

Amendment to the Insurance Act also stipulates about foreign companies in India, A foreign insurance company can engage in reinsurance through a branch established in India. The term "re insurance" means the 'insurance of part of one insurer's risk by another insurer who accepts the risk for a mutually acceptable premium'

5. Life insurance industry today

Currently, there are 24 life insurance companies operating in India as detailed hereunder:

- a) Life Insurance Corporation (LIC) of India is a public sector company
- b) There are 23 life insurance companies in the private sector
- c) The postal department, under the Government of India, also transacts life insurance business via Postal Life Insurance, but is exempt from the purview of the regulator

B. How insurance works

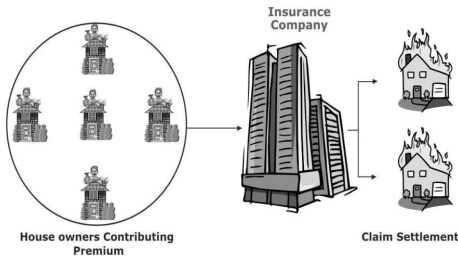
Modern commerce was founded on the principle of ownership of property. When an asset loses value (by loss or destruction) due to a certain event, the owner of the asset suffers an economic loss. However if a common fund is created, which is made up of small contributions from many such owners of similar assets, this amount could be used to compensate the loss suffered by the unfortunate few.

In simple words, the chance of suffering a certain economic loss and its consequence could be transferred from one individual to many through the mechanism of insurance.

Definition

Insurance may thus be considered as a process by which the losses of a few, who are unfortunate to suffer such losses, are shared amongst those exposed to similar uncertain events / situations.

Diagram 2: How insurance works



There is however a catch here.

- i) Would people agree to part with their hard earned money, to create such a common fund?
- ii) How could they trust that their contributions are actually being used for the desired purpose?