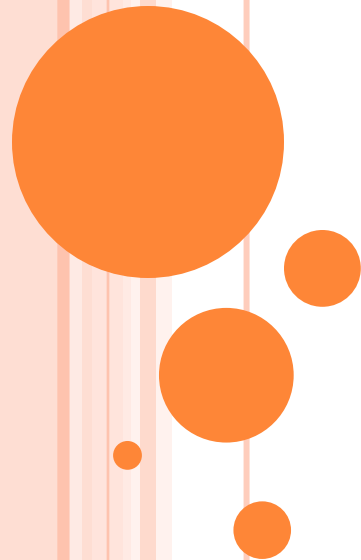


# INSURANCE & IRDA



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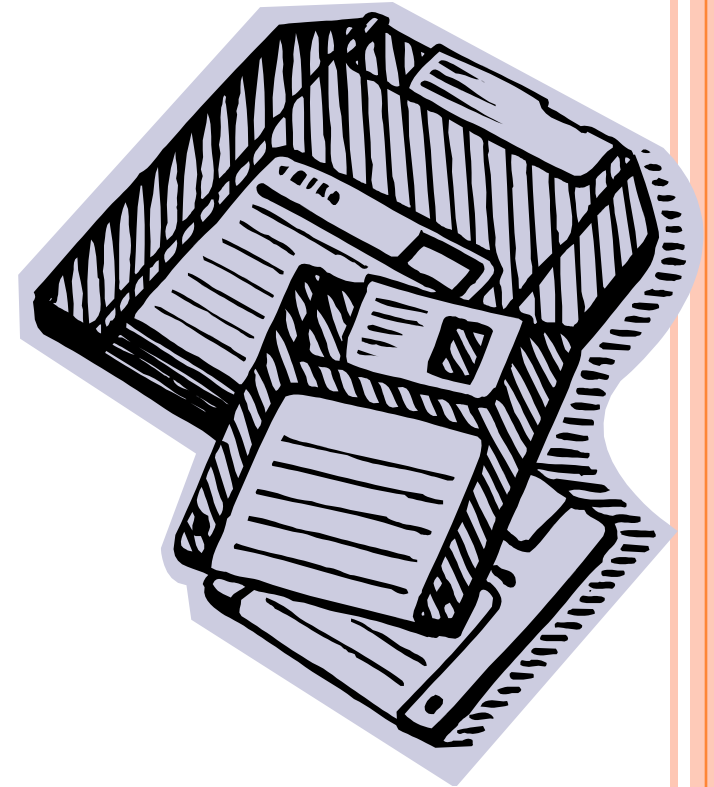
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# INTRODUCTION:

- Contact B/w Insurer and insured
- Insurer agrees to compensate the insured.
- Its purpose in growth & Economic development.

# BACKGROUND OF REGULATION IN INDIA

- In The Insurance Act 1938 , it created a Authority in controller of Insurance .
- They had power to direct , advise , inspect , search , register insurance companies.
- After the nationalization of life insurance in 1956 the applicability of this was diluted.
- And power of controller get vested in LIC and GIC.



# THE INSURANCE ACT , 1938

- ❑ It is the most comprehensive and balanced Act .
- ❑ To prevent the mushroom growth of companies.
- ❑ This Act applies to all types of insurance business

# FEATURES OF THE ACT

- ❑ Registration of insurance companies.
- ❑ Duties after registration
- ❑ Power & function of controller of insurance .
- ❑ Rules relating to Agency.
- ❑ rules relating to the formation.



# **1. REGISTRATION OF INSURANCE COMPANIES :**

Under section 2 of the Act lays down the org. allowed to carry on business in India are :

- i. Registered co-operative societies
- ii. Public companies
- iii. A co. registered under any foreign Act .
- iv. To obtain the certificate of registration a co .  
Have to deposit Rs 10 Lakhs with the Reserve Bank Of India .



# PROCEDURE OF REGISTRATION

- MOA & AOA Of the applicant companies.
- Names , occupations & addresses of directors.
- Scope of proposed insurance business.
- A statement declaring that required securities amount is deposited with RBI.
- Forms & rates of premiums ,provision , terms & condition of various insurance policies.



