



## Role of Insurance Regulatory and Development Authority in Indian Insurance Sector: A Study

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### **Abstract**

*Insurance Regulatory and Development Authority (IRDA) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by a parliament of India act called Insurance Regulatory and Development Authority Act, 1999 and duly passed by the government of India .The agency operates its headquarters at Hyderabad, Andhra Pradesh where it shifted from Delhi in 2001. Promote and ensure orderly growth of the insurance business and re-insurance business. IRDA issue the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration and Protect the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance. Further, it regulates investment of funds by insurance companies, regulating maintenance of margin of solvency, adjudication of disputes between insurers and intermediaries or insurance intermediaries.*

*Key words: Malhotra Committee, insurance companies, opportunity*

### **1. 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. They are setting structure and boundaries for the insurance companies to act upon. Starting from licensing to approving the products, IRDA directs the companies in India. They also protect customer interests in the country. As per current guidelines issued by IRDA, Insurance Companies are not permitted to invest in Indian Depository Receipts (IDR), while they are permitted to invest in Equity shares/ Bonds/ Debentures. IRDA needs to remove this disparity to open up investment opportunity by Insurance Companies and thereby also enhance the liquidity of IDRs (Contributed by Sanjay Banka, FCA FCS) Hence, the present work made an attempt to study the Role of IRDA in Indian Insurance sector.

## 2. Objectives of the Study

The following are the main objectives of the present study:

- To know the powers and functions of the IRDA
- To study the impact of IRDA on the growth of life and non-life insurers in India.
- To examine the impact of IRDA on insurance penetration, density and policy issued.

## 3. 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 2005-06 to 2013-14.

## 4. 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.
- To Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance.
- To Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents and Specifying the code of conduct for surveyors and loss assessors.
- To Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938).
- To Regulating investment of funds by insurance companies,



regulating maintenance of margin of solvency, adjudication of disputes between insurers and intermediaries or insurance intermediaries.

- Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause 2.6 and
- Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.

## 5. Results and Discussions

### 5.1 Registered Insurers In India

At end of September 2014, there are forty-nine insurance companies operating in India; of which twenty-four are in the life insurance business and another twenty-four are in general insurance business. In addition, GIC is the sole national re-insurer. Of the forty-nine

companies presently in operations, eight are in the public sector: two specialized insurers, namely ECGC and AIC, one in life insurance, four in general insurance and one re-insurance. The remaining forty one companies are in the private sector.

**Table 1: Registered Insurers in India (as on 31-03-2014)**

Types of business	Public sector	Private sector	Total
Life insurance	1	23	24
General Insurance	6	18	24
Re-Insurance	1	0	1
Total	8	41	49

Source: IRDA Annual reports, various issues

**Table 2**

### INSURANCE COMPANIES OPERATING IN INDIA

LIFE INSURERS	
Public Sector	Private Sector
Life Insurance Corporation of India	1. Aegon Religare Life Insurance Co.Ltd.
	2. Aviva Life Insurance Co. Ltd
	3. Bajaj Allianz Life Insurance Co. Ltd
	4. Bharti AXA Life Insurance Co. Ltd.
	5. Birla Sun Life Insurance Co. Ltd.
	6. Cananra HSBC OBC Life Insurance Co. Ltd.
	7. DLF Pramerica Life Insurance Co. Ltd.
	8. Edelweiss Tokio Life Insurance Co. Ltd.
	9. Future Generali Life Insurance Co. Ltd.
	10. HDFC Standard Life Insurance Co. Ltd.
	11. ICICI Prudential Life Insurance Co. Ltd.
	12. IDBI Federal Life Insurance Co. Ltd.
	13. ING Vysya Life Insurance Co. Ltd.



