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An Overview of the Insurance Sector in India

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ABSTRACT

Despite all familiarity, insurance is still being regarded as a game of financially able class having some surplus income while originally it was devised to manage the risk of financial vulnerable class of tradesmen having higher risks attached to human life. From that count insurance is a necessity for the financially insecure groups of population. Due to lack of financial aptitude most of us do not consider insurance a necessary part of financial planning. To use this cooperative device as tool of risk management a customer should have an overview of the market, the players involved in it and their role in the game along with the effects of their interplay in the market.

This article aims to discuss briefly the importance of insurance in financial planning of an individual, its potential in terms of national economy and infrastructure. Besides, it highlights the significant roles played by different regulatory authorities, intermediaries and the agencies which play pivotal role in actual realisation of the benefits of the device vis-a-vis the functioning of grievance redressal agencies and claim settlement procedure. The object of the article is therefore, to enhance the basic awareness of the customer regarding market which can be helpful for effective use of insurance device towards financial planning of an individual.

Keywords: *Major historical events in insurance sector in India, Present Scenario of Insurance Sector, Regulation of Insurance sector in India, Marketing malpractices in insurance, Redressal of Insurance Grievances, Challenges before the IRDA.*

I. INTRODUCTION

Insurance may aptly be understood as a social device which works in combination to reduce or eliminate financial risk that may arise as a consequence of loss of life or of property. It is a device which combines together a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all those in the combination[2]. In law, insurance is a special type of contract where two parties, one of which is called insurer, undertakes, in consideration for a fixed sum of money called premium, to pay the other party a prefixed amount of money as indemnity of financial loss on the

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happening of a certain event. In this device the insured person voluntarily undertakes to bear a small financial loss to ensure the reimbursement of a huge uncertain financial loss that may occur to him due to the happening of some specific uncertain event.[3] Now-a-days this activity is regarded as an integral part of an individual's endeavour towards a prudent financial planning and risk management.

The financial planning of an individual must include sufficient insurance policies enough to cover his/her financial risks as it provides security against unforeseen risks of financial losses saving that person's endeavor from unhappy and abrupt ending. If saving is the first step of an earning individual towards financial independence then securing the financial risks of that individual in case of discontinuity of that earning is equally important without which any financial venture can't achieve its purpose and there comes the necessity of insurance. In a country where social security measures are weak the financial risk management assumes more importance and should be shouldered by the person himself. It is believed that a life or its venture without such security is like a ship in the ocean of risk without safe-boat.

It has also been observed that only a well-organized insurance sector can have the necessary ability to cater the financial needs of the economy as well as of the individual requirement of social security because insurance generates capital which in fact provides long term funds necessary for infrastructure development and at the same time strengthens the risk-taking ability of an individual. It was estimated that over the next few years India would require investment of the order of 5 trillion U.S. dollar. The insurance sector to some extent can enable investments in infrastructure development to sustain economic growth in this country. Therefore, it was felt that the insurance sector needs proper attention and steps must be taken to boost up the sector.

Insurance penetration in India is amongst the lowest in the world and around 80% population is without any life insurance cover. The picture of non-life insurance is even more pathetic. In India insurance is still considered as a tax saving tool not as an essential part of financial risk management. As a result, the growth potential of insurance market in India is very huge and for that purpose policy formulation for tapping the unreached market is very essential.

The insurance sector in India is gigantic in size and is growing at a rate of 15-20% annually. In combination with banking services, insurance adds about 7% to the country's GDP. A well-organised insurance sector is considered as a catalyst for economic growth of a country as it

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[3] https://www.taxguru.in/wp-content/uploads/2012/11/insurance-hb-1101.pdf Fetched: 4/7/2020 9:02:28 AM

provides long- term funds for development of infrastructure.[4]

II. Major historical developments

In its present form as commercial and professional practice, insurance has its history rooted in the British rule in India. In 1818, Anita Bhavsar founded the Oriental Life Insurance Company in Kolkata with the sole object to fulfil the insurance needs of the European community in India. The seeds of discrimination was evident in the practice of insurance underwritings too as the Indian insurance market during pre-independence era witnessed a discrimination between the lives of foreigners particularly English and native Indians. Indians were charged with a higher premium because their lives were considered more risky. It took over a half century when in 1870 the first Indian insurer Bombay Mutual Life Assurance Society was formed. During the initial decade of 20th century along with the rise of nationalist movements many insurance companies and provident societies came in to Indian insurance market.[5]

With the rise of the number of insurance companies and societies the regulation of insurance business became important and as a result the Life Insurance Companies Act and Provident Fund Act were enacted in 1912 in order to regulate some important aspects the insurance business in India. These legislations made it mandatory that the premium-rate tables and periodical valuations of companies should be certified by an actuary[6]. The National Insurance Company which was founded in 1906 and has been still in insurance business which establishes it as the oldest insurance company in the market.