## **2. DUTIES OF INSURER AFTER REGISTRATION**

- Under Section 14 , An insurer is required to maintain**
  - 1. Register of policies**
  - 2. Register of claims**
  - 3. Register of agents**





# 3. POWER & FUNCTION OF THE CONTROLLER OF INSURANCE

THE CONTROLLER HAS THE FOLLOWING POWERS

- ❑ Registration of insurance company. ( sec 3 & 3A )
- ❑ Power to check security deposit . ( sec 7 )
- ❑ Power to receive Annual Accounts.
- ❑ Power to issue licences.
- ❑ Power to delegate the Authorities .
- ❑ Power to solve disputes



## 4. RULES REGARDING AGENCY :

Under Insurance Act , 1938 agents were :

- i. Chief Agents.
- ii. Special Agents.
- iii. Principal Agents .
- iv. Insurance Agent.



# 5. ORGANISATION OF THE INSURANCE COMPANIES

The insurance Act 1950, inserted 20 new sections in order to organize companies in proper manner.

Insurer is required to be a member of insurer Association of India. The Association is constituted into two councils

- i. Life Insurance council &
- ii. General Insurance council .

# 6 . **TARIFF ADVISORY COMMITTEE**

## **Power of tariff Advisory committee**

- i.** It has the power to regulate , control , condition of various Insurance co.
- ii.** Invite some information form
- iii.** It may further constitute Regional committees
- iv.** Collect fees in order to meet expenditure.

**INSURANCE  
REGULATORY &  
DEVELOPMENT  
AUTHORITY ACT ,  
1999**



# **SALIENT FEATURES OF INDRA ACT**

## **1. ACT TO ESTABLISH THE REGULATORY AUTHORITY**

- a. Protect the interest of holders of insurance policies.
- b. Regulate , promote & ensure orderly growth of Insurance industry .
- c. Other matters which may be connected with or incidental to the above mentioned purposes.

## 2. COMPOSITION OF AUTHORITY

The authority shall consist of followings :

a. A Chairperson :

- having Knowledge in Life , general Insurance
- Shall hold an office for the term of 5 yrs.
- the age of retirement is 65 years.

b . Not more than five whole time directors :

- having Knowledge in Life , general Insurance
- Shall hold an office for the term of 5 yrs.
- the age of retirement is 62 yrs.

c. Not more than four part time members :



# 3 . INSURANCE ADVISORY

section 25 of Act provide that :

- Insurance Advisory committee consisting of not more than 25 members ( including ex-officio)
- Members will represent the Interest of commerce, Industry , Agents , Intermediaries of Insurance Sector.
- The members of Authority shall be Ex- officio members of the committee.






# 4 . ENDING OF MONOPOLY OF LIC & GIC

- ❖ Section 30 , 31,32 of the Act have amended certain provision of Insurance Act , 1938 , LIC Act 1956 & GIC Act 1972.
- ❖ This end the privilege of LIC & GIC
- ❖ Thus it allowed private sector in life insurance & non life insurance.

# 5 . INSURANCE BUSINESS HAS BEEN OPENED TO INDIAN COMPANIES

The Indian Company has been defined in Section 2 of the Insurance Act 1938 as follow:

- I. Formed & Registered under the companies Act 1956.
  - II. in which the aggregate holding of Equity shares by Foreign either by itself or through its subsidiary companies .
  - III. Do not exceed 26 % of paid up capital of equity shares capital of such Indian Insurance company.
  - IV. The purpose is to carry on Life or general Insurance .
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# 6. DEPOSITS

**Insurance company shall deposit with RBI :**

- ✓ **In case of life insurance , a sum equal to 1% of his Total Gross Premium & not exceeding Rupees Ten Crore.**
- ✓ **In Case of General Insurance , 3% of Total Gross Premium & Rs not exceeding 10 crore.**
- ✓ **In case of re insurance business , a sum of rupees 20 crore.**



## **(B) Functions of general and life insurance broker**

- I. Obtaining detailed knowledge of the client's business and philosophy.
- II. Maintaining clear records of the client's business.
- III. Provision of providing technical advice to the client and advice on development in insurance market and law.
- IV. Maintaining a detailed knowledge of available markets.
- V. Selection and recommendation of an insurer or group of insurers.
- VI. Negotiating with insurer on the client's behalf.



