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Insurance Sector Reforms and Policyholders Interest Protection: A Study of Insurance Regulatory Development Authority of India

B. S. Ghuman and Ranjeet Singh***

ABSTRACT

The policy of deregulation of economy was introduced in early 90s in India by unshackling government monopoly and facilitating entry of private and global players. Telecom, insurance and power were among the prominent services opened to the private sector. For protecting the interests of service users Regulatory commissions were set up by the government. The present study aims to analyze the role of Insurance Regulatory and Development Authority of India (IRDAI) in protection of interests of policy holders. The study relies upon primary and secondary data. The field survey results and secondary data reveal that although IRDAI has been effective in improving overall information disclosure by insurers among the policyholders but its role suffers on account of non-disclosure of information by agents regarding free look period, grievance redressal mechanisms, technical nature and fine printing of policy proposals. For making IRDAI effective in protecting interests of policyholders it is recommended that IRDAI should play active role in disseminating information regarding protection of interests of policyholders, role of IRDAI and existence of various mechanisms of grievance redressal by organizing more insurance awareness camps, dissemination workshops. Agents should be sensitized towards disclosing all the information to the prospective buyers especially regarding free look period and grievance redressal mechanisms. IRDAI should standardize the policy proposals in simple language with legible font.

Keywords: *Regulatory Commission, policyholders interest protection, grievance redressal, IRDAI*

With the growth of population and development in technology, social complexity and diversification of economic activities, the role of State has witnessed a sea change from a doer of public activities to a distributor of public benefits and facilitator of change (Rosenbloom, 1989). During 18th century, doctrine of Laissez-faire propagated by Adam Smith became centre stage of government functioning. Gradually during late 19th century and early 20th century it lost its influence particularly during Great Depression (1929-

* *Professor, Department of Public Administration, and Former Dean, Faculty of Arts, Panjab University, Chandigarh-160014, India, E-mail: ghumanbs@pu.ac.in and ghumanbs54@gmail.com*

** *Assistant Professor (Part Time) till 13 April 2016, at Post Graduate Department of Public Administration, DAV College, Chandigarh. India, E-mail: sandhuranjeet22@gmail.com*

34) and demand for government regulation propagated by economists such as J. M. Keynes, Paul Samuelson, Richard Musgrave grounded in market failure, philosophy of welfare state and demand for public goods gained currency (Tanzi, 1997).

In the 1970s, state failure paved the way for deregulation of economy influenced by economists such as Ludwig Von Mises, Friedrich von Hayek and Milton Friedman. The sectors specifically reserved for public sector were opened up for private sector operation, role of government was curtailed and market forces were given impetus for operation. During this phase, a complementarity between market and state was advocated to which Joseph Stiglitz termed as 'third way' (Stiglitz, 2003). Thus, in order to provide service delivery to the masses, the pendulum of the economy has swung from regulatory to free market and with emerging challenges and fallacies, it adjusts its position back and forth (Rosenbloom, 1989).

Keeping in tandem with these sweeping changes across globe, the Indian government adopted new policy prescriptions reducing the role of public sector for providing level playing field to private players and global players by introducing liberalization, privatization and globalization reforms in the early 90s. In the economic liberalization policy of 1990s, a large number of services/ activities which were hitherto the monopoly of the State were opened to the private sector. Telecom, insurance and power were among the significant services opened to the private sector.

The policy of deregulation of economy raised the issues about service delivery; promotion of competition; and protection of interest of users of services on account of price, quality and back- up services which provided the rationale for establishment of Regulatory Commissions. Insurance sector was deregulated with the passage of Insurance Regulatory and Development Authority Act in December 1999. It is in this backdrop that the present study has been undertaken.

The paper is organized into four sections. Sections I highlights objective, scope and methodology, whereas theoretical framework is discussed in Section II. Section III contains major findings. Concluding observations and policy prescriptions are described Section IV.

I

Objective, Scope and Methodology

Objective and Scope

The objective of the paper is to analyze the role of Insurance Regulatory and Development Authority of India (IRDAI) on the basis of growth of insurance sector, protecting interests of policy holders along with efficacy of grievance redressal mechanisms.

Insurance comprises of life, non-life and re-insurance. The present study confine only to life insurance.