After independence the Government of India notified an ordinance on 19th January, 1956 which nationalised the life insurance market. The Life Insurance Corporation of India Act, 1956 was passed which created monopoly of life insurance business in favour of life Insurance Corporation of India (LIC). The Central Government took over the charge of 245 active private insurers.[7] Again in 1972, the General Insurance Business [Nationalisation] Act was passed by the Parliament of India with a view to nationalise general insurance business which came into effect from 1st January 1973. In order to complete this process, 107 insurers were amalgamated and grouped under four public companies, namely National Insurance Company Ltd., Oriental Insurance Company Ltd., United India Insurance Company Ltd. and New India Insurance

[4] https://www.irdai.gov.in Last visited on 05.04.2021
[5] https://en.m.wikipedia.org/wiki/Insurance_in_India, last visited on 05.04.2021
[6] Actuary means a person who, as his profession, calculates as to how likely an accident is to happen as a result of insured hazard, such as fire, flood, theft etc., by analysing reliable statistical data and as a result of this process calculates the risk in monetary terms to fix the amount of premium to be charged by an insurance company.
[7] The LICI acquired the business of 154 Indian insurers, 16 Non-Indian insurers and also 75 provident societies, (consolidated 245 Indian and foreign insurers).

Company Ltd. The four subsidiary public companies were brought under the General Insurance Corporation of India (GICI).[8]

With the coming into effect of Insurance Regulatory and Development Authority Act, 1999 from July 2000 the insurance sector in India is again reopened to private players. So, the monopoly which existed in favour of LICI as well as GIC with its subsidiaries was again broken down and as a consequence of which a number of life as well as Non-life insurance companies have entered in insurance business in India[9] and competing with the public sector undertakings.

III. Liberalisation of insurance sector in India

The initial decades of the millennium has witnessed the completion of a full circle of journey extending to nearly 200 years in Indian insurance sector. India adopted liberal economic policies in the last decade of the 20th century and the last decade and more has seen the opening of the sector to a large extent. As a part of this liberalization process, the Government of India set up a high-powered committee in 1993 with Sri R. N. Malhotra, former Governor of R.B.I., as its Chairman, to analyse the functioning of the insurance sector and propose recommendations for effecting reforms in the insurance sector. The objectives of such reform were to complement the policy of liberalisation initiated in other parts of the financial sector. The Malhotra Committee, on completion of its study, submitted the report of the study in 1994 which, among other suggestions, recommended that an independent regulatory authority in line with SEBI be set up to regulate insurance sector and the insurance market of India be opened up for private players. They also recommended that the insurance market be made open for private insurers and foreign insurers be allowed to enter into the market, preferably as a joint venture with Indian partners.[10]

Complying the recommendations of the Malhotra Committee, the GoI established the Insurance Regulatory and Development Authority (IRDA) as an autonomous body in line with SEBI to regulate the industry with the object of orderly growth the industry and protection of the insured. The IRDA was established as a statutory body in April, 2000. The other key purposes of operation of the IRDA include promotion of free and fair competition in order to improve customer experience through increased consumer options and lower premium rates, with increased financial security of the insurance market.

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[8] https://en.m.wikipedia.org/wiki/Insurance_in_India, last visited on 05.04.2021

[9] The number of Life insurers is 24, non-life insurers is 34 and re-insurance is 1 as on 04.04.2021.

[10] https://rbidocs.rbi.org.in, Achamma Samuel, Insurance: The Indian Experience, visited on 05.04.2021.

