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LEGISLATIVE ROLE OF IRDA IN PROMOTING AND REGULATING AN ORDERLY GROWTH OF LIFE INSURANCE BUSINESS IN INDIA

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ABSTRACT

The present study is mainly aimed to evaluate the overall growth of life insurance industry in India after the enactment of IRDA. The basis of this evaluation is based on the growth of number of life insurance companies, growth in collection of life insurance premium, growth in penetration of life insurance business, growth in number of life insurance policy holders, growth in number of life insurance offices, growth in capital infusion in life insurance industry and so on. The study is based upon secondary data collected from various sources for last 15 years i.e. from 2000-2001 to 2014-2015.

KEYWORDS

IRDA, life insurance, orderly, regulatory.

INTRODUCTION

The concept of insurance was originated and developed on the principle of reciprocity, mutual help, probability and co-operation. This is the true nature of insurance. Insurance is neither gambling nor a charity but a well knitted and well-conceived device of mutual co-operation. Insurance cannot prevent the occurrence of losses and risk related to family, society, business and industry; but the loss and risk of one person is shared by a group of persons estimated in advance on the principle of probability and premium is distributed over a number of years to cover the loss and risk. Thus, insurance provides a canopy of protection to the families and businesses of the society. Insurance is promoting and strengthening the feelings of trust, confidence, friendship, mutual help and co-operation among the general public, entrepreneurs and entrepreneurs on the one hand and is collecting huge funds for socio-economic development on the other hand. In fact, insurance sector is shaping the future development, progress and growth of Indian economy.

Life insurance sector was on the path of continuous growth since the establishment of Life Insurance Corporation of India, a public sector behemoth on 1st of September 1956; but in the year of 1991 with the introduction of new industrial policy it was almost clear that within a very near future India is going to be powerful financial hub. In Indian financial sector the life insurance industry was flourishing in extremely safe pair of hands, under the leadership of Life Insurance Corporation of India, a public sector corporation.

The penetration of life insurance was very low in our country compared to the international standards which was a major cause of concern. Our government wanted to find out the reasons for low penetration so that it could take necessary steps to increase the overall growth in insurance sector by protecting the interest of the life insurance consumer and for that reason the government of India had initiated a step by forming a committee under the leadership of Sri R.N. Malhotra in the year 1993. The committee submitted its recommendations to the Government of India for consideration and on behalf of those recommendations IRDA bill was passed in December 1999, in the Indian Parliament and eventually the Insurance Regulatory Development Authority was set up on 19th April 2000. The main aims of this act were to protect the interest of policy holders, to regulate the insurance market, to promote and to ensure the orderly growth of insurance industry. Presently, this Act is known as the Insurance Regulatory and Development Authority of India Act.

After this act was passed, the private insurance players were allowed to do insurance business in India with a maximum participation of 26% foreign capital. The result of this amendment was the end of monopolistic regime of public sector insurance companies in India. It was the birth of new era in the field of insurance industry but on a much regulated platform. Now, almost one and a half decade has elapsed so it becomes necessary to evaluate the performance of the Life Insurance Industry in India under the regulated regime provided by IRDAI.

1. SCENARIO OF LEGAL HISTORY OF INSURANCE LEGISLATION IN INDIA

Insurance is a federal subject according to the provisions of constitution of free and independent India. The legal history of insurance legislation demonstrates the following features:-

1. Formation of Oriental Life Insurance Company Ltd. in 1818.
2. Indian Life Insurance Companies Act, 1912
3. The Indian Insurance Act, 1928 to collect information and datamation on life and non-life insurance business in India.
4. The Insurance Act, 1938.
5. The Insurance Rules, 1939.
6. Life Insurance Corporation Act, 1956.
7. The Insurance Regulation and Development Authority Act, 1999.

2. EMERGENCE OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA) ACT, 1999

The New Industrial Policy Resolution on July 24, 1991 opened doors for Liberalization, Privatization and Globalization (LPG). The Government liberalized the financial service sector so as to rejuvenate and accentuate the process of socio-economic development. Insurance Sector was being strengthened so as to encourage the private players in insurance business. In 1994, a high powered committee was set up by central government under the leadership of Sri R.N. Malhotra to examine the structure of insurance industry and to give new suggestions and recommendations to improve the health of insurance sectors. The committee gave suggestions to establish IRDA as a corporate body having perpetual succession, separate legal entity and a common seal like SEBI. The main recommendations were as follows:

1. Strengthening the regulatory system.
2. Setup of IRDA on the lines of SEBI.
3. Deputing of independent controller in insurance sectors.
4. The structure of insurance industry must be viable.
5. Competitive environment must be ameliorated.

