



Impact of Insurance Regulatory and Development Authority on Life Insurance Business in India

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Abstract: The Insurance Regulatory and Development Authority Act 1999 were framed for several policy changes in Insurance sector. The act was passed as per the recommendations of the RN Malhotra committee report which was established in the year of 1994. This authority is engaged and working for continuous reform in the insurance sector. The Authority is set up as an autonomous body by the Government of India with the power of controlling insurance sector in such a way so the sector could grow in an orderly way. The impact of this act can be observed by seeing the growth waive in insurance sector. Presently the act is known as Insurance Regulatory and Development Authority of India (IRDAI)

Key words: Autonomous, IRDAI, orderly, regulatory

(1) Introduction:

The IRDA Act was established as a result of recommendations given by RN Malhotra committee. The committee recommended the establishment of an independent regulatory authority for insurance sector in India to regulate and control the insurance sector in such a manner so that the insurance sector could flourish in an orderly manner. The authority which came into existence with effect from 1st April 2000 is called Insurance Regulatory and Development Authority. This IRDA later on in November 2015 renamed as Insurance Regulatory Development Authority of India (IRDAI). The main aim to set up this regulatory authority was to protect the interest of the policy holders.

The act opened the door for private insurance players with maximum foreign equity participation 26% and now it has been increased up to 49%. The authority notified 27 regulations on various issues and amendments are being made

regularly as per the need of the hours after making keen observations.

Organization setup of IRDA:-

IRDA is a ten member body consists of:

- One Chairman (For 5 Years & Maximum Age - 60 years)
- Five whole-time Members (For 5 Years and Maximum Age- 62 years)
- Four part-time Members (Not more than 5 years)

The chairman and members of IRDAI are appointed by Government of India. The present Chairman of IRDAI is Mr T.S Vijayan the former worthy chairman of LIC of India.

Functions and Duties of IRDA:

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

- It issues the registration certificates to insurance companies and regulates them.



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

by insurance companies.

(2) Literature Review:

The review of given studies provides a broad spectrum of impact of IRDAI establishment in the area of Life Insurance Industry. It also provides the information how the IRDAI impacting the Life insurance Industry in a very positive note.

(3) Objective of the study:

To examine the impact of IRDAI on Life Insurance Industry during the last one and half decade since its inception .The measurement area comprises the following:-

1. Growth in life insurance companies and their offices in India,
2. Growth in life insurance policies in India ,
3. Growth in life insurance penetration in India,
4. Growth in insurance density in India.

(4) Research Methodology:

The present work **the impact of IRDA on Indian Life Insurance Industry** is based on secondary data. The data has been collected from annual reports of IRDA 2001-2015. The data have been processed and analyzed by using suitable data analyzing techniques. This study covers the period of approximate 15 years i.e. 2000-2001 to 2014-2015.

(5) Data analysis and results findings:

On the front of New Insurance Companies Registration:

At the end of March 2015 there were 53 companies in insurance market including Life, Non Life and Reinsurance. Out of these 24 are in the life insurance business and 28 in non life insurance business and one in reinsurance business. Out of these only 8 companies belong to Public sector i.e. one company in life insurance 6 in non life and one in reinsurance and all remaining 45 belong to private sector.

**Table -1 Registered Insurer in India(As on 31st March 2015)**

Type of Business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
Non-Life Insurer	6	**22	28
Reinsurance Insurer	1	0	1
Total	8	45	53

**Includes 5 stand alone Health Insurance Companies

It is observed that after the nationalization of Life Insurance Industry in the year 1956 there was only one company LIC of India which belongs to public sector and same was continue till the year 2000. But after the establishment of IRDAI the industry is

showing phenomenon growth and presently there are 24 companies which are working in the field of Life Insurance Business, means 24 times growth in last 15 years and if we calculate the simple growth ratio it comes approximate 153% per annum .

