Chapter 3: Historical Development of Life Insurance Industry

3.1 An Approach to Security

The crude concept of Insurance dates back to the history of mankind. Human beings since time immortal strive to achieve and retain security. The urge for security was prominent in the primitive people as we see in the modern days. They tried to avert the evil consequences of fire, flood and loss of life by making some sort of sacrifice in order to gain security. Though, the term '**insurance**' was coined in recent part i.e. after the industrial era. The concept of insurance existed almost 6000 years ago.

On records the Biblical Story of Joseph during the famine in Egypt is cited as the first example of insurance plan. In interpretation of Parade's Dream, Joseph advised him to keep 1/5 (one-fifth) of the crop of each prosperous year for using it in the years of famine. Same kind of story has also been mentioned in the Islamic scripts with the name of Prophet Yusuf. Symbolically, these stories preaches the *insurance principle* of spreading risks and the wisdom of equipping in the prosperous present of unknown future.

With the growth of civilisation and internationals trade, *property insurance* gained priority to *life insurance*. Traces of securing the traders against debt in view of entragencies (like natural calamities or thefts) were found in the 'Babylonian History' around six thousand years ago. Around 2000 BC, the Babylonians and also Hindus were accustomed to the need of the contract of bottomry or respondentia as indicated by the provisions in the codes of Hammurabi and Manu, respectively. However, the *Babylonian Contract* and *Code of Hammurabi* applied mostly to caravans but *Manu Dharma Shastra* realised to both sea-borne and overland traffic.

Phoenicians were considered as the great sea traders of the period since they formed connecting risks between three continents, viz. Asia, Africa & Europe with their 5 or 6 coastal towns. About 900 BC, the Greeks inherited the knowledge of bottomry from the Phoenicians with exchange of commerce culture.

Roman Contribution to the Concept of Insurance/Security

The Romans developed a high state of social structure and in order to meet their social and commercial needs, complementary forms of insurance evolved. Archaeologists unearthed on inscription dated 136 AD, which portrayed "Collegia Tenutrium" for the lower classes. The purpose of the 'Collegia' organisation was to pay money for the funeral celebration which were very costly. Each member at the time of joining had to pay a sum equal to Rs. 25/- (then) and good wine up to six gallons approximately. Equal amount was paid every mouth thereafter.

In return, the members were promised to fund their burial expenses of Rs. 75/- of which Rs. 10/- was for distribution to the 'funeral train'. Members of all ages paid the same fees but for a maximum period of fifty years. The funeral benefits were denied if regular monthly payments were not made or the member committed suicide. Intenstricate a higher payment was charged as compensation to be benefit promised so that members can be prohibited from belonging to two or more such societies.

Domitius Ulpianus, juries consult under Emperor Alexander Severus (222-235 AD) compiled an *Annuity Table* which should signs of knowledge of some kind of mosteching. Ulpianus also devised an *Annuity Table* though not as good as Ulpanius but was widely used for its simplicity. If was used by the 'Tuscan Government' as the official *Annuity Table* till nineteenth century.

Contribution of the 'Gilds' (Guilds)

Marine Insurance was the only connection between the medieval and modern insurance and the 'Roman Collegia' and the 'Guilds'. Traces of *mutual insurance* against losses from fire, ship-wreck, captivity and other courses can be traced at the beginning of the Guilds. From around the Twelfth Century came *non-mutual insurance of goods, marine insurance* and finally *life insurance*.

The Guilds were identified as the descendents of the 'Roman Collegia' spreaded throughout Europe in the middle ages. The societies formed carried out the chief fundons of sickness and burial club. The sea societies cared for the family of a member even after his death. Thus the power of 'Guilds' became prominent in the Sixteenth Century.

In order to suppress the 'Guilds', Government of England formed 'friendly societies' in the 17th Century which took over the funtrus of the Guilds in connection with payment due to sickness or death. In 1819, the *British Parliament* defined the 'friendly societies' - "no longer as societies of good fellowship, but as institutions".

"Whereby, it is intended to provide, by contribution, on the *principle of mutual insurance* for the maintenance or assistance of the contributors thereto, their wives or children in sickness, infancy, advanced age, widowhood, or any other natural state or contingency, whereof the occurrence is susceptible of calculation by the way of average".

Advent of the Modern Concept of Insurance

In medieval period, a unique form of financial protection on the lives of captains of trading vessels was introduced as a process of *marine insurance*. This gives or essence of *life insurance* was considered as 'reprehensible and illegal'. Ultimately, the economic forces prevailed and the Churches also recognised the need for *life insurance* and provided the grant of *life annuity* and often sold *life annuity* in order to raise money.

Industrial revolution brought various *social insurance* gradually became the responsibility of workers, employers and the State. Prudent men developed a sense of responsibility towards their dependants after their death. *Life Insurance* was developed as a voluntary measure. *Social Insurance* benefited the under privileged class whereas *Voluntary Insurance* benefited the upper and middle classes.

First Life Policy

As on records, the *First Life Policy* is on the policy is on the life of *William Gybbons*, a citizen and a Salter of London, in to effect on the 18th June, 1583. The policy was bought by Sir Richard Martin, citizen and Alderman of London and it was underwritten by 16 individuals. The amount of the Policy was £ 383-6-8 and 12 month premium was 8% thereof, ie. £ 30-13-4.

In brief, the tent of the policy began with the translated Italian Phrase – "In the name of God, Amen" and continued "if it happens (as God defend) the said *William Gybbons* to die on disease out of this present world by any ways or means whatsoever before the full end of the said XII months be expired." The writhing ended with a prayer phrase, "God send the said *William Gybbons* health and long life."