The IRDA opened insurance market for private insurers in India in August 2000 when it published a notification inviting application for registration as insurers. Initially foreign companies were allowed ownership up to 26%[11]. The IRDA is empowered to frame necessary rules and regulations under Section 114A of the Insurance Act, 1938. By exercising the statutory power, the authority has framed various regulations covering various aspects of insurance regulation starting from registration of companies to the extent of protection of the interest of policyholders.

In July, 2002 the Parliament of India passed a bill de-linking the four subsidiaries from GICI converting them as independent corporate entities and GICI into the lone national re-insurer. Today, Indian insurance sector has 34 general insurance companies and 24 life insurance companies active in the insurance sector of the country.

Presently, Indian insurance sector has gained the experience of free competition of around two decades. The intense completion among the insurers has substantially changed the traditional rule of the game with new product variety, new channels of distribution, intensive marketing strategy and above all the influence of digital revolution. As a result of these changed rule, new kinds of insurance grievances are evolving giving rise to new forms of regulatory challenges.[12]

IV. Regulation of liberalised insurance sector

The business of insurance is primarily regulated by the Insurance Act, 1938 as amended from time to time and by Insurance Regulatory and Development Authority Act, 1999 which has established the Insurance Regulatory and Development Authority (IRDA), the statutory regulator of the market. The establishment **IRDA** is a landmark in the history of insurance regulation in India. As declared in its preamble the object of this legislation is two-fold i.e. to promote orderly growth in the industry and to secure the interest of the insured. These two legislations in fact has created the legal framework within which the insurance industry has to move forward. Within this basic legal framework, besides IRDAI there are some other institutions and self-regulatory authorities who play vital roles in the functioning of insurance industry. A brief identity of the authorities and institutions are given here.[13]

(A) Statutory Regulator of the Sector

[11] The Government of India increased the FDI cap from 26% to 49% and recently to cent per cent.
[12] Saon Ray, Indian Insurance Sector: Challenges and Opportunities, Indian Council for Research on International Economic Relations, July 2020, http://icrier.org visited on 05.05.2021
[13] Somesh. K. Mathur, The Geneva Papers on Risk and Insurance: Issues and Practices, Vol. 26, No. 1 http://www.jstor.org. visited on 05.05.2021

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As stated above the Insurance Regulatory and Development Authority of India known as IRDA is the statutory regulator of insurance sector in India is which was established in 1999 under an Act of Parliament named as the Insurance Regulatory and Development Authority Act, 1999.

(B) Role of IRDA

Section 14 of the IRDA Act, 1999 has conferred power to the IRDA to frame necessary regulatory rules for proper regulation of the insurance sector. By exercising this power the IRDA, since its inception, has framed various roles for proper regulation of the market. The IRDA through these regulations has in fact reframed different aspects of Insurance practices and have strengthened the rules of the game. A list of important regulations passed by IRDA, can give us an idea regarding the intensive involvement of the authority in the business of regulation of the insurance markets:

- IRDA (Insurance Advertisements and Disclosure) Regulations, 2000
- IRDA (Registration of Indian Insurance Companies) Regulations 2000
- IRDA (Preparation of Financial Statements & Auditor’s Report of Insurance Companies) Regulation, 2000
- IRDA (Protection of Policyholders' Interest) Regulations, 2002
- IRDA (Manner of Receipt of Premium) Regulations, 2002
- IRDA (Protection of Policyholders Interests) (Amendment) Regulations, 2002
- IRDA (Non-Linked Insurance Products) Regulations, 2013
- IRDA (Life Insurance-Reinsurance) Regulations, 2013
- IRDA (Scheme of Amalgamation and Transfer of Life Insurance Business) Regulation,
- IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015
- IRDAI (Acquisition of Surrender and Paid-up Values) Regulations, 2015
- IRDAI (Insurance Services by Common Service Centers) Regulations, 2015
- IRDAI (Issuance of Capital by Indian Insurance Companies transacting Life
- IRDAI (Third Party Administrators - Health Services) Regulations, 2016
- IRDAI (Assets, Liabilities, and Solvency Margin of Life Insurance Business)
- IRDAI (Assets, Liabilities, and Solvency Margin of Life Insurance Business)[14]

(C) Self-Regulatory Bodies

[14] https://www.irdai.gov.in/ADMINCMS/cms/NormalData.... visited on 09.26.19

Besides the Insurance Regulatory and Development Authority, the insurance industry in India has different self-regulatory organisations regulating different aspects of insurance practices in different levels of the game and performing different tasks to achieve its goal. Important among them are:

1. Institute of Actuaries of India (IAI)- The Institute of Actuaries of India was formed in September 1944 by the conversion of the Actuarial Society of India in a body Corporate by virtue of body corporate by the Actuaries Act, 2006. The objective of the body is:

1. Advancement of the actuarial profession in India.
2. Providing opportunities for interaction among the members of the profession.
3. Facilitating research, arranging lectures on relevant subjects.

