

WORLD ECONOMIC FORUM: SOURCE THE DEVELOPMENT OF INDIAN ECONOMY

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Abstract:

This paper examines the historical evolution of the insurance sector through four major regulatory phases—Colonial, Nationalization, Liberalization, and the Digital Era—highlighting the relationship between regulation, ownership structure, and consumer impact. During the Colonial period (1905–1938), legislation such as the Indian Life Assurance Companies Act 1912 and the Insurance Act 1938 shaped a market dominated largely by foreign insurers, while Indian Swadeshi firms struggled to gain consumer trust. The Nationalization phase (1956–1972), marked by the Life Insurance Corporation Act 1956 and the General Insurance Business (Nationalisation) Act 1972, introduced a state monopoly through Life Insurance Corporation of India and General Insurance Corporation of India, ensuring stability and policyholder security but limiting competition and product diversity.

The Liberalization phase beginning with the Insurance Regulatory and Development Authority Act 1999 established the Insurance Regulatory and Development Authority of India as an independent regulator and opened the sector to private and foreign joint ventures, resulting in increased competition, innovation, and improved customer service. In the Digital Era (2015 onwards), regulatory reforms by Insurance Regulatory and Development Authority of India and higher foreign direct investment limits have enabled a diverse ecosystem of public, private, and foreign insurers. This phase is characterized by technology-driven transformation, including digital distribution, micro-insurance, and AI-based underwriting, significantly enhancing accessibility and customer experience. Overall, the evolution demonstrates how regulatory reforms and ownership diversification have progressively improved market efficiency, consumer choice, and technological adoption in the insurance industry.

Keywords: Insurance Sector Evolution; Colonial Insurance Laws; Nationalization of Insurance; Insurance Liberalization; Insurance Regulatory and Development Authority of India;

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Introduction:

The insurance industry traces its roots back to around 1750 BC, when merchant traders in Babylon sought protection against the uncertainties of shipping goods across perilous routes. As maritime trade expanded between the East and the West, the growing volume of cargo created both immense opportunities and heightened risks,

prompting the need for collective safeguards. This foundation of risk-sharing evolved further during the Industrial Revolution in the 16th century, when rapid industrial and commercial growth introduced new vulnerabilities such as fire, theft, and natural disasters. These challenges underscored the importance of organized systems of risk management, ultimately shaping the modern insurance industry into a vital mechanism for economic stability and growth.

Early Origins:

- The **Code of Hammurabi (c. 1750 BC)** included clauses where merchants could pay lenders an extra sum in exchange for debt cancellation if their shipment was stolen or lost. This is considered as one of the earliest forms of risk-sharing.
- Ancient maritime traders in **China and Babylon** also practiced forms of insurance by distributing cargo across multiple ships to reduce risk.

Industrial Revolution & Expansion:

- With the **growth of trade routes** and later the **Industrial Revolution**, risks multiplied: factories, warehouses, and shipping fleets faced threats from fire, theft, and natural disasters.
- The famous **Great Fire of London (1666)** accelerated the development of fire insurance companies, as the scale of destruction highlighted the need for organized financial protection.
- By the 18th and 19th centuries, insurance became institutionalized in industrially advanced nations like England, France, and later the United States.

Establishment of Insurance in India:

India introduced Life insurance in the year 1818 at the hands of Europeans from England, versus the establishment of the Oriental Life Insurance Company in Calcutta. Initially, these companies catered exclusively to the European

community, later extending coverage to Indians. However, these foreign insurers charged high premiums, deeming Indian lives sub-standard. To solve the problem of discrimination, the Bombay Mutual Life Assurance Society was founded in 1870 as the first Indian life insurance company, offering coverage at standard rates. This patriotic initiative promoting financial security gained societal support, leading to the establishment of Bharat Insurance Company in 1896. Life insurance also gained traction, offering families financial stability in case of the breadwinner's death.

Swadeshi Movement & Financial Independence:

The Swadeshi Movement (1905–1907) wasn't just about boycotting British goods—it also sparked a wave of indigenous enterprise. Insurance companies were a particularly interesting case because they represented financial independence and trust in Indian institutions. This gave rise to emergence of the Ecosystem of Swadeshi Enterprises in the form of the Indian Insurance Companies, such as:

- **The United India (Madras)** – One of the earliest regional players.
- **National Indian & National Insurance (Calcutta)** – Reflecting Bengal's central role in the Swadeshi Movement.

- **Co-operative Assurance (Lahore, 1906)** – Showed the spread of Swadeshi ideals beyond Bengal.
- **Hindustan Cooperative Insurance Company (1907)** – Founded by **Surendranath Tagore**, a nationalist leader, linking finance directly to political activism.
- **The Indian Mercantile & General Assurance** – Indicative of growing diversity in financial services.
- **Textile Mills such as Bengal National Mills, Tata Mills (Bombay)** produced Indian cloth to replace British imports. Insurance companies often insured these mills, while banks financed their expansion
- **Transport:** Indian-owned shipping companies (though limited).
- **Consumer Goods:** Soap, matches, and other small-scale industries emerged to replace imports.
- **Swadeshi Life (later Bombay Life)** – A strong example of how Swadeshi institutions evolved into lasting enterprises.
- **Indian Run Insurance Companies:** Thus, these companies weren't just businesses—they were symbols of resistance. By creating Indian-owned insurance firms, people were asserting economic self-reliance and reducing dependence on British-controlled financial institutions. These insurance companies provided financial security and confidence in Indian-run institutions. They symbolized trust in indigenous enterprise and reduced reliance on British insurers.
- **Publishing Houses & Newspapers (*Bengalee, Kesari, Sandhya*)** Advertising agencies stepped in to promote Public Awareness & Consumer Support for Swadeshi Goods. Banks supported by funding directly to Publishing Houses. These Publishing Houses amplified the nationalist message, encouraging deposits in Indian banks and subscriptions to Indian insurance firms. Thus, Banks often worked hand-in-hand with insurance firms to create a financial backbone for Indian entrepreneurs. Besides, Educational Institutions (National Council of Education, 1906) fed trained manpower into all these enterprises. These insurance companies weren't just financial entities — they were **pillars of the nationalist economy**, ensuring that the Swadeshi Movement translated into lasting institutions rather than just symbolic boycotts. This ecosystem was the economic backbone of the Swadeshi Movement, showing how political resistance translated into practical, everyday financial and industrial independence