	14. India First Life Insurance Co. Ltd.
	15. Kotak Mahindra Old Mutual Life Insurance Co. Ltd.
	16. Max New York Life Insurance Co. Ltd.
	17. Met Life India Insurance Co. Ltd.
	18. Reliance Life Insurance Co. Ltd.
	19. Sahara India Life Insurance Co. Ltd.
	20. SBI Life Insurance Co. Ltd.
	21. Shriram Life Insurance Co. Ltd.
	22. Star Union Dai-ichi Life Insurance Co. Ltd.
	23. TATA AIG Life Insurance Co. Ltd.
<b>NON-LIFE INSURERS</b>	
New India Assurance Co. Ltd.	1. Bajaj Allianz General Insurance Co. Ltd.
National Insurance Co. Ltd.	2. Bharti AXA General Insurance Co. Ltd.
The Oriental Insurance Co. Ltd.	3. Cholamandalam MS General Insurance Co. Ltd.
United India Insurance Co. Ltd.	4. Future Generally India Insurance Co. Ltd.
Specialized Insurer	5. HDFC Ergo General Insurance Co. Ltd.
Export Credit Guarantee Corporation Ltd.	6. ICICI Lombard General Insurance Co. Ltd.
<b>Agriculture Insurance Co. Ltd.</b>	7. IFFCO Tokio General Insurance co. Ltd.
	8. L & T General Insurance Co. Ltd.
	9. Raheja QBE General Insurance Co. Ltd.
	10. Reliance General Insurance Co. Ltd.
	11. Royal Sundaram Alliance Insurance Co. Ltd.
	12. SBI General Insurance Co. Ltd.
	13. Shriram General Insurance Co. Ltd.
	14. TATA AIG General Insurance Co. Ltd.
	15. Universal Sampo General Insurance Co. Ltd.
	<b>Standard Health Insurers</b>
	16. Apollo Munich Health Insurance Co. Ltd.
	17. Max Bupa Health Insurance Co. Ltd.
	18. Star Health and Allied Insurance Co. Ltd.
	<b>RE – INSURER</b>
	General Insurance Corporation of India

Source: IRDA Annual reports, various issues

Growth trends in registered life in private and non life insurer have been increased over the last one and half decade. The no. of registered life insurer increased from 4 to 24 including 1 public sector insurer i.e. LIC, but the increase in

private sector insurer is more significant during from 2005 to 2014. Non-life insurer has also increased to 25 (including 1 re-insurance) industries as in March 2014. Most of the private players in the Indian insurance industry are a



joint venture between a dominant Indian company and foreign insurers. In a fragmented industry, new players are gnawing away the market share of larger players. The existing smaller players have aggressive plans for network expansion as their foreign partners are keen to

capitalize on the enormous potential that is latent in the Indian life insurance market. However, it is concluded that since the establishment of the IRDA the no. of life and non-life insurance insurers have registered and started their business in insurance arena.

**Table 3: Growth Trends of Life Insurance Offices**

<b>Insurer</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Private	3072 (57.17)	6391 (71.71)	8785 (74.35)	8768 (72.96)	8175 (70.81)
LIC	2301 (42.83)	2522 (28.29)	3030 (25.65)	3250 (27.04)	3371 (29.19)
<b>Industry Total</b>	<b>5373</b> <b>(100.00)</b>	<b>8913</b> <b>(100.00)</b>	<b>11815</b> <b>(100.00)</b>	<b>12018</b> <b>(100.00)</b>	<b>11546</b> <b>(100.00)</b>

Source: IRDA Annual reports, various issues

Table 3 vivid the growth of life offices both in public and private sector, it reveals that there was a considerable decrease in the No. of life offices in the country. During under the study period private insurer closed 593 offices, where as LIC established 121new offices. Hence, the No. of life insurance offices declined from 12018 as on 31 March 2013 to 11546 as on 31 March 2014. However, it is concluded that there was a declined in the life offices in terms of per cent when compared with the private insurer.

### **5.2 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 insurance penetration is measured as the percentage of insurance premium to GDP. Similarly, insurance density is calculated as the ratio of premium to population (per capita premium) India has achieved a commendable performance in insurance density since insurance sector opened for

private players. Similarly insurance penetration, which surged consistently till 2009, slipped for the first time in 2010 due to slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy. Insurance density had gone up from US D 11.5 in 2005 to US D 64.4 in 2014. Similarly insurance penetrations had gone up from 2.71 per cent in 2005 to 5.10 per cent in 2014. Within the insurance sector, the density of life insurance sector shows a predominant and which was US D 9.1 against non-life insurance density US D 2.4 in 2005. The density of life insurance was rose by US D 55.7 against the non-life density US D 4.40 in 2014. which impetrates that the density of life Insurance is more than that of the non-life insurance. It is concluded that growing population with mass poverty cannot afford the insurance. On the other hand, within the insurance penetration, life insurance penetration was significant than that of the non-life insurance, it is evident from the table 4 that the life insurance penetration was consistently increased



from 2.15 percent to 4.40 percent against of growth happened in insurance sector to the 0.56 percent to the 0.71 percent due to the establishment of IRDA. during 2005 to 2014. However, this much

