CHAPTER-III

REGULATION OF INSURANCE BUSINESS IN INDIA

The life insurance business in India was done by the Life Insurance Corporation of India as a statutory corporation and as a monopoly in life insurance business till 1991. After the new economic policy the life insurance business in India was liberlized so much so that even foreign companies can do life insurance business in India but subject to Government governance. As a result the LIC of India has become one of the companies doing life insurance business in India. An attempt has been made in this chapter to summarize to a possible extent the regulation of insurance business by the Government of India. The regulation of insurance business in India is being summarized under the following heads.

3.1 Insurance Sector Reforms
3.2 Insurance Regulatory and Development Authority Act, 1999
3.3 Insurance Regulatory and Development Authority
3.4 The Insurance Act 1938 as amended in 2002
3.5 The competition Act
3.6 Valuation of Life policies

3.1 INSURANCE SECTOR REFORMS

In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted its report and some of the key recommendations are as follows

I) STRUCTURE

Government stake in the insurance companies to be brought down to 50 percentage. Government should take over the holdings of General Insurance Corporation (GIC) and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate.

II) COMPETITION

Private companies with a minimum paid up capital of Rs. 100 crores should be allowed to enter the sector. No company should deal in both life and general insurance through a single entity. Foreign companies may be allowed to enter the industry to enter the industry in collaboration with the domestic companies. Postal life insurance should be allowed to operate in the rural market. Only one state level life insurance company should be allowed to operate in each state.

III) REGULATORY BODY

The insurance act should be changed. An insurance regulatory body should be set up. Controller of insurance – a part of the finance ministry – should be made independent.

IV) INVESTMENTS

Mandatory Investments of LIC life fund in government securities to be reduced from 75 percentage to 50 percentage. General Insurance Corporation (GIC) and its subsidiaries are not to hold more than 5 percentage in any company (there current holdings to be brought down to this level over a period of time).

V) CUSTOMER SERVICE

LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology to be carried out in the insurance industry.

The committee emphasised that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But a the same time, the committee felt the need to exercise caution as any failure on the part of new player could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs. 100 crores.

The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body. The Insurance Regulatory and Development Authority.

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products.

3.2 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA) ACT 1999

To provide for the establishment of an authority to protect an interest of holders insurance policies, to regulate, promote and ensure orderly growth of insurance industry and for matters corrected therewith the IRDA Act 1999 was passed. The Act was intended to create an authority called the insurance regulatory and development authority. The authority considered of a body of individuals appointed by the central Government from person ability, integrity and stability we have knowledge or experience in life insurance, general insurance, Actuation science, finance, economy, law, agricultural any other discipline which option of central government useful could the authority.