



ROLE OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY IN THE GROWTH OF INSURANCE SECTOR IN INDIA

Gitte Madhukar Raghunathrao, Ph. D.

Associate Professor in Economics, Elphinstone College, Fort, Mumbai-400032.

Email: madhukar.gitte13@gmail.com

Abstract

A well organised and developed insurance sector has to play a crucial role in the process of country's economic development by cultivating saving habits, protecting policy holders from uncertainties, providing safety to enterprises against fire and natural hazards and generating huge funds for infrastructure development. The prime responsibility of IRDA is to protect the interest of the policy holders, to regulate, promote and ensure the growth of the insurance industry in the country and to settle any other matters connected with insurance business. IRDA should ensure fair treatment by the insurance companies to protect the interest of the policy holders. It should also ensure that the insurance companies are providing precise and correct information about the products offered by them to the customers. It should regulate, supervise, monitor and implement quality competence and fair dealing and competition of the insurance companies in the insurance industry. Further, IRDA should prevent malpractices in the claim settlement process by ensuring speedy settlement of all the genuine claims of the policy holders.

Keywords: *Life insurance, General insurance, Insurance penetration, Insurance density, Micro insurance.*



Scholarly Research Journal's is licensed Based on a work at www.srjis.com

Introduction

Insurance Regulatory and Development Authority of India was set up by the Parliament of India by passing the IRDA of India Act in 1999 as a result of the recommendation of the Malhotra Committee report of 1994. It is now the apex, statutory and independent authority in insurance sector in India. Its primary responsibility is to regulate, govern and supervise the insurance industry in India.

The Malhotra Committee has not only recommended the establishment of an independent regulatory authority for supervising insurance sector in India, but also recommended the entry of private players in the insurance sector in India. Besides, a maximum of 26 per cent foreign equity was allowed in a private insurance company having insurance business in

India. Indian insurance industry is, thus, regulated by the terms and conditions of the IRDA Act and further amendments incorporated in insurance laws in 2014.

IRDA was established to regulate, promote and ensure the growth of the insurance industry in the country. It is the responsibility of IRDA to protect the interest of the policy holders and also to settle any other matters concerned with insurance business. It has to supervise, monitor and implement quality competence, fair practices and competition of the insurance companies. Insurance companies should provide precise and correct information about the products offered by them. Further, all types of malpractices in the claim settlement process are prevented by IRDA and ensure speedy settlement of all the genuine claims of the policy holders.

Objectives of the Study

1. To review the changes in the insurance industry over the period of time.
2. To study the growth and expansion of life insurance business in the country.
3. To find out the density and penetration of insurance business in India.
4. To make a comparative study of LIC and private life insurance companies.

Methodology

The present study is primarily based on secondary sources of data such as annual reports of Insurance Regulatory and Development Authority of India, published research papers, reports, economic survey and websites. Average and percentage are simple statistical tools used for calculation of data.

Establishment of IRDA

The R. N. Malhotra Committee was appointed by the government in 1994 to suggest various measures to regulate and develop insurance sector in India in eve of Economic Policy announced in 1991. The committee had recommended to establish an independent autonomous authority to regulate insurance business in India and also to open insurance sector for private sector and foreign companies. As per the recommendations of Malhotra Committee, IRDA Act was passed in 1999 by the Parliament and IRDA was setup in 2000 as statutory body having its headquarter at Hyderabad.

Objectives of IRDA

The important objectives of the IRDA are as under:

1. To promote and protect the interest and rights of policy holders.
2. To promote and ensure the growth of insurance industry.

3. To ensure speedy settlement of genuine claims.
4. To prevent frauds and malpractices in the insurance business.
5. To bring transparency and orderly conduct related to insurance in financial markets.

Organisation of IRDA

There are 10 members in the organisational body of IRDA. The chairman and all the members of IRDA are appointed by the Government of India. One Chairman, Five whole-time members, and Four part-time members are appointed for five years.

Functions and Duties of IRDA

The IRDA has to perform the duties and functions as per the Section 14 of IRDA Act which are as follows:

To regulate and promote insurance business in India, to ensure orderly growth of the insurance and reinsurance business. It issues the registration certificate to insurance companies and also renew, modify, withdraw, suspend or cancel the registration. It also issues licenses to insurance intermediaries such as agents, brokers and others and set norms and code of conduct for them.

It specifies the conditions and manners to prepare financial reports by the insurance companies and intermediaries. It regulates and supervise the premium rates and terms of insurance covers. It promotes and regulates the professional organisations to promote efficiency in insurance sector. It regulates the investment of funds of policy holder's by insurance companies. It takes all steps to protect the interest of policyholders. IRDA also ensures the maintenance of sufficient solvency margin by insurance companies.

The Malhotra Committee on Insurance Sector Reforms

The Government of India appointed R. N. Malhotra Committee in 1993 to suggest various reforms in insurance sector on the line of economic and financial sector reforms. The committee suggested the following reforms in its report submitted to the government in 1994.