Methodology

The paper is based on both primary and secondary data. The primary data was collected from 270 policyholders of two firms, namely, LIC and ICICI Prudential. Out of total sample, 162 policy holders were of Life Insurance Corporation (LIC) and 108 were policyholders of ICICI Prudential in tricitiy Chandigarh (Union Territory), Mohali (Punjab) and Panchkula (Haryana). LIC was chosen because it is the biggest and oldest public sector firm in insurance market in India, whereas ICICI Prudential is the biggest private firm with foreign collaboration. These two firms were selected to gauge the impact of ownership on the perception of policyholders. Tricity has been selected as locale of the study because it has higher percentage of policy holders per 1000 persons. Literacy rate is also higher suggesting greater awareness about policies among the customers. Per capita income is relatively very high in the tricity *vis-a vis* other Indian cities indicating higher buying and sustaining policy capacity of the people Lastly, tricity has rural areas thus substantial number of rural customers were interviewed for data collection. The secondary data is collected from Insurance Regulatory and Development Authority of India Reports, research papers, working papers, etc.

The secondary data was used for analyzing the role of IRDAI in promoting growth in insurance business by calculating compound rate of growth. The annual compound rate of growth was calculated by using exponential relationship $Y=AB^t$, where Y is variable for which compound rate of growth is calculated, t is time. Logarithm of variable was taken and linear regression equation was used by taking time as independent variable and log values of the variable as dependant variable to obtain beta coefficient. Anti logarithm of the beta coefficient was taken and the value was subtracted by one. The deducted value was multiplied by 100 and the value of the product was the compound rate of growth. The compound rate of growth was calculated for parameters such as growth in number of offices, individual agents, policies issued, products launched in the market, first year life insurance premium and total premium underwritten.

II

Theoretical Framework

Regulations were persistent since the inception of the State starting from standardized weights and measures, law and order, norms, customs, etc. With the development of the economic activities and privatization the equitable provision of public utilities such as water, electricity, communication, etc also came under the government regulation. Regulations are basically aimed to curb monopolistic tendencies and to protect interest of consumers. Thus regulation can be defined as, the totality of government control on the social and economic activities of its citizens, the rule making process of those administrative agencies charged with the official interpretation of laws (Shafritz and Russell, 1999).

Theories of Regulation

Government intervention in the economy can be interpreted in two major categories i.e. Public Interest Theory and Theory of Regulatory Capture. Public Interest Theory postulates that benevolent state intervenes in the market to maximize public welfare (Posner, 1974; Shleifer, 2005). This theory is based on Pigovian welfare economics (Shleifer, 2005). While Theory of Regulatory Capture contends that the state intervention does not promote public interest rather it promotes private interest. Regulator works in accordance with the regulated because regulated have the systematic information on the basis of which the regulator decides (Stigler, 1971; Williams, 2004). Regulators supply regulatory services in exchange of regulatory rents such as political income or personal gains (Stigler, 1971).

Developing upon the theory of regulatory capture, Virginia School propagated Theory of Rent Seeking. It posits that private entrepreneurs try to solicit favors from government in the form of legal concessions that create barriers to the free entry of firms and benefiting the entrepreneur and in the process regulators can maximize their power and revenues (Lane, 2000; Williams, 2004). In the last twenty years there had been transition in world economies from being unregulated (Deregulation) and then mixture of deregulation and regulation (re-regulation) and consecutively emphasis is on improving the effectiveness of regulation (Meloni, 2010).

Need for Insurance Regulation

Insurance regulation is essential because of industry protection and consumer protection. Industry protection provides an assurance for solvency of insurance firms, their stability and stability of insurance sector as a whole. Customer protection is must because customer's disadvantageous position due to information asymmetry may be exploited by insurer and he may be overcharged or may be duped (Doron, 2006).

Types of Insurance Regulations

Generally three types of regulation are prevalent in insurance sector such as solvency regulation, rate regulation and policy regulation. Solvency regulation includes licensing conditions such as minimum capital required (Ellis, 1990); regulatory safety and sound supervision such as examination of annual financial statements of insurers (Macay and Miller, 1993); grantee funds to protect policyholders in case of insolvency of insurance firms (Abraham, 2005). Rate regulation is to set fair rates for the policyholders as they lack information and are at disadvantageous bargaining position (Macay and Miller, 1993). Policy regulation is aimed at protecting interests of customers ((Doron, 2006)). It imbibes certain mandatory provisions such as prior approval of insurance contracts, information about premium and other charges to be paid, future benefits, etc.

