Insurance Sector in India

Insurance industry in India has seen a major growth in the last decade along with an introduction of a huge number of advanced products. This has led to a tough competition with a positive and healthy outcome.

Insurance sector in India plays a dynamic role in the wellbeing of its economy. It substantially increases the opportunities for savings amongst the individuals, safeguards their future and helps the insurance sector form a massive pool of funds.

With the help of these funds, the insurance sector highly contributes to the capital markets, thereby increasing large infrastructure developments in India.

The Indian Insurance Sector

The Indian Insurance Sector is basically divided into two categories – Life Insurance and Non-life Insurance. The Non-life Insurance sector is also termed as General Insurance. Both the Life Insurance and the Non-life Insurance is governed by the IRDAI (Insurance Regulatory and Development Authority of India).

The of IRDA is to thoroughly monitor the entire insurance sector in India and also act like a custodian of all the insurance consumer rights. This is the reason all the insurers have to abide by the rules and regulations of the IRDAI.

The Insurance sector in India consists of total 57 insurance companies. Out of which 24 companies are the life insurance providers and the remaining 33 are non-life insurers. Out which there are seven public sector companies.

Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies offer coverage with our day-to-day living like travel, health, our car and bikes, and home insurance. Not only this, but the non-life insurance companies provide coverage for our industrial equipment’s as well. Crop insurance for our farmers, gadget insurance for mobiles, pet insurance etc. are some more insurance products being made available by the general insurance companies in India.

The life insurance companies have gained an investment prospectus in the recent times with an idea of providing insurance along with a growth of your savings. But, the general insurance companies remain reluctant to offer pure risk cover to the individuals.

Primary functions of insurance

- **Providing protection** – The elementary purpose of insurance is to allow security against future risk, accidents and uncertainty. Insurance cannot arrest the risk from taking place, but can for sure allow for the losses arising with the risk. Insurance is in reality a protective cover against economic loss, by apportioning the risk with others.

- **Collective risk bearing** – Insurance is an instrument to share the financial loss. It is a medium through which few losses are divided among larger number of people. All the insured add the premiums towards a fund and out of which the persons facing a specific risk is paid.

- **Evaluating risk** – Insurance fixes the likely volume of risk by assessing diverse factors that give rise to risk. Risk is the basis for ascertaining the premium rate as well.

- **Provide Certainty** – Insurance is a device, which assists in changing uncertainty to certainty.

Secondary functions of insurance

- **Preventing losses** – Insurance warns individuals and businessmen to embrace appropriate device to prevent unfortunate aftermaths of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc.

- **Covering larger risks with small capital** – Insurance assuages the businessmen from security investments. This is done by paying small amount of premium against larger risks and dubiety.

- **Helps in the development of larger industries** – Insurance provides an opportunity to develop to those larger industries which have more risks in their setting up.

Other functions of insurance

- **Is a savings and investment tool** – Insurance is the best savings and investment option, restricting unnecessary expenses by the insured. Also to take the benefit of income tax exemptions, people take up insurance as a good investment option.
- **Medium of earning foreign exchange** – Being an international business, any country can earn foreign exchange by way of issue of marine insurance policies and a different other ways.
- **Risk Free trade** – Insurance boosts exports insurance, making foreign trade risk free with the help of different types of policies under marine insurance cover.
- **Insurance provides indemnity, or reimbursement**, in the event of an unanticipated loss or disaster. There are different types of insurance policies under the sun cover almost anything that one might think of. There are loads of companies who are providing such customized insurance policies.

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

IRDA is the regulatory body in India that governs both Life insurance and General insurance companies. India is a vast country that offers great opportunities to varied segments one of which is the insurance sector.

Let us understand the concept of insurance regulator in a simple way. India witnesses the concept of a joint family where the head, most commonly the grandparents, acts as the guardian of each member. The head takes care of everyone's needs and maintains a balance for fair practices to keep the family united. He treats everyone equal and helps the family in crisis guiding them on how to steer out of it. Now, Similar to how the head of the family plays, IRDA runs the Indian insurance industry as per its set rules and guidelines.

How does IRDA work?

Consider that to run any professional set-up or otherwise, it is very important to maintain decorum. And so, the one who breaks the rule and disturbs the peace needs to be checked immediately. Similar to this, IRDA works and acts as mentioned below in different situations.

IRDA is an autonomous body with the only mission to regulate fair practices in the insurance market to prevent loss of customers. The industry is now expected to reach

US$280 billion by the year 2020. It poses that there is a long way to go and hence there arises a dire need for IRDA actions. To keep up the growth, here is how IRDA works:

- To protect the interest of policyholders at the time of claims, issuance of the policy, and cancellation of the policy is the ultimate motive. Hence, it monitors that no insurance company can deny the claim on their free will unless it falls beyond the scope of the cover.
- There is a need to tame the market to a single tune which brings the players together and then compete with each other simply based on the discounts. And so, IRDA clearly states the code of conduct for all insurance companies, surveyors, and loss assessors.
- To prevent any misdeed, it calls for both annual or need-based audit, conduct investigation, call for information from either the insurance companies or intermediaries.
- Regulate the rates and terms offered by the insurance companies to bring equality for the customers.
- If there arises any dispute between the insurer and the policyholder, then IRDA will step in to provide a resolution.
- To prevent different insurers quote rates as per their convenience, they bound the major risks to the Tariff Advisory Committee. After this, the insurers keep in mind the percentage of premium income they would need to fund the professional organizations.
- Keeping in mind the development of both the urban and the rural sector, IRDA bounds the insurers with a minimum percentage to carry both life and non -life business.

The scope of work is wide and IRDA as a body works abiding its limit without favoring any single insurance companies.