But, *God* had some other plans. *William Gybbons* died on May 29, 1584, within one year from the issue date of the policy. Richard Martin claimed the benefits but it was disputed on the ground that the insured had survived 12 lunar months of 28 days each. However, the court judged that it was the intent of the policy to insure *Gybbons* life for the year and therefore order payment of the claim.

Further Interesting Development in the Middle Ages

Coffee Houses came to be associated with particular areas of business rather than just a meeting place for communication between trader's from different parts of the world. The *Association of Marine Insurance* with Edward Lloyd's raised the name of a mere Coffee-House Keeper to the dignity of being synonymous with financial solvency.

By 1760, Lloyd became the main centre of individual underwriting for about that time a *Register for Shipping* was maintained. It was *biennially initially and later annually by "A Society of Underwriters of Lloyd's Coffee-House".*

Tontines

The Co-operative provisions of the 'Guilds' during the earlier centuries hereby level any scientific bars. According to Walford's Handbook, *Tontine Annuities* is the first recorded description of *Annuities*. Berthold Holtzschuzer and George Obrecht pioneered the schemes of insurance on *Tontine Principle*, which though significant, received little appreciation from their contemporaries. In 1689, the first *State Tontine* made its appearance.

The principle of these annuities was very simple. A certain number of persons contributed a specified sum (without reference to age or sex) to a fund. At the expiry of each year, the interest on this fund was divided amongst the subscribers who were living and so on, from year to year, while the last survivor received the whole of the interest. The fascinating feature of the scheme was that the last survivor received an enormous sum in return of trifling contribution at entry. There is record of the case of a widow, who at the time of her death at the age of 96 years, enjoyed an income of 73,500 livers ie. over 3,000 £ - for her original subscription of 300 livers only.

The first *State Tontine* in England was floated in 1762. The interest of the Government in promoting *Tontines* was apparent as the subscribers only received the interest on the fund and with the death of the final annuitant went to the Exchequer. Various modifications were made by the private participants as and when required. In fact, this was a great contribution towards the

development of the concept of *life insurance* as this was the basis of mortality tables by modern life assurance companies. So, *Lorenzo Tonti*, is sometimes called as the "Father of Modern Life Assurance".

The very feeling of insecurity can be termed as the mother of the concept of insurance. The basic requirement of the science of *life insurance* is precise knowledge about the rate at which the members of a group will die at a given age and from year to year. The past records of death are studied for this purpose with an assumption that 'history repeats itself'. The validity of these assumptions was demonstrated by experiment and has been formulated in the "Law of Large Numbers" which served as the basis of all applications of the branch of Mathematics, popularly known as "Theory of Probabilities".

It was the *Gaming Table* which led to the first important application of Mathematics to the determination of the *Law of Averages*. When Paris was receiving the interesting system by *Tonti* (1623-1662), the French Philosopher, Mathematician and Physicist, was attracted to the *Problems of Probability* as demonstrated by the Games of Chance using Cards and Dice to accumulate data. De Witt, Grand Pensionary or Head of the Dutch Parliament Republic, age of twenty eight, sought to apply the *Mathematical Principle of Probability* to the valuation of *life annuities*. In 1671, he presented a report on the subject to the *States General*, which was an important advancement over the calculations of Ulpiarus. But it was stacked in the archives for more than a century.

At the end of Fifteenth Century, frightful ravages had caused such alarm in England that to 'quiet public feeling', the Government of the day urgently thought it desirable to publish correct account of the progress of the pestilence. These was called the "Bills of Mortality". John Grunt compiled and published his work on these mortality records in 1661. This is probably the earliest example in economic arithmetic and the closest approximation to the data on which *life assurance* is founded. His finding regarding life expectancy though mere approximations, laid the foundation of the *Actuarial Science*.

Edmund Halley, the famous astronomer, presented before the Royal Society in 1693, his "Degrees of Mortality of Mankind" based on *vital statistics*, obtained from Breslau in Silesia, the only city in the world which, at that time, maintained record of *births and deaths* including the ages of its dead. The next contributor in this branch of research was Ibraham De Moiver. Other advances were from both England and Europe. Thomas Simpson, Antoin De Pracicux, James Dodson, Richard Price, Joshua Milne etc., were some scholars who were connected with the success of pioneer insurance companies and well known *Mortality Tables*. The *Actuarial Science* was developed to a great extent in the 19th Century. The most prominent turning point in the history of *life insurance* was the establishment of the *Institute of Actuaries* in 1848 in England.

3.2 The Beginning of Life Insurance Offices

As on record, the first registered *Life Insurance Office* in England was “The Hand-in-Hand Society” in 1698. In 1698, “The Mercer’s Company” was established. In due course, life *insurance* began to be sold on an associated scale. A fixed number of person were bought and insured together by paying the same amount. In return the Master, promised to pay in the occasion of death, after a fixed probationary period, a certain sum on the satisfaction of certain conditions. The piprest being “The Society for Assurance of Widow and Orphans’’ founded in 1699. The membership of Hand-in-Hand was restricted to one hundred men whereas the membership of this society was limited to 2000 men.

However, the Old Amicable Society is recognised as the oldest registered *life insurance office* in the world. The society obtained a Royal Charter from Queen Anne authorising them to transact *life insurance* business from 25th March, 1706. In contrast to the contemporaries, Amicable Society provided ‘perpetual insurance’. All admitted members age was restricted upto forty years of age and showed equal premium regardless of age. The member’s good health and reputation were also checked before admission. Thus, this can be said as the beginning of the security of character and physical examination which has now become mandatory.

