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REGULATIONS ISSUED BY IRDA

2.0 INTRODUCTION

Till 1999 the insurance sector was controlled by Controller of Insurance as per the provisions of Insurance Act 1938 but after formation of the IRDA it is felt by the Authority that the most of the provisions of this Act were irrelevant in the present scenario of the country. Therefore the Authority issued various regulations, as deemed fit, to develop the insurance sector in the country.

Therefore, we shall be discussing the following important regulations in this following chapters :-

Procedure of :-

- Granting of license to companies to start insurance business.
- Approval of insurance product.
- Appointment of different insurance intermediary.
- Investing the insurance premium.
- Accounting & audit.
- Miscellaneous important provisions of Insurance Act.

These regulations were not issued in the above sequence but we have followed this logic - firstly the insurance company will come into existence, secondly the insurance product will be design and developed, thirdly the manpower is required to sell the product, fourthly the premium received by the insurance companies is to be invested, fifthly the accounts are to be maintained and lastly, various provisions.

**Notes**

2.1 OBJECTIVES

At the end of this lesson you will be able to know:-

- The procedure of getting the license of insurance from IRDA.
- The procedure to get approval of insurance product from IRDA.
- The procedure to appoint an insurance inter-mediatory.

Before we start explaining the first regulations, we shall discuss various terms defined in Insurance Act 1938

2.2 DEFINITIONS

- 1 “Actuary” means an actuary possessing such qualifications as may be prescribed;
- 2 “Authority” means the Insurance Regulatory & Development Authority established under the Insurance Regulatory and Development Authority Act, 1999.
- 3 “Policy-holder” includes a person to whom the whole of the interest of the policy-holder in the policy is assigned once and for all, but does not include an assignee thereof whose interest in the policy is defeasible or is for the time being subject to any conditions;
- 4 “Approved Securities” means –
 - i. Government securities and other securities charged on the revenue of the Central Government or of the Government of a State or guaranteed fully as regards principal and interest by the Central Government or the Government of any State;
 - ii. Debentures or other securities for money issued under the authority of any Central Act or Act of a State Legislature by or on behalf of a port trust or municipal corporation or city improvement trust in any presidency-town;
 - iii. Shares of a corporation established by law and guaranteed fully by the Central Government or the Government of a State as to the repayment of the principal and the payment of dividend;

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- iv. Securities issued or guaranteed fully as regards principal and interest by the Government of any Part B State and specified as approved securities for the purposes of this Act by the Central Government by notification in the Official Gazette;
5. “Auditor” means a person qualified under the Chartered Accountants Act, 1949 to act as an auditor of companies;
6. “Certified” in relation to any copy or translation of a document required to be furnished by or on behalf of an insurer certified by a principal officer of such insurer to be a true copy or a correct translation, as the case may be;
7. “Court” means the principal Civil Court of original jurisdiction in a district, and includes the High Court in exercise of its ordinary original civil jurisdiction;
8. “Fire Insurance Business” means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies.
9. “General Insurance Business” means fire, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them.
10. “Government Security” means a Government security as defined in the Public Debt Act,
11. “Indian Insurance Company” means any insurer being a company:—
 - (a) which is formed and registered under the Companies Act, 1956 (1 of 1956);
 - (b) in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed twenty-six per cent paid-up equity capital of such Indian insurance company;
 - (c) whose sole purpose is to carry on life insurance business or general Insurance business or re-insurance business.

**Notes**

12. “Insurance Agent” means an Insurance agent duly licensed and who receives or agrees to receive payment by way of commission or other remuneration in Consideration of his soliciting or procuring Insurance business including business Relating to the continuance, renewal or revival of policies of Insurance;
13. “Life Insurance Business” means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except, death by accident only) or the happening of any contingency dependent on human life, and any contract which is subject to payment of premiums for a term dependent on human life and shall be deemed to include:—
 - (a) the granting of disability and double or triple indemnity accident benefits, if so provided in the contract of Insurance.
 - (b) the granting of annuities upon human life.
 - (c) the granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons.
14. “Marine Insurance Business” means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights and other interests which may be legally insured, in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land or water, or both, and whether or not including warehouse risks or similar risks in addition or as incidental to such transit, and includes any other risks customarily included among the risks insured against in marine Insurance policies;
15. “Miscellaneous Insurance Business” means the business of effecting contracts of insurance which is not principally or wholly of any kind or kinds included in fire, marine insurance business.

2.3 PROCEDURE OF GRANTING OF LICENSE TO COMPANIES TO START INSURANCE BUSINESS

No person can carry on Insurance business unless & until he has obtained a certificate from the Authority for a particular class of Insurance business. For e.g. A person can start life Insurance, marine Insurance, fire Insurance, health Insurance etc. But a life Insurance business cannot be combined with other type of Insurance business. Those who are already in Insurance Business like General Insurance Corp., National Insurance, New India Assurance, Oriental Insurance & United India Insurance have to obtain a fresh certificate within 3 months from the date of commencement of this Act or before such date as fixed by the Govt.

