

# IRDA & Regulation of insurance sector

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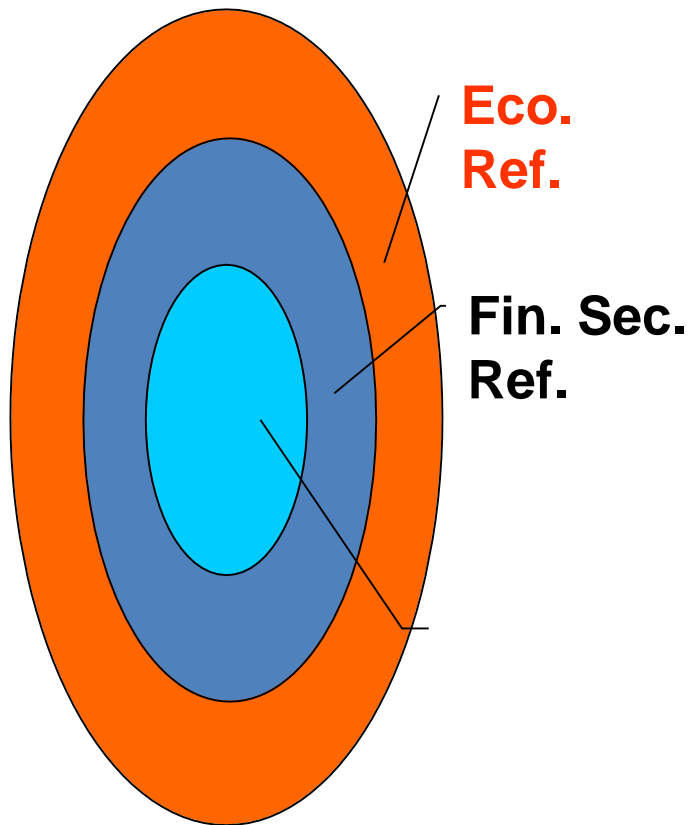
NATIONAL JUDICIAL ACADEMY  
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# AGENDA

1. Economic Reforms Process
2. A bird's eye view of Insurance Industry
3. Role of Insurance in Economy
4. Performance of the Insurance Sector

# ECONOMIC REFORMS PROCESS



- Reform process initiated in 1991.
- Abolition of Licensing, Permits and Quotas in Industrial Sector
- Financial Sector Reforms
  - ❖ Banking Sector Reforms
    - ◆ Freeing of interest rates by the Central Bank
    - ◆ Rationalization of priority sector lendings & lowering of directed credit
  - ❖ Capital Market Sector Reforms
    - ◆ Abolition of Controller of Capital Issues and Establishment of Securities and Exchange Board of India in 1992
    - ◆ Issuance of regulations for mutual funds, portfolio managers, registrars, merchant bankers, depository and participants, etc
  - ❖ Insurance Sector Reforms

- New entrants/ for. invst.
- Level playing field
- Consumer Protection
- Competitive markets/
- Customer choices

**Regulated  
Market**

**Free  
Market**

- No Regulations
- Plagued by fraud
- 

- Market development
- Standard products
- absence of consumer choice
- poor customer service
- non-competitive market

**Nationalised  
Market**

**Regulated  
Market**

- Urban centric
- Directed investments
- sub-optimal utilization of resources



# INSURANCE SECTOR REFORMS

- Committee on Reforms in Insurance sector – 1994
- Setting-up of Interim Insurance Regulatory Authority – May 1996
- IRDA Act Passed – December 1999
- Statutory Authority (IRDA) established – 19<sup>th</sup> April 2000
- Foreign Direct Investment up to 26 percent allowed : 2000
- First set of Regulations notified – 19<sup>th</sup> July, 2000
- First set of Certificate of Registration (Licenses) granted – 23<sup>rd</sup> October 2000