Regulation during post Deregulation Phase

In the 1970s deregulation took place in most of the economies of the world. Deregulation was oriented towards two prominent goals, namely, improved outcomes and cost savings (Lane, 2000). In the Indian context due to economic stagnation, high fiscal deficit, adverse balance of payments and stagflation, New Economic Policy of 1991 was launched incorporating liberalization, privatization and globalization reforms (Mishra and Bhatt, 2002). Subsequently sectors such as telecom, infrastructure, power, insurance, etc. were liberalized and privatized with passage of necessary acts for regulatory authorities.

Keeping in view the need of regulation in the deregulated era, State and market have to be in synergic relationship with each other or it could be termed as co-governance where State, market and civil sectors coactively provide services to the citizens.

A successful regulation policy for public utilities requires strong, autonomous and technically proficient institutions whose existence diminishes the fear of the monopolies abusing their market power. Thus, prior to the commencement of the process of privatization, it is strongly recommended to constitute an autonomous regulatory authority that ensures the protection of interests of the customers in terms of price and quality of service (Narain, 2005). These agencies are in the form of regulatory commissions, namely, Telecom Regulatory Authority of India, Central Electricity Regulatory Commission, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, etc.

III

Major findings

Insurance Regulatory and Development Authority of India

Insurance is linked with concept of risk diversification and it is an instrument for coping with the risk at lower cost (Posner, 1998). In order to liberalize the insurance sector and facilitate foreign investment and role of private players, Insurance Regulatory and Development Authority of India (IRDAI) was constituted in December 1999 as a follow up of Insurance Regulatory and Development Authority Act, 1999. The twin objectives of IRDAI are to regulate insurance market in India and protect the interest of consumers. Currently, Indian insurance sector is governed by two legislations, namely, the Insurance Act 1938 and IRDAI Act 1999.The history of insurance has witnessed considerable changes in 20^{th} and 21^{st} centuries in India. It has undergone from an open competitive sector to nationalization and then again being liberalized in 1999 (Table 1).

Table 1
Major Milestones of Insurance industry in India

Year	*Milestones of Insurance Industry*
1912	First piece of insurance regulation promulgated—Indian Life Insurance Company Act, 1912.
1928	Promulgation of the Indian Insurance Companies Act.
1938	Insurance Act 1938 introduced, the first comprehensive legislation to regulate insurance business in India.
1956	Nationalization of life insurance business in India.
1972	Nationalization of general insurance business in India.
1993	Setting up of the Malhotra Committee.
1994	Recommendations of Malhotra Committee released.
1996	Setting up of an (interim) Insurance Regulatory Authority (IRA).
1997	The government gives greater autonomy to LIC, General Insurance Corporation of India (GIC) and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channelling funds to the infrastructure sector.
1999	The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA Act was renamed the Insurance Regulatory and Development Authority (IRDAI) Act.
1999	Cabinet clears IRDAI Act.
2000	President gives assent to the IRDAI Act
2015	FDI have been hiked to 49 percent in Insurance Sector

Sources: Dutta and Sengupta, (2011) and The Economic Times (2015).

IRDAI is comprised of a chairperson, not more than five whole time members and not more than four part time members to be appointed by central government. The members should possess knowledge or experience of insurance, actuarial science, finance, economics, law, accountancy and also they should be persons of ability and integrity. Major duties, powers and functions of the IRDAI include regulation and promotion of growth of insurance business and re-insurance business; issue certificate of registration to the applicant and also to renew, modify, withdraw or cancel such registration; protection of interest of policyholders, promoting efficiency in conduct of insurance business and adjudicating disputes between insurers and intermediaries, etc.

Role of Insurance Regulatory Development Authority of India

As stated earlier the role of IRDAI in regulating insurance sector in India is evaluated on the basis of growth of insurance sector, protecting interests of policy holders along with efficacy of grievance redressal mechanisms.

Growth of Insurance sector

A well-developed insurance sector is a pre requisite for economic development as it generates capital and strengthen the risk taking ability. In India, insurance sector is growing at the rate of 15-20 percent annually and together with financing, real estate and business it contributes about 17.9 percent share in the Indian economy. Presently 49 percent of foreign equity allowed in insurance sector.

Prior to inception of IRDAI, insurance was the monopoly of government with six insurers, one catering to life insurance and four to non-life and one re-insurance. After unshackling the government monopoly, in year 2000 this number rose to 12 insurers, with 4 life insurers, 7 non-life and one re-insurance. Presently there are 54 insurers with 24 players in life segment, 29 in general segment and one re-insurance. There are about 36 global companies operating in India in collaboration with Indian companies (IRDAI, 2012).

