INSURANCE EXAM · IC-14

IC-14 Regulation of Insurance Business

Revision book

10	2	128
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 10

CHAPTER 1

Development Of Insurance Legislation In India And Insurance Act 1938

1.1	History: life	1.2	History: general
1.3	Nationalisation	1.4	GIBNA functions of GIC
1.5	Delinking	1.6	Reforms
1.7	Councils	1.8	Market

MUST KNOW

1. **Insurance is a Union List subject:** only the Central Legislature regulates it; law is uniform in India.
2. **First life insurer:** Oriental Life Insurance Company, Calcutta, **1818**. First life law: **1912** Act (life only).
3. **First general insurer:** Triton, **1850** (British). First by an Indian: Indian Mercantile, Bombay, **1907**.
4. Insurance Act **1938** regulates life and general (fire, marine, miscellaneous).
5. **LIC:** life insurers taken over **19 Jan 1956**; LIC formed Sep **1956**.
6. **GIBNA 1972:** general insurance nationalised from **1 Jan 1973**; 107 companies became 4 subsidiaries of GIC.
7. GIC later delinked; shares to Central Government; GIC only re-insurance.
8. Malhotra Committee **1993** (report **1994**); reform law **2000**; FDI now up to **100%**.
9. **Insurance Association of India:** Life Insurance Council (S.64C) and General Insurance Council.

1.1 History: life

Year	Event
1818	Oriental Life Insurance Co, Calcutta (first)
1823	Bombay Life Assurance Co
1829	Madras Equitable Life Insurance Society
1871	Bombay Mutual Life Assurance Society
1912	Indian Life Assurance Companies Act (English Act **1909**); life only

- Before **1871** Indians paid up to **20%** extra premium.
- **Foreign offices led:** Albert Life, Royal Insurance, Liverpool and London Globe.
- Other classes left out of **1912** Act (still simple).

TRAP

1912 Act = life only; non-life regulated **1938**.

1.2 History: general

- Triton Insurance Co, Calcutta, 1850, British nationals.
- **Indian Mercantile Insurance Co, Bombay, 1907:** first by an Indian.
- Insurance Act **1938** still controls life and general; general = fire, marine, miscellaneous (singly or together).
- **Roots:** marine trade loans, carriers' contracts; England the main source.

1.3 Nationalisation

- **19 Jan 1956:** management of 245 life insurers and societies taken over: 154 Indian, 16 foreign, 75 provident societies.
- **Sep 1956:** LIC formed under LIC Act **1956**; exclusive privilege; exception: lives of persons ordinarily resident outside India.
- GIBNA 1972, effective **1 Jan 1973**; shares and undertakings to GIC.
- GIC set up Nov **1972**; began business **1 Jan 1973**; section 9(1) GIBNA; holding company.
- **107 companies merged into 4:** National, New India, Oriental, United India.
- GIC did mainly re-insurance apart from aviation.

1.4 GIBNA functions of GIC

- Carry on any part of general insurance business.
- Aid, assist, advise on standards, sound practice, customer service.
- Advise on expense control incl. commission.
- Advise on investment of funds.
- Issue directions to acquiring companies.
- Keep competition among subsidiaries in mind.

1.5 Delinking

- GIC did re-insurance plus direct civil aviation and crop.
- **Act:** one insurer = re-insurance only or general only; GIC given re-insurance.
- Civil aviation, crop ended administratively; delinking by amending GIBNA.
- Subsidiary shares back to Central Government.
- **Reason:** stop capital flight as reinsurance premium; keep risks in India.
- **IRDA Act 1999:** new sub-clause in S.2, Indian insurer does life, general or re-insurance.
- **Indian re-insurer:** exclusive re-insurance, approved by Central Government.

> **TRAP**
> GIC is not a regulator and not the holding company of the 4 now.

1.6 Reforms

- **1993** Malhotra Committee; report **1994**.
- **2000:** Insurance Act amended; IRDA Act **1999**; regulator began registering private insurers.

> **TODAY'S RULE**
> **FDI:** up to **100%** of paid-up equity (new s.3AA, Sabka Bima Sabki Raksha Act **2025**).

TRAP

The highest FDI now allowed is **100%**.

1.7 Councils

- **Insurance Association of India:** Indian insurers = members; foreign-based = associate members.
- **Life Insurance Council:** S.64C; all life insurers; sub-committees; forum linking Government, regulator, public.
- **Life Council mission:** aid and advise on standards; talk to Government; spread awareness; education and research; global practices.
- **General Insurance Council:** vision = profitable industry, trusted, good policy climate, one authoritative voice.
- **GI Council mission:** lobbying for better legal framework; reply to others' moves; policy thinking; positive image; guidance on reputation; core secretariat.
- GI Council may run services such as the commercial vehicle TP motor pool.

1.8 Market

- **Specialised insurers:** Agriculture Insurance Co (crop); Export Credit Guarantee Corporation (credit).
- Standalone health insurers underwrite health, personal accident, travel only.
- **Others:** GIC re-insurer, foreign reinsurer branches (Lloyd's), agents, corporate agents, brokers, CSCs, web aggregators, surveyors, TPAs.