# Insurance Sector Reforms

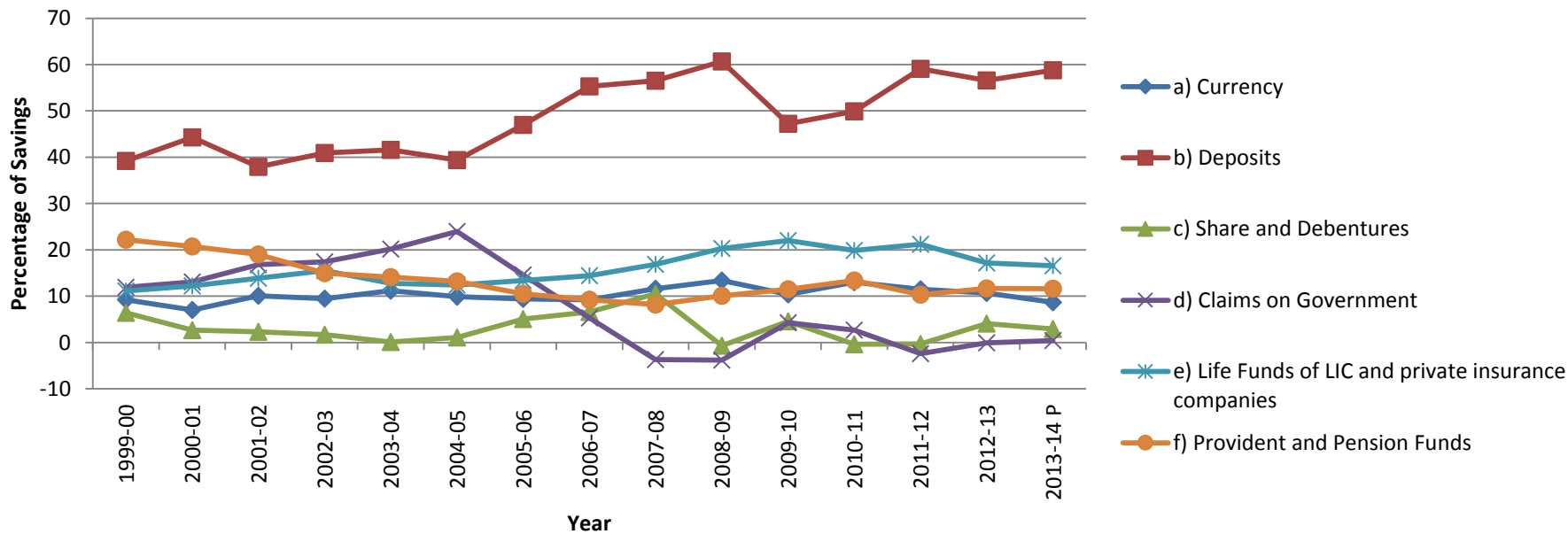
- 1994 – Malhotra Committee
- 1996 - Interim Insurance Regulatory Authority
- 1999 - IRDA Act
- April, 2000 – Establishment of IRDA
- July, 2000 – Notification of first set of Regulations
- October, 2000 – Grant of first set of Certificate of Registration (Licenses)

# Role of Insurance in Economy

- Pools Risks and Provide Protection
- Mobilize 16.40% of Financial Savings of Household Sector (last year 19.90%)
- Invests Rs.1.77lakhs crores in FY 2013-14 (Previous year Rs.1.37lakhs crores) in Housing and Infrastructure sector
- Large and stable investor G Sec and Capital Markets : Rs. 19.46lakhs crores in FY 2013-14 (upt to Dec 2013) and Previous year Rs. 17.66lakhs crores.
- Enables Corporates to take higher risks
- Stability Provider in the time of financial crisis