Table 2 : Registered Life Insurance Offices in India(Data as on 31.03.2015)

Year	Public Sector	Private Sector	Total	%Growth
2001	2186	13	2199	NA
2002-2003	2190	116	2306	4.86
2003-2004	2191	254	2445	6.02
2004-2005	2196	416	2612	6.83
2005-2006	2197	804	3001	14.89
2006-2007	2220	1645	3865	28.79
2007-2008	2301	3072	5373	39.01
2008-2009	2522	6391	8913	65.88
2009-2010	3030	8785	11815	32.56
2010-2011	3250	8768	12018	1.72
2011-2012	3371	8175	11546	(-)3.93
2012-2013	3455	7712	11167	(-)3.28
2013-2014	3526	6759	10285	(-)7.90

Source: IRDAI Annual Reports for last 15 years.



Trend of growth/de-growth is calculated on the basis of Simple growth rate

I.e. total growth or de-growth / no of years. (Using formula : $I = \frac{prt}{100}$)

From the registered Office front the growth rate is also very high it is observed that at the end of the year 2001 there were 2199 offices and out of these 2186 belong to LIC of India and only 13 belong to private players. But after that the private sector in Life Insurance Business starts flourishing with leaps and bounds and showing impressive growth trend. In first decade of 10 years the speed of growth in establishment of private offices was very fast and it was

growing approximate @ 67.346% on simple growth rate basis.

From 2011 to 2015 the trend seems somehow stagnant or reversal in terms of new offices establishment and it shows de-growth rate @ 5.958% on simple annual rate basis .But during this period LIC of India which belongs to public sector showed it positive trend and number of offices increased from 3250 to 4877 showing impressive positive growth trend and this growth rate @ 10.012% which is more than the de-growth of private players. It shows that overall growth trend in life insurance sector is positive after the establishment of IRDAI.

Table: 3 Life Insurance Premium Penetrations as % of GDP

Year	Public Sector	Private Sector	Total	Growth over previous year
2001	2.15	0.56	2.71	53.11
2002-2003	2.59	0.67	3.26	20.29
2003-2004	2.26	0.63	2.88	(-)11.65
2004-2005	2.53	0.65	3.17	10.07
2005-2006	2.56	0.61	3.14	(-)95
2006-2007	4.20	0.60	4.80	52.87
2007-2008	4.10	0.60	4.70	(-)2.08
2008-2009	4.00	0.60	4.60	(-)2.12
2009-2010	4.60	0.60	5.20	13.04
2010-2011	4.40	0.71	5.11	(-)1.73
2011-2012	3.40	0.70	4.10	(-)19.77
2012-2013	3.17	0.78	3.96	(-)3.41
2013-2014	3.10	0.80	3.90	(-)1.51

(Total Ins. Prem. Penetration was 2.32 % as on 31.12.2000. Out of this Life Insurance share was 1.77%), Data relates to Calendar Years: Source: IRDA Annual Reports

**Table: 4 Life Insurance Density (Premium Per Capita in US D)**

Year	Public Sector	Private Sector	Total	Growth over previous year
2001	9.10	2.40	11.5	51.31
2002-2003	11.70	3.00	14.7	27.82
2003-2004	12.90	3.50	16.4	11.56
2004-2005	15.70	4.0	19.7	20.12
2005-2006	18.3	4.40	22.70	15.23
2006-2007	33.20	5.20	38.40	69.16
2007-2008	40.40	6.20	46.6	21.35
2008-2009	41.2	6.2	47.21	1.29
2009-2010	47.7	6.7	54.4	15.23
2010-2011	55.7	8.7	64.4	18.38
2011-2012	49.0	10.0	59.0	(-)8.38
2012-2013	42.7	10.5	53.2	(-)9.83
2013-2014	41.0	11.0	52.0	(-)2.25

(Total Insurance Density was 9.9 % as on 31.12.2000 Out of this Life Insurance share was 7.6%). Data relates to Calendar Years. Density is measured in % of premium to total population in USD

