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ROLE OF IRDA IN REGULATION OF LIFE INSURANCE IN INDIA –A STUDY

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Abstract
The insurance industry including life and non-life Insurance have drastically grown during post reforms era and the main credit goes to the efforts of Insurance Regulatory Development Authority of India. Right from inception of IRDA, the private sector companies have emerged in Indian insurance market and the significant development have been achieved in both life and non-life insurance sector. The total policy holders have grown more than 10 times in the last 17 years and the domination of LIC have been decreased and the private sector companies have been increasing and this is a positive sign for the development of the insurance industry. The study is basically an attempt to thoroughly review the role and functions of IRDA with special focus on its various initiatives taken for the betterment of life insurance sector and the study further makes an attempt to analyze the performance of life insurance sector in India in the global market in general and in particular to the sector development in India. The study is based on secondary data sources collected from the various reports of IRDA and the reports of select life insurance companies.

Key words: Lapsation, Insurance Penetration, Premium, Policy Holder.

Introduction

Insurance Regulatory and Development Authority is the statutory, independent and apex body that governs and supervise the Insurance Industry in India. It was established by Parliament of India Act called Insurance Regulatory and Development Authority of India (IRDA of India) after the formal declaration of Insurance Laws (Amendment) Ordinance 2014, by the President of India, Mr. Pranab Mukherjee on December 26, 2014. IRDA Act was passed upon the recommendations of Malhotra Committee report (7 Jan, 1994), headed by Mr. R.N. Malhotra (Retired Governor, RBI). The recommendations of IRDA are entrance of Private Sector Companies and Foreign promoters and an independent regulatory authority for Insurance Sector in India. As per the section 4 of IRDAI Act' 1999, Insurance Regulatory and Development Authority of India (IRDAI), which was constituted by an act of parliament) specify the composition of Authority. In April, 2000 it was set up as statutory body, with its headquarters at New Delhi. The headquarters of the agency were shifted to Hyderabad, Telangana in 2001. IRDA has been striving to promote the interest and rights of policy holders. Further, to promote and ensure the growth of Insurance Industry, to ensure speedy settlement of genuine claims and to prevent frauds and malpractices and also to bring transparency and orderly conduct of in financial markets dealing with insurance.

Section 14 of IRDA Act, 1999 lays down the duties and functions of IRDA. These include:

1. It issues the registration certificates to insurance companies and regulates them.
2. It protects the interest of policy holders.
3. It provides license to insurance intermediaries such as agents and brokers after specifying the required qualifications and set norms/code of conduct for them.
4. It promotes and regulates the professional organisations related with insurance business to promote efficiency in insurance sector.
5. It regulates and supervises the premium rates and terms of insurance covers.
6. It specifies the conditions and manners, according to which the insurance companies and other intermediaries have to make their financial reports.
7. It regulates the investment of policyholder's funds by insurance companies.
8. It also ensures the maintenance of solvency margin (company's ability to pay out claims) by insurance companies.

2. Objectives of the Study

The following are the objectives of the study:

1. To review the role of IRDA in protecting the policy holders.
2. To analyze on regulations on lapsed policies.
3. To study Insurance sector development in India during the post reforms era.
4. To analyze insurance penetration and density in India.
5. To the market share of life and non-life insurers.

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3. Methodology

The study has been carried out based on secondary data. The source of secondary data mainly hand book and annual reports of IRDAI and various financial news papers and journals etc. The study has been carried out for two financial years i.e., 2014-15 and 2015-16.

4. Role of Irda In Protecting Policy Holders

The basic framework for protection of policyholder's interests is contained in the IRDA (Protection of policyholder's Interests) Regulations 2002. Since then, the insurance industry has witnessed numerous changes such as introduction of new type of products like micro insurance products, ULIP products, Health Insurance etc, new categories of distribution channels like Corporate Agents, Insurance Brokers, web-aggregators and Insurance Marketing Firms (IMF) have been permitted to carryout insurance distribution activities. It is observed that with increase in competition, the need to bring in more transparency in insurance sales process, strict enforcement of code of conduct by agents and intermediaries, has arisen. The FSLRC recommendations relating to consumer protection also call for regulations to provide for greater consumer protection at all stages of financial transactions. Based on the recommendations of the committee, Draft IRDAI (Protection of Policyholder's Interests). Regulations 2014 were placed in the public domain for comments. Considering the comments and suggestions received, IRDAI (Protection of Policyholders' Interests) Regulations would be issued in due course. They shall supersede the existing policyholders' protection framework. The endeavor is to ensure protection of interests of policyholders without any deviation and setting minimum bench marks in servicing of insurance policies.