Even those insurers for whom the registration was not necessary before the commencement of this Act will require the registration certificate.

To get the registration certificate the following procedure is to be followed:

Every application in the prescribed form (IRDA/R1) for registration shall be made with the following enclosures:—

1. A certified copy of Memorandum and Articles of association if the applicant is a company.
2. The name, address & the occupation of the directors of the company.
3. A statement of the class of insurance business proposed to be carried on.
4. A statement indicating the sources that will contribute the share capital.

On receiving the above documents IRDA will verify the contents and may ask for additional information if any. The Authority may ask the Principal Officer to appear to their office for any information or clarification.

If the Authority is satisfied with the information and documents provide with the application form (IRDA/R1), the Authority may ask for an additional application in the prescribed form (IRDA/R2) which should be accompanied with then following documents:—



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1. Every Insurance shall deposit in cash or in approved securities or partially in cash or partially in approved securities as per details given below: -
 - (i) In case of Life Insurance business, a sum equivalent to 1% of his total gross premium written in India in any financial year commencing after the 31st day of March 2000 not exceeding rupees ten crores (Rs.10 crores).
 - (ii) In the case of General Insurance business a sum equivalent to 3% of his total gross premium written in India in any financial year commencing after 31/3/2000 not exceeding rupees ten crores (Rs.10 crores).
 - (iii) In case of reinsurance business, a sum of rupees twenty crores (Rs.20 crores).
 - (iv) If the business is to be done in marine Insurance only & relates exclusively to country craft or its cargo or both the amount to be deposited Rs.1,00,000/- (Rs.1 lakh) only.
 - (v) A certificate from the Reserve Bank of India showing the amount deposited.
2. A declaration verified by an affidavit from the “Principal Officer” that the equity capital of the company has been complied with.

The paid up equity excluding preliminary expenses and registration charges should be Rs.100 crores for life or General Insurance business and Rs.200 crores for the Reinsurance business.

If any insurer is carrying on business of insurance already then within 6 months from the commencement of the Act the paid up capital should be as per prescribed limits in the Act.
3. A certified copy of the published prospects and of the standard policy forms of the insurer.
4. Statement of assured rate, advantages, terms & conditions to be offered in connection with Insurance policies.
5. In the case of the business the certificate from the actuary that such rates are workable & sound.
6. In the case of marine accident & miscellaneous Insurance

business other than workmen's compensation & motor car Insurance the available forms, prospects and statements to be submitted.

7. The receipt of deposit of Rs. 50,000/- for each class of business.
 8. If there is any foreign partner, a certified copy of Memorandum of understanding between Indian promoter and Foreign promoter including details of support comfort letters exchanged between the parties.
 9. Any other document as desired by the Authority after scrutiny the application.
- 2A) If on the receipt of an application for registration and the authority is satisfied that
- a) The financial condition & the general character of management of the applicant are sound.
 - b) The volume of business likely to be available to & the capital structure & earning prospects of the applicant will be adequate.
 - c) The interest of the general public will be served if the certificate of registration is granted to the applicant then the certificate of registration is granted.

Refusal of Registration

- If the Authority refuses the registration the reason of such decision will be intimated to the applicant.
- The Applicant whose application has been rejected can file an appeal before the Central Govt. within 30 days from the date on which a copy of the decision is received.
- The decision of the Govt. shall be final and shall not be questioned before any court.

Cancellation of Registration

The Authority has the right to cancel the certificate of registration either wholly or in so far as it relates to a particular class of Insurance business if the any of the conditions specified for registration is not complied with.

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**Notes****Renewal of Registration**

Every year the registration is to be renewed and the application is to be made to the Authority before 31st Dec. of the preceding years with the prescribed fees i.e.,

- (i) 1/4th of 1% of premium received or Rs. 5 crores whichever is less.
- (ii) It should not be less than Rs. 50,000 in each class of business.
- (iii) For reinsurer companies 1/4th of 1% will be considered of total premium in respect of facultative reinsurance accepted in India.
- (iv) Fees to be paid in Reserve Bank of India.

INTEXT QUESTIONS 2.1

1. Mention the fees to be paid by any life insurer on registration and on renewal.
 2. Mention the minimum capital requirement for any Insurer.
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2.4 REGULATION FOR PRODUCT APPROVAL

No Insurance Company can sell any insurance product unless & until the product is approved by the Authority. The procedure to get the approval from the Authority is as follows:—

Life Insurance Products

The life Insurance products are classified as:—

- 1) Linked Business.
- 2) Non-Linked Business.
- 3) Non-life/General Insurance Business.

An insurer who wishes to introduce a new product or to make changes to any existing product or to withdraw an existing product shall submit the application in the prescribed proforma to IRDA with full details and reasons to make changes in any existing product or to withdraw an existing product.



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The insurer shall not commence selling the product in respect of which additional information has been sought by the Authority until the Authority confirms in writing. If no such information is sought by the Authority, the insurer can commence selling the product in the market.

