatory and Development Authority (IRDA)
- Created on the recommendations of the Malhotra Committee report
- Started in 2000, it is a **statutory** body (i.e. made through an Act of parliament).

What are the functions of IRDA?

- To run insurance businesss, a company has to register itself with IRDA.
- IRDA regulates the insurance industry and protects the customers.
- IRDA has the power to frame regulations regarding Insurance market (just like SEBI for Capital market)
- promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums. (for example IRDA allowed Health Insurance Portability)

Organizational setup of IRDA

- IRDA has a ten member team consisting of
  - 1 Chairman
  - 5 whole-time members
  - 4 part-time members

All of them, appointed by the Government of India.