## (C) Criteria for Grant of Licence

The Authority while examining the application for grant of licence shall, inter alia, consider the following :-

- a) The infrastructure of the applicant include adequate office space, equipment and manpower to effectively discharge his activities.
- b) The applicant in his employment a minimum of two persons who have the experience to conduct the business of insurance broker;
- c) The applicant has minimum of two Directors possessing
  - (i) A minimum qualification of an Associate of the insurance Institute of India or equivalents or any professional qualification from the institutions recognized by the government in finance, law, engineering or business management.
  - (ii) Practical training for specified period conducted by the National Insurance academy, Pune.
- (d) Capital adequacy requirement.

The draft regulations also specify capital adequacy requirement of the applicants seeking grant of licence.

Category IA – 25.00 lakhs

Category IB – 25.00 lakhs

Category II – 100.00 lakhs

Category III – 125.00 lakhs

Category IV – 10.00 lakhs



## (D) Remuneration of Brokers

Clause 15 provides for remuneration to be paid to brokers. According to it, the remuneration to brokers will be determined by market forces except in case of life and non life insurance who will paid by way of brokerage an amount not exceeding 17.5% of the premium payable on the policy.

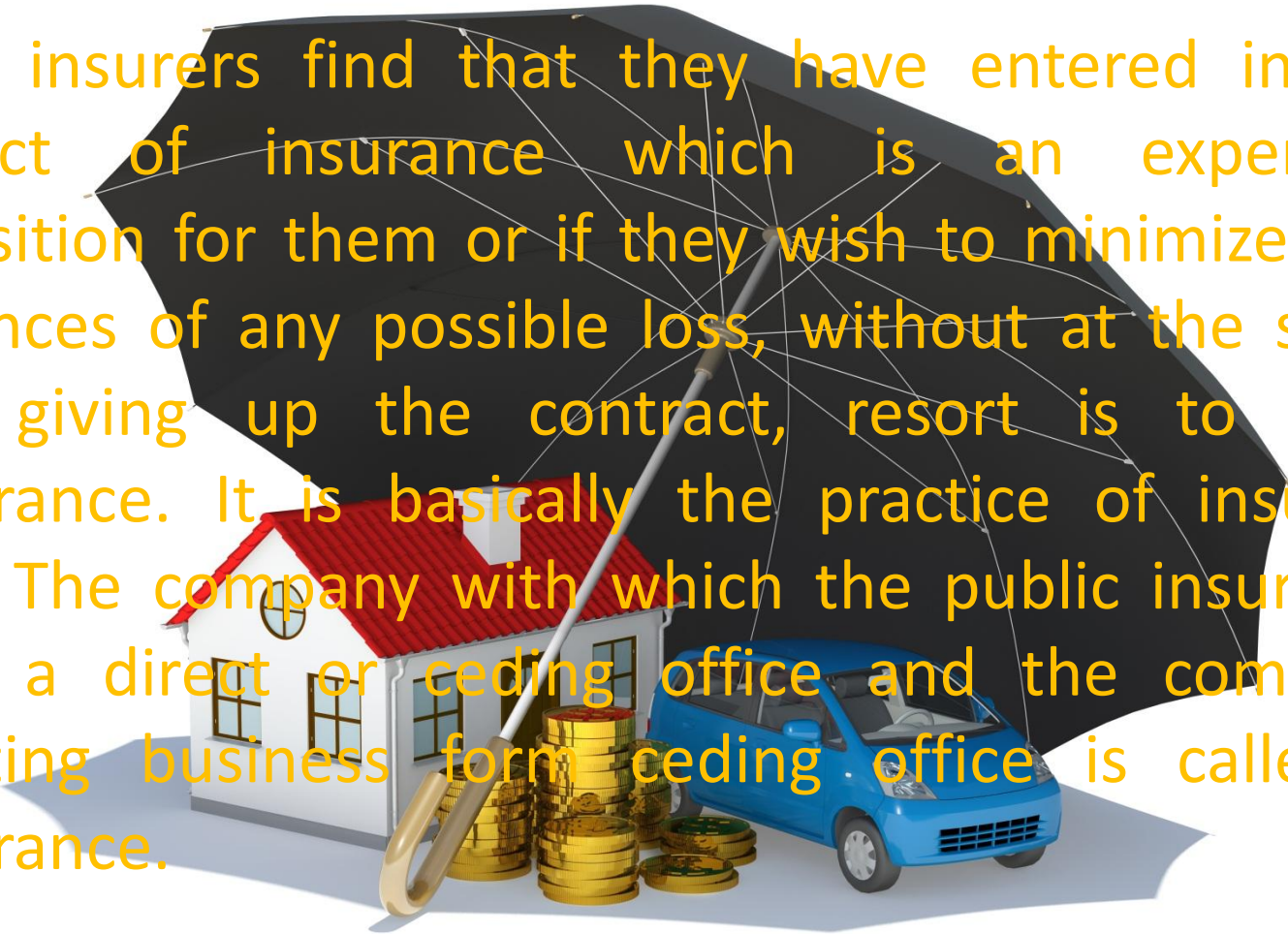
## (E) Segregating Insurance Money

Clause 17 of the draft regulations provide that every insurance broker must treat all money received form or on behalf of insured as insurance money and that this shall be kept in a Insurance Bank account with one or more approved scheduled banks.