With growth in number of insurers there has been steady increase in number of offices of life insurers in India. In year 2000-01 there were 2199 offices and in 2012-13 this number stood at 10285 offices throughout India, thus registering an annual compound rate of growth of 18.8 percent over thirteen years. Growth in number of agents is essential for business growth, policy persistency and public perception of the agency channel as a stable career. IRDAI has issued (Licensing of Agents) Regulations, 2000 for licensing and code of conduct for agents. In 2000-01 there were 115715 individual agents and in year 2012-13 the number of individual agents increased to 2122757. The compound rate of growth of number of individual agents during post IRDAI phase was 21.33 percent per year (Table 2).

The first year premium recorded in 2000-01 was Rs. 9707.43 crore and it increased to Rs. 19857.28 crore in 2001- 02. In year 2002-03 it fell down to Rs. 16942.4 crore. In subsequent years it followed an upward trend till 2007-08 and stood at Rs. 93712.52 crore. In year 2008-09 it decreased to Rs. 87441.08 crore. In year 2009-10 and 2010-11 it showed a increasing trend but in year 2011-12 it decreased to Rs. 113966.03 crore and in 2012-13 it further decreased to Rs. 107361.08 crore. On the whole the first year single premium registered the 27.05 percent compound rate of growth during post IRDAI phase. The total premium underwritten in life segment in 2000-01 was Rs. 34,898.48 crore which increased to Rs. 2, 91,639 crore in 2010-11, but it showed a declining trend of 1.57 percent in 2011-12 and stood at 2,87,072 crore and which decreased to Rs. 2,87,202 crores in 2012-13. It registered compound growth rate to the tune of 23 percent per annum (Table 2).

IRDAI requires all the insurers to file their products with the Authority and after its approval the product can be launched in the market so as to ensure that the insurance products offered by the insurers are of value to the policyholder and that their pricing is appropriate and fair between the insurer and the insured. In year 2001-02 there were total 42 products approved by IRDAI of all life insurers. This number increased to 116 products in year 2002-03 and then started declining and was 55 in 2005-06. In year 2006-07 it had a quantum jump and increased to 208 products for the year. Subsequently the number of products fluctuated and finally in 2012-13, around 118 products were approved by IRDAI of life insurers. From 2001 to 2013, products approved grew at a compound rate of growth of 8.64 percent per year. Life Insurance provides an individual with protection against the risks enlisted in the policy along with providing an opportunity for investments. In year 2004-05 there were 165358.196 thousand life insurance policies in force in India. The number of policies in force registered an increasing trend over the years and finally this number stood at 287857.32 thousand in 2012-13. The number of life insurance policies in force experienced a compound rate of growth of 7.15 percent per annum in post IRDAI phase (Table 2).

Protecting the interests of Policy holders

Consumer Affairs Department of Insurance Regulatory and Development Authority of India is entrusted with the task of protection of interests of 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. Generally, insurance regulations, namely, solvency regulation, rate regulation and policy regulation prevalent in market are grounded in Public Interest Theory of regulation and policy regulation specifically focuses on policyholders' interest protection because of information asymmetry on the part of customers. In this regard IRDAI has issued various guidelines and regulation and also has a dedicated website, namely, *Bima Bemissal*, for spreading awareness regarding insurance among people. In order to curb fraudulent practices by insurers, IRDAI has mandated that the prospectus of insurance must clearly state warranties, exception, conditions of the insurance

Table 2
Various Indicators of Life Insurance Sector in India

Year	*Offices*	*Agents*	*First Year (Including Single Premium) (Rupees Crore)*	*Total Premium Underwritten (Rupees Crore)*	*Products launched*	*Policies in Force (Policies in 000)*
2000-01	2199	115715	9707.43	34898.47	–	–
2001-02	2306	476902	19857.28	50094.46	94	–-
2002-03	2445	1038785	16942.45	55747.55	116	–-
2003-04	2612	1556817	19788.32	66653.75	94	–-
2004-05	3001	481250	26217.64	82854.80	56	165358.19
2005-06	3865	1423839	38785.54	105875.76	55	183108.83
2006-07	5373	1993199	75649.21	156075.84	208	194164
2007-08	8913	2520492	93712.52	201351.41	168	198168
2008-09	11815	2937435	87331.08	221785.47	196	217684.70
2009-10	12018	2978283	109893.91	265447.25	359	235064.88
2010-11	11546	2639392	126398.18	291638.64	244	253223.79
2011-12	11167	2358885	113966.03	287072.11	143	271273.62
2012-13	10285	2122757	107361.08	287202.49	118	287857.32

Source: Insurance Regulator and Development Authority of India Annual Reports (2000-2013)

contract at the point of sale. Every prospective buyer must sign the policy himself, making policy proposal form legible without fine printing (i.e. very small font size), regular servicing of the policy holders. Regulation 5 of the IRDAI (Protection of Policyholders' Interest) Regulations 2002 stipulates that every insurer shall have in place proper procedures and effective mechanism to address complaints and grievances of policyholders, efficiently and within stipulated time period of 15 days. Every insurer will spread information regarding Insurance Ombudsman to policyholders.