Gambling Techniques on Life Insurance

Simultaneously, there were few specialized Insurance Companies which insured almost every conceivable title as a result thousands of citizens were made to invest their savings. The unscrupulous companies vanished with there ill–gotten gains like “South Sea Company”- its fall in 1720 led many citizens to insolvency.

As a result of this epidemic of gambling, around 100 insurance companies prospered by selling policies based on any event of public interest. To control the situation, the British Government enacted the *Gambling Act of 1774*, where *Life Insurance* was restricted only on life of the person and the insuring person should have an interest in the life or death of the person insured. Later, this concept was developed and now termed as ‘insurable interest’.

Birth of Old Equitable

James Dodson, a Mathematician in London, applied for insurance with Amicable but he was denied as ineligible on account of age as he was 49 years and the permissible age limit being 45 years. So, he floated an organisation which would operate on a basis allowing an extension of insurance benefits to men of advanced age. He prepared for applying for a charter and raised a fund for that purpose which was subscribed to by 43 persons. Edward Rowe Mons assisted Dodson in these efforts. But the petition remained unheard. Dodson died but Mons agreed to take the lead and the first hearing of the petition for the charter came off early in 1758. The petition was dismissed repeatedly. The promoters formed themselves into a voluntary partnership and carried out the scheme which they felt was practicable.

Old Equitable applied the actuarial basis for calculating premiums. Dodson used *London Bills of Mortality* as his basic data. The premiums charged were graded according to age ie. the policy holders paid in proportion to the risk involved, thus justifying the name ‘Equitable’. Dr. Richard price an outstanding actuary, highly commended *Equitable Society* in his classic work “Observations on Revisionary Payment”, was associated with the society for many years. In 1774, his nephew, William Morgan was appointed as *Assistant Actuary* and one year later became *Actuary*. He hold the post for over 50 years.

Other Spheres of the Globe

The other countries lagged for behind England in organised form of *life insurance business* in France, the “Campagnie Royal D’Assurance Sur La Vie” was chartered by the King in 1787. The company was given a monopoly for 15 years but it ceased to exist in 1792 during the revolution. In the second decade of 19th Century, new companies were formed. The first *life insurance company* was established in 1806 and lasted for only years. Some local efforts were prominent during 1827-28. English Companies opened branches in German cities and established agencies in Netherland and Scandinavian countries. French Companies reached out in Belgium, Spain, Italy and Switzerland. Austria and Hungary did not establish their own companies until the middle of the 19th Century.

In United states *life insurance* began shortly before the War of Independence. The first company was established in 1759 which is now known as the Presbyterian Ministers’ Fund. Canada and United States of America brought great and remarkable developments in the field of life insurance.

3.3Concept of Insurance in India

Insurance was practised in India in *Vedic Times*. The Sanskrit term ‘Yogakshema’ in *Rig Veda* meant *some kind of insurance* which was followed by the *Aryans* in India. *Manu* enjoined that a special charge be levied on goods carried from one town to another in return of providing safety to carriage till received by the consignee at destination. After few centuries, *Kautilya* also laid down several rules and regulations in his ‘Artha Shastra’. The *contract of insurance* started as a part of *contract of carriage*.

During the *Moghul* period *insurance* took firm roots. There are even reference to the cover against war risks. Losses due to passage of royal troops through farms were compensated by the State as a gesture of goodwill. The earliest known policy in English (1555) is expressed as "on the good ship *Santa Crux* from any part of India of Calicut into Lixborne". Thus *marine insurance* was the first to develop in India also.

Some resemblance to a *life annuity* can be found in the practise of widows. While starting on a holy pilgrimage, the widows used to hand over their entire belongings to a rich neighbour on condition of being paid monthly allowance for life, thus resolving the purpose of getting insured. The 'Sinni' of *Satyapir* was a crude system of social insurance the offerings made to the duty by the affluent Hindu and Mohammedan religious people in Bengal were offered to the destitute from the community irrespective of religion they supported.

The Indian culture inculcates the joint family system which provided complete protection to all its family members. Education and marriage of children maintains of old and infirm members of the family, the well-being of widows of deceased family members were the responsibility of all the members of the joint family. This system resembled *self insurance* which can be compared to a scheme of mutual helpfulness, a small co-operative society, a miniature labour organization or a diminutive insurance society. The Hindu Society vested on this principal for thousands of years. The shadow of this banyan tree covered the members from all sufferings. The modern idea of *individualism* however ruined this system when few highly potential members began to believe that this system refrained then from growth and development. The caste system, village *panchayat*, temple and charitable institution all provided protection to a person and his dependents in case of any misfortune.

So the necessity for security was satisfied by this system of the society. In Northern India, the payments by the society or *Biradri* at time of death were generally made on the '*Bura Din*' or 'Evil Day'. The widow received her dues even before her husband's dead body turned to ashes and the children got there share on '*Kriya Day*' ie. not later than eleven or thirteen days from the death of their father. So the waiting period is much less then the claim settlement period by many modern insurance companies. Similar help was rendered on the occasion of marriage which was called "*Neota*" ceremony. The bride and the bride-groom received marriage gifts, clothes, ornaments and cash from the members of *Biradri*. Contribution was also made on the birth of child but there were not large or regular as in case of marriage or death.

This form of tradition continued to have a strong held on people for a prologue period. The concept of *Life Assurance* was not accepted as it conflicted with their spiritual and philosophical ideas ie. each individual providing for his dependents on his death. The influence of Islam too was against usury. During the 19th Century, the Indians were quite unaware of the advantages and utility of *insurance,* but they believed that to insure one's life means to invite death.

In local language *life insurance* was often described as registration for death. The process of political and military dissolution of *Moghuls* that set in after *Aurongajeb's* regime was completed with the rise of East India Company.