6. Rate of returns on investment must be enhanced.
7. The standard of customer service must be satisfactory.
8. Application of modern technology like automation, computerization must be encouraged.
9. Initiation of unit linked pension plans.
10. IRDA Act must be enacted as a mighty lever so as to promote an orderly growth of the entire insurance industry.

The above recommendations were deeply discussed by various fora such as parliament, ministry of finance, top management of life and non life insurance corporations, leaders of trade unions, employees, organizations like Ficci and chamber of commerce, consumer associations and others. A wide support was extended by all these groups and bodies. Eventually, this act was passed by Parliament in December 1999 and received presidential assent in January 2000 as an "Insurance Regulatory and Development Authority Act 1999 and this extends the whole of India. The Insurance Regulations and Development Authority were set up under sub section (1) of section 3 of this act to look after the entire insurance industry.

3. COMPOSITION OF IRDA

The proposed authority shall be a body corporate having statutory character, perpetual succession and a common seal. The composition of Insurance Regulatory and Development Authority under section 4 of the IRDA Act, 1999, signifies authority. The authority is a 10 member team consisting of a chair person and other nine members duly appointed by Central Government. Out of these five are whole timers and four, part timers. These members are persons of eminence in various disciplines such as insurance business, actuarial science, law, accountancy, finance, economics, commerce, administration, and entrepreneurship. These members must be persons of ability, integrity, better understanding, knowledge and wide experience in the opinion of Central Government. The tenure of chairperson and members shall be for five years. The retirement age for chairperson and members shall be sixty-five years and sixty two years respectively. Any person from the office may be removed in case of insolvency, mental or physical incapability, convicted under offence of moral turpitude, acquire any other office of pecuniary interest of the office detrimental to public interest.

4. LEGISLATIVE POWERS OF THE AUTHORITY

This authority is a supreme corporate body formed to revive and regulate the orderly growth of insurance and reinsurance business in India. The authority is empowered under section 14, 26, 30, 31 and 32 of this act to exercise legislative powers. The authority has enacted nearly 50 rules and regulations so far duly approved by both the houses of parliament. Section 30 empowers the legislative authority to amend the insurance act 1938. Similarly, section 31 of this act empowers the authority to amend the LIC act 1956. Section 32 empowers the authority to amend the general insurance business (Nationalization) act, 1972, according to the schedules 1, 2, and 3 of this act. Section 25 of this act provides power for the formation of Insurance Advisory Committee (IAC) consisting of 25 members. The main object of insurance advisory committee is to advise the authority on all those matters relating to the making of its regulations under section 26 duly approved by the parliament. The whole insurance business in India is regulated by the stewardship of IRDA.

5. LEGISLATIVE ROLE OF IRDA

Today IRDA Act 1999 is a single piece of insurance legislation concerned and framed as suggested by Law Commission. All weaknesses, inadequacies and redundancies have been demolished and removed by this act in the field of insurance business. In fact, the insurance business has undergone a tremendous metamorphosis simile from April 2000 coupled with changing profiles and expectations of the insurance consumers especially in the context of opening up of the insurance business for private sector entrepreneurs. The act has also demolished the exclusive privilege and monopoly of LIC of India. Today, public and private sector insurance companies are running on the same road duly administered by IRDA. The wave of modernization and excellent integration is flourishing year after year in insurance sector. Thus, IRDA has inculcated the goals of law and spirit in the entire insurance business. In fact, IRDA is discharging its legislative role very efficiently and successfully. Its regulations are strictly followed by all the insurance players in the sector. The involvements of private sector insurers have generated an insurance revolution in the country. Today the life, non-life and re-insurance business is well governed by the rules and regulations framed by IRDA. The task of IRDA is praiseworthy and appreciating. The authority makes its own legislations termed as regulations to carry out the purpose of IRDA Act 1999. It is the pious duty and responsibility of the authority to see that its regulations are strictly adhered to and are followed in spirit by the insurance companies operating in the insurance sector. In fact, the authority is acting as a watch dog coupled with the framing of insurance legislations.

OBJECTIVES OF THE STUDY

The main objectives of this study are to figure out the overall growth pattern in life insurance sector after the setting up of an insurance regulatory authority and to see how efficiently the regulatory body is working for the development of this sector. The paper also highlights the (growth study) data study of both public and private insurance companies.

DATA ANALYSIS

In this study the secondary data is collected and this data is analyzed on the following two basis i.e.:

1. **Overall growth rate method** :- In this method the overall growth for 15 years is calculated as under :-
(CY figure – Base year figure) x100/Base year figure x Number of years.
2. **Yearly calculation of growth/de-growth method** :- In this method growth/de-growth has been calculated as under :-
(CYfigure-LY figure) x100/ LY figure

Note: base year 2001

DATA COLLECTION

Data is collected from annual reports published by IRDA for the year 2001-2015.

