



ROLE OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY IN INDIAN INSURANCE SECTOR

MAHESH KUMAR MANDAL*

**Research Scholar (Commerce) L. N. Mithila University, Darbhanga*

INTRODUCTION

At end of December 2012, 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.

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. In 1999, (IRDA) Insurance Regulatory and Development Authority was constituted as an autonomous body to regulate and develop the insurance industry. 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 there with 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.

The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

Insurance Regulatory & Development Authority is regulatory and development authority under Government of India in order to protect the interests of the policyholders and to regulate, promote and ensure

orderly growth of the insurance industry. It is basically a ten members' team comprising of a Chairman, five full time members and four part-time members, all appointed by Government of India. This organization came into being in 1999 after the bill of IRDA was passed in the Indian parliament. The creation of IRDA has brought revolutionary changes in the Insurance sector. In the last 10 years of its establishment the insurance sector has seen tremendous growth. When IRDA came into being; the only players in the insurance industry were Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC), however in last decade 23 new players have emerged in the field of insurance. The IRDA also successfully deals with any discrepancy in the insurance sector.

As per the section 4 of IRDA Act' 1999, Insurance Regulatory and Development Authority (IRDA, which was constituted by an act of parliament) specify the composition of Authority. The Authority is a ten member team consisting of

- (a) a Chairman;
- (b) five whole-time members;
- (c) four part-time members, (all appointed by the Government of India)

REVIEW OF LITERATURE

There is no denying that a thriving insurance industry is critical for every modern economy. It is, therefore, not surprising that when the Government initiated the reforms process in the early 90s, It decided that dismantling the "License – Permit Raj", through desirable and necessary, would not alone promote growth unless accompanied by fiscal reforms and a thorough revamping of the financial sector (**Rao, 2007**).

The transition of the insurance industry from a public monopoly to a competitive environment now presents very interesting challenges, both of the new players and to the customer. The Insurance Penetration as well as the size of the average cover is well below international averages proving great marketing opportunity for the insurance companies. 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. Insurance Regulatory and Development Authority is regulatory and development authority under Government of India in order to protect the interests of the Policyholders and to regulate, promote and ensure orderly growth of the insurance industry.

Supervision and regulation of insurance is a relatively new experience in India. It is the job of the Regulator to ensure that the insurers have, at any point of time, sufficient resources to meet the Liabilities and that all customers are treated in an equitable manner (**Rao, 2007**).

Chaudhary (2004) opines that India's Industry and general public have a choice of insurances and India's insurers in town need a choice of reinsures. Reinsurance like the other specialized industries has its own terms and phrases. **Rao (2004)** in "Fighting for Life" explains after the Opening up of the insurance sector the rules of the game are changing. Market is vast and there is a lot of cushion for everyone. To grab the largest pie of the premium each, insurance company is adopting new distribution and marketing strategies. **Prabhakar (2004)** in "The Nuances of insurance Contract" explains the nature of the insurance contract and differentiate the insurance contract from other commercial contracts. Though the insurance contract appears to be of wagering nature it is valid contract because of the presence of insurable interest upon the parties purchasing the policies. **Menon and Menon (2006)** reveal that the insurance policy is an instrument and the conclusive evidence of insurance contract between the insurer and the insured. It is not a property but it is title to the property.

When the state enterprises controlled the entire industry, the safety of the policyholders' funds was ensured through state guarantee while the fair dealing with the customers was achieved through parliamentary oversight of the state enterprises. The opening of the sector for private participation naturally raised issues about ensuring solvency of the companies and fair treatment to the insured. The Regulations framed by the Authority deal with both the issues in a Comprehensive way (**Rao, 2007**).

Empirical work on insurance market by **Browne and Kim(1993)**, **Browne et al. (2000)**, **Ward and Zurbruegg (2002)**, **Beck and Webb (2003)** and **Esho et al.(2004)** have shown that the level of insurance demand can be influenced by the economic, demographic and legal factors. **Mannati (2008)** observes that the insurance reforms have positive affect on the economic development in India.

STATEMENT OF THE PROBLEM

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.

In the business of insurance, the timely settlement of claims is a vital function that needs no special emphasis. The claims settlement record of an insurer is, therefore, the touchstone of its performance. In order to ensure that the insurer is in the position to promptly settle all its claims, it needs to do a careful evaluation of the risks that would arise out of the underwritten contracts and price their premiums accordingly. Excessive time-lags in settlement of claims or higher percentage of repudiations speak badly of the insurer's approach to its business and to its policyholders. Provision of the IRDA (Protection of Policyholders Interests) Regulations, 2002 lays down the guidelines on claims procedure in respect of a life insurance policy.

This study will focus upon the need of insurance and the role played by IRDA for the growth and development of insurance sector. Indian insurance industry has seen a significant growth over the past few years on account of growing national economy, increasing per capita income, growing consumer awareness about insurance products, and the entry of foreign players in the Indian market bringing in more innovative products. The Indian insurance industry operates through life and non-life segment, with life insurance, motor and health insurance being the major industry drivers. With the development of the Insurance sector, the premium received can be deployed in long term projects like infrastructure as the tenure matching becomes easy. The Indian Insurance Sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. Overall insurance penetration (premium as percentage of GDP) in India has increased from 2.3% in 2001 to 5.2% in 2011 and 6.8% in 2012. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

OBJECTIVES OF THE STUDY

The objective of the study is to know the role played by the IRDA for the development and regulation of insurance sector in India.

The various sub objectives can be

1. To know the powers and functions of the IRDA
2. To study the impact of IRDA on the growth of life and non - life insurers in India.
3. To know the Major Challenges that Indian Insurance sector is Facing.

IMPORTANCE OF STUDY

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 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 number of new policies issued by the life insurer in accordance with IRDA is an index of growth of life insurer. 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. Despite of the challenges faced by the insurance industry, 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 industry, 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.

HYPOTHESIS

Our study would be based on the following Hypotheses:

- IRDA is protecting the interests of the policyholders by ensuring fair treatment by the insurance companies.
- IRDA is taking care for the growth of insurance companies in a speedy and orderly manner.
- IRDA is monitoring and implementing quality competence and fair dealing of the insurance Companies in the industry.

RESEARCH METHODOLOGY

The present study is concerned with analytical evaluation of the role being played by Insurance Regulatory and Development Authority, an autonomous body constituted under the provisions of the Insurance Regulatory and Development Authority Act, 1999. In India Insurance Sector, the need was felt to protect the interests of policyholders, competence, fair dealing and speedy settlement of genuine claims of policyholders and IRDA Act was enacted to serve these purposes.

The study would be primarily based on Secondary data collected from different

- Books
- Journals / Magazines/ Periodicals
- Economic Dailies / Weeklies
- Newspapers
- Publications of IRDA

- Industry Reports
- Websites etc.

The data thus collected will be analysed by using suitable Statistical and mathematical tools and techniques like

- Ratio and Proportion
- Percentages
- Analysis of trends
- Mean and Standard Deviation
- Analysis of variable
- Factor Analysis
- Tests of Hypothesis etc. for specific interpretation. The study would mainly focus on Insurance business under IRDA regime.

We will make diagrammatic / graphic presentation with the help of

- i. Bar graphs
- ii. Histograms
- iii. Pie charts as per suitability.

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