The role of IRDAI in protecting interest of policyholders is assessed on the basis of indicators such as efficacy of IRDAI in making policy proposal form filling process policyholder friendly, adherence to the norm of mandatory information shared by agents of insurance firms to prospective buyer at the point of sale of policy, satisfaction of respondents with the information imparted and product sold by the agent. Finally, perceptions of respondents who had grievances were solicited in regard to grievance redressal mechanism of Insurance companies and grievance redressal cell of IRDAI.

(i) Making Policy Proposal Form Policyholder-Centric

The first interface of the buyer with the insurance firm occurs at the point of sale of policy by an agent of insurer. IRDAI mandates that prospective buyer should fill the proposal form himself/herself or he should provide his consent to the concerned person to fill the proposal on his/her behalf if he is not in a position to fill the form. The prospective buyer should clearly read the instructions of the policy document. If prospective buyer is not in a position to fill the form himself an agent should share full information with him/her. Field Survey results revealed that out of total 270 respondents only 37 percent of the respondents had filled policy proposal themselves. Variation had been observed across insurers as 32.7 percent respondents of LIC revealed that they have filled policy proposal form of their own, while 43.5 percent respondents of ICICI Prudential stated that they have filled form themselves.

The language of the policy proposal form should be simple which acts as an incentive for filling proposal form by the policyholders. Policy proposal form with technical language and overridden with clauses and terms often goes beyond comprehension of the prospective buyer and agent may exploit the situation by misleading him or her. The target-centric approach of the insurance firms also exerts pressure on agent for mis-selling and policies may lapse when customer feels cheated. Majority of the respondents (65.2 percent) had stated that the language of the policy proposal was technical in nature. While 34.8 percent of the respondents felt the language of the policy proposal was easy to understand (Table 3).

Table 3
Policyholders Perceptions Regarding Policy Proposal Form

Sr.No	*Parameters of Policy Proposal being policyholders friendly*	*Perceptions of Policyholders*					
		Total		*LIC*		*ICICI Prudential*	
		Yes	*No*	*Yes*	*No*	*Yes*	*No*
i.	Did you fill Policy Proposal Yourself	100 (37)	170 (63)	53 (32.7)	109 (67.3)	47 (43.5)	61 (56.5)
ii.	Language of the policy Proposal was easy	94 (34.8)	176 (65.2)	62 (38.3)	100 (61.7)	32 (29.6)	76 (70.4)
iii.	Was policy legible	68 (25.2)	202 (74.8)	36 (22.2)	126 (77.8)	32 (29.6)	76 (70.4)

Note: Figures in parenthesis are percentages

The terms and conditions of the policy proposal should be bold and clear so that a potential buyer may get the product in consonance with his needs. If policy proposal form is fine printed (i.e. very small font size) then a customer may not be well aware about its terms and conditions and he may be denied benefits of the policy in long run by insurer. The field survey results brought forward that out of total respondents 74.8 percent respondents felt that policy document was fine printed.

(ii) Disclosure about the Policy

IRDAI has mandated that at point of sale of policy the agent must disclose all the necessary information regarding policy to the prospective buyer which is essential ingredient of customer interest protection. Out of total 270 respondents, more than 80 percent of the respondents opined that agent disclosed information regarding plan governing the policy, date of maturity, premium to be paid and its periodicity, grace period for premium payment, last premium installment, etc. Around 44.1 percent of the total respondents expressed that agent imparted information regarding contingencies excluded from the scope of risk (Table 4).

