

# IRDAI: AN EFFECTIVE MACHINERY TO REGULATE THE INSURANCE SECTOR

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## ABSTRACT

Social security is one of embedded values of Indian social life which is referred even in the Vedas. Joint family system is the best example of a social institution of mutual help which was part of traditional life. In today's modern society every individual is securing their interest by way of adopting various securities like future investments plans, some insurance policies etc. Today insurance sector plays a vital role in mobilizing the funds of people for the government development projects through the medium of Insurance. Insurance sector is also proved as a saving channel in today's economy. With the growth and changes in the regulatory regimes and in business dynamics of insurance industry there was a felt need to revisit the legislations to regulate the insurance industries more efficiently. The purpose of this paper is intended to analysis the role, power ,function and duties of IRDAI in regulating the insurance sector and also whether the authority or the provision of the IRDAI is efficient for the regulation of insurance in today's world. The present study is an attempt to analyses contributions of IRDAI for socio economic development in India in the era of economic reform.

**Keywords:** IRDA, Social institution, Insurance, Legislation ,IRDAI

## INTRODUCTION

**Insurance** is the way in which financial risk is covered. It is a risk management medium and is used mainly to counter the risk of contingent or unsafe loss or loss.<sup>1</sup> Insurance is the medium through which risk management take place in form of policies.<sup>2</sup> In any area of existence there are major threats today. The likelihood of loss events occurring is quite uncertain, because they may or may not occur. This means that our lives and property are not safe and there is always a risk that it will be lost. The Indian insurance industry, which was responsible for covering a broad section of the population during the pre-opening decades prior to 1999-2000, did not touch a large number of insurable people. With the reforms that have affected the Indian financial sector during its 90s, the government opened insurance in 1999 with the IRDA Act (the Insurance Regulatory and Development Authority (IRDA)) on its recommendation, which enables the customers to adopt a more informed decision in order to increase insurance cover for the larger number of citizens.

As a regulatory control agency for controlling and promoting India's insurance industry and protecting the rights of insurance policyholder, the IRDA act created the Insurance Regulatory and Development Authority (IRDA or "Authority"). The IRDA Act further modified the Act of 1938 and placed upon the IRDA the control of the Insurance Controller. IRDA is named to serve citizens of life insurance, general insurance, actuarial, political, cultural, legal and accountability skills, administrative experience etc., by the central government. A Chair, five full-time members and four part-time members comprise the Authority.<sup>3</sup>

"IRDA (Health Insurance) Regulations, 2013" the consumer friendly legislation is regarded. It is therefore imperative to consider how the regulations benefit policyholders and in their interest. While the content of these regulations might not seem new, it is important for the insurance industry to comply with these regulations. The Regulations aim to clarify, to eliminate inconsistencies, to preserve uniformity throughout the industry, to protect policy holders' interest, to encourage innovation and to make flexible.

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<sup>1</sup>Insurance law, available at <https://wikipedia.org> (last visited on 2january,2020)

<sup>2</sup> Introduction to Insurance, available at <https://www.investopedia.com> (last visited on 3,January,2020)

<sup>3</sup> Praveen Nagree Mahtani, insurance law and regulation in India. Nishith Desai Associates legal and tax counseling worldwide, Mumbai Silicon Valley.

**ESTABLISHMENT OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA**

IRA's plan was revived and adopted in Lok Sabha in 1998 as the Insurance regulatory Growth Authority resolution. Lok Sabha passed IRDA bill on 2 December 1999 and Rajya Sabha passed the bill on 7 December 1999. The Bill was approved by the President of India on 29 December 1999. Finally, on 19 April 2000 IRDA was established as an autonomous body in an absence of notice number 277 by the Government of India. On 19 April 2000, IRDAI started operations with N. As its first Chairman, Rangachary has four full-time and two part-time directors.

**Working Framework:<sup>4</sup>**

- The last motive is to safeguard the policy holders' interest in the time of claims, policy issuance and cancellation.
- It ensures that a claim cannot be refused by an insurance company, unless the claim is beyond the cover's scope.
- IRDA calls for annual or necessary audits, investigation, and information call from insurance companies or intermediaries to prevent misdeeds.
- It controls the prices and conditions of consumer equity provided by insurance providers.
- If the insurer and the policy holder arise, IRDA shall act to resolve the dispute.
- The Tariff Advisory Committee shall be required by the main risks to prohibit specific insurers from quoting at their convenience. The insurers also take into consideration the amount of the insurance profits that the specialist associations would have to pay.
- IRDA limits insurers with a fixed percentage to take on life as well as non-life industry to expand both urban and rural industries.
- Work is extensive and IRDA as a body operates without favoring any insurance company.