Life Insurance Companies Act & Provident Fund Act of 1912

The **Life Insurance Companies Act and the Provident Fund Act of 1912** marked the first attempt by the colonial government to regulate the insurance industry in India. But the way it was framed reveals the imbalance of power at the time in favour of colonial rule:

Key Provisions of the Act:

- **Certification Requirement:** Indian insurance companies had to certify their premium rates and valuations through an actuary, ensuring financial soundness.
- **Government Deposits:** Indian firms were required to make mandatory deposits with the government as a safeguard.
- **Exemption for Foreign Insurers:** British and other foreign companies were exempt from these deposits, giving them a competitive advantage

Impact on Indian Companies:

- The deposit requirement tied up Indian capital, limiting their ability to expand.
- Foreign insurers, already dominant, gained further leverage.
- This created widespread **resentment among Indian entrepreneurs**, who saw the law as discriminatory and designed to protect colonial interests.

Connection to Nationalist Movements:

In essence, the 1912 Act unintentionally fuelled nationalist sentiment: by favouring foreign insurers, it pushed Indian companies closer to the **Swadeshi cause**, making them not just financial entities but **symbols of resistance and self-reliance**.

- The **Independence Movement and Non-Cooperation Movement (1920s)** further strengthened these companies, as Indians increasingly chose to support indigenous institutions.
- Insurance firms became part of the **economic wing of nationalism**, aligning with banks, mills, and publishing houses to build a parallel Indian economy.
- By the **early 20th century**, the number of insurance companies grew from 44 to 176, with total business-in-force increasing from Rs.22.44 crore to Rs.298 crore by 1938.

Insurance Act of 1938:

The Insurance Act of 1938 was enacted on 26th Feb.1938 and came into force on 01st July 1939. Financial instability led to the Insurance Act of 1938 as a landmark, forming the first comprehensive legislation by introducing stricter regulation, and finally creating a more balanced framework for both Indian and foreign insurers that governs both life and non-life insurance by the state government. It addressed the discontent caused by the 1912 Act by safeguarding policyholders and curbing unfair advantages enjoyed by foreign firms.

However, post-independence, the partition and associated violence reduced foreign insurers' market share to 7%, leaving only 16 foreign companies out of 105.

Nationalization of Life Insurance in 1956:

In 1950, amendments to the Insurance Act imposed restrictions on investments, designating insurance as a public utility service. In 1956, the Life Insurance Corporation of India (LIC) was established by merging 245 private life insurers (154 Indian companies, 16 foreign companies, and 75 provident companies) following the Life Insurance of India Act passed on June 19, 1956. LIC has since then become a trusted brand in India, providing insurance solutions and accessible coverage across urban, suburban, rural, and remote areas.

The nationalization of 245 Indian and foreign companies in 1956 aimed to protect policyholders' economic interests, addressing issues with private insurers' claim settlements. Over nearly seven decades, LIC has become synonymous with insurance, excellence, and economic strength in India. It is the largest and wealthiest financial institution in the country, operating nationally and internationally through a vast network of dedicated Life Insurance consultants, the backbone of the industry.

Nationalization Of General Insurance In 1972:

- The post-independence period is marked with 107 general insurers merged into four subsidiaries under the **General Insurance Corporation of India (GIC)**.
- This Nationalization of General Insurance in 1972 created a state monopoly in non-life insurance.

ERA of Liberalization in the 2000s:

Globalization, Privatisation, and Liberalisation Policy of the Indian Government brought in liberalization of the insurance sector. This necessitated the regulatory control on insurance companies to safeguard the interests of both the insurer and the insured, giving rise to the formation of the Insurance Regulatory and Development Authority. Thus, in 1999, the IRDA Act was passed, which includes:

- Allowed private companies like ICICI Prudential, HDFC Standard Life, Bajaj Allianz etc. and foreign joint ventures to enter the market.
- Competition improved product diversity and customer service
- IRDA was established as the regulator to ensure transparency, solvency, and consumer protection.

Insurance Reforms in the Digital ERA:

Reforms & Expansion from 2015 onwards in the insurance sector are observed as under:

- FDI limit in insurance raised (from 26% to 49%, later to 74%).
- Digital insurance platforms and micro-insurance expanded reach.
- IRDAI strengthened regulations on solvency, consumer rights, and innovation.

A Comparative Chart of Indian Insurance Evolution:

Conclusion:

The insurance industry in India has traversed a remarkable path of resilience and transformation, evolving from its colonial rule to the challenges of pre-independence, through the sweeping nationalization of the post-independence era, and into the modern age of liberalization and globalization. Each stage has left enduring imprints, shaping the sector into a vital force for both economic progress and social equity. What began as a system under colonial governance has matured into a robust, self-sustained ecosystem—an indispensable pillar of India's financial framework that not only drives growth but also advances the broader SDGs of inclusion and justice.

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