Table 4
Policyholders Perception regarding Information Disclosure by the agent

Sr.No	*Information to be disclosed by agent at point of sale of Policy proposal*	*Perceptions of Policyholders*					
		Total		*LIC*		*ICICI Prudential*	
		Yes	*No*	*Yes*	*No*	*Yes*	*No*
i.	Name of the plan governing the policy	321 (85.6)	39 (14.4)	148 (91.4)	14 (8.6)	83 (76.9)	25 (23.1)
ii.	Whether policy includes profits/Bonus or not	206 (76.3)	64 (23.7)	132 (81.5)	30 (18.5)	74 (68.5)	34 (31.5)
iii.	Benefits payable	214 (79.3)	56 (20.7)	142 (87.7)	20 (12.3)	72 (66.7)	36 (33.3)
iv.	Date of commencement of risk	190 (70.4)	80 (29.6)	115 (71)	47 (29)	75 (69.4)	33 (30.6)
v.	Date of maturity	217 (80.4)	53 (19.6)	136 (84)	26 (16)	81 (75)	27 (25)
vi.	Free look period: option to change policy plan or discontinue the policy within 15 days from receipt of your policy and get back your money after deducting the charges for policy processing	70 (25.9)	200 (74.1)	26 (16)	136 (84)	44 (40.7)	64 (59.3)
vii.	Premium to be paid and its periodicity, grace period for premium payment, last premium instalment, etc.	220 (81.5)	50 (18.5)	131 (80.9)	31 (19.1)	89 (82.4)	19 (17.6)
viii.	Contingencies excluded from the scope of risk cover	119 (44.1)	151 (55.9)	69 (42.6)	93 (57.4)	50 (46.3)	58 (53.7)
ix.	Contact number and address of the insurer for addressing your queries	187 (69.3)	83 (30.7)	108 (66.7)	54 (33.3)	79 (73.1)	29 (26.9)
x.	Documents required during claim settlement	143 (53)	127 (47)	78 (48.1)	84 (51.9)	65 (60.2)	43 (39.8)
xi.	Grievance redressal cell of IRDAI and Insurance ombudsman	24 (8.9)	246 (91.1)	12 (7.4)	150 (92.6)	12 (11.1)	96 (88.9)

Note: Figures in parenthesis are percentages

Among the protection of policyholders' interest issues, free look period deserves special mention as it is a customer friendly provision. Free look period provides option to policyholder to change policy plan or discontinue the policy within 15 days from receipt of finalized policy document and get money refund after deducting the charges for policy processing. It means on receiving final policy document the policyholder can evaluate all the terms and conditions of the document and can check whether the product sold to him/her is the same as desired by him/her. If the policyholder is not satisfied with the policy/product he can change or return the policy within 15 days by paying nominal processing charges and getting money refund. Field survey results highlighted, that only 25.9 percent of the total respondents stated that the agent disclosed information regarding free look period (Table 4).

While selling the policy as per the *Bima Bemissal website* an insurer along with spreading awareness regarding in-house grievance procedure should also spread awareness regarding insurance ombudsman. Informing a prospective buyer about existence of grievance redressal mechanisms of IRDAI along with terms and conditions of policy may help in reposing his trust in insurer and he may pursue policy without much apprehension. Field survey results had revealed that only 8.9 percent of the respondents stated that the agent shared information regarding existence of grievance redressal cell of IRDAI and insurance ombudsman.

(iii) Satisfaction with the Information shared and Product sold by the Agent

The overall assessment of information sharing by agent was done on the basis of policyholders' satisfaction with the information provided by an agent of the insurance firm at point of sale of policy and final product they received from insurer. Primary data reveals that 61.5 percent of the total respondents expressed satisfaction with the information shared by agent during policy selling stage and 19.6 percent were neutral (Table 5).

Majority (70 %) of the respondents were satisfied with the final product/ policy they received from insurer. Approximately 18.5 percent of the respondents expressed dissatisfaction with the final product received from insurer and 11.5 percent were neutral in their opinion (Table 5).

(iv) Efficacy of Grievance Redressal Mechanism

Along with preventive measures taken for policyholders' interest protection there is also need for curative measures which can be adopted in case the interest of policyholder is jeopardized. Thus IRDAI has designed grievance redressal mechanism in the form of grievance redressal mechanism of all the insurance companies and grievance redressal mechanism of IRDAI. In case

Table 5
Satisfaction of the Policyholders regarding information shared and Product sold by the Agent

Sr.No	*Satisfaction of the Policyholder*	*Perceptions of Policyholders*								
		Total			*LIC*			*ICICI Prudential*		
		S	*N*	*D*	*S*	*N*	*D*	*S*	*N*	*D*
i.	Were you satisfied with the information provided by agent of the insurer	166 (61.5)	53 (19.6)	51 (18.9)	106 (65.4)	32 (19.8)	24 (14.8)	60 (55.6)	21 (19.4)	27 (25)
ii.	Were you satisfied with the policy/ product given to you by your insurer	189 (70)	31 (11.5)	50 (18.5)	119 73.5	19 (11.7)	24 14.8	70 64.8	12 (11.1)	26 24.1

Note: S stands for Satisfied, N stands for Neutral and D stands for Dissatisfied; Figures in parenthesis are percentages of grievance the policyholder has to first approach grievance redressal mechanism of insurer and if he/she is not satisfied with the response he /she can lodge complaint with grievance redressal mechanisms of IRDAI.