# Percentage Share of Different Instruments in Household Financial Savings

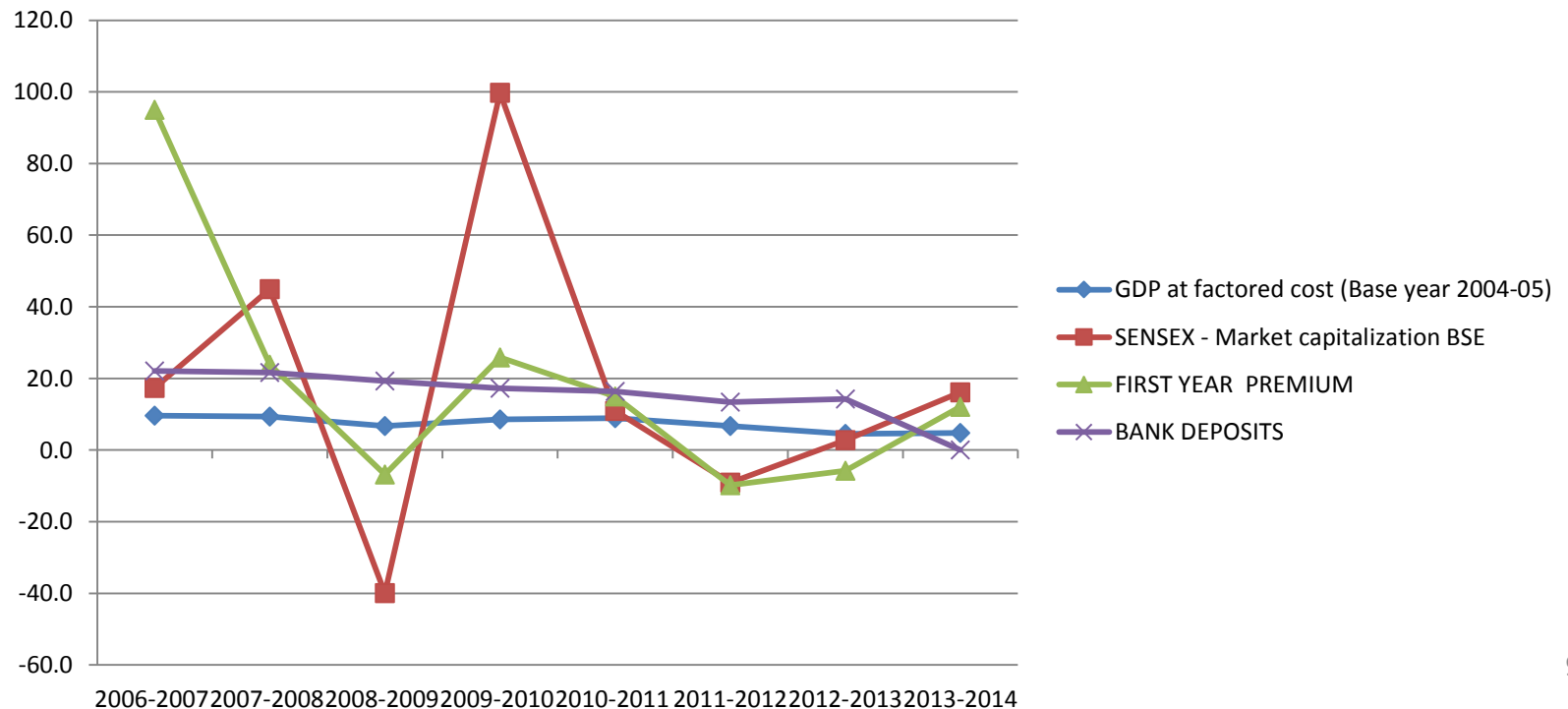
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>a) Currency</b>	9.2	7	10.1	9.5	11.2	9.9	9.4	9.2	11.6	13.4	10.4	13	11.5	10.7	8.7
<b>b) Deposits</b>	39.2	44.3	37.9	40.9	41.6	39.4	47	55.3	56.5	60.7	47.2	49.9	59.1	56.6	58.8
<b>c) Share and Debentures</b>	6.4	2.7	2.3	1.7	0.1	1.1	5.1	6.6	10.5	-0.7	4.6	-0.4	-0.3	4.1	2.9
<b>d) Claims on Government</b>	11.9	13.1	16.8	17.4	20.2	24	14.6	5.3	-3.7	-3.8	4.3	2.7	-2.4	-0.08	0.4
<b>e) Life Funds of LIC and private insurance companies</b>	11.1	12.2	13.9	15.5	12.8	12.4	13.4	14.4	16.9	20.3	22	19.9	21.2	17.2	16.6
<b>f) Provident and Pension Funds</b>	22.2	20.7	19	15	14.1	13.2	10.5	9.2	8.2	10.1	11.5	13.4	10.3	11.7	11.6





