

REGULATORY INTELLIGENCE

COUNTRY UPDATE-India: Insurance

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**Introduction**

India has a fairly structured insurance industry; however, the insurance industry is yet to adequately penetrate the vast population or to effectively cover different business sectors. Compared with developed economies, India contributes about 1.9% of the world's total insurance premium.

With the Indian economy growing rapidly, the Indian insurance industry has tremendous growth potential. It is therefore a significant focus area for the government of India. Insurance penetration in India remains low, at 3.2% for life insurance and 1% for non-life insurance in 2022.

Insurance market

Insurance business in India is classified into two main categories: life insurance and general insurance. Life insurance covers the life-risk of the insured. General insurance, also non-life insurance, covers non-life categories, including motor, fire, marine and miscellaneous insurance.

The Indian insurance market has 70 insurance companies of which 26 are in the life insurance business, 26 are in general insurance business, five are stand-alone health insurers, and 13 are in reinsurance.

Life Insurance Corporation is the sole public sector insurer in life insurance. There are four public sector insurers in the non-life insurance business since the nationalisation of the general insurance business in 1973. Prior to that, all four companies were subsidiary companies of General Insurance Corporation of India Limited (GIC Re).

After the introduction of private players through the Insurance Regulatory and Development Authority Act, 1999 (IRDA Act), several foreign companies such as AIG, ING, Allianz and AXA own 26% of equity in private insurance companies.

Recent government initiative: The government of India, in an attempt to boost the sector, increased the foreign direct investment in the insurance sector from 26% to 74% through the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021 (2021 Rules).



The Indian insurance market by law also recognises agents, brokers, surveyors and loss assessors, third-party administrators and bancassurers.

Reinsurers: At present, GIC Re is the only national reinsurer and there are 12 private reinsurers (including foreign reinsurance branches). India does not have many re-insurer options available and insurance companies usually opt for reinsurers based out of London, Europe, Singapore or Dubai.

Legislative framework

The Insurance Act 1938 governed the Indian insurance market until the IRDA Act came into effect. The IRDA Act created IRDA as the regulator for insurance business in India and the General Insurance Corporation of India ceased to be the holding company for the four public sector insurers. The IRDA made several regulations specific to intermediaries, policyholders and insurance business.

The Insurance Act 1938 even today governs regulation of insurance business, including registration and renewal of insurers, regulation of solvency margin, reinsurance, and investments by insurance companies.

Marine insurance is governed by a separate Marine Insurance Act 1963.

Recent legislative steps: To revamp the existing legislative framework, the government of India came up with the Insurance Law (Amendment) Bill, 2022 "to enhance insurance penetration, improve efficiency, and enable product innovation and diversification".

The bill focuses on "enhancing the financial security of the policyholders, promoting policyholders' interests, improving returns to the policyholders, facilitating entry of more players in insurance market leading to economic growth and employment generation, enhancing efficiencies of the insurance industry — operational as well as financial, and enabling ease of doing business" and inter alia reduces the Rs. 100 crores minimum capital requirement for launch of an insurance company; has opened up registration of various classes, sub-classes and types of insurers (except reinsurance insurers who shall be ineligible to seek registration in other classes).

The Bill is likely to be tabled in parliament soon.

Settlement of disputes

Several insurance subjects are covered under other legislation, including those relating to personal injury, motor, deposit insurance, public liability, industrial disputes and war injuries.

A separate piece of legislation, the Consumer Protection Act 2019, provides a comprehensive framework for fast-track redress of consumer disputes. Consumers can use this consumer legislation to litigate against insurance companies in India. As of February 2023, of a total of 5,78,061 cases pending before the Consumer Commission, 1,61,134 pertained to the Insurance sector.

Ombudsman: For settlement of complaints, individual policyholders can approach an insurance ombudsman who can act as a counsellor and mediator and pass awards against insurance companies for quick disposal of customer's grievances. The institution of the Insurance Ombudsman was created by the government of India on November 11, 1998. Judicial precedents have also strongly shaped several aspects of insurance in India.

There are 17 ombudsman centres, established in Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Ernakulam, Kolkata, Lucknow, Mumbai, Pune, Patna and Noida.

Recently, the IRDAI has launched the Bima Bharosa Portal in 2022 to create a central repository of insurance grievance data to register complaints with insurance companies. The Bima Bharosa Portal also offers a uniform platform for all insurers to address policyholder complaints and gives the IRDAI a tool to track the efficiency of insurers' grievance redress systems.

Recent developments

India is one of the fastest-growing major economies in the world. The Indian insurance industry witnessed a compound annual growth of 10.3% during the last decade. The government of India is focusing heavily on infrastructure growth and improved healthcare.

There are tremendous growth opportunities for the insurance sector in a rapidly developing India. Despite the existence of 514 million health cover policies, the majority of the population remains uncovered. India currently accounts for less than 1.9% of the world's total insurance premiums. As India grows, these figures will accelerate substantially.

New and innovative products have become available, particularly from private insurers in life insurance products, and have been promoted by aggressive marketing campaigns. Through a combination of initiatives by the government and private enterprise, insurance awareness and coverage is slowly spreading to untapped population groups such as rural populations, women and farmers.

Impact of COVID-19: Despite severe challenges such as COVID-19, Indian insurance companies have maintained their solvency margins. The pandemic increased insurance penetration and raised awareness about insurance and demand for protection products such as health insurance. The pandemic also pushed insurers toward a shift to portal/apps, as COVID-19 expedited digital adoption and consumers were more willing to use digital modes.

Part of the credit for this is shared by regulatory agencies. IRDA, along with the judiciary, has kept the insurers accountable. The public insurers, who still command the dominant share of the insurance market, are directly accountable to the Ministry of Finance, government of India, with government nominees on its board and supervision through the Central Vigilance Commission (the apex vigilance institution in India, which monitors all vigilance activity under the central government and its organisations).



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Going forward

Given the rapidly growing Indian economy, India's diversity and enormity, and its large population, the Indian insurance industry faces several challenges and roadblocks for the future. Foremost among them is the need to boost and maintain growth amid global economic slowdown.

Awareness of the need to buy insurance needs to penetrate through the masses and different business classes. The insurance industry, particularly the public insurers, must further improve customer service. Indian courts are already heavily burdened with pending litigation, and insurance litigation also suffer long delays.

The government of India recognises the importance and potential of the insurance industry. Through legislation and policies, it is making efforts to address the challenges faced by the insurance industry both now and in the future. It has taken concrete steps to expand insurance coverage to the masses. IRDA has been given substantial teeth to regulate and monitor the insurance industry in India.

Several foreign investors have already invested in the Indian insurance industry and are keen to invest further following the 2021 rules. For this, the government of India is keenly focusing on ease of doing business and promotion of Foreign Direct Investment in India. This makes the Indian insurance industry a lucrative sector for investments and to tap the potential in India.



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