Spurious calls in the name of officials of IRDAI and other financial institutions is a matter of concern for the Insurance Industry. IRDAI has issued several public notices, press releases, advertisements in leading TV Channels, newspapers, and directions to Insurance Companies to caution public against spurious calls etc at various touch points and in media as well.

IRDAI has advertised regarding spurious calls made in the name of officials of the IRDAI and other financial institutions through various media given the grave concerns regarding this in the insurance industry. In 2015 the survey also dealt with this and the findings show that more than three-fourths of the insured households have never seen any of IRDAI's advertisements on this through the print media, television, radio, comic strips, website, metro rail or other media. Awareness about these advertisements is lower in the rural households as compared to their urban counterparts. The most popular channel among those who have seen IRDAI's advertisement is television followed by print media. Awareness levels about IRDAI's advertisements are lower among the uninsured than the insured households. With respect to IRDAI's publications, the study reveals that less than one-tenth of the households have ever seen or read any publication or handbook launched by IRDAI.

5. Bringing Awareness On Insurance

The consumer education initiatives of IRDAI are aimed at ensuring that the consumer identifies personal needs, and understands the insurance products and the risks involved therewith so that one can take an informed decision while purchasing an insurance product. Insurance awareness campaigns by IRDAI are carried out through all possible channels. The findings reflect that there is no rural-urban difference in the share of households reporting on information received through publicity by insurers. Overall, a higher proportion of insured households have reported about information from television, newspapers and publicity by the insurers.

6. Insurance Awareness Campaigns

IRDAI's Insurance Awareness Campaign Since 2009-10, the Authority has taken various Consumer Education Initiatives (CEIs) through print, electronic and other media channels with the objective of empowering consumers by educating them about various insurance-related concepts, processes, procedures and mechanisms. Prominent among these channels are print advertisements, spots on TV and radio, comic book series, posters, handbooks for policy-holders, animation films, virtual tours, an Insurance Education Campaign at the Delhi Metro, an online Internet campaign, videos on YouTube, and the launch of an exclusive consumer education website, viz. www.policyholder.gov.in (in bilingual versions).

7. New Initiatives Towards Policyholders Protection

As part of improving transparency, IRDA has made it compulsory that all insurance products provide the prospective policyholder a customised benefit illustration on guaranteed and non-guaranteed benefits at gross investment returns of 4% and 8% respectively. This move will ensure that the policyholder will get an idea of the returns every year as well as at the time of policy maturity. To improve the efficiency of the life insurance products sold in the market, IRDA had directed that the minimum sum insured for all policies will now be 10 times of the annual premium for people below 45 years and above 7 times for 45 years and above. At any point the death benefit will have to be at least 105% of all premiums paid till date. This guideline would go a long way in ensuring that the policyholder benefits out of his policy.

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As a step to protect the larger interests of the policyholder, IRDA has now specified the surrender value that is to be paid to the policyholder especially after the completion of 5 years. Till now there were no pre-set rules. Under the new regulations, the minimum guaranteed surrender value will be 30% of all premiums paid going up to 90% of the premiums paid in the last two policy years. This further ensures the liquidity of policy held. As an incentive to sell long term policies, these guidelines have linked intermediary commission to the term of the plan sold. Short-term policies will have a lower commission than traditional products with a policy term of 12 years or more. In case of regular premium insurance policies, a policy with a premium paying term of five years will limit commissions to 15% in the first year, 7.5% in the second and third year and 5% in the subsequent years. Products with premium paying term of 12 years or more will have first year commissions up to a 35% in case the company has completed 10 years of existence and an unbelievable 40% for the company in business for less than 10 years.

8. Regulations on Treatment of Lapsed Policies

In exercise of the powers conferred in clause (ZF) of sub-section 114A of the Insurance Act, 1938 and Section 14& 26 of the IRDA Act, 1999, the authority in consultation with the Insurance Advisory Committed made the following regulations on the treatment of lapsed policies in life insurance companies. The regulations come into force on the date of the publication in the Office Gazette and shall apply to all life insurers, insurance agents' insurance intermediaries and policy holders. The IRDA redefined some of the regulations with reference to Lapse of insurance policy.

According to Section 2(1), the grace period is defined as the additional period of time given/allowed by the insurer from the date of premium falling due to insured to make payment of premium without any interest or penalty. The risk will be covered without interruption in case payment is effected by the insured during the grace period. Section 2(1) d defined Lapsation as the discontinuation of premium payment by the policyholder during the period of operation of the policy, due to any reason other than the death of the policyholder. If policy has lapsed due to non-payment of premiums, the terms and conditions of the policy a contract are rendered void, till the policy is revived.