Exposure of Indians to the full strength of British industrial and commercial systems led to fundamental change in their social, economic and commercial outlook. Indian Institutions in the fields like Banking and Insurance were initiated. Sir John Child, Governor of Bombay (now *Mumbai*) between 1681-1690, was instructed by the Court of Directors of East India Company "to constitute an insurance office on the (Bombay) island", but the fate of this suggestion is yet unknown. In 1793 few leading European merchants in Bombay established the earliest known insurance company named "Bombay Insurance Society".

The year 1818 is a remarkable year in the history of India. Central Maratha Power which had stopped the British Rule in entire India fell in this year. In Calcutta, a few Bengali Gentlemen owned and edited the first Indian Newspaper. And also the first British owned and edited monthly and weekly in Bengali. The notorious Regulation-III was introduced in this year which allowed the British to detain without trial, later used as a political weapon. This brought dominance of western thoughts over Indian ideas.

A Group of Europeans pioneered the establishment of the *Oriental Life Insurance Society* to provide relief to the widows and orphans of war struck Europeans. This venture was not very successful but was reformed in 1829 in 1833, the renewed company also fell into trouble and *Prince Dwarkanath Tagore* was entrusted to carry on the institution thinking him as the only solvent partner. He patiently took the burden and waited for the day when he could be relieved. In January 1834, the Government made up its mind to establish a *public insurance company*. A number of foreign insurance company entered the Indian market by this time. The Government initially compelled the existing companies to set up committees to review their individual affairs. *Dwarkanath Tagore* was also no exception as so "New Oriental Company" was formed. Mr. W. F. Ferguson became associated with this company but this company was only for the Englishmen. *Babu Matilal Seal* made efforts and prevailed to except at least select Indian lives. The company however was at turmoil and its business was turned over to the "Medical Invalid and General" (incorporated in UK in 1841) in the year of 1853. The later company too was amalgamated later to 'Albert' which 'Crashed' in 1869.

The contribution of *Prince Dwarkanath Tagore* in association with *Raja Ram Mohan Roy* needs no special mentors. He was news paper magnate and strong supporter of freedom of press, a promoter of English Education and original benefactor of the Calcutta Medical College and donor to various other benevolent and cultural institutions. He started factories, floated Banks, owned and built shipyards and carried on trade between East and West. With his business acumen he could for see the possibilities of *life assurance* as a help to the ordinary households and to business men and was associated to “Laudable Societies for many years. In 1845, *Prince Dwarkanath Tagore* died on his second visit to England.

In 1834, when ‘Oriental’ was reformed two gentlemen, *Ramtanu Lahiri* and *Rustomjee Cowasji* was associated with it. *Rustomjee* was from Bombay but settled in Colcutta in 1821. He was a prominent figure in the business world but was associated with companies like Sun Life Office (1834), New Oriental (1835), Universal Life (1835), Laudable (1840) and Indian Laudable (1841). *Rustomjee* was the only Indian in the committee of live persons of the Union Insurance Company. This company issued policies covering risver-risks only. In 1832, *Rustamjee Cowasji* and *Dwarkanath Tagore* situated a *non-life insurance* in Kolkata (Calcutta). None of the companies treated Indian lives at par to the Europeans. Indian lives were seldom granted insurance policies in lieu at heavy extra premium.

Samachar Darpan, dated May 9, 1835, provided some news on the Government proposal of *life insurance firm* and emphasized on the Government to publish the rules and regulations and the premium. It appeared that the Hon’ble Court of Directors of the East India Company objected to the Government of India undertaking *life assurance* as a part of its operations. The memorandum sent by various companies to the Government intended to state that such public institution could serve no beneficial purpose to the people at large. The existing companies like ‘Oriental’ were reformed and investigations by respective committees provided that those were as strong as before so many new institutes of the Government were shown needless. Therefore, the Government did not proceed further.

In 1926, file of the *Samachar Darpan*, a news item was there under the name ‘A New Insurance Office”, announcing that a company was going to be on the 1st day of August of that year. All the Directors were Europeans and most of the insurance business were proposed on marine business. Majority at the early attempts were in the province of Bengal due to its political and economic importance of that time.

The contribution of prominent social reformer, *Raja Ram Mohan Roy*, in the field of *life insurance* is also great. His revolt against the practise of ‘*sati*’ is known to everybody. He appealed through ‘*Sambad Kaumudi*’ in 1821 as under :-

“There has been a fund established by the laudable society called the *Civil and Military Widows’ Fund* for the purpose of supporting the children of the deceased, both of the civil and military services, but there is among Hindus no provision for the maintenance of poor widows ... ... To remedy this, if two or three respectable native gentlemen were to institute a *life insurance*, this would be most advantageous to people in narrow circumstances ... ... should some charitable persons be kind enough to establish such a society and be desirous to know how to proceed in this affair, we shall, by their writing to the '*Sambad Kaumudi*' press, publish them as may be found most convenient". But as on record no concrete results could be traced.

From Overseas

Amongst the British companies which came to India the prominent ones are the 'Medical, Invalid and General' in 1841 from London. The company absorbed the '*Agra Life*' in 1853 and the 'New Oriental'. The 'Universal Life Assurance Company', which was established in England in 1836 opened its Indian Branch in 1840 and operated successfully for a long period until it was taken over by the "North British" in may 1901. Insurance exceeding Rs. 10 (ten) cores were issued in India during this period.

