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A Study of Law Regarding Life Insurance Business in India

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***Abstract:* Life insurance is a contract under which the assured person (or his nominee) should be paid the amount in respect of an occurrence against which he is insured. The agreement is valid to pay the insured amount for the expiration date or (ii) the specified periodical dates or (iii) the death of the unlucky person, if it is previously reported. The contract also allows for the payment by the policyholder of the premium to the company periodically, among other things. This paper focuses on the law relating to life insurance business in India.**

***Keywords:* Law, Business, Life Insurance, Insurance.**

1. INTRODUCTION

Life insurance between Indian households shows low penetration, whereas insurance premiums represent around 2.72% of GDP. Many Indian households do not plan their financial future properly due to lack of access to formal financial markets and a low level of financial literacy. Although life insurance is primarily a way to reduce financial risk from premature death, this insurance is usually utilized by endowment policies in India as a tool for saving and investing. Only a small part of the population can be accessed via social security or government pension schemes. Indian households often depend instead of the formal life insurance sector on informal social support networks for risk mitigation.

Insurance plays important place in the complex world of modern, since the risk that can be insured in each way of life has enormously increased. This has led to the growth of various types of insurance coverage in the insurance business and growth. The insurance sector also promotes investment activities as a mobiliser of savings and a financial intermediary. Life insurance is generally seen as a way of protecting one's family against the death contingencies of an earner. However, several other benefits are not clear. Some accrue the person and his family, while others help the economy. In exchange for small premiums, for

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instance, an insurance company risks huge and uncertain losses.It gives an insured individual a sense of trust and security through insurance protection in the event of a unfortunate incident. Life insurance facilitates operations in large commercial and industrial organisations as many of the risks are transferred to the insurer. One way to guarantee security for the future is by insurance, in particular life insurance. An annuity life insurance policy is a combination of protection and investment.It enhances the creditworthiness of the person assured because he can provide repayment funds in the event of his death.

Review of Literature:

As the problem statement is "A STUDY OF LAW REGARDING LIFE INSURANCE BUSINESS IN INDIA," the researcher thought it would be fit to confine his study to and for life insurance business regulations in India, he examined the literature carefully, mainly from secondary sources such as legislation, textbooks, books and reports of the Committees.

M Keller[1] - Business History Review, 1961 - cambridge.org in “The Judicial System and the Law of Life Insurance, 1888-1910” opined that, despite a widely prevailing judicial insensitivity to corporate reform and regulation, the large insurance companies found themselves under careful, constant, and not always sympathetic legal scrutiny. This scrutiny tended to emphasize the equity rather than the letter of the law, and kept the insurance contract the flexible servant of a dynamic society and industry.

Ward, D., & Zurbruegg, R. (2002). [2] in “Law, politics and life insurance consumption in Asia. The Geneva Papers on Risk and Insurance-Issues and Practice” investigated the determinants of consumption for one of the fastest growing financial products in Asia. They found evidence that increased provision of civil rights and political stability leads to an increase in life insurance provision. However, by utilizing various estimation procedures, a number of differences between the more developed insurance markets and those in Asia are illustrated. In particular, the estimated income effect is found to be far higher in Asia than in other countries.

Dragos, S. L., Mare, C., Dragota, I. M., Dragos, C. M., & Muresan, G. M. (2017)[3] in “ The nexus between the demand for life insurance and institutional factors in Europe: new evidence from a panel data approach. Economic research-Ekonomska istraživanja” investigated the influence of institutional factors upon life insurance demand for 32 European countries, considering the socio demographic and economic determinants as control variables. Using a panel data approach, they found that life insurance demand is influenced differently by institutional indicators from the Worldwide Governance Indicators database, in emerging and transition markets compared to developed ones. The sound legal environment of developed countries, where the level of the rule of law is very homogeneous and very high, makes it non-significant for life insurance demand. For developing countries the enforceability of contracts, the independence of justice and the time efficiency of the judicial process positively influence the decision of citizens to buy life insurance contracts.

Nanavati, H. B. (2021). An Analysis of Life Insurance Law and Life Insurance Business in India. Supremo Amicus[4] in her article threw light up on working consequences of the Life insurance Company and its full-scale monetary significance. In this Article author focused on how insurance company came into existence in India, development of Insurance Industry in

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India, Role of Private Players in India, Life Insurance Business Scenario after Privatization, challenges faced by the Life Insurance Industry in India.

Privatization of Life Insurance Business in India

The 'Bombay Mutual' as first Life Insurance Company in India, started life insurance in I871. Between 1900 and 1912, the Indian entrepreneurs formed their own insurance companies during the Swadeshi Movement in order to remove the English insurance firms or companies held exclusively by British stockholders. Many life insurance offices with totally Indian capital were established.Then the life insurance companies, under the Indian Life Insurance Act (l9l2,) were growing mushroom-controlled. According to this law, the Indian government was legally obligated to publish life insurance companies in India till 1914.

