Risk in Insurance Industry
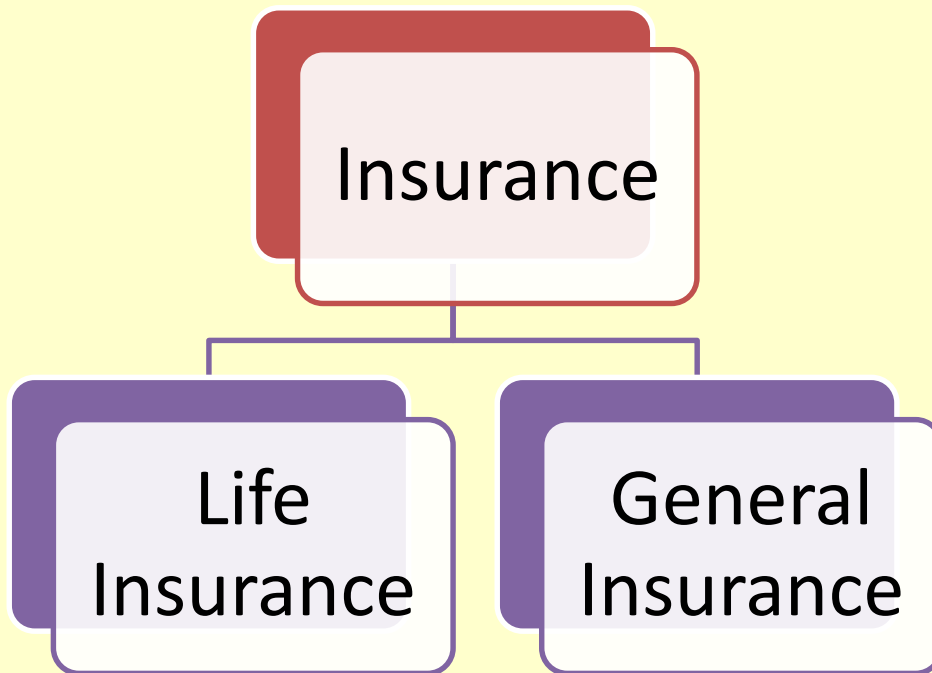
By

CA Dr Vishwanathan Iyer

About Insurance

Insurance is a concept of compensation for any loss incurred.

Insurance

Life Insurance

General Insurance

- Insurance as a concept was introduced by Chinese and Babylon Traders in 2nd and 3rd BC

- These traders used to transport goods from one place to another using water ways.

- There was problems related to Natural perils or there were theft.

- The entire group would contribute a small amount and provide as a compensation to the businessman who has lost his goods due to such losses. This was the beginning of Insurance as a community activity

- Similarly, if house of any person caught fire, the neighbours would compensate by contributing small amounts.

- In simple words, Insurance started with insurance of goods (against the risk of floods, fire or theft)
- Slowly, people understood that life was also precious and started insuring life.
- Hence General insurance started and it was followed by Life Insurance
- In the earlier days, there was no restriction for Insurance companies to decide the amount of premium and settlement of claims. So many private insurers started participating.
- Since insurance was a lucrative business with huge profit margins, there was malpractices which happened.

- To bring an end to such malpractices, all existing life insurance companies of India were merged to form Life Insurance Corporation of India on 1st September, 1956.

- However, with Globalisation, Foreign Direct Investment (FDI) to the extent of 25% was allowed in Insurance and hence private companies entered into the fray of Life insurance in 2000.

- Hence Life Insurance sector in India has come into a full circle, starting from free entry to monopoly of LIC to private insurance companies.

- To control all the insurance companies operating in India, an apex organisation called IRDA was formed. (IRDA – Insurance Regulatory Development Authority)