Another English concept was 'New Colonial Life Assurance Company'. It was established in 1846 under the auspices of the 'Standard Life Assurance Company'. The prospectus declared its purpose as "Extending to the colonies of Great Britain and to India the full benefit of *Life Assurance*". It appointed agents with local boards which were first established in Calcutta, Bombay, Madras and Colombo. Later on, this Company was taken over by the 'Standard Life' and made valuable contribution to investigations into the mentality experience of assured lives in India. Eventually it ceased its operations in India in 1983.

The oldest *life policy* known to be issued in India is the one sold by the 'Royal Insurance' (commenced business in 1845) on the life of one *Cursetjee Furdoonjee* on 6th January, 1848. A reference to this policy was made by *Sir Byramjee Jeejeebhoy* on the Centenary Dinner of the 'Royal' in 1945. In the year 1853, the 'Liverpool and London and Globe Insurance Company' established in England in 1836, commenced business in India. Sir Charles Forbes was its first agent, succeeded by 'M/S Forbes, Forbes and Campbell'. It accepted only European lives and commenced insuring Indian lives only after 1929. This attempt was to oblige good agents of the company for the classes other than life business. The 'North British and Mercantile' was the next company to come to India with *fire insurance business* in 1861 and life "Insurance" in 1864. The 'London Assurance' started business in 1864 which principally insured European lives but closed down its life department when the Life Assurance Companies Act 1912, made submission of returns compulsory.

During the *1857 Mutiny*, almost more than a quarter of million pounds was paid by life assurance offices in respect of policies affected by persons whose lives were lost in turmoil.

The *Missionary Societies* being the pioneer, India experienced a random growth in the *mutual trusts and societies* to save the widows, orphans and destitute viz. the 'Christian Mutual of Meerut' in 1847, (later shifted to Lahore), the Bengal Christian Family Pension Fund in 1852, the 'Church Missionary

Society' at *Palayamcottah* in 1834, *Tinnevelly Diocessan Council* in 1925 (later registered under Indian Companies Act 1949 in the name of *Tinnevelly Diocessan Mutual Insurance Company Ltd*).

By 1870, there were nearly fifteen companies working in India, of which seven were established in India and eight foreign companies with had affairs in UK, till then the European lives and their descendants born in India were mainly insured. Few selected Indian lives were insured but at a very high premium. The first attempt towards indiscrimination in terms of caste or creed and treating Indian lives at par to Europeans was the beginning of '*Indian Life Assurance*'.

The period from establishment of oriental in 1818 to 1870, about half-a-century, was the period to propagate life insurance in India according to the lines of contemporary English model. England also experienced a remarkable growth during this period. Many companies were set up to transact *life assurance*. The promoters often offices, advertised rigorously, collected large amounts and in due course disappeared.

This abrupt rise led to mergers and takeovers and many companies ceased to exist for various reasons. Bad managements and bad lives selection became a regular practise by these companies. This resulted in the extensive liquidation of companies even few very well known ones could not escape. 'Albert Life Assurance Company', in August 1869 went to liquidation and the whole world was astonished. This company started in 1838 and had absorbed at least another 26 other life offices during its life span. The reason for liquidation was long time deficiency in its funds on account of the reckless manner in which the office had been managed.

A sealing inventory action probed that the reason for failure was mainly because of large sums were paid away for acquiring the business at the offices transferred to the company. The company had opened a gorgeous office at Kolkata in 1860 and an agent sold *life assurance* and *annuities* to anybody who asked for it. The 'Medical, Invalid and General' was amalgamated with 'Albert' and this powerful combination opened branches at Bombay, Madras and penetrated throughout undivided India. It received one–third of its premium income from India. The amount was remitted to England until the Calcutta directors refused to continue remittances. This created financial stringency at their head office. After the Board was confronted by a Committee of Indian Policy Holders, the Directors instituted an independent actuarial investigation. The report made them realizes to call for a liquidator. 'Albert' brought down 26 life offices which it had absorbed sending numerous families to misery and ruin.

The 'European', a close rival of 'Albert', similarly impoverished various policy holders in England and India when it foundered in 1870. *Missionaries Societies* too, had a difficult existence. The reason for such massive failures owed to indifferent administration and defalcation of funds. These failures led to passing of the 'Life Insurance Companies Act' in 1870 by the British Parliament.

In 1853, the British Parliament had appointed a *select committee* to report on assurances, mainly due to the social consciousness aroused by the press. However, the recommendation of this committee remained in shelves at that time. The Act of 1870 and further Act passed in 1872, made it compulsory for the new company to deposit £ 20,000 with the Government and to keep separate account of life business etc. The Act tried to reform the industry and inject good practices to make it more serviceable to the society and nation.

The Government of India, keen followers of the progress of *life assurance* in England, proposed to stuck an insurance company for insuring the Indian lives. Government speaks-person declined the proposal stating that the Government did not have adequate information about mortality of Indian lives and it was difficult to find the correct age of Indians. It was also steeled the majority of Indian did not want insurance, so only a few would join such a scheme. As a result, the venture will not be profitable due to high management cost. The whole sequence would lead to discredit to the Government.

A proposal initiating a system of life insurance by the Government was made by Sir Richard Temple, Finance Minister of Government of India. He seeked local opinion act practical suggestion for Mr. D. R. Lyall, the Hon'ble District Magistrate E. J. Duda, who in turn entrusted *Sri Dinanath Sen*, Headmaster of *Ducca Normal School*, to draft a detailed memorandum, depending on a vivid observation and suffering of the local people, including the affluent but who clearly need life assurance policies.

First Indian Company for Indian Lives

The *Silver Jubilee Souvenir* brought out by Indian life Assurance Offices Association stated that – '*notwithstanding*', the opinion of the Government of India. Some influential citizens of Bombay decided to form Indian companies themselves, so that the controlling of the business would remain in their own hands instead of the speculative promoters in England. They also intended to accept Indian lives freely on the same rate as the European lives in India.