Role of IRDA in the Insurance Sector in India

At one point of time, some insurance companies used to deny coverage to their policyholders. The basis of the denial was either their choice of business to underwrite or was their understanding of good risk and bad risk. To regulate the market and minimize any sort of partial acts, the IRDA was established.

Like the banking system in India is regulated as per the guidelines of RBI. It restricts the bankers to not behave unruly with the account holders. The banking institutes are allowed to offer loans and interest as per the rates pre-defined by RBI. It leaves no room for the monopoly to take over which in turn works best for the masses. Financial Institutes like banks and insurance companies will be successful in our democracy until market practices are for the majority and not just for fraction of people.

IRDA on the same lines of industrial practice plays a vital role like

- Ensures and encourages the systematic growth of the insurance industry just to benefit the common people who invest in policies to look for safety.
- Protects the interest of the policyholders so that they trust the system.
- Promote high standards of integrity and fair dealings in the market.
- Resolve disputes of all kinds and speed up claim settlement.
- Set standards and conduct vigilance to check for scams or frauds.

The Indian economy is growing which further promotes the entrance of new insurance players in the market. To keep the pace of growth even-handed, IRDA needs to maintain standards of quality. It will further contribute to strengthening the financial capacity of a country as a whole.

Powers of IRDA

The following are the powers of IRDA

1. All insurance companies have to register with IRDA compulsorily.

2. Companies can undertake only insurance business.

3. The capital structure of the companies will be determined by IRDA.

4. Companies have to deposit with RBI the amount stipulated by IRDA.

5. Accounts and balance sheets of companies have to be submitted to IRDA.

6. Insurance companies have to appoint actuaries and they will value the liabilities of the insurance companies and report the same to IRDA.

7. Investment of assets will be prescribed by IRDA in the form of approved securities.

8. The nature of general insurance business will be prescribed by IRDA.

9. Statements of investment assets to be submitted to IRDA every financial year.

10. All insurance companies have to devote certain percentage of their business including insurance for crops. This should cover unorganized sector including the economically weaker sections.

11. The appointment of chief executive officer requires prior permission of the IRDA.

12. All insurance agents must obtain license from IRDA.

13. IRDA has powers for levying penalty on companies which fail to comply with the rules and regulations.

Composition of IRDA

One chairperson and not more than 9 members of whom not more than 5 would be full time members and they are appointed by the government. Those who have experience in life and general insurance, actuarial service, finance, economics etc., are appointed.

Duties of IRDA

1. Regulates insurance companies

The working of insurance companies will be regulated in the following aspects

- the persons to be employed,
- the nature of business,
- covering of risks,
- terms and agreements for covering risks etc., will be prescribed by IRDA.

2. Promotes insurance companies

Corporate set-up is a must for establishing an insurance company and they have to submit periodical reports to IRDA. Different kinds of policies and different types of insurance are also suggested by IRDA to these insurance companies.

3. Ensures growth of insurance and reinsurance companies

Here, the promotion of new companies is encouraged. Even banks are also permitted to promote insurance companies as a subsidiary.

Functions of IRDA

1. Issuing certificate of registration.

2. protecting the interest of policy holders.

3. issuing license to agents.

4. Specifying code of conduct for surveyors and loss assessors.

5. Promoting efficiency in the insurance business.

6. Undertaking inspection, conducting enquiries etc., on insurance companies.

7. Control and regulations of rates, terms and conditions by insurance company to policy holders.

8. Adjudication of disputes between insurance company and others in the insurance business.

9. Fixing the percentage of insurance business to rural and social sectors.

The important principle of insurance are as follows:

1. Nature of contract:

Nature of contract is a fundamental principle of insurance contract. An insurance contract comes into existence when one party makes an offer or proposal of a contract and the other party accepts the proposal.

A contract should be simple to be a valid contract. The person entering into a contract should enter with his free consent.

2. Principal of utmost good faith:

Under this insurance contract both the parties should have faith over each other. As a client it is the duty of the insured to disclose all the facts to the insurance company. Any fraud or misrepresentation of facts can result into cancellation of the contract.

3. Principle of Insurable interest:

Under this principle of insurance, the insured must have interest in the subject matter of the insurance. Absence of insurance makes the contract null and void. If there is no insurable interest, an insurance company will not issue a policy.

An insurable interest must exist at the time of the purchase of the insurance. For example, a creditor has an insurable interest in the life of a debtor, A person is considered to have an unlimited interest in the life of their spouse etc.

4. Principle of indemnity:

Indemnity means security or compensation against loss or damage. The principle of indemnity is such principle of insurance stating that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss.

In type of insurance the insured would be compensation with the amount equivalent to the actual loss and not the amount exceeding the loss.

This is a regulatory principal. This principle is observed more strictly in property insurance than in life insurance.

The purpose of this principle is to set back the insured to the same financial position that existed before the loss or damage occurred.

5. Principal of subrogation:

The principle of subrogation enables the insured to claim the amount from the third party responsible for the loss. It allows the insurer to pursue legal methods to recover the amount of loss, For example, if you get injured in a road accident, due to reckless driving of a third party, the insurance company will compensate your loss and will also sue the third party to recover the money paid as claim.

6. Double insurance:

Double insurance denotes insurance of same subject matter with two different companies or with the same company under two different policies. Insurance is possible in case of indemnity contract like fire, marine and property insurance.

Double insurance policy is adopted where the financial position of the insurer is doubtful. The insured cannot recover more than the actual loss and cannot claim the whole amount from both the insurers.

7. Principle of proximate cause:

Proximate cause literally means the ‘nearest cause’ or ‘direct cause’. This principle is applicable when the loss is the result of two or more causes. The proximate cause means; the most dominant and most effective cause of loss is considered. This principle is applicable when there are series of causes of damage or loss.