9. Other Measures

1. Date of payment in all cases shall be the date on which payment in cash is received by the insurance company or the date on which the cheque or postal order is posted to the insurer as set out in Section 64 VB (2) of the Insurance Act, 1938 provided the cheque is honored by the bank.
2. A lapsed policy has to be revived by payment of the accumulated premiums with interest as well as the cost of medical tests etc. as under the terms of the policy.
3. The surrender value of the policy is the amount remaining in the fund account less applicable surrender charges which is refundable to the policyholder. However, the surrender charges shall not exceed the charges provided in regulation 6.a.
4. The maximum permissible charges as defined in regulation *6.a* below. Surrender charges as applicable on lapsation date and on the fund value as on date of lapsation to be recovered at the time of pay out to the policyholder.
5. The Grace period for payment of the premium will be as under for all types of linked products where the premium payment mode selected is monthly are 15days and in all other cases, it is 30days.
6. In case no option is exercised within 30 days, the option at regulation 4 (c) above, i.e, to continue in the Fund with risk cover will be deemed to have been exercised and the risk charges and fund management charge will be recovered.
7. After due consideration of various practices, the Authority orders that the surrender charges (as percentage of fund value) shall not exceed the limits specified below:-

Table -1, Surrender charges specified by IRDA (in per cent)

Sl.No.	Period in years	Surrender charges specified by IRDA	
		Less than (%)	More than (%)
1	1	12.50	15.00
2	2	10.00	12.50
3	3	7.50	10.00
4	4	5.00	7.50
5	5	2.50	5.00
6	6	Nil	2.50
7	7	Nil	Nil

Source*:* IRDA special report on amendments for lapsed policies

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10. Insurance Sector Development In India During Post Reforms Era

The following table depicts the development of Global Insurance sector

Table – 2,Global Insurance Sector (in per cent)

Sl.No.	Regions/Countries	Life (%)	Non-Life (%)	Total (%)
1	Advanced Countries	2.50	2.60	2.50
2	Emerging markets	12.00	7.80	9.80
3	Asia	7.80	9.20	8.20
4	India	7.80	8.10	7.90
5	World	4.00	3.60	3.80

Source: IRDAI

As per the report, the real global direct life and non-life insurance premiums written grew by 3.8% in 2015, up from 3.5% in previous year. However in nominal US dollar terms, premiums were down by 4.2% due to wide-spread currency depreciation against USD. In real terms, the global life premium growth slowed to 4% from a 4.3% gain in 2014. In advanced markets life premiums grew 2.5%, down from 3.8% growth the previous year. In the emerging markets, overall life premium growth doubled to near 12%. Global non-life premium growth improved to 3.6% in 2015 from 2.4% the previous year. The advanced markets non-life premiums grew 2.6% up from 1.1% growth the previous year. The Emerging markets continued their robust premium growth trend (7.8%) in 2015 though showed lower growth (8.6%) than 2014.

Table – 3,Region wise Life and Non-life Insurance Premium(In USD)

S.No	Region	Life (%)	Non-Life (%)	Total (%)
1.	Advanced economies	2089.77 (56.41)	1614.30 (43.59)	3704.07 (100.00)
2.	Emerging markets	444.05 (52.26)	405.67 (47.74)	849.72 (100.00)
3.	Asia	904.57 (66.96)	446.41 (33.04)	1350.97 (100.00)
4.	India	56.68 (78.96)	15.10 (21.04)	71.78 (100.0)
5.	World	2533.82 (55.64)	2019.97 (44.36)	4553.79 (100.00)

Source: IRDA

In life insurance, moderate premium growth in many markets and the prolonged low interest rates dragged on profits. In non-life both the underwriting and investment results were weaker than those of year 2014. The underwriting results were impacted by lower reserve releases and investment results were hit by low interest rates. However, the insurance industry overall remains well capitalized. As per the report, the life premium growth is expected to accelerate slightly in the advanced economics in 2016. In the emerging markets the life sector is forecast to decelerate. The out-look for the non-life industry in advanced markets is more muted than for life, given expectations of moderate economic recovery and pricing weakness. The outlook for non-life in emerging markets is mixed.

11. Analysis on insurance penetration and density in India

The insurance penetration is one of the indicators which would demonstrate the growth of the sector. An attempt is made to analyze the penetration and density in India by analyzing the reports issued by IRDA since its inception. Results are presented below.