On 3rd December, 1870, seven earnest men of Bombay with just for initial expenses gave shape to a plan of offering insurance to the public without the risk of ruin and the Bombay mutual life insurance society came into existence.

The First Articles of the Society gave recognition to the high ideals and selfless ideas of the promoters, specify that :-

"All the affairs and every transaction of the society must be opened to the most minute inspection of every member. Each member may take part in the management. Business is to be conducted with strictest economy. All profits that may accrue must be awarded exclusively to those whose contributions have caused them and to each in due proportion to his contribution".

In 1938, in his book, 'Some aspect of Life Assurance', *Shri N.G. Samadder* wrote –

"… the first Indian company known as the Bombay company mutual open to the public irrespective of colour and creed was founded in Bombay in 1871".

Dr. R. M. Roy, in his work, 'Life Assurance in India (1940)', stated that –

"... the year stands out as a landmark in the history of Indian Insurance, separating early period of pioneering attempts of life assurance from the subsequent period of steady development."

The *Insurance and Banking Souvenir*, published in1954, read as –

"The first life policy in India was issued perhaps 150 years ago and that too on the life of some European. The mass illiteracy on the one hand and poverty on the other coupled with the anti insurance of Muslims remained out standing impediment to the growth of insurance business in the country … with the flotation insurance companies to which an impetus was given by the dejection and disappointment caused by the Political Reforms of 1892 which fell for short of peoples aspiration".

Prof. O. P. Bajpai feels that –

"... reaction to this sad state of affairs was seen in Bombay. The people their decided to introduce principle of co–operation in the organization of insurance business and also it was decided that the conditions of granting insurance business also it was decided that the conditions of granting insurance protection should be some as were applicable to Europeans. This desire culminated in the established of Bombay mutual life assurance society."

Shri B. N. Sahasrabuddhi (1947) emphasised that – "even the foreign insurance company had to admit Indian lives without any discrimination."

Dr. A.N. Agarwala, in his famous book "Insurance in India", mentioned that –

"... the last three decades of 19th Century saw the Bombay Presidency wresting initiative from the Madras Presidency in this direction. The powerful Bombay Mutual (1871), Oriental (1824), Empire of India (1897), all stinted clearing this period." In the meantime, many small society funds and provident societies (which worked like pension funds) had mushroomed in the insurance sector. Till the end of nineteenth century, it was mainly the overseas companies that had invested in the insurance activities in the country. Their main intention was to protect the needs of the European community; Indian lives were neglected by those insurers. In fact, Indian lives were not insured. However, with the efforts of people like Babu Muttylal Seal, Indian lives started to be insured but at a 15-20% extra premium charged by the insurer compared to European lives as they were considered to be riskier (Bedi and Singh, 2011).

Thus the Era of Indian Life Insurance began. A list of companies in chronological order is enlisted below :-

Table: 3.1 : Companies Originated in India

Established on	Name of the Company/Fund	Exit
1818	Oriental Life Assurance Co.	1834
1823	Bombay Life Assurance Co.	1956
1829	Madras Equitable	1921
1833	Agra Fund	
1833	Madras Widows & Orphans Fund	1956
1847	Christian Mutual	1956
1849	Tinnevelley	1956
1852	Bengal Christian Family Pension Fund	

Table: 3.2: Foreign Companies

Established on	Name of the Company/Fund	Exit
1835	Family Endowment	1861
1840	Universal Life Assurance Co.	1901
1846	Colonial Life	1866
1846	Standard Life Assurance	1938
1849	Medical, Invalid and General	1860

N.K.	European Life	1869
N.K.	Indian Laudable	1865
1853	Liverpool, London and Globe	1939
1860	Albert Life	1869
1860	Royal Insurance	
1864	North British and Mercantile	1864
1864	London Assurance Corp.	1973

3.4. Progress during the Period 1901-1948

In the early part of twentieth century, the nationalist movement was gaining momentum. There was a cry for Swadeshi movement against the British. This situation gave rise to many Indian enterprises establishing insurance companies during 1905-07. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. The Indian Mercantile (in 1913), General Assurance and Swadeshi Life (renamed to Bombay Life in 1913) were some of the ‘other companies that were established during the initial years of the last century.

With the brisk increase in insurance companies, there was an immediate requirement of regulatory environment for monitoring those businesses. Thereby, the Indian Government took various steps by passing different Insurance Laws and Acts time and again. The first legislation to be passed was the Life Insurance Companies Act, 1912 which forced insurance companies to work on good actuarial principles instead of being speculative in their business transactions. So, it required the insurance companies to have their premium rate tables and periodical valuations certified by an actuary. Butthe Act contained regulations that discriminated Indian and foreign insurers in different ways like requirement to make deposits with the Indian government. So, it created a room for discontentment among the Indian insurers. In the same year, the Provident Fund Act was also passed.

The other regulations that were passed included the Provident Insurance Societies Act, 1922, the Indian Insurance Companies Act, 1928 - it empowered the government to gather required information about life and non-life insurance organizations operating in the country, and also the Insurance Act, 1938. With the rise of the freedom struggle movement and the call for Swadeshi, till 1938, it was seen that there was a surge not only in the number of insurance businesses ,which increased from 44 to 176, but also the turnover which jumped from Rs 22.44 crore in 1914 to Rs 298 crore (www.bimabazaar.com). However, things were not all fine. Later it was realized that many of these businesses showed signs of malpractices and failures which were reflected in lapsed policies (as per actuarial reports), doubtful valuation, unhealthy competition and hostile competition (Sadhak, 2009).