2. Insurance Institute of India [I.I.I.] - The Insurance Institute of India, previously known as Federation of Insurance Institutes, was established in 1955, with the purpose of promotion of insurance education and training in the country. The qualifications conferred by the institute are held in high esteem both by the regulator and other stakeholders of the industry. It is a leading institution of insurance education and training and is closely connected with other key players of the industry including the statutory regulator and all major public and private insurers.[15]

3. Indian Institute of Insurance Surveyors & Loss Assessors (IIISLA) - The surveyors and loss assessors are experts of many fields. They can advise both the insurance company and the policy holders on repair or replacement techniques. After discussion with the policy holders, they report to the insurance company which enables the insurance company to process the claim without delay.

4. Insurance Brokers Association of India (IBAI) - the main objects of the IBAI are to promote interactions among the insurance/ reinsurance Broker members and to encourage, Promote, facilitate and protect the interests of the insurance brokers.

5. Indian Information Bureau (IIB)- The insurance information bureau provides the essential involvements for the policy research as well as insurance industry expansion activities. The IIB publishes information for the assistance of the entire insurance industry.

6. General Insurance Council and **Life Insurance Council** are platforms for insurers.

7. Tariff Advisory Committee [TAC]- Tariff Advisory Committee (TAC) controls and regulates the rates, advantages, terms and conditions that may be offered by insurers in respect

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[15] http://www.taxguru.in visited on 05.07.2020

of fire, marine (Hull), motor, engineering. and workmen compensation in India.

Tariff Advisory Committee has been designated by IRDA as the data repository for the non-life insurance industry. The transaction level data on Motor, Health and other lines are being collected for the repository and functions as the sole data repository for the non-life industry in India.[16]

Besides the above organisations there are some other organizations active in the field of insurance to cater to the needs of employees of the insurers.

V. INSURANCE MALPRACTICE

Miss-selling of insurance products are rampant in insurance business.[17] Insurance products are generally a complex type of *standard form contract* where customer usually remains less aware about the products. Moreover, lack of clarity over one's financial risks and all necessary details of the benefits of insurance policy in question always keep a customer in a state of confusion. Insurance policies are usually a *not-purchased* product rather a *sold commodity*. The fatty commission structure often instigates a seller (most of the time an insurance agent) to resort to unscrupulous business practices. Lapsation of huge number of policies within initial years of underwriting of the policy and the profit thus accrued out of those abandoned policies has been a considerable source of income for the insurance agents as well as of insurance companies. On the other hand, the news about the stories of insurance frauds have established the fact that many customers have been adopting fraudulent means for unlawful realization of insurance claims which in turn raising the cost of insurance policies. It has been a challenge before the law-making authorities to frame laws and regulations so as to deal effectively with these menaces.

The RBI through a notification on 23rd June 2017 said that customers who are mis-sold third party products by banks can now approach the Banking Ombudsman. The new rule have also enhanced the jurisdiction of Banking Ombudsman from 10 lakh to 20 lakh.[18]

VI. REDRESSAL OF INSURANCE GRIEVANCES

Redressal of the grievances of policyholder and securing interest his interest has been a very important concern of the policy makers. The insurance sector has a multi-tier system of dispute or grievance resolution. A policy holder has the following resorts:

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16 http://www.indianinsurance.con retrieved on 12.04.2021

17 Life Insurance Mis-selling: ICICI Prudential Refunded Rs. 293 Crore in 254 cases, Says Govt., Moneylife Digital Team, 24th March, 2021, https://www.moneylife.in visited on 05.04.2021

18 Sunil Dhawan, Banks Now Liable for Mis-selling Insurance, https://www.economictimes.indiatimes.comvisited on 25.04.2021.