1. Structure

- (a) The stake of the government in the insurance companies should be bring down to 50 percent.
- (b) The holdings of GIC and its four subsidiaries should be taken by the government so as to make them independent corporations.
- (c) GIC should function exclusively as a reinsurance company.

2. Competition

(a) Insurance sector should be opened for private insurance companies with minimum paid-up capital of Rs. 100 crore. (b) Foreign insurance companies may be allowed to enter the Indian insurance industry in collaboration with Indian companies. (c) Insurance companies should not be allowed to operate in both life and general insurance business through a single entity/company.

(d) Postal life insurance should be permitted to operate in rural markets.

3. Regulatory Body

(a) The insurance regulatory body should be set up to regulate the both life and general insurance business in the country. This controller/regulatory authority should be independent and separated from the Finance Ministry. (b) The regulatory authority should frame and finalise regulatory and prudential norms to ensure fair competition and a level playing field.

4. Investments

(a) The capital of LIC should be increased to Rs. 200 crore from present Rs. 5 crores. The government should hold 50 percent capital and the rest should be contributed by the public and the LIC employees. (b) LIC should reduce its mandatory investment in government securities from 75 percent to 50 percent. (c) capital of GIC should be raised from Rs. 107.5 crore to Rs. 200 crore, of which 50 percent should be held by the government and remaining by the public and its employees. (d) The present capital of each subsidiaries of the GIC was Rs. 40 crore which is held by the GIC. The capital of each subsidiary should be raised to Rs. 100 crore which is to be paid by the government. The holding of the government and the public should be 50-50 percent respectively. The capital held by the GIC and its subsidiaries in any company should not exceed 5 percent of capital. (e) The promoters holding in private insurance company should not be less than 26 percent and more than 40 percent of the paid-up capital. Other promoters should not be allowed to hold more than 1 percent of equity.

5. Customer Service

(a) Public sector insurance companies should be granted greater freedom and autonomy in their operation. (b) There should be complete computerisation of all operations and use of modern technology in the insurance industry. (c) If payment is delayed beyond 30 days, LIC should pay interest on delayed payments. (d) The general insurance industry should set up the institution of Ombudsman in order to expedite the pending cases of insurance claims.

Protection of the Policy Holders' Interest

The primary responsibility of IRDA is to protect the interest of the policy holders. IRDA has taken various effective steps to protect the policy holders' interest which are as follows.

(1) To protect the interest of policy holders, IRDA has notified Protection of Policy Holders' Interest Regulations 2001. The provisions under this are to prepare policy proposal document in easily understandable language, formulation of claims procedure, establishment of grievance redressal machinery, speedy settlement of claims, services to policy holders, etc. (2) Insurers are required to maintain minimum solvency margins to give payment of claims of policy holders. (3) It is obligatory that insurance companies should disclose clearly the terms and conditions and the benefits under the concern policy. Advertisements issued by the companies should not mislead and hide any information. There should be complete transparency and disclosure of information. (4) All insurance companies should set up grievance redressal machinery in their head and other offices to address and solve the complaints of policy holders. (5) All insurance companies have to pay interest for the delay in settlement of claims and payment of claims. (6) All complaints in connection with services provided by the insurance companies are heard and solved by the IRDA. (7) The Insurance Ombudsman Scheme is complimentary function of IRDA. Conciliation and award making are two functions of an Ombudsman. Any award passed by the Ombudsman is binding on all insurance companies which is required to be honoured within three months.

Registered Insurance Companies in India

Insurance business is divided into life insurance and general or non-life insurance. There are 54 insurance companies in India, of which 24 companies are operating in life insurance and rest of 28 are working in non-life insurance business. The General Insurance Corporation (GIC) is the only/sole national reinsurer company. Eight insurance companies are in the public sector and rest of 46 companies are in the private sector.

TABLE 1: Registered Insurance Companies In India, March 2016.

Types of Business	Public Sector	Private Sector	Total
Life Insurance	01	23	24
General Insurance	06	18	24
Health Insurance	0	5	5
Re-insurance	01	00	01
Total:	08	46	54

Source: IRDA Annual Report 2015-16, p.9.

LIC is the only public sector life insurance company, whereas ECGC and AIC are specialised insurers in the public sector. Apart from this, 23 life insurers, 18 general insurers and 5 exclusively health insurers are operating in private sector.

Growth of Insurance Sector in India

Insurance sector, particularly life insurance, has witnessed tremendous growth in the post liberalisation period. The amount of first year premium received by the life insurers has increased from Rs. 9700 crores in 2000-01 to Rs. 1,19,640 crores in 2013-14. The insurance penetration has risen from 1.8 in 2000 to 2.72 in 2016, whereas insurance density rose from US \$ 7.60 to US \$ 43.2 during 2000 to 2016.