Efficacy of Grievance Redressal Mechanism of Insurer

For grievance redressal the policyholder has to follow a step-wise procedure. An aggrieved policyholder can file the written complaint with Grievance Redressal Officer of the insurer supported by necessary documents and receive a written acknowledgement of the complaint with date. The insurer has to reply back to aggrieved policyholder within 15 days.

Out of total 270 respondents, 79 (29.3 percent) expressed that they had grievances such as incomplete information regarding the product, claim settlement, charges related to the product and wrong investments in Unit Linked Insurance Products (Table 6).

Table 6
Policyholders Perceptions Regarding Efficacy of Grievance Redressal Mechanism of Insurer

Sr.No	*Efficacy of Grievance Redressal Mechanism of Insurer*	*Perceptions of Policyholders*					
		Total		*LIC*		*ICICI Prudential*	
		Yes	*No*	*Yes*	*No*	*Yes*	*No*
i.	Do you have any complaint /grievance related to your insurer	79 (29.3)	191 (70.7)	49 (30.2)	113 (69.8)	30 (27.8)	78 (72.2)
ii.	Have you complained to the insurer regarding your grievances	49 (62)	30 (38)	27 (55.1)	22 (44.9)	22 (73.3)	8 (26.7)
iii	Did insurer responded back within specified time	21 (42.9)	28 (57.1)	14 (51.9)	13 (48.1)	7 (31.8)	15 (68.2)
iv	Were you satisfied with the insurer response related to your grievance	5 (10.4)	33 (68.8)	5 (18.5)	13 (48.1)	0 (0)	20 (95.2)

Note: Figures in parenthesis are percentages

Further out of 79 respondents, 49 (62 percent) approached the grievance redressal mechanism of the concerned insurance firm. IRDAI has mandated that the insurer should reply back to the aggrieved policyholder within 15 days but amongst these respondents the turnaround time of insurance companies varies. Around 43 percent respondents revealed that insurer replied back within 15 days meaning thereby compliance by the insurer with the stipulated time frame of IRDAI. In the remaining cases 57 percent respondents stated that the insurer turned around after 15 days. Out of these

49 respondents, majority 33 (67.4 percent) were dissatisfied, 11 (22.4 percent) were neutral and only 5 (10.2 percent) were satisfied with the response of insurer (Table 6).

Efficacy of Grievance Redressal Mechanism of IRDAI

In case of failure of insurer to reply within 15 days or the policyholder is not satisfied with the response of insurer then he may approach grievance redressal cell of Consumer Affairs Department of IRDAI or make a call through toll free number 155255 (or) 1800 4254 732 or send an email to complaints@IRDAI.gov.in. The policyholder may register and monitor complaint with Integrated Grievance Management System at www.igms.IRDAI.gov.in or may download Complaint Registration form, fill it and send it by post or fax to Consumer Affairs Department of IRDAI.

Out of total 33 respondents who were dissatisfied with the response of insurer, only 7 (21.2 percent) respondents approached the grievance redressal cell of IRDAI.

Out of these 7 respondents, 4 respondents were dissatisfied, 3 were satisfied with the decision of the grievance redressal cell of IRDAI. This low turnout (21.2 percent) towards grievance redressal cell of IRDA is attributed to information asymmetry on the part of policyholder about existing grievance redressal mechanism. It is noteworthy to mention here that out of total sample population only 18.5 percent of the respondents were aware about grievance redressal cell of IRDAI. As per IRDA classification of grievances for year 2014-15, maximum grievances are reported in terms of unfair business practices, followed by policy servicing grievances (Table 7).

