What is the insurance Regulatory and Development Authority (IRDA)?

The Insurance Regulatory and Development Authority is the main organization or supervisory body that regulates the insurance sector in the country. It sets rules and regulations for the functioning of the insurance industry. Its sole purpose is to protect the interest of policyholders and to develop the industry on the whole.

The IRDA or IRDAT regularly issues advisories to insurance companies in case of changes to the rules and regulations. The regulator guides the insurance industry in promoting the efficiency in the conduct of insurance business all the while controlling the rates and other charges related to insurance. This article dwells on the functioning of the IRDA, features and benefits as well as answers to frequently asked questions at the end of this reading.

Establishment of IRDA:

The Government of India was the regulator for the insurance industry until 2000. However, to institute a stand-alone apex body, the IRDA was established in 2000 following the recommendation of the Malhotra Committee report in 1999. In August 2000, the IRDA began accepting applications for registrations through invites and allowed companies from other countries to invest up to 26% in the market.

Objective of IRDA:

The main objective of the insurance Regulatory and Development Authority of India is to enforce the provisions under the insurance Act. The mission statement of the IRDA is:

• To protect the interest and fair treatment of the policyholder.

• To regulate the insurance industry in fairness and ensure the financial soundness of the industry.

• To regularly frame regulations to ensure the industry operates without any ambiguity.

Important Role of IRDA in the insurance Sector in India:

The insurance industry in India dates back to the early (800s and has grown over the years with better transparency and focus on protecting the interest of the policyholder. The IRDA plays an integral role in emphasizing the importance of policyholders and their interest while framing rules and regulations. Here are the important roles of the IRDA:

• To protect the policyholder's interests.

• To help speed up the growth of the insurance industry in an orderly fashion, for the benefit of the common man.

• To provide long-term funds to speed up the nation's economy.

• To promote, set, enforce and monitor high standards of integrity, fair dealing, financial soundness and competence of the insurance providers.

• To ensure genuine claims are settled faster and efficiently.

• To prevent malpractices and fraud, the IRDA has set up a grievance redress forum to ensure the policyholder is protected.

• To promote transparency, fairness and Systematic conduct of insurance in the

financial markets.
. To build a dependable management system to make sure high standards of financial stability are followed by insurers.
• To prevent malpractices and fraud, the IRDA has set up a grievance redress forum to ensure the policyholder is protected.
• To promote transparency, fairness and systematic conduct of insurance in the financial markets.
. To build a dependable management system to make sure high standards of financial stability are followed by insurers.
• To take adequate action where such high standards are not maintained.
• To ensure the optimum amount of self- regulation of the industry.

Functions of IRDA:

Below are the important functions of the IRDA
in the insurance industry in India:

- Grant, renew, modify, suspend, cancel or withdraw registration certificates of the insurance company.
- Protecting the interests of the policyholder in matters concerning the grant of policies, settlement of claims, nomination by policyholders, insurable interest, surrender value of the policy and other terms and conditions of the policy. Specify code of conduct, qualifications and training for intermediary or insurance agents.
- Specify code of conduct for loss assessors and surveyors.
- Levying fees and charges for carrying out the provisions of the Act.
- Undertaking inspection, calling for information, and investigations including an audit of insurance companies, intermediaries, and other organizations associated with the insurance business.
- Regulate and control insurance rates, terms and conditions, advantages that may be offered by the insurance providers.

Features & Benefits of IRDA:

Following are the salient features of the apex body, the insurance Regulatory and Development Authority of India:
• Acts as a regulator for the insurance industry.
• Protects the policyholder's interests.
• Rules and regulations are framed by the apex body under Section (144 of the Insurance Act, 1938.
• It is entrusted under the insurance Act to grant the certificate of registration to new insurance companies to operate in India.
• Oversees the insurance industry's activities to ensure sustained development of insurers and policyholders.

Liberalization

The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies' start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

Objectives of Liberalization Policy

- To increase competition amongst domestic industries.
- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- diminish the debt burden of the country.

Impact of Liberalisation

Positive Impact of Liberalisation in India

- Free flow of capital: Liberalisation has enhanced the flow of capital by making it affordable for the businesses to reach the capital from investors and take a profitable project.
- Diversity for investors: The investors will be benefitted by investing a portion of their business into a diversifying asset class.
- Impact on agriculture: In this area, the cropping designs have experienced a huge change, but the impact of liberalisation cannot be accurately measured. Government's restrictions and interventions can be seen from the production to the distribution of the crops.

Negative Impact of Liberalisation in India

- The weakening of the economy: An enormous restoration of the political power and economic power will lead to weakening the entire Indian economy.
- Technological impact: Fast development in technology allows many small scale industries and other businesses in India to either adjust to changes or shut their businesses.
- Mergers and acquisitions: Here, the small businesses merge with the big companies. Therefore, the employees of the small companies may need to enhance their skills and become technologically advanced.[1] This enhancing of skills and the time it might take, may lead to non-productivity and can be a burden to the company's capital.

Privatization

This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of ownership of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

- By disinvestment
- By withdrawal of governmental ownership and management of public sector companies.

Objectives of Privatization

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.

- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

there are six methods of privatisation.