The total amount of premium underwritten by non-life insurers increased from Rs. 9800 crores in 2000-01 to Rs. 77,580 crores in 2013-14. The insurance penetration has increased from 0.7 to 0.8 during 2000 to 2015. The density of general insurance has risen from US \$ 2.30 in 2000 to US \$ 11.5 in 2016. Thus, the overall insurance density and insurance penetration is US \$ 54.5 and 3.44 respectively in 2015-16. About 267 lakh new life insurance policies were issued during 2015-16 of which 70 per cent new policies were issued by the LIC of India.

Distribution of Offices of Life Insurers

It can be seen that majority offices (49%) of life insurance companies were located in semi-urban towns of which 61 percent offices of LIC and 38 percent offices of private sector are situated in these small towns. About 32 percent offices of life insurers in the public and private sector were located in urban towns of which the share of private and public sector life insurers was 35 percent and 28 percent. The private sector has 21 percent and the LIC has 8 percent offices in the metro cities. On the contrary, LIC and private sector life insurers have only 3 percent and 6 percent offices respectively in rural areas.

TABLE 2: Distribution of Life Insurance Offices in Urban and Rural Areas (2015-16)

Insurer	Metropolis	Urban	Semi-Urban	Rural	Total
Private Sector	1287 (20.83)	2176 (35.22)	2372 (38.39)	344 (5.56)	6179 (100.00)
LIC	380 (7.77)	1349 (27.57)	3009 (61.51)	154 (3.15)	4892 (100.00)
Total:	1667 (15.06)	3525 (31.84)	5381 (48.60)	498 (4.50)	11071 (100.00)

Source: Annual Report 2015-16, IRDA, Hyderabad, p. 16.

(**Note:** Rural: Population up to 10,000, Semi-Urban: Population 10,000 to 1,00,000, Urban : Population 1,00,000 to 10,00,000, Metro: Population 10,00,000 and above.)

It can be seen that majority offices (49%) of life insurance companies were located in semi-urban towns of which 61 percent offices of LIC and 38 percent offices of private sector are situated in these small towns. About 32 percent offices of life insurers in the public and private sector were located in urban towns of which the share of private and public sector life insurers was 35 percent and 28 percent. The private sector has 21 percent and the LIC has 8 percent offices in the metro cities. On the contrary, LIC and private sector life insurers have only 3 percent and 6 percent offices respectively in rural areas.

Opening up of Insurance Sector

Public sector insurers, viz., LIC and GIC, had monopoly over the life and non-life insurance business respectively till 1999. GIC had four subsidiaries operating in the business of general insurance. As per IRDA Act of 1999, the IRDA was set up in 2000 to protect the interest of policy holders and to regulate, promote and ensure orderly growth of the insurance industry. GIC was converted into national re-insurance company in 2000 and four subsidiaries of GIC were recognised as independent insurance companies. These four subsidiaries were delinked from GIC in 2002. The insurance sector was opened up for Indian private and foreign insurance companies with 26 per cent maximum FDI. Of the 44 private insurance companies, 21 and 18 are in joint ventures in collaboration with foreign partners in the life and non-life segment respectively.

Road Ahead

The future of insurance industry seems to be bright as there are several changes taking place in regulatory framework, insurance business and customer services. Life expectancy is likely to increase to 74 years in 2020 with insurable population of the country reaching 75 crores. The share of life insurance sector in total savings is expected to 35 per cent. The growth of Indian life insurance industry will be achieved due to growing middleclass, young insurable population, increasing awareness about insurance protection, retirement planning and other demographic factors.

Conclusion

There was a monopoly of public sector insurance companies both in life and non-life insurance business till the introduction of new economic reforms. When Indian economy was liberalised and globalised, insurance sector was also opened for private and global players.

As a result, stiff competition has increased in the insurance sector. There are several public, private, national and international players competing and operating in both the life and non-life insurance market. Due to increasing demand for insurance and rapid growth of insurance sector, not only private Indian insurance companies but global insurance players are collaborating and entering in the Indian insurance industry.

Since IRDA is the regulatory authority of insurance sector in India, it has been working to maintain the international standard of insurance sector with respect to financial viability, competence, transparency, protection to policy holders, technology and prudential regulations.

IRDA has been regulating and supervising the insurance industry in India. The IRDA has been playing a very prominent role in insurance sector. As a result, the growth performance of the Indian insurance industry has improved tremendously in respect of increase in number of insurance companies, growth in insurance penetration and density, increase in number of insurance policies issued and the speed of claims settlement.

References

- Annual Report (2015-16). Insurance Regulatory and Development Authority of India, Hyderabad, 2016.*
- Economic Survey of India (2015-16). Ministry of Finance, Government of India, New Delhi, 2016.*
- Malhotra, R. N. (1994). Report of the Committee on Insurance Sector Reforms, Government of India, New Delhi, 1994.*
- Annual Report (2015-16). Life Insurance Corporation of India, Mumbai, 2016.*
- Media Reports, Press Releases, Press Information Bureau, Union Budget 2017-18, Insurance Regulatory and Development Authority of India (IRDA).*