GROWTH PATTERN OF LIFE INSURANCE BUSINESS IN INDIA

Under mentioned tables show the data collection and growth chart for last 15 year Life Insurance business in India.

TABLE 1: REGISTERED INSURERS IN INDIA: (AS ON 31ST MARCH 2016)

Type of Business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
Non Life Insurer	6	18	24
Reinsurance Insurer	1	0	1
Health Insurer	0	5	5
Total	8	46	54

It is observed that after nationalization of life insurance industry in the year 1956 there was only one company, LIC of India which belonged to public sector and same was continue till the year 2000. After the establishment of IRDA the industry is showing phenomenal growth. Now there are 24 companies working in the field of life insurance business that means 2400 % growth in last 15 years.

TABLE 2: REGISTERED LIFE INSURANCE OFFICES IN INDIA: (DATA AS ON 31.03.2015)

Year (1)	Public Sector (2)	Private Sector (3)	Total (4)	Growth (5)
2001	2186	13	2199	NA
2002	2190	116	2306	4.86
2003	2191	254	2445	6.02
2004	2196	416	2612	6.83
2005	2197	804	3001	14.89
2006	2220	1645	3865	28.79
2007	2301	3072	5373	39.01
2008	2522	6391	8913	65.88
2009	3030	8785	11815	32.56
2010	3250	8768	12018	1.72
2011	3371	8175	11546	(-3.93)
2012	3455	7712	11167	(-3.28)
2013	3526	6759	10285	(-7.90)
2014	4839	6193	11032	7.26
2015	4877	6156	11033	0.01
Overall growth rate	8.21%	3150.26%	26.76%	

Table number 2 shows the number of registered offices working in India in life insurance business. The number of offices were 2199 in the year of 2001, the very first year of IRDA establishment. Out of these only 13 offices belong to private insurance companies. At the end of year 2008 the number of offices were 8913 with a growth rate of 65.88, the ever highest in the regime of IRDA. It starts showing negative growth very first time in the year 2011. The overall growth in private sector comes out 3150.26% in last 15 years (see column-3). The growth rate in public sector is also good and shows a positive growth rate of 8.21% (see column-2)

TABLE 3: INSURANCE PREMIUM PENETRATIONS AS % OF GDP

Year (1)	Public Sector (2)	Private Sector (3)	Total (4)	Growth (5)
2001	2.15	0.56	2.71	53.10
2002	2.59	0.67	3.26	20.29
2003	2.26	0.63	2.88	(-11.65)
2004	2.53	0.65	3.17	10.07
2005	2.56	0.61	3.14	(-0.95)
2006	4.20	0.60	4.80	52.87
2007	4.10	0.60	4.70	(-2.08)
2008	4.00	0.60	4.60	(-2.12)
2009	4.60	0.60	5.20	13.04
2010	4.40	0.71	5.11	(-1.73)
2011	3.40	0.70	4.10	(-19.77)
2012	3.17	0.78	3.96	(-3.41)
2013	3.10	0.80	3.90	(-1.51)
2014	2.6	0.70	3.30	(-15.38)
2015	2.72	0.72	3.44	(+4.24)
Overall growth rate	1.76%	1.9%	1.8%	

Table number 3 shows the measurement of insurance penetration and its growth in last 15 year. The penetration is measured ratio of premium in USD to GDP in USD. It was 2.32 % as on 31.12.2000, out of this life insurance share was 1.77%. It shows massive growth rate 53.10 % in the very first year of operation of the insurance business under IRDA regulation. Overall growth rate in last 15 year comes @ 1.8 % approximately per annum. (See column-4)

TABLE 4: INSURANCE DENSITY (Premium per capita in USD)

Year (1)	Public Sector (2)	Private Sector (3)	Total (4)	Growth (5)
2001	9.10	2.40	11.5	51.31
2002	11.70	3.00	14.7	27.82
2003	12.90	3.50	16.4	11.56
2004	15.70	4.0	19.7	20.12
2005	18.3	4.40	22.70	15.23
2006	33.20	5.20	38.40	69.16
2007	40.40	6.20	46.6	21.35
2008	41.2	6.2	47.2	1.29
2009	47.7	6.7	54.4	15.23
2010	55.7	8.7	64.4	18.38
2011	49.0	10.0	59.0	(-8.38)
2012	42.7	10.5	53.2	(-9.83)
2013	41.0	11.0	52.0	(-2.25)
2014	44	11.0	55.0	5.77
2015	43.2	11.5	54.7	(-0.54)
Overall growth rate	24.98%	25.28%	25.04%	