At this point, the Insurance Act 1938 was passed which became the first legislation to be applicable for both life and non-life form of insurance business. The inclusion of stringent measures in the Act with regard to registration of companies, investment of securities, periodical valuation ,payment of initial deposits, licensing of agents, appointment of directors and submission of accounts resulted in weeding out of the weaker players and a fall in the speculative practices. However, some weaknesses still existed and it was indirectly mentioned by the Planning Committee. The Committee gave its opinion in 1946 saying, “Insurance even today is not looked upon in India, as a public utility service. It should extend to and embrace all forms of risk to which an individual’s life, business, property etc. may be exposed and which may, therefore, be owned and conducted very closely by the government in the public interest.”

In the early days of twentieth century, the nationalist movement was gaining momentum. There was a cry for Swadeshi movement against the British. This atmosphere gave rise to many Indian enterprises establishing insurance companies during 1905-07. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. The Indian Mercantile (in 1913), General Assurance and Swadeshi Life (renamed to Bombay Life in 1913) were some of the ‘other companies that were established during the initial years of the last century.

With the rapid increase in number of insurance companies, there was an immediate need to have a regulatory environment for monitoring those businesses. Since then, the Indian Government took various steps by passing different Insurance Laws and Acts from time to time. The first legislation to be passed was the Life Insurance Companies Act, 1912 which forced insurance companies to work on sound actuarial principles instead of being speculative in their business transactions. In other words, it required the insurance companies to have their premium rate tables and periodical valuations certified by an actuary. However, since the Act contained regulations that discriminated Indian and foreign insurers in different ways like requirement to make deposits with the Indian Government, it created a bone of discontentment among the Indian insurers. In the same year, the Provident Fund Act was also passed.

Following this, the other regulations that were passed included the Provident Insurance Societies Act, 1922, the Indian Insurance Companies Act, 1928 (which empowered the government to gather required information about life and non-life insurance organizations operating in the country), and the Insurance Act, 1938. During this period till 1938, with the up-rise of the freedom struggle movement and the call for Swadeshi, it was seen that there was a spurt not only in the number of businesses (which increased from 44 to 176) but also the quantum of business which jumped from Rs 22.44 crore in 1914 to Rs 298 crore (http://www.bimabazaar.com/). However, things were not all rosy. It was noticed that many of these businesses showed signs of malpractices and failures which were reflected in lapsed policies, doubtful valuation, unhealthy competition and hostile competition (Sadhak, 2009). As a result, the Insurance Act was passed in 1938 which became the first legislation to be applicable for both life and non-life form of insurance business.

The incorporation of stringent measures in the Act with regard to registration of companies, investment of securities, payment of initial deposits, licensing of agents, periodical valuation, appointment of directors and submission of accounts led to the weeding out of the weaker players and a fall in the speculative practices that they adhered to so long. However, certain weaknesses still continued to exist and it was indirectly mentioned by the Planning Committee when it gave its opinion way back in 1946 saying, "Insurance even today is not looked upon in India, as a public utility service. It should extend to and embrace all forms of risk to which an individual's life, business, property etc. May be exposed and which may, therefore, be owned and conducted very closely by the government in the public interest."

The progress of the Life Insurance Industry during the period 1930 to 1948 has been highlighted in Table 3.3 given below:

Table: 3.3: Life Insurance business in India during 1930 to 1948

Sl. No.	1930	1940	1945	1948
Policies in Force (in lakhs)				
Indian	5.13	13.71	23.76	27.91
Non-Indian	2.20	1.81	2.61	2.34
Outside India	0.14	0.75	0.77	2.02
Total	7.47	16.27	27.14	32.27
Total Business in Force (Rs. in crore)				
Indian	84.89	225.51	459.43	566.38
Non-Indian	69.76	60.12	91.85	101.08
Outside India	3.77	18.40	21.79	45.30

Total	158.42	304.03	573.07	712.76
Life Fund (Rs. in crore)	20.53	62.41	107.4	150.39

Source: Adapted from Sadhak (2009)

The above table clearly depicts the dominance of Indian insurers in the life insurance business of the country. In terms of number of policies, almost 70% were issued by Indian insurers which increased to 87% by 1948. Similar was the trend in respect to total business generated. In 1930 it was 53.5%, the Indian insurers increased their share in the total business to around 80% by 1948. Appendix I gives a detailed view on the year wise new business and total business in force from the year 1914 to 1969-70.

Appendix II depicts the rate of dividend paid by the Indian Life Insurance Firms between 1900-1910.

Appendix III enumerates the ranking of the Indian firms based on the dividends paid.

Appendix IV states the rate of dividend paid by the Indian Life Assurance Companies during 1911-1920.

Appendix V shows the rank of the life insurers based on rate of dividend paid during the twenty years period i.e. 1911-1920.

3.5 Life Insurance Business in India after Independence

The concept of nationalising insurance business in India emerged from a document written by Mr. H.D.Malaviya (1955) called "Insurance Business in India" on behalf of the Indian National Congress. The author also justified the call for nationalization on mainly the following four grounds:

(a) He argued insurance to be a "cooperative enterprise" under the socialist form of government and therefore was more suited for the government to be in business.

(b) He claimed the Indian insurers to be excessively expensive. It depicts that in India, on an average more than 27% of the premium income was used to meet operating expenses, in comparison to only around 16.5% for USA and 13.9% for UK.

