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# Role of Insurance Regulatory and Development Authority in Indian Insurance Sector

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***Abstract:***

*The Insurance Regulatory and Development Authority Act of 1999 brought about several crucial policy changes in the insurance sector of India. It led to the formation of the Insurance Regulatory and Development Authority (IRDA) in 2000. The goals of the IRDA are to safeguard the interests of insurance policyholders, as well as to initiate different policy measures to help sustain growth in the Indian insurance sector. The Authority has notified 27 Regulations on various issues which include Registration of Insurers, Regulation on insurance agents, Solvency Margin, Re-insurance, Obligation of Insurers to Rural and Social sector, Investment and Accounting Procedure, Protection of policy holders' interest etc. IRDA has the responsibility of protecting the interest of insurance policyholders.*

***Keywords**: Policyholders, Investment, Solvency, Regulation.*

## Introduction

The IRDA Act, 1999 was passed as per the major recommendation of the Malhotra Committee report (1994) which recommended the establishment of an independent regulatory authority for insurance sector in India. Later, it was incorporated as a statutory body in April, 2000. The IRDA Act, 1999 also allows private players to enter the insurance sector in India besides a maximum foreign equity of 26 per cent in a private insurance company having operations in India. Considering some of the emerging requirements of the Indian insurance industry, IRDA was amended in 2002. As stated in the act mission of IRDA is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto." Indian insurance industry is regulated by the terms and conditions of the IRDA. Indian law has certain expectations from the IRDA to perform in the Indian insurance industry. IRDA should protect the interest of policyholders by ensuring fair treatment by the insurance companies. The growth of insurance companies in a speedy and orderly manner should be taken care by the IRDA. It should monitor and implement quality competence and fair dealing of the insurance companies in the industry. IRDA should make sure that the insurers are providing precise and correct information about the products offered by them for the insurance customers. IRDA should also ensure speedy settlement of genuine claims of the policyholders and prevent malpractices in the process of claims settlement. IRDA controls all the Insurance business in India.

## Objectives of the study-

1. To examine the impact of IRDA on insurance penetration, density, policies issued and claims settlements

## Methodology

The present work entitled "Role of IRDA in Indian Insurance sector" is based on secondary data. The sources of data were collected from annual reports of the IRDA, LIC, RBI Bulletins, Economic surveys and other annual reports of the non-banking financial institutions. The data collected for the study were processed and analyzed by using suitable statistical technique. The study covers the period from 2001-02 to 2013-14.

## Main functions of IRDA

The duties, powers and functions of IRDA are laid down in section 14 of IRDA Act, 1999 as:

To regulate, promote and ensure orderly growth of the insurance business and re-insurance business. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration.

## Results and Discussions

### *Registered Insurers in India*

At the end of March 2014, there are 53 insurance companies operating in India; of which 24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer. Of the 53 companies presently in operation, eight are in the public sector - two are specialized insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance and one in reinsurance. The remaining forty five companies are in the private sector.

Table 1: Registered Insurers in India (as on 30th September 2014)

| Types of business | Public sector | Private sector | Total |
|---|---|---|---|
| Life insurance | 1 | 23 | 24 |
| Non-life Insurance | 6 | 22 | 28 |
| Re-Insurance | 1 | 0 | 1 |
| Total | 8 | 45 | 53 |

Source: IRDA Annual reports, various issues

The decreasing trend of number of life offices (which had continued until 2012-13) had reverted in 2013-14. The number of life offices as at 31.3.2014 had increased to 11032 from 10285 of the previous year. The private insurers had closed 732 offices and opened 166 in 2013-14; therefore there was a net reduction of 566 offices during the financial year for private sector. On the other hand, the public sector LIC had established 1313 new offices and closed none; this resulted in a net increase of 1313 offices in the public sector.

It is observed that majority of offices of life insurers are located in towns which are not listed in HRA classifications of the Ministry of Finance. Around 67 per cent of life insurance offices are located in these small towns. This fact remains similar for both private sector (57.9 per cent of the offices in small towns) and public sector life insurers (79.6 per cent of the offices in small towns).