After the First World War, small insurance companies could not withstand losses. In the post-war period, only a handful survived the economic downturn. S.C. Sen, a special officer, was appointed to study, examine and report to the government on the insurance business. Subsequently a Commission was formed under the chairmanship of N. N. Sir car to draw up a bill based on the study of the ideas in the S.C. Sen report.A draught bill was drawn up in 1937, approved in 1938 under the Insurance Act. During l928 to 1956, insurance law developed thoroughly. During this period, the Insurance laws was amended to develop new products, to attract new customers and to provide professional expertise.

a) The Insurance Act, 1938 :

In 1938 the Insurance Act with five parts and eight schedules was substantially reinforced and consolidated. It has granted the authority, if its objectives were not met, to direct, advise, caution, ban, investigate, prosecute, confiscate, fine-treat, amalgamate, authorize, register and liquidate insurance businesses. Besides the prospect of ongoing regulation, the new Act provided some type of stability and certainty.The LICI Act of 1956 itself had internal regulative mechanisms, though the 1938 Insurance Act allowed for a complete regulation mechanism. No other entity was permitted to engage in life insurance with the exception of postal life insurance. This placed heavy insurance checks on international and domestic insurance companies, which resulted in some foreign companies being discontinued in India.

b) Values of nationalist struggle and market demands:

The nationalist struggle and demand for Swadeshi governance have consolidated Indian enterprises' business with less involvement from international companies. As the business expanded, heavy funds were raised in premium terms and large funds with insurers were available. The State felt that the insurance companies had no control over the funds and their misutilization.In 1945 under the chairmanship of Cowasji Jahangir, the government created the committee to examine the current situation and provide remedies. This led to investment regularization. Its objective was to analyse the insurance industry and to propose controls to find solutions in the problem arising from misuse. the Committee was appointed in 1945.

c) Towards nationalization:

There were no other means of effective checks on large funds collected by assurance businesses and by life insurance companies in particular at that time, other for

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nationalization. It was felt at that time. With its Life Insurance Corporation Act of 1956, the company was nationalized in l956. It enables current Life Insurance firms to transfer their assets and liabilities to LICI and is Life Insurance's sole government agency. All 243 companies were acquired and consolidated by State.Life Insurance and reinsurance, acquisitions of assets, sanctions against securities and subsidies for the smooth conduct of life insurance companies were permitted by LICI. The LICI has extended across the country and led to practically every aspect of the business. The Corporation participated actively in social security programmes, financial aid schemes, advancement, development and welfare measures. The huge premium fund has been used as the funding for several development projects in our country.

d) Paradigm shift through privatization:

According to Malhotra Committee Report-

The new industrial policy was announced in L99l to transform the economy from a regulated to a liberalised and deregulated regime, which would lead to the privatisation of the insurance sector in order to better cover citizens, and to increase long-term financial flow.

This transition also means, with the competition of several private actors in the area, notably the foreign companies in a joint venture with Indian partners that competitive competition should intensify in future. An efficient regulatory regime was needed to avoid exploitation of the funds of policyholders and shareholders by insurance funds and to ensure accountability. Insurers, who are public trust repositories, need effective regulation of their businesses in order to ensure they stay dignified trustees.In addition, insurance cash flows generated the funds necessary for social investment and infrastructure development. The regulation of insurance therefore requires a shift of paradigm from a sole monitoring role to a role for development to support economic growth for the insurance business.

1. Obligations of Privatization:

The fact that sovereign nations consented to subordinate their freedom of legislation and protection of their citizens' rights and agreed to work within the framework of rules to promote and regulate global trade under the WTO is a major gift to human civilization. The Uruguay Round has led to the establishment of the WTO as a system that is based on the norm and which will lead to smooth and ordered international trade. In short, both dangers and opportunities are implications.

2. World Trade Organisation -

India is a founding member of the GATT (1947); it was involved in the Uruguay round and a founding member of the WTO. India strongly supports a multilateral approach to trade and gives the treatment of all trade partners, even some not members of the WTO, the most favoured nations.

3. Implementation Of WTO's Obligations In India:

India is a founder member of the GATT (1947); it actively participated in the Uruguay Round Negotiations and is a founder member of the WTO. India strongly favours the multilateral

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approach to trade relations and grants Most Favoured Nations treatment to all its trading partners, including some who are not members of WTO.
India has been actively involved in the last Singapore Ministerial Conference. Within the WTO, India strives to ensure that comparative advantages for the development nations are adequately opened up to international trade, and also that special and differential treatment provisions are implemented under the different WTO provisions for developing countriesAgreements are translated into special enforceable consideration in order to make the development efforts of developing countries easier. India believes that the multilateral system itself would benefit by adequately reflecting the concerns of developing countries, in order to create the environment necessary for developing country members to catch up.

2. CONCLUSION

Insurance and banking services add to the country's GDP approximately 7 percent. The figure for insurance penetration in the country is quite inadequate despite this growth. Almost 80% of Indians have no life insurance protection and are not covered by health insurances. This indicates that the insurance industry has enormous growth potential in India.
Many changes have occurred in the insurance business since then. The competition from these companies began with the LICI threatens the existence of the LICI. The insurance sector never looked back since the deregulation of the industry and is now one of the most competitive and thriving industries in India. The admission and the expanded utilization of the new distribution are presently at the centre of attention.The researchers compared different regulations on LICI and private life insurance businesses in India while completing this research. This study led both private and public actors in the life insurance sector in India to conclude legal aspects.

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