Table 7
Yearly Classification of various Life Insurance complaints

Classification of Complaints	*Year*		
	2012-13	*2013-14*	*2014-15*
Claims	43178 (12.69)	36685 (9.79)	31076 (11.13)
Policy Servicing	56277 (16.55)	62238 (16.61)	55869 (20.02)
Proposal Processing	38742 (11.39)	27774 (7.41)	20932 (7.50)
ULIP Related	9278 (2.72)	7127 (1.90)	4029 (1.44)
Unfair Business Practice	168482 (49.55)	211622 (56.48)	145129 (52.01)
Others	24055 (7.07)	29174 (7.78)	21957 (7.87)
Total	340012	374620	278992

Source:http://www.policyholder.gov.in/uploads/CEDocuments/Classification%20Life%202014-15.jpg
Note: Figures in the parenthesis are percentages.

The foregone analysis clearly suggests that ownership plays an important role in protecting the interests of policyholders. In most of the parameters of protecting interests of the consumer the performance of LIC is better than ICICI Prudential. The policyholders of LIC in case of information provided by agent and product provided by the insurer and grievance redressal cell of insurer are more satisfied vis-à-vis policyholders of ICICI Prudential.

IV

Concluding Observations and Policy Prescriptions

Intervention of IRDAI in insurance sector is patterned on Public Interest Theory of regulation, as it is evident that IRDAI has been instrumental in protecting policyholders' interest by issuing guidelines for mandatory information disclosure by agents of insurers on various aspects of policy. Insurance sector has witnessed phenomenal changes since the inception of IRDAI. Entry of private players and foreign players was made feasible, product differentiation took place, competition was promoted but still there is room for improvement on account of protection of interests of policy holders. The stumbling blocks for interest protection is interplay of all the stakeholders, namely customer, agent, insurer and the Authority.

Firstly, policy holders have casual attitude at the point of purchase of policy proposal and tends to shift responsibility on agent. In majority of the cases the policy proposal form is filled by agent. Secondly the technical language and illegible font size of policy form further accentuates feeling of dis-interest in policyholder for filling the form himself/herself. Hence, the agent exploits the situation at point of sale of policy and may end up providing policy not compatible to customers' needs but high on agent profits.

Thirdly, agent does not disclose information regarding free look period and existence of grievance redressal mechanisms at the point of sale of policy proposal. Fourthly, agents driven by target-centric approach do not impart full information to the prospective policy holder. This target centric approach is one of the factors responsible for prevailing suicidal competition amongst insurance companies. The companies are offering policies at very low premium in order to capture larger market share and thus they are competing amongst each other which is impacting their balance sheet (The Hindu, 2012). Target-centric approach of agents has resulted in policy lapsation which is a also matter of concern. LIC lapsation ratio is around 25 percent whereas for private firms it is around 40 percent. Policy Lapsation impacts industry if it occurs in initial years of policy commencement as company had incurred huge cost in underwriting policy (Kumar, 2009). A study by IRDAI has revealed that lapse rate by number of policies has increased from 5.62 percent in 2002-03 to 7.8 percent and then it decreased to 6.64 percent in 2006-07 (Kannan, *et al*., 2008).

Fifthly, insurer does not look seriously into the grievances of the policyholders and do not address them in time-bound manner. Lastly, despite the existence of grievance redressal mechanisms very few policy holders are aware about them. Field survey results bring out that only 18.5 percent of the respondents knew about existence of grievance redressal cell of IRDAI. Thus in such situation the customer despite having grievance is unable to get it redressed.

There had been just thirteen years since the inception of IRDAI and it has still to go long way and insurance market has yet to mature.

In order to protect the interest of policy holders it is recommended that IRDAI should organize concerted awareness campaigns for customer awareness on the lines of *Jago Grahak Jago* for consumer awareness and *Hum do Hamare do* for containing population and promotion of small family. Information should be disseminated regarding IRDAI's role and existence of various mechanisms of grievance redressal by organizing more insurance awareness camps, dissemination workshops, advertise in national and regional newspapers about the services offered by it. IRDAI should conduct policyholders' surveys for improving the policy relating to consumers interest protection.

When grievance is reported to insurer there should be auto escalation of grievance to IRDAI grievance redressal cell if it is not addressed in a time bound manner or customer is not satisfied with the reply of insurer.

Stringent fines should be imposed on erring (especially for mis-selling) insurance companies. Rewards should be announced for the best policy retaining and servicing agents by IRDAI.

Policy proposals should be standardized and written in simple language with legible font size. Prospective policy holder should also feel the responsibility to fill the form himself/herself up to the extent possible. Target-centric approach of insurance companies should be shunned and training module of agents should specifically emphasize on customer oriented services. Lastly, agents should be sensitized and incentivized for disclosing all the information to the buyer specially regarding the free look period.

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