• Public sale of shares
• Public auction
• Public tender
• Direct negotiations
• Transfer of control of enterprises that were
controlled by the state or by municipalities
• Lease with a right to purchase

Positive Impact on privatisation Economy

- The role of entrepreneurs is encouraged in the private sector industries since they have the liberty to make their own decisions for the enterprises. They are not under any pressure from the government.
- Before 1991 when privatisation had not come up in the economy, the government sector industries had a hard time sanctioning funds for the economy. The Government usually delays the sanctioning of the funds. This is because the government manages it's administrative very intricately and with great complexity, and so the inflow of money is delayed.
- Before 1991, the expenditure of the government was more than what it was earning. As a result of this, the government was facing a budget deficit. This further resulted in an increased financial burden on the government.
- Private companies lead to the inflow of Foreign Direct Investment in the country. Because India has a wide market and a broad consumer base, foreign products are wanted by more and more consumers today. With more and more companies being privatised, people from all over the world come to invest their money in these companies.
- The regular supply of funds has increased with the coming up of the privatisation of the companies. This is because private companies do not require any permission in order to decide the financial status of the economy.
- When privatisation happened in the country, this financial burden of the government was significantly reduced. Private sector companies do not spend a huge amount of money on the non-development sectors, unlike the government sector companies. By earning more, the private companies helped the government in paying the taxes as well.
- With systematic and structured management, private sector companies are known to satisfying the never-ending wants of the consumers. Hence diversification of products takes place. Buyers are given ample of options to choose from in the market.
- Private companies are more focussed on increasing their managerial efficiencies so that they meet their goals in time or at times before the deadline. This allows them to avoid any unnecessary formalities.

Negative Impact on the privatization Economy

- Private sector companies can heavily influence the market in the economy. They can increase or decrease the price of a product solely on the basis of their preference. This results in a monopolistic control of the private companies in the market.
- With the coming up of more and more private sector companies, the social interest has been persistently neglected. The main objective of every private sector industry is to earn a profit. In this process of earning more and more profit, society is ignored by those industries.
- The term ‘full employment’ refers to a situation in which everybody who is in the working-age group and wants to work has employment. Privatisation can result in the non-achievement of a full-employment situation in the country. As mentioned earlier, the private companies are majorly concerned with profit maximisation instead of providing full employment to the citizens of the country.
- The term ‘voluntary retirement’ refers to a situation in which the employee quits voluntarily from his/her job and goes into retirement. When the Public Sector Units were sold to private investors, many people found it difficult to work under the conditions laid off by the private investors. As a result, most of them chose voluntary retirement.
- At times when private companies find themselves spending more on the inputs and the production process, in order to cut the cost, they may remove one or more than one employees causing unemployment in the economy.
- When private sector companies enter the market of the economy, they can significantly increase the price of a product. The consumer might or might not have the purchasing power to consume that product. The demand for that particular product then significantly decreases. And if this case continues, the economy goes in a state of inflation.

Indian Insurance Market

Indian Insurance in the Global Scenario

I.1 In life insurance business, India is ranked tenth in the world. India's share in global life insurance market was 2.73 per cent during 2019. Compared to the previous year, the life insurance premium in India increased by 9.63 per cent whereas the global life insurance premium increased by 1.18 per cent.

I.2 In non-life insurance business, India is ranked 15 in the world. India's share in global non-life insurance market was 0.79 per cent during 2019. Compared to the previous year, the non-life insurance premium in India increased by 7.98 per cent whereas global non-life insurance premium increased by 3.35 per cent.

I.3 Globally, the share of life insurance business in total premium was 46.34 per cent and the share of non-life insurance premium was 53.66 per cent during 2019. However, the share of life insurance business for India was high at 74.94 per cent while the share of non-life insurance business was at 25.06 percent.

Insurance Penetration and Density

II.1 Insurance penetration and density are two metrics, among others, often used to assess the level of development of the insurance sector in a country. While insurance penetration is measured as the percentage of insurance premiums to GDP, insurance density is calculated as the ratio of premiums to population (per capita premium).

II.2 Insurance penetration which was 2.71 percent in 2001 has steadily increased to 3.76 percent in 2019 (Life 2.82 percent and Non-Life 0.94 percent). Insurance penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year were 4.72, 4.99 and 4.30 percent respectively. The insurance density in India which was USD 11.5 in 2001, reached to USD 78 in 2019 (Life- USD 58 and Non-Life - USD 20). The comparative figures for Malaysia, Thailand and China during the same period were USD 536, USD 389 and USD 430 respectively. Globally insurance penetration and density were 3.35 percent and USD 379 for the life segment and 3.88 percent and USD 439 for the non-life segment respectively in 2019.

Insurance Premium

III.1 During the fiscal 2019-20, the gross direct premium of Non-Life insurers was ₹1,88,916 crores as against ₹1,69,448 crores, in the previous financial year 2018-19 registering a growth of 11.49 percent. Motor and health segments primarily helped the industry to report this growth. During the fiscal 2019-20, Life insurance industry recorded a premium income of ₹5,72,910 as against ₹5,08,132 crores in the previous financial year, registering a growth of 12.75 percent. While renewal premium accounted for 54.75 percent of the total premium received by the life insurers, new business contributed the remaining 45.25 percent.