**Table 4: Insurance Penetration and Density In India**

Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (Per cent)	Density (USD)	Penetration (Per cent)	Density (USD)	Penetration (Per cent)
2005	9.1	2.15	2.4	0.56	11.5	2.71
2006	11.1	2.59	3.0	0.67	14.7	3.26
2007	12.9	2.26	3.5	0.62	16.4	2.88
2008	15.7	2.53	4.0	0.64	19.7	3.17
2009	18.3	5.53	4.4	0.61	22.7	3.14
2010	33.2	4.10	5.2	0.60	38.4	4.80
2011	40.4	4.00	6.2	0.60	46.6	4.70
2012	41.2	4.00	6.2	0.60	47.4	4.60
2013	47.7	4.60	6.7	0.60	54.3	5.20
2014	55.7	4.40	8.7	0.71	64.4	5.10

Source: IRDA Annual reports, various issues

### 5.3 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. The Indian insurance industry is gaining in size and is in par with the Asian markets. The business of insurance is related to the protection of the economic values of assets of the policy holders. The

no. of new policies issued by the life insurer in accordance with IRDA is an index of growth of life insurer. The IRDA is looking at making insurance policies more investor-friendly by introducing tax exemptions on insurance policies. While IRDA is still considering a proposal by LIC to link tax relief to the term of the life insurance policy, reports suggest IRDA has backed a move to introduce separate tax exemption limit on life insurance policies.

**Table 5: Life Insurers: Number of New Policies Issued (in lakhs)**

Insurer	2013-14	2012-13	2012-11	2011-10	2010-09	2009-08	2008-07	2007-06	2006-05
LIC	370.38 (-4.70)	388.63 (8.21)	359.13 (-4.52)	376.13 (-1.61)	382.29 (21.01)	315.91 (31.75)	239.78 (11.09)	269.68 (9.87)	245.46 (96.75)
Private Sector	111.14 (22.61)	143.62 (-4.32)	150.11 (13.19)	132.62 (67.40)	79.22 (104.64)	38.71 (73.37)	22.33 (34.62)	16.59 (101.05)	8.25 (3.25)
Total	481.52 (-9.53)	532.25 (4.52)	509.23 (0.10)	508.74 (10.23)	461.52 (30.14)	354.62 (35.29)	262.11 (-8.44)	286.27 (12.83)	253.71

Source: IRDA Annual reports, various issues

Note: figure in brackets indicates the growth over the previous year in per cent



It is evident from the table that no. of policies issued by the Insurer in India has been increased over the years from 253.71 lakhs to 481.52 lakhs. The performance of private sector insurance in terms of policies issued is more significant than that of the LIC. The effort made by the LIC in this regard has been a dismal when compared with the private insurer. The invisible hand behind this growth is the IRDA. The share of life insurance business was 58 per cent in total premium collection. While life insurance business collected USD 2520 billion as premium, the same for non-life business was USD 1818 billion. During 2014, the premium in world life insurance business increased by 3.2 per cent on the back of double digit growth (i.e. 13 per cent) in life insurance premium collection in emerging markets.

#### 6 . Main Findings of the Study

- The no. of registered life insurer increased from 4 to 24 including 1 public sector insurer (LIC) but the increase in private sector insurer is more significant during from 2005 to 2014. Non-life insurer has also increased to 25 (including 1 re-insurance) industries as in March 2014. Most of the private players in the Indian insurance industry are a joint venture between a dominant Indian company and foreign insurers.
- Insurance density had gone up from US D 11.5 in 2005 to US D 64.4 in 2014. Similarly insurance penetrations had gone up from 2.71 per cent in 2005 to 5.10 per cent in 2014. Within the insurance sector, the density of life insurance sector shows a predominant and which was US D 9.1 against non-life insurance density US D 2.4 in 2005. The density of life insurance was rose by US D 55.7 against the non-life density US D

4.40 in 2014. which impetrates that the density of life Insurance is more than that of the non-life insurance. However, this much of growth happened in insurance sector due to the establishment of IRDA.

- The no. of policies issued by the Insurer in India has been increased over the years from 253.71 lakhs to 481.52 lakhs. The performance of private sector insurance in terms of policies issued is more significant than that of the LIC. The invisible hand behind this growth is the IRDA

#### 7. Conclusion

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.

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