**Indian Regulatory and Development Authority Duties, Resources and Statutory Functions:**

In many aspects of business, the IRDA has laid down rules for life and non-life insurance companies, but in the same regard it does not. Given the value of health benefits, it is time that the regulator carved a structure to execute the health policies. IRDA would need to establish a mechanism to discourage private insurers from missing the sector by focusing on rich and middle class consumers and neglecting a large proportion of Indian citizens in the mechanism.

The Regulator can ensure, in line with its rules set for private and non-life insurance, that minimum annual targeting is set at the benefit providers in order for the rural health coverage portfolio to be a decent one at any given point, so as not to be subject to step-motherly treatment during penetration by health care business.<sup>5</sup> The IRDA will have a major role in regulating the health insurance industry and protecting policyholders' interests by minimizing unintended consequences.<sup>6</sup>

(1) The Authority has the responsibility to regulate, encourage and guarantee the orderly development of the insurance and re-insurance industry, according to the requirements of this Act and to any other legislation that is currently in force.

(2) The powers and functions of the Authority shall be included without prejudice to the generality of the provisions in paragraph (1),

- submit, amend, change, delete, postpone or cancel a certificate of registration to the applicant;
- Protect policyholder interest in policy assignment matters, policyholder nominations, insurable interest, insurance claim settlement;
- the criteria for intermediaries and agents' eligibility and code of ethics and professional training;
- specifying the surveyors 'and loss assessors' code of conduct;
- Fostering insurance company efficiency;
- Promoting and regulating insurance and re-insurance specialist associations;
- pays for the collection of fines and other payments under the Act;
- demanding records, regulators, investigations and inspections, including audits of insurers;

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<sup>4</sup>*Ibid.*

<sup>5</sup> Dr. Archana Gadekar "Right to Health: A myth or a Reality?" Journal of the Institute of Human Rights 2009 12 (2): 41-50 P.

<sup>6</sup> *Ibid.*

- check and adjust the rates, benefits and terms and conditions that insurers can offer for general insurance undertakings which are not subject to the control and control of the Tariff Advisory Committee<sup>7</sup>;
- indicating the form and method of keeping account books and reporting of accounts for insurers and other insurance intermediaries;
- oversight of insurance firm allocation in funds;
- the preservation of solvency margin;
- the compensation to provider and broker or policy agent cases;
- overseeing the Tariff Advisory Committee's functioning;
- Defining the amount of insurer premium income to fund qualified associations sponsored and controlled by them under clause (f).
- to exercise any other powers prescribed<sup>8</sup>.

### **POWERS OF IRDA**

The IRDA's responsibilities and duties are laid out in section 14 of the Indian Insurance regulatory and growth authority Act (1999):<sup>9</sup>

- Protect insurance policyholders' interest in matters concerning surrender of policy values, settlement of insurance claims, insurable interest, appointment of policyholders, etc.<sup>10</sup>
- Update, alter, revoke, delay or even terminate the applicant's registration and supply the applicant with the Registration Certificate.
- Educate the intermediaries and insurance providers of the credentials, code of ethics and professional preparation.
- Promoting the success of the insurance company.
- State the surveyors 'and risk assessors' code of ethics.
- To support and supervise the insurance-related specialist organizations. It collects fees and charges for the purposes of this Act.
- Reviews, prosecutions, evaluations and prosecutions by brokers, insurance companies, and organisations associated with an insurance company.
- The conditions and conditions offered by the insurers for the general insurance enterprise shall be controlled and regulated.
- Controlling insurance sector spending in securities.
- To monitor the solvency margin.
- Providing settlement of conflicts between insurers and insurance brokers.
- Tariff advisory committee to oversee its operation.
- To determine the insurer's premium revenue percentage for financing the professional organisations' promotion and control schemes.
- Assess the amount of "life insurance and general insurance" providers that can be taken out by local or social insurance firms.