1. At Insurance Company
2. At Insurance Regulatory and Development Authority.
3. At Insurance Ombudsman and
4. Consumer Forum and
5. Traditional Court

1. **At Insurance Company-** An unhappy insurance customer should first of all approach the Grievance Redressal Officer of the concerned company. The IRDA regulation has stipulated the turn-around time (TAT) for various services that an insurance company has to render to the consumer. IRDA has stipulated that each insurance company should codify and make public the way it will deal with consumer complaints and resolve them.
2. **At IRDA-** If the concerned insurance company fails to resolve the complaint satisfactorily the customer can approach the IRDA. The customer can lodge complaint through various channels:
   i. Online complaint at Integrated Grievance Management System (IGMS)
   ii. Approach the Grievance Redressal Cell of the Consumer Affairs Department of IRDA. Call toll free number 155255 or send an e-mail to complaints@irda.gov.in
   iii. Send letter of fax to IRDA with your complaint in the Complain Registration Form.[19]
3. **At Insurance Ombudsman-** The organisation of Insurance Ombudsman was created by the Government of India to resolve the grievances of individual policy holders out of the court in a speedy, effective and cost-effective way. If a complaint is suitable for taking to the Insurance Ombudsman; IRDA will help to resolve the same by taking it up with the insurance company
   Ombudsman can be approached with a complaint if one has first approached the insurance company with the complaint and the insurance company
   i. has rejected the claim or
   ii. has not resolved it to the satisfaction of the complainant or
   iii. has not responded to it at all for 30 days or more.[20]

[19] https://www.gicouncil.in, last visited on 04.12.2020
[20] https://www.policyholder.gov.in last visited on 10.05.2021

4. **Consumer Forum and Court-** Insurance policy holder has been regarded as consumer since long and therefore, for disputes where enquiry or adjudication is required the customer should approach the Consumer Forum. The forums has resolved many claims of insurance policy holders and resolving many cases every year.
5. **The Courts-** The ordinary court is the resort where an insurance policy-holder can approach for the resolution of his grievances by following the traditional process of adjudication. In the absence of any reference to arbitration under the terms of a policy insurance disputes can be litigated both before a civil court or consumer forum. If the insurer initiates the litigation, it has to be adjudicated before the civil courts and consumer fora cannot entertain such disputes.[21]

VII. CHALLENGES BEFORE THE INSURANCE REGULATORY AUTHORITY

Insurance sector is changing its nature very fast. After liberalization of the market many private players have entered into the insurance business and are competing to grab customer base in the market. The marketing strategy of these insurers have got intensified and marketing of insurance products have been customized keeping the need of the customer into account. The benefits of digital and information technology movement have also entered in to insurance sector and have changed the rules of the game. New age technology and Mobile devices such as smart-phone device, health tracker wearable devices and digital data analysis etc. have changed the role of the game. Digital underwriting of policies and claim settlement mechanism minimized the required time hitherto necessary for the same tasks. Marketing of insurance policy have shown tremendous shift from its traditional practice and a techno-savvy customer prefers to purchase insurance policy directly from the company's web portal instead of commission-alert agents. Due to social media and educative video portals new generation young professional and middle-class people are learning the basics of financial planning and management. Taking pace with this rapid movement the Grievance Redressal mechanism discussed above has also adopted technological support to make the system more convenient for the customer.

These changing features of insurance market have brought transparency and ease in many areas of insurance practice but at the same time have been posing challenges before regulatory authority to keep pace with these developments specially to adapt its regulatory structure for rapidly changing technology. Moreover, adoption of new technology in regulatory setup, specific to insurance business and practices requires time while a newer technological

[21] https://www.lexology.com visited on 08.05.2021

advancement does not take similar time to replace its predecessor technology.

VIII. Conclusion

The growth of the sector and successful operation of insurance market therefore depends on a large variety of factors and smooth functioning of all the stake-holders active in the market. The utmost benefit of insurance practice also lies in the security of reasonable interest of all the stake holders active at different levels of insurance practice. There cannot be a denial of the fact that, consumer awareness has no other substitute which alone can add meaning to such insurance practice and therefore, insurance literacy can make insurance underwriting a win-win bargain. The technological developments and their adoption in insurance practice are changing the role of the game and are likely to change the same at a faster pace in near future. In such rapidly changing nature of insurance practice, insurance literacy will surely play a pivotal role in the success and growth of the sector.

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