Table: 2 Growth Trends of Life Insurance Offices (As on 31st March)

| Insurer | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Private | 3072 | 6391 | 8785 | 8768 | 8175 | 7712 | 6759 | 6193 |
| LIC | 2301 | 2522 | 3030 | 3250 | 3371 | 3455 | 3526 | 4939 |
| Industry | 5373 | 8913 | 11815 | 12018 | 11546 | 11167 | 10285 | 11032 |

Source: IRDA Annual reports, various issues

## Insurance Penetration and Density in India

IRDA is playing a significant role while insurance penetration and density of insurance which reflects the level of development of insurance sector in a country the measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. However, since then, the level of penetration has been declining reaching 3.9 per cent in 2013. A similar trend was observed in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2013, the insurance density was USD 52.0. The insurance density of life insurance business had gone up from USD 9.1 in 2001 to reach the peak at USD 55.7 in 2010. During 2013, the level of life insurance density was only USD 41. Similarly, the life insurance penetration surged from 2.15 per cent in 2001 to 4.60 per cent in 2009. Since then, it has exhibited a declining trend reaching 3.1 per cent in 2013. Over the last 10 years, the penetration of non-life insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 2.4 in 2001 to USD 11.0 in 2013.However; this much of growth happened in insurance sector due to the establishment of IRDA.

Table: 3 Insurance penetration and Density in India

| | **Life** | | **Non-life** | | **Industry** | |
|---|---|---|---|---|---|---|
| Year | Density (US D) | Penetration (percentage) | Density (US D) | Penetration (percentage) | Density (US D) | Penetration (percentage) |
| 2001 | 9.1 | 2.15 | 2.4 | 0.56 | 11.5 | 2.71 |
| 2002 | 11.7 | 2.59 | 3.0 | 0.67 | 14.7 | 3.26 |
| 2003 | 12.9 | 2.26 | 3.5 | 0.62 | 16.4 | 2.88 |
| 2004 | 15.7 | 2.53 | 4.0 | 0.64 | 19.7 | 3.17 |
| 2005 | 18.3 | 2.53 | 4.4 | 0.61 | 22.7 | 3.14 |
| 2006 | 33.2 | 4.10 | 5.2 | 0.60 | 38.4 | 4.80 |
| 2007 | 40.4 | 4.00 | 6.2 | 0.60 | 46.6 | 4.70 |
| 2008 | 41.2 | 4.00 | 6.2 | 0.60 | 47.4 | 4.60 |
| 2009 | 47.7 | 4.60 | 6.7 | 0.60 | 54.3 | 5.20 |
| 2010 | 55.7 | 4.40 | 8.7 | 0.71 | 64.4 | 5.10 |
| 2011 | 49.0 | 3.40 | 10.0 | 0.70 | 59.0 | 4.10 |
| 2012 | 42.7 | 3.17 | 105 | 0.78 | 53.2 | 3.96 |
| 2013 | 41.0 | 3.10 | 11.0 | 0.80 | 52.0 | 3.90 |

Source; IRDA Annual reports, various issues

***Growth of new Policies:*** The IRDA in insurance industry in India has taken impressive measures in recent years and has recorded phenomenal growth complemented by country's improving economic growth. It is evident from the table 7 .The non-life insurers underwrote 1,024.52 lakh policies in financial year 2013-14 against 1,070.24 lakh policies underwritten in financial year 2012-13, reporting a decrease of 4.27 per cent over financial year 2012-13. The public sector insurers witnessed considerable decline in the number of policies issued. They reported a 12.99 per cent decrease in number of policies issued during financial year 2013-14 as compared to a 30.59 per cent increase in financial year 2012-13. The private sector insurers reported a growth of 11.54 per cent in the number of policies issued in the financial year 2013-14 (15.57 per cent in the financial year 2012-13)..

Table: 7 Life Insurers: Number of New Policies issued (in lakhs )

| Insurers | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|---|---|
| LIC | 305.91 (31.75) | 382.29 (21.01) | 376.13 (-1.61) | 359.13 (-4.52) | 388.63 (8.21) | 370.38 (-4070) | 357.51 (-3.47) | 689.68 (30.29 | 600.06 (-12.99 |
| Private sector | 38.71 (73.37) | 79.22 (104.64) | 132.62 (67.40) | 150.11 (13.19) | 143.62 (-4.32) | 111.14 (22.61) | 84.42 (-24.04) | 380.56 (15.54) | 424.47 (11.54) |
| total | 354.62 (35.29) | 461.52 (30.14) | 508.74 (10.23) | 509.23 (10.10 | 532.25 (4.52) | 481.52 (-9.53) | 441.93 (-8.22) | 1070.24 (24.82) | 1024.52 (-4.27) |

Note: Figure in bracket indicates the growth over the previous year in per cent. Source; IRDA Annual reports, various issues.

## Conclusions

The growth Performance of the insurance industry has been increased tremendously since the establishment of IRDA in India, which supervise and controlled the entire insurance industry. The increase in no. of insurer both in life and non-life, growth in insurance penetration and density, increase in no. of policies issued and increase in the speed of claims settlement and in many more aspects the IRDA is playing a prominent role in the Indian insurance sector.

## References

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