## Relative Movement of Different Indicators - India

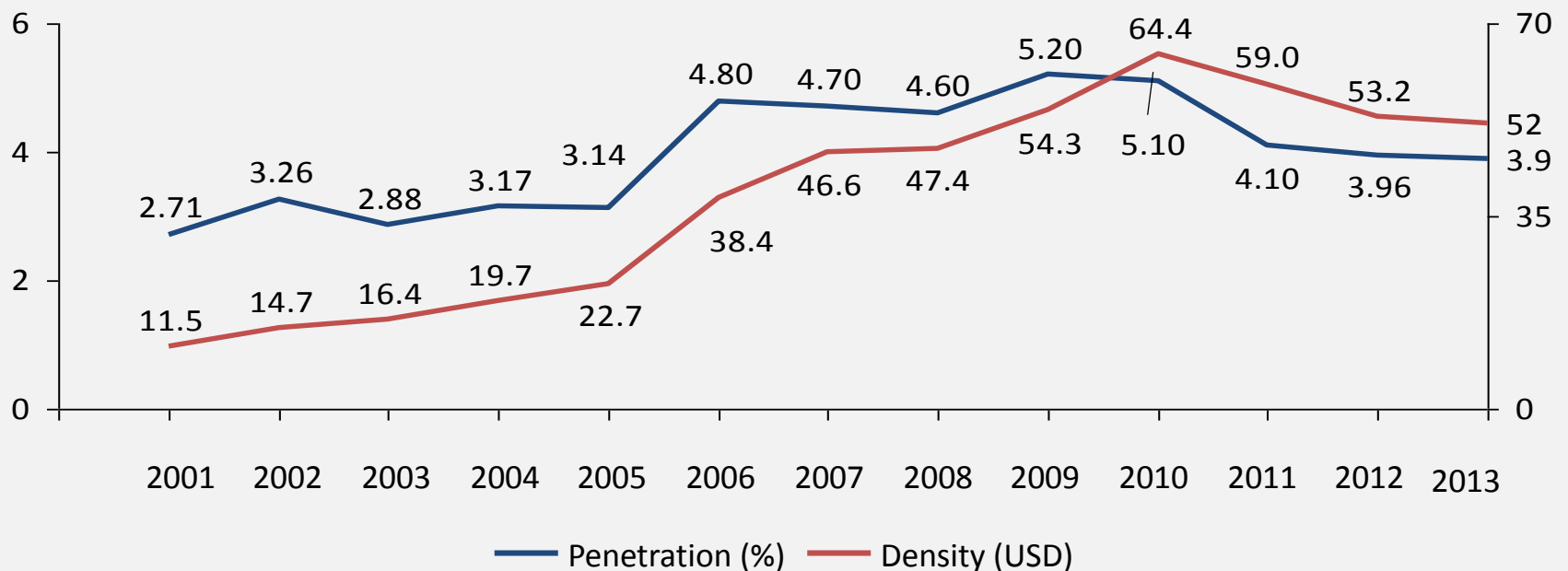
GROWTH RATE/ FINANCIAL YEAR	GDP at factored cost (Base year 2004-05)	SENSEX - Market capitalization BSE	FIRST YEAR PREMIUM	BANK DEPOSITS
<b>2006-2007</b>	9.6	17.30	95.04	22.07
<b>2007-2008</b>	9.3	44.94	23.88	21.67
<b>2008-2009</b>	6.7	<b>-39.94</b>	<b>-6.81</b>	19.30
<b>2009-2010</b>	8.6	99.79	25.84	17.21
<b>2010-2011</b>	8.9	10.92	15.00	16.37
<b>2011-2012</b>	6.7	<b>-9.13</b>	-9.82	13.41
<b>2012-2013</b>	4.5	2.78	-5.80	14.28
<b>2013-2014</b>	4.7	16.08	12.07	NA





# Insurance Density and Penetration

- Since 2001 penetration has increased from 2.71% of GDP to 3.90% of GDP
- Life insurance penetration reduced during the period from 2010 to 2013, whereas general insurance penetration has remained in a tight range
- Even the ratio of premium to total population has improved significantly from USD 11.5 in 2001 to USD 53 in 2013



# Comparison with select countries

2012	(in millions of USD)			as a % of GDP		
	Life Insurance Premium	General Insurance Premium	Total Premium	Life Insurance Penetration	General Insurance Penetration	Total Insurance Penetration
Russia	1,732	24,296	26,028	0.09	1.24	1.33
China	141,208	104,302	245,510	1.70	1.26	2.96
Brazil	44,784	37,483	82,267	1.99	1.66	3.65
India	53,300	13,142	66,442	3.17	0.78	3.95
Malaysia	9,513	5,315	14,828	3.08	1.72	4.80
Australia	43,689	42,525	86,214	2.84	2.76	5.60
Asia	957,712	388,511	1,346,223	4.09	1.64	5.73
Singapore	12,257	9,823	22,080	4.43	1.60	6.03
World	2,620,864	1,991,650	4,612,514	3.69	2.81	6.50
Germany	106,411	125,497	231,908	3.12	3.62	6.74
United States	567,756	703,128	1,270,884	3.65	4.52	8.17
United Kingdom	205,918	105,500	311,418	8.44	2.84	11.28
Japan	524,372	129,740	654,112	9.17	2.27	11.44
South Korea	78,920	60,376	139,296	6.87	5.25	12.12