Source: IRDA Annual Reports

Data of Table 3 and table 4 show the life insurance penetration and Life insurance density. This data shows the phenomenon growth on both the counts. Total insurance penetration was just 2.32 percent on 31.12.2000 out of which the share of life insurance was 1.77 percent

and total density was 9.9 percent out of which the life insurance share was 7.6 percent. If we analyze the data the life insurance penetration had gone up from 1.77 percent to 3.3 percent which was on its highest level in the year of 2009 and density of life insurance has increased up to the level of 55 percent in the year of 2014. It shows that IRDAI is playing a vital role in the development of insurance sector and more important is that both private as well as public insurance companies are getting level playing field.



**Table: 5 Number of policies issued by insurance companies
 Data since IRDAI inception**

Year	Public Sector	Private Sector	Total	Growth %
2001	196.73	0.1	196.83	NA
2002-2003	245.46	8.25	253.71	28.89
2003-2004	269.68	16.58	286.26	12.83
2004-2005	239.78	22.33	262.11	(-)8.43
2005-2006	315.91	38.71	354.62	35.29
2006-2007	382.29	79.22	461.51	30.14
2007-2008	376.13	132.62	508.75	10.23
2008-2009	359.13	150.11	509.24	0.10
2009-2010	388.63	143.62	532.25	4.52
2010-2011	370.38	111.14	481.52	(-)9.53
2011-2012	357.51	84.42	441.93	(-)8.22
2012-2013	367.82	74.05	441.87	(-)0.01
2013-2014	345.12	63.6	408.72	(-)7.50
2014-2015	201.71	57.37	259.08	(-)36.61

Source: IRDAI Annual reports from 2001-02 to 2014-15

Growth calculated for next year taking previous year as base year .

It is evident from the table 5 that number of policies issued by life insurer was 196.83 lakhs as on year ending 2001 and after that the progressive steps of IRDAI helped the life insurance companies to grow in a faster pace and the figure of life insurance policies reached up to 532.25 lakhs as on year ending 2010. After this golden period there was a de growth period and up to the end of year 2015 the total number of life insurance policies decreased up to 259.08 lakhs . Here one data is very important to know that with the establishment of IRDA the share of

private players in the initial years was approximate 8.5 percent as on year ending 2005 and 26.98 percent as on year ending 2010 and 22.14 percent as on year ending 2015. It shows the great performance of private players and all credit goes to IRDA because of its growth oriented policy measures.

Main findings:

- The number of registered life insurer increased from only 1 to 24 during last 15 years and most significant is that all 23 players are from private



area. It shows that how IRDA is playing a vital role in the development of the life insurance field for all the insurance companies. Almost all the private insurance companies established under joint venture. The FDI limit which was 26 percent initially has gone up to 49 percent now which may be a big boost for this sector.

- Insurance penetration and density has increased very fast in the life insurance sector. The density in life insurance was mere 11.5 in the year 2001 rose up to 55 as on year ending 2014. On the same foot the life insurance penetration was 2.71 in the year of 2001 rose up to 5.20 in the year 2009 and now it is at eh level of 3.3 as on the calamander year ending 2014 .
- The number of polices rose from 196.83 lakhs at the end of FY year 2001 rose 532.25 lakhs as on FY ending 2010 . Now it is 259.08 lakhs as on FY ending 2015. The ratio of private players is growing very fast it was 22.14 percent as on FY ending 2015 of the total policies and giving a tough fight to Life Insurance Corporation of India .

(6) Conclusion:

During the regime of IRDAI in the last one and half decade the life insurance industry showed a significant growth rate. The entire insurance industry is regulated now and is being supervised and controlled by the regulatory body. The future of Life Insurance industry is looking bright under the regime of strict regulations and supervision of Insurance Regulatory & Development Authority of India.

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