## 7. REINSURANCE

If the insurers find that they have entered into a contract of insurance which is an expensive proposition for them or if they wish to minimize the clearances of any possible loss, without at the same time, giving up the contract, resort is to have reinsurance. It is basically the practice of insuring again. The company with which the public insurer is called a direct or ceding office and the company accepting business from ceding office is called a reinsurance.





# **POWER OF CENTRAL GOVERNMENT TO** **SUPERSEDE AUTHORITY** **(SECTION 19)**

## **(1) On Opinion of the Central Government**

(a) that, on account of circumstances beyond the control of the Authority, it is unable to discharge the functions or perform the duties imposed on it by or under the provisions of this Act, or

(b) that the Authority has persistently defaulted in complying with any direction given by the Central Government under this Act or in the discharge of the functions or performance of the duties imposed on it by or under the provisions of this Act and as a result of such default the financial position of the Authority or the administration of the Authority has suffered; or

(c) that circumstances exist which render it necessary in the public interest so to do,

The Central Government may, by notification and for reasons to be specified therein, supersede the Authority for such period, not exceeding six months, as may be specified in the notification and appoint a person to be the Controller of Insurance under section 2B of the Insurance Act, 1938 (4 of 1938), if not already done :

Provided that before issuing any such notification, the Central Government shall give a reasonable opportunity to the Authority to make representations, if any, of the Authority.

(2) Upon the publication of a notification under sub-section(1) superseding the Authority:

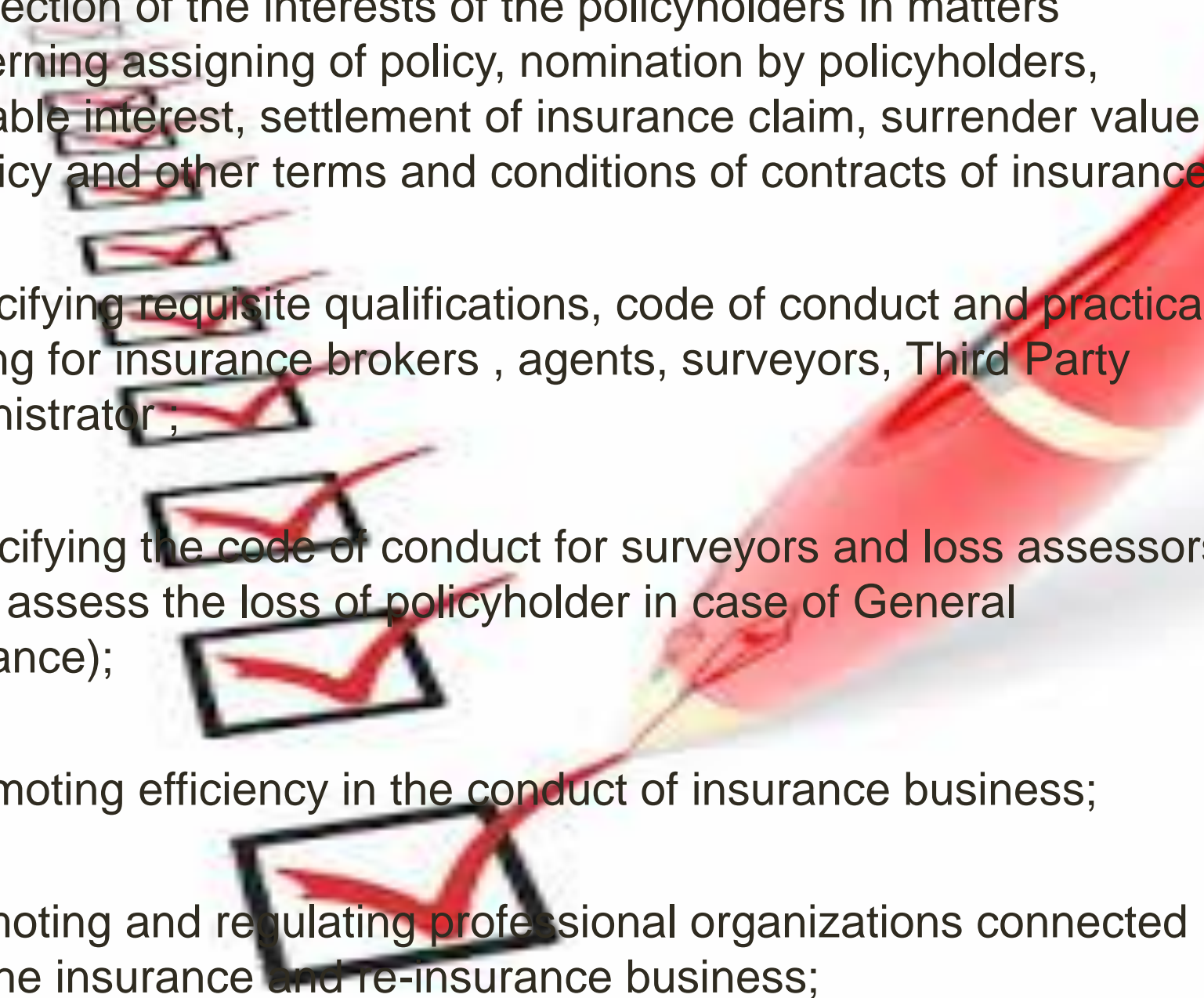
(a) the Chairperson and other members shall, as from the date of supersession, vacate their offices as such;

(b) all the powers, functions and duties which may, by or under the provisions of this Act, be exercised or discharged by the Controller of Insurance; and