## Insurance Sector in India A bird's eye view (as at 31.03.2014):

Financial Year ending	2000	2012	2013	2014
No. of Insurers	6	52	52	53
No. of Offices	5,429	18,217	17,861	20,902
No of Person Employed in Insurance Companies (In Lakhs)	1.23*	3.42	3.44	3.50
No. of Agents (lakh)	7.58	27.77	25.78	27.07
Registered Brokers	-	333	315	386**
Total Annual Premium (INR crore)	37,550	3,47,008	3,58,404	3,91,824
New Business : No. of Policies (crore)		12.99	15.37	15.46
New Business Premium (INR crore)		1,73,762	1,76,439	1,97,179
Paid-up Capital (INR crore)	545	32,758	35,039	36,179
FDI (INR crore)	0	7,649	7,632	7,818
Investment ( INR '000 crore)	218	1,681	1,867	2,099

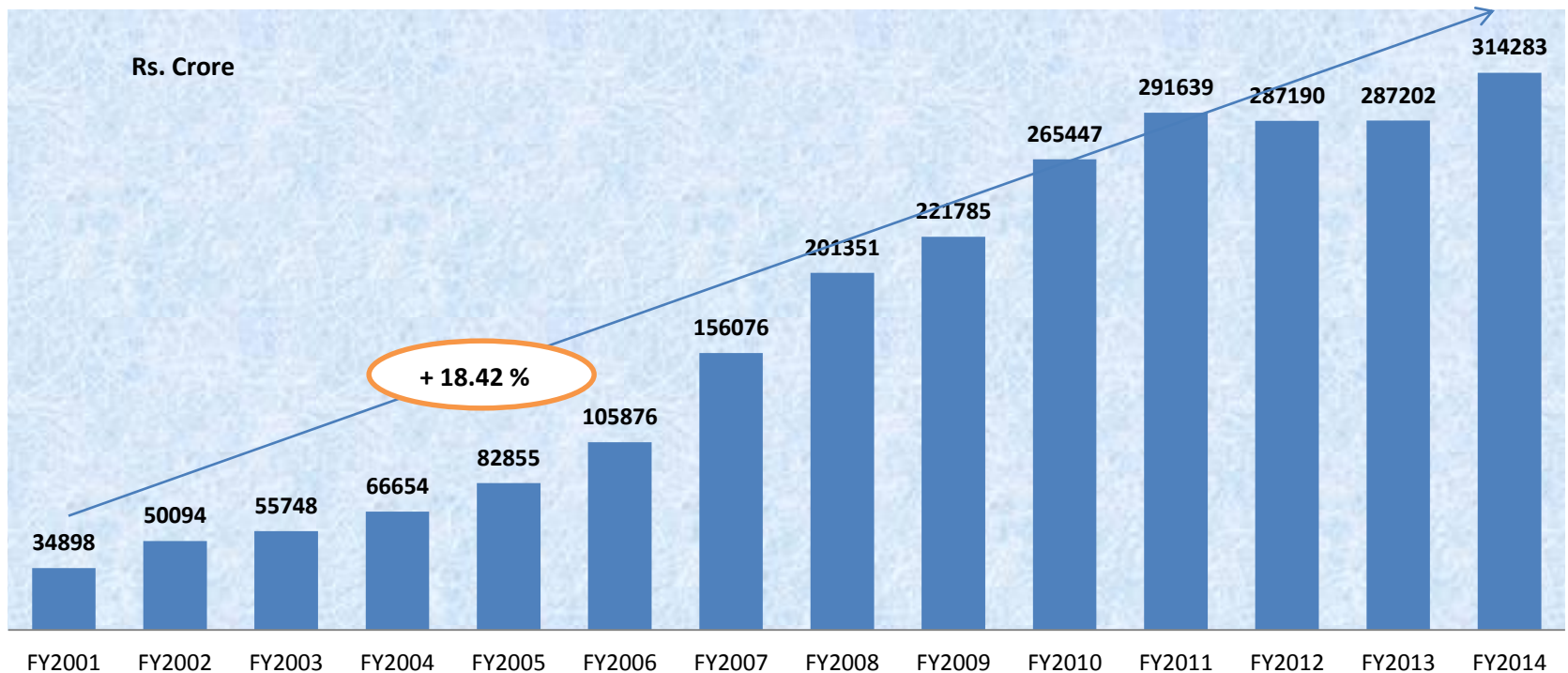
\*2001: only for life Insurance

\*\*Brokers as on 31.05.2014



# Growth of Life Insurance Industry

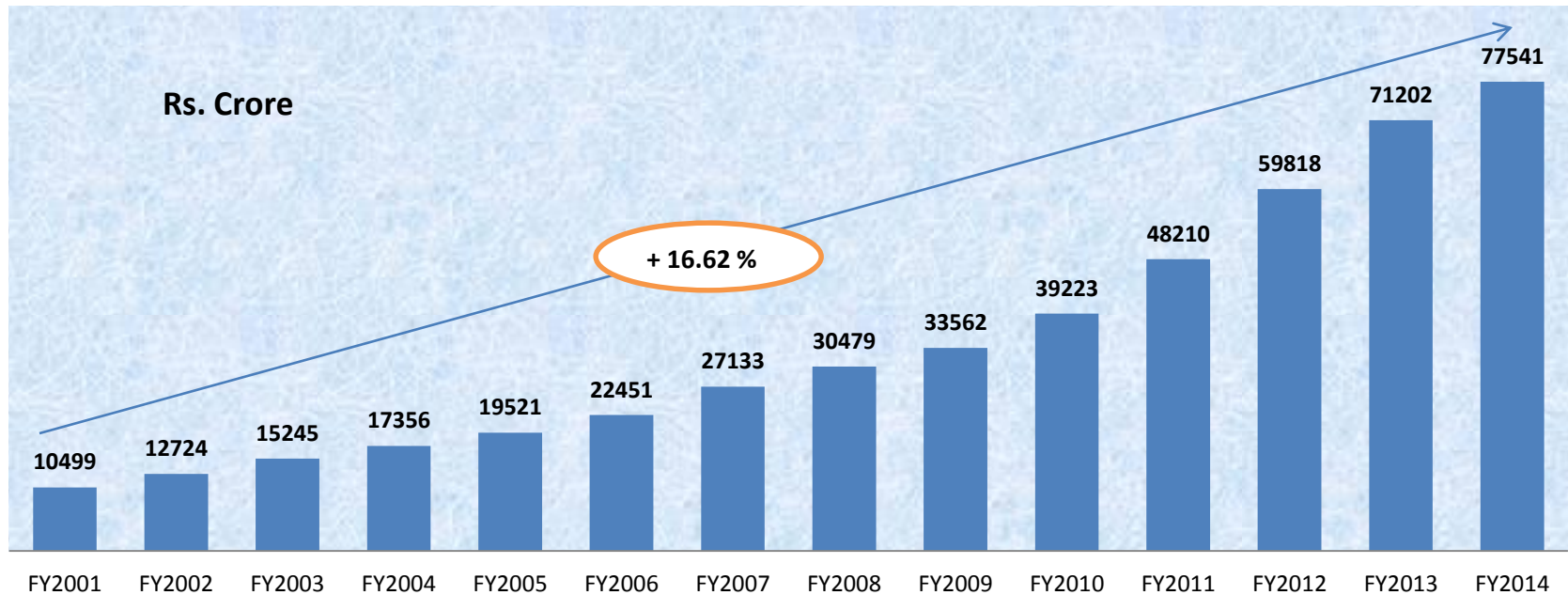
Excepting FY 2011-12 and 2012-13, Life insurance industry has steadily progressed; Total premium witnessed compounded annual growth rate of 18.42% in the last 14 years.