Table – 4, Insurance Penetration in India(In per cent)

Sl.No.	Year	Life	Growth	Non-Life	Growth	Industry	Growth
1	2001	9.10	2.15	2.40	0.56	11.50	2.71
2	2002	11.70	2.59	3.00	0.67	14.70	3.26
3	2003	12.90	2.26	3.50	0.62	16.40	2.88
4	2004	15.70	2.53	4.00	0.64	19.70	3.17
5	2005	18.30	2.53	4.40	0.61	22.70	3.14

6	2006	33.20	4.10	5.20	0.60	38.40	4.80
7	2007	40.40	4.00	6.20	0.60	46.60	4.70
8	2008	41.20	4.00	6.20	0.60	47.40	4.60
9	2009	47.70	4.60	6.70	0.60	54.30	5.20
10	2010	55.70	4.40	8.70	0.71	64.40	5.10
11	2011	49.00	3.40	10.00	0.70	59.00	4.10
12	2012	42.70	3.17	10.50	0.78	53.20	3.96
13	2013	41.00	3.10	11.00	0.80	52.00	3.90
14	2014	44.00	2.60	11.00	0.80	52.00	3.40
15	2015	43.20	2.72	11.50	0.72	54.70	3.44

Source: IRDA

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 2.71 per cent in 2001 to 5.20 per cent in 2009. Since then, the level of penetration was declining. However, there was slight increase in 2015 reaching 3.44 percent compared to 3.3 percent in 2014. A similar trend in the level of insurance density which reached the maximum of USD 64.4 in the year 2010 from the level of USD 11.5 in 2001. During the year under review 2015, the insurance density was USD 54.7.

Table – 5,Number of Registered Insurers in India as on 31.3.2016

Sl.No.	Type of Insurers	Public Sector	Private Sector	Total
1.	Life	1	23	24
2.	General	6	18	24
3.	Health	0	5	5
4.	Reinsurance	1	0	1
	Total	8	46	54

Source:IRDAI

It is observed that, at the end of March 2016, there are 54 insurers operating in India of which 24 are life insurers, 24 are general insurers and 5 are health insurers exclusively doing health insurance business. In addition, GIC is the sole national reinsurer. Of the 54 insurers presently in operation, eight are in the public sector and the remaining forty six are in the private sector. Two specialized insurers, namely ECGC and AIC, one life insurer namely LIC of India (LIC), four in general insurance and one in reinsurance namely GIC are in public sector. 23 life insurers, 18 general insurers and 5 standalone health insurers are in private sector.

12. Market Share of Life and Non-Life Insurers

The analysis of market share of the insurers will provide the insights about the growth and the domination of various sectors in the Insurance market in India. Further, the market share symbolizes its development and growth and the level of satisfaction that achieves in the Indian market.

Table – 6, Market share of Life and Non-Life Insurance, Sector in India

Sl.No.	Insurer	2014-15	2015-16
1.	LIC	69.27	70.50
2.	Private Sector	30.73	29.50
	Total	100.00	100.00

Source:IRDAI

The market share of private insurers in first year premium was 29.50 per cent in 2015-16 (30.73 per cent in 2014-15). The same for LIC was 70.50 per cent (69.27 per cent in 2014-15). Similarly, in renewal premium, LIC continued to have a higher share at 73.90 per cent (75.04 per cent in 2014-15) when compared to 26.10 per cent (24.96 per cent in 2014-15) share of private insurers.

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Conclusion

Based on the findings of the research study, the following conclusions are made for the betterment of the performance of select life insurance companies to protect the interest of policyholders.

IRDA has a significant role to play in the development of life insurance companies. The study revealed significant improvement of Insurance business in the global arena and as well as in Indian context. The private sector companies have rapidly developed through the supportive role of IRDA. Being regulatory authority, the IRDA has been encouraging the companies to grow its business and at the same time, it has been concentrating on significant changes and the challenges that have been faced by the industry. The study on pre liberalization and post liberalization with reference to the life insurance sector is clearly suggesting that there is a significant growth in terms of life insurance companies and their operations in Indian market. Hence, the IRDA and as well as companies must ensure that they must give priority to their ultimate customers, i.e., policyholders, right from the product design and releasing the market to till the policyholders receives the ultimate benefit either in the form of maturity or death claims. The sources for awareness about the policies have clearly shown that majority of the policy holders are depending on insurance agents; hence there is a huge responsibility ahead for the marketing intermediaries. Hence, the companies must develop the skills and actively adopt the training campaigns whenever new products are released in the market and must conduct campaigns for the effective feedback. As the survey clearly revealed the policy holders aware about the lapsation arising due to wrong choice of policyholders, hence the select companies must clearly specify the fund features and limitations to the prospects and the companies should not focus on one specific product or plan for selling of policies. The IRDA need to further expand its operations to bring awareness about which type of plan suits to the prospective policy takers of various companies and must give a confidence to the companies to offer more suitable plans and policies that suits to the requirements of potential policy holders in years to come.

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