Table 4 shows the growth in insurance density which is measured as the ratio of premium in USD to total population. Total insurance density was 9.9 % as on 31.12.2000. Out of this life insurance share was 7.6%. In the very first year regime of IRDA it shows the growth rate of 51.31%. It was in the positive territory up to the year 2010 but after that it starts showing some negative growth. Overall in the last 15 years life insurance density growth rate pegged @ 25.04% per annum. (See column-4)

TABLE 5: PAID UP CAPITAL OF LIFE INSURANCE COMPANIES IN INDIA

Year (1)	Public Sector (2)	Private Sector (3)	Total (4)	Growth (5)
2001	5.00	539.78	544.78	NA
2002	5.00	1664.00	1669.00	206.36
2003	5.00	2229.13	2234.13	33.86
2004	5.00	3238.71	3243.71	45.16
2005	5.00	4347.81	4352.81	34.19
2006	5.00	5885.95	5890.95	35.34
2007	5.00	8119.41	8124.41	37.91
2008	5.00	12291.42	12296.42	51.35
2009	5.00	18249.77	18254.77	48.55
2010	5.00	21014.99	21019.99	15.15
2011	5.00	23656.85	23661.85	12.57
2012	100.00	24831.92	24931.92	5.37
2013	100.00	25418.72	25518.72	2.35
2014	100.00	25838.51	25938.51	1.65
2015	100.00	26144.14	26244.14	1.18
Overall growth rate	126.66%	316.23%	314.49	

Table number 5 shows the growth rate in capital infusion. The capital infusion is one the most critical factors for any business. In life insurance business, capital infusion growth rate is showing massive positive growth rate @ 314.49 % per annum in last 15 year. (See column-4)

TABLE 6: TOTAL PREMIUM COLLECTED BY LIFE INSURANCE COMPANIES

Year (1)	Public Sector (2)	Private Sector (3)	Total (4)	Growth (5)
2001	34892.02	7.13	34899.15	NA
2002	49821.91	272.54	50094.45	43.54
2003	54628.49	1109.62	55738.11	11.27
2004	63167.61	3120.32	66287.93	18.91
2005	75127.29	7727.51	82854.80	24.31
2006	90792.22	15083.54	105875.76	27.28
2007	127822.84	28253.01	156075.86	47.38
2008	149789.99	51561.42	201351.41	29.01
2009	157288.04	64503.22	221791.26	10.15
2010	186077.31	79369.94	265447.25	19.69
2011	203473.40	88133.60	291604.99	9.85
2012	202889.28	84182.83	287072.11	(-)-1.57
2013	208803.58	78398.91	287202.49	0.05
2014	236942.30	77359.36	314301.66	9.44
2015	239667.65	88433.49	328101.14	4.39
Overall growth rate	39.13%	82680.1%	56.01%	

Table number 6 shows the premium income which is the main source of income. The collection of premium is the lifeline for life insurance industry. In the last 15 years overall premium income grew @ 56.01% but if we see the growth rate of private life insurance companies it shows the huge growth rate @ 82680.1% per annum which seems beyond thought. The growth rate of Public Sector Life Insurance Company also shows positive growth rate @ 39.13 % per annum. Overall a great performance in the regime of IRDA.

(Data source- Annual Reports published by IRDA)

CONCLUSION

Studying the life insurance sector as a whole, I could see all round robust growth during the last 15 years working regime of IRDA. I feel that set up of this regulatory body was a right move of the government and I hope that more positive results are yet to come.

THE TASK AHEAD

Formerly, the head office of IRDA was in New Delhi now it has been transferred to Hyderabad. The operational area of insurance business is comprehensive consisting of life insurance, health insurance and general insurance. The main goal of insurance business is said to be human welfare and upliftment. Insurance schemes aim to benefit the individuals and their families, businessmen and the society at large. Now the authority should promote the prosumer culture in the globalizing Indian economy. The word **prosumer** is coined with the help of two words namely **production + consumer**. Prosumerism is rapidly flourishing in competitive and globalizing world. Hence authority should teach a lesson of prosumerism to all its insurance players. In future, all insurance players must introduce such life insurance products which are liked by the insurance consumers and could satisfy the basic needs of the consumers because insurance industry stands for the excellent services generated for the welfare of masses. Insurance products cannot prevent the happening of natural disasters, catastrophes and misfortunes but it can reduce the burden of insecurities. Therefore, prosumer culture is essential and inevitable to be developed in future. This prosumer culture should be in prevalence in the service sectors operating in Indian economy. This is a major task ahead to be achieved under the well knitted legislations of IRDAI.

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