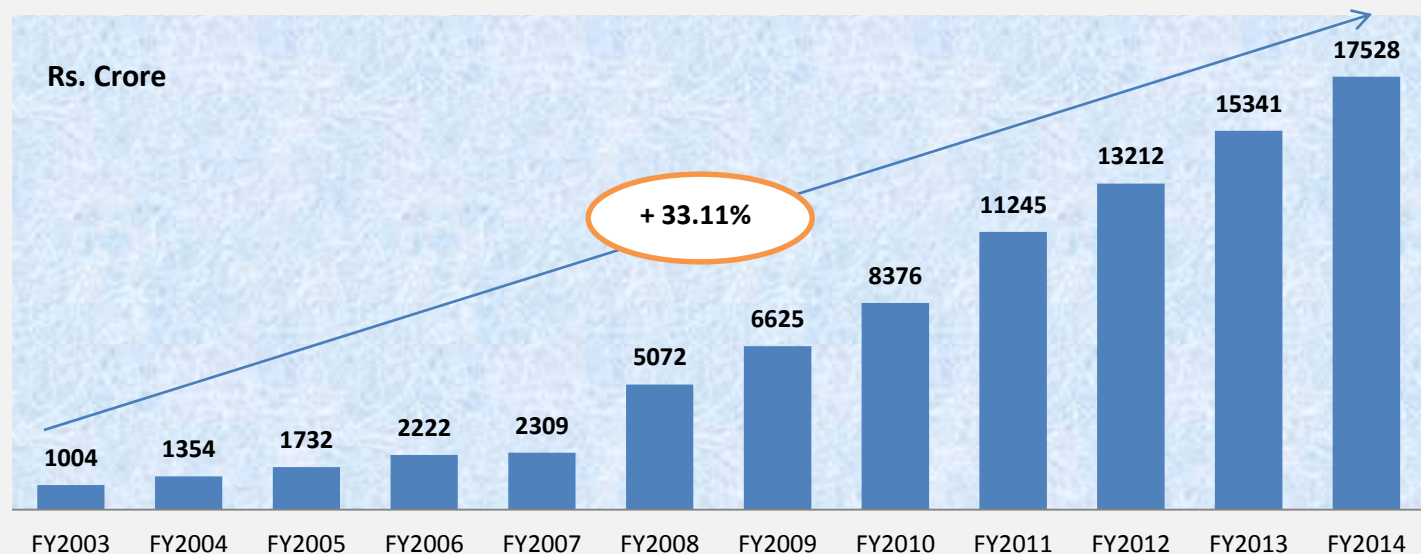
# Growth of General Insurance Industry

- General insurance industry has steadily progressed; compounded annual growth rate of 16.62% is witnessed in the last 14 years.
- Entry of Stand-alone health insurance companies has resulted in increase in general insurance premium.



# Significant potential in Health Insurance

- Growth in health insurance has been steady with a compounded annual growth rate of 33.11% during the period from FY2003 to FY2014
- Rapid growth is expected as the penetration of health insurance is abysmally low and healthcare expenditure continues to rise
  - Growth in the disposable income of individuals will be another driver
  - Changing demographic profile with a large number of working age population will also be the driver



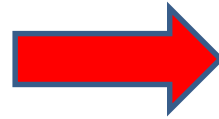


## Evolution (contd)

### ➤ Current

#### ➤ Regulated market

- New Entrants
- Foreign Investments
- Efficiency & customer choice
- Sectoral regulator



### ➤ Future

#### ➤ Insurance Amendt Bill

- Empowered regulator/  
policyholder
- Growth of health  
insurance/ annuity  
business
- No further capital





# Banking vs Insurance (Features)

## ➤ Banking

- Assured Payments
- Accept Deposits
- Transport money across time & space
- lend money
- maturity transformation
- asset – liability management
- short term liabilities
- facilitate trade

## ➤ Insurance

- promise to pay
- contingent upon happening of an event/ accident/ period
- exchange of consideration
- sharing of risks
- pooling of funds
- loss of few is paid by premium of many
- transfer of risk to risk carriers
- bought not sold



# Banking vs Insurance (Principles)

## ➤ Banking

- Assured Payments

## ➤ Insurance

- *Uberrima fides* (Utmost Good Faith)
- Insurable Interest
- Indemnity
- Subrogation & Contribution
- Proximate Cause
-



# Banking vs Insurance Contracts

- Banking Contracts
  - Assured Payments

- Insurance Contracts
  - Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period (in case of life insurance) or to indemnify the other party on happening of an uncertain event (in case of general insurance).
  - The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.
  - The underlying concept behind insurance is sharing of risks by pooling of funds

# Types of Insurance



## ➤ Life Insurance

- Term Insurance
- Endowment (Money Back)
- Whole Life
- Unit Linked
- Annuities/ Pensions
- Group

## ➤ General Insurance

- Property Insurance
  - Fire, Engineering, Marine Insurance
- Personal Insurance
  - Motor, Health, Personal Accident Insurance
- Liability Insurance
  - Employers Liability, Product, Public, D&O

**THANK YOU**