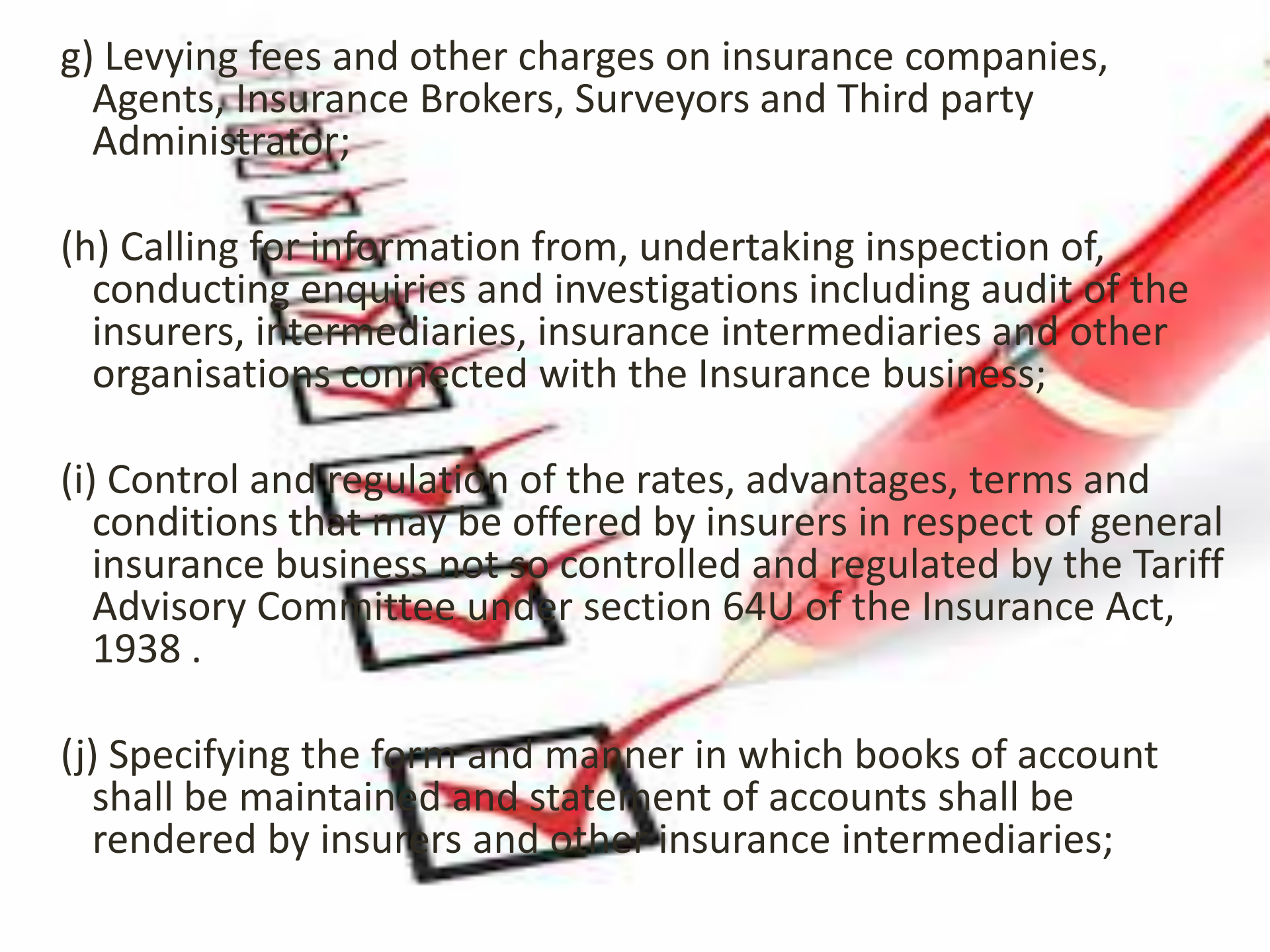
(c) all properties owned or controlled by the Authority shall, until the Authority is reconstituted under sub-section(3), vest in the Central Government.

# Duties, Powers & Functions of Authority (Section 14)

- **Duties:** The Authority shall have the duty to regulate, promote and ensure orderly growth of the Insurance business and reinsurance business subject to the provisions of any other Provisions of the act.
- **Powers & Functions to:-**
  - (a) Issue to the applicant (Insurance company or Insurance Agent or Surveyors or Insurance Brokers or Third Party Administrators) a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

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- (b) Protection of the interests of the policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
- (c) Specifying requisite qualifications, code of conduct and practical training for insurance brokers , agents, surveyors, Third Party Administrator ;
- (d) Specifying the code of conduct for surveyors and loss assessors (Who assess the loss of policyholder in case of General Insurance);
- (e) Promoting efficiency in the conduct of insurance business;
- (f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;



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- g) Levying fees and other charges on insurance companies, Agents, Insurance Brokers, Surveyors and Third party Administrator;
- (h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the Insurance business;
- (i) Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 .
- (j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

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- A red pen is shown writing checkmarks on a list of items. The pen is positioned diagonally from the top right towards the bottom left, with its tip pointing towards the bottom left. The checkmarks are drawn in red ink and are placed to the left of each item in the list. The list items are arranged vertically from top to bottom, and the pen has just finished writing the checkmark for the last item, (k).
- (l) Regulating maintenance of margin of solvency i.e., having sufficient funds to pay insurance claim amount;
  - (m) To settle the disputes between insurers and intermediaries or insurance intermediaries;
  - (n) Supervising the functioning of the Tariff Advisory Committee;
  - (o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause(f);
  - (p) Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
  - (q) Exercising such other powers as may be prescribed.
  - (k) Regulating investment of funds by insurance companies;



*THANK YOU*