### **EFFECT OF IRDA: VARIOUS DIMENSIONS**

#### **Effect on Regulation of Insurance Industry**

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<sup>7</sup> Section 64U of the Insurance Act, 1938 (4 of 1938).

<sup>8</sup> The Insurance Regulatory and Development Authority Act, 1999, p.7.

<sup>9</sup> Section 14, IRDA Act, 1999.

<sup>10</sup> Agrima Tripathi, *Role and Effect of IRDA in the Insurance Sector* (The Tribune, New Delhi, 2018).

- IRDA regulates the insurance sector in general to secure the interests of insurance policyholders. The insurance industry's systemic growth is also encouraged and guaranteed.<sup>11</sup>

**Effect over protection of policyholders**

IRDA seeks to give all policyholders fair treatment.<sup>12</sup> This includes the protections and specific steps to protect the policyholder's interest. The regulator has set down the basic protocol and common practices for enforcement of the selling and operation of insurance products. The Insurers, different delivery networks and all other controlled agencies are thus required to meet the responsibilities to policyholders

**Effect over Awareness about Insurance**

- IRDA takes steps to raise public awareness of the benefits of insurance. There is a dedicated IRDA customer awareness program for insurance educators.<sup>13</sup>

**Effect over Insurance Market**

- IRDA has a dramatic impact on the insurance industry by controlling the insurance sector and maintaining the continuous and steady business development.<sup>14</sup>

**Effect over Development of Insurance Product**

- Both insurance providers will get IRDA approved before any new policy is launched or until any adjustments are made to the current plan or a policy is discontinued.<sup>15</sup>
- Insurers who plan to introduce or alter a current policy or cancel a contract may give IRDA a request in the form given with the appropriate details with reasons for the adjustment.<sup>16</sup>
- If necessary, the IRDA may request further information. When no information is provided, the insurer may continue to market the policy.<sup>17</sup>
- After 60 days of non-life and 30 days of life for IRDA clearance, the insurer may introduce the new product. This could be postponed because of the lack of safety information required for the review of the drug until IRDA approval.<sup>18</sup>

**Effect on Competition between Private and Public Sector**

- As the customer demands more for new, advantaged and improved insurance products, insurers compete well, which helps the customer. The public sector has built quality goods with competitive incentives to give the private sector strong rivalry.<sup>19</sup>

**Effect over Banks and Post Offices**

- With people becoming more aware of the benefits of insurance, insurance flows from the banks and post offices have shifted to the insurance industry. The insurance industry has not just become a means to cover losses and risks, but a popular means to save taxes.<sup>20</sup>

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<sup>11</sup> Agrima Tripathi, *Role and Effect of IRDA in the Insurance Sector* (The Tribune, New Delhi, 2018)

<sup>12</sup> Agrima Tripathi, *Role and Effect of IRDA in the Insurance Sector* (The Tribune, New Delhi, 2018)

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> Agrima Tripathi, *Role and Effect of IRDA in the Insurance Sector* (The Tribune, New Delhi, 2018)

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

**Conclusion**

The insurance sector many emerging entrants have opened up fresh markets and led to the creation of workers. At different levels of society, insurance awareness is very important. The importance and consequences of Insurance should be known to individuals. To order for insurance providers to gain greater coverage and distribution of insurance across broader segments of the population, it would be more focused on cities and the higher segment of society than on rural populations. The assurance industry is regulated and the policyholders' interest is guaranteed with IRDA in place. In consultation with stakeholders, IRDAI must also make necessary changes where necessary. The IRDAI plays an significant role in regulating the insurance sector and proved as the backbone to the growth of insurance sector. The working of IRDAI considered as the backbone for the protection of the interest of the policy holder and major factor of the motivation to the growth of insurance sector. The IRDAI aim is to ensure that no company in insurance can deny the claim of policy holder without any justification reason which is responsible for the positive growth. IRDA establish various redressed cells for the purpose of ensuring that all the complaint from policy holders has been attended to accordingly. The IRDAI provide the framework that no insurance company worked beyond the norms or rules. The IRDAI monitor and supervise the insurance sector which help in creating the positive impact of insurance in the mind of people. As there are many options for customers to get the best products available for it, IRDA may be confusing about the type of product that is used, and if the policy holder cancel a policy at any time during the policy period, then insurers may have the power to cancel the Government also on the grounds of party statements, with the usefulness concept that the policy holder is helpless..