TABLE NO. 3.4: Expense Ratio in Life Insurance Business (in%)

Year	India	USA	UK
1950	28.9	16.8	13.0
1951	27.2	16.5	14.1
1952	27.1	16.7	14.2
1953	27.3	17.0	14.5

Source: Sinha (2005)

(c) Non-improvement of services either to the public or to the policyholders.

(d) Lapse ratio of the companies was very high.

It was also noted that the insurance businesses were not performing as desired. It was observed by the policy-makers that the needs of the poor and neglected classes were ignored. The insurance business mainly targeted the richer sections of the society and operated only from the metropolitan areas. The performance and policies of the 245 private enterprises (154 Indian insurers, 16 Non-Indian insurers and 75 Provident Societies) that were in life insurance business were against the spirit of insurance. The spread of insurance was also not up to the mark. The per capita insurance in India was only Rs. 1.50 during the early 1900s which increased to Rs. 8 in 1944 and Rs. 25 in 1955 (compared to an average of Rs. 2000 for USA and Rs. 1300 for Canada). In brief, some of the shortcomings that were observed in the overall industry performance were as follows:

1. Low penetration of insurance.

2. Existence of unsound investment practices which resulted in investment in companies having minimum credibility.

3. Grant of loans not backed by adequate security.

4. Siphoning away of funds to be invested in poor performing companies.

5. Growing interest towards investments in risky assets like shares while conducting income generation activities.

6. Indulgence of agents in unfair practices.

7. Poor track record of the industry during the previous three decades: 25 companies went into liquidation between 1945 and 1955, 75 companies declared no bonuses in 1953-54 and the with-profit policies became without profit policies which ruined faith of the public on these businesses.

8. A huge percentage of business lapses between 1951 and 1954.

Appendix VI depicts the results of valuation done by the Actuary as per the Actuary report 1921 where it is evident most of the companies have a deficit valuation. This scenario clearly indicates the terrible condition of Indian Life Assurance firms during the period

TABLE NO. 3.5 Size of Business and Lapse Ratio of the "Big Eleven" and the "Middle Eleven" Insurance Companies

Insurer	New life business written in 1951 (Rs. crore)	% of business in 1951 Lapsing by 1954
The Big Eleven		

Oriental	19.6	35
New India	15.2	38
Hindustan Cooperative	15.1	47
National Insurance	6.81	51
Metropolitan	7.5	57
Bombay Mutual	3.9	32
Lakshmi	3.0	41
Empire Of India	3.7	42
Bharat	3.9	42 *
New Asiatic	2.8	43
United India	2.7	30
The Middle Eleven		
General Assurance	1.7	46
National Indian Life	2.7	67
Western Life	2.5	37
Bombay Life	2.1	55
Ruby General	2.0	45
Industrial And Prudential	1.8	25
Asian	1.8	47
Andhra	2.1	43
Jupiter General	1.0	56
Warden **	1.1	64
Calcutta Insurance	1.0	64

Source: Sinha (2005)

*1954 lapse figure is not added as information not available..

**Figure for 1949, 1950 and 1951 not available. The figure pertains to 1948.

The above table shows that a huge percentage of the business of 1951 lapsed within three years. On an average, in the "Big Eleven Group", more than 40% of the business lapsed. In some of the cases, it crossed even 50%. The situation for the "Middle Eleven Group" was even worse. On an average, more than 50% of the business lapsed by the end of third year. In many of the cases, lapse ratio touched almost 70%.

9. The huge corpus of funds was channelized for the business' self- interest and not towards the country's economic development.

10. The focus of the of the insurance companies was mainly towards insuring in the urban areas and amongst the high-income group who already had some security and financial strength.

11. Insensible business practices.

12. Moreover a few instances like siphoning away funds to the insurers' parent countries, mis-utilisation of funds and insolvency position of a number of businesses compelled the government to think afresh about the life insurance industry.

Under these circumstances, it was realized that a change had to be ushered so as to restore confidence of the public on the insurance business. Consequently, on the night of January 19, 1956, the Union Finance Minister, C.D. Deshmukh, announced the nationalisation of life insurance business in the following words, "The Nationalisation of Life Insurance will be another mile stone on the road our country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the Second Five Year Plan, it is found to give material assistance into the lives of millions in the rural areas. It will introduce a new sense of awareness of building for the future in the spirit of calm confidence which insurance can alone give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubters and make it a resounding success" (Source: http://geevee-rajahmundry.blogspot.in/2011/01/9th-january-protecft-nationalised.html).

Consequently, the management of all the life insurance businesses was taken over by the Central Government through the Life Insurance (Emergency Provisions) Ordinance, 1956. The Bill to nationalize the life insurance business was introduced in Parliament in February, 1956 which later became an Act (now known as the Life Insurance Corporation Act, 1956) and the LICI (Life Insurance Corporation of India) was formed on 01st September, 1956 with a capital contribution of Rs. 5 crores from Government of India. Thus, the present behemoth Life Insurance Corporation was formed.

For further insight on the status of the life insurance firms during the period appendix I to appendix V.

Conclusion

The above discussions enlighten us to know that the life insurance industry is not a new one in India. The commencement of the business was made by the foreign business groups mainly for the purpose of insuring businesses, goods etc. After the life insurance business was started by the foreign houses, it was realized that they practiced discrimination in their businesses. So, with increase in force of the nationalist movement and the call for Swadeshi, large number of Indian business houses also started the life insurance business. There was a jump in the quantum of business on one hand and an increase in the illegal and fraudulent practices on the other. With a view to develop sound business practices, several Acts were passed from time to time in the pre-Independence period. After the Indian independence, during the early years of the 1950s, when several lacunae were observed in the business practices of the life insurers, there was a call for nationalization of the life insurance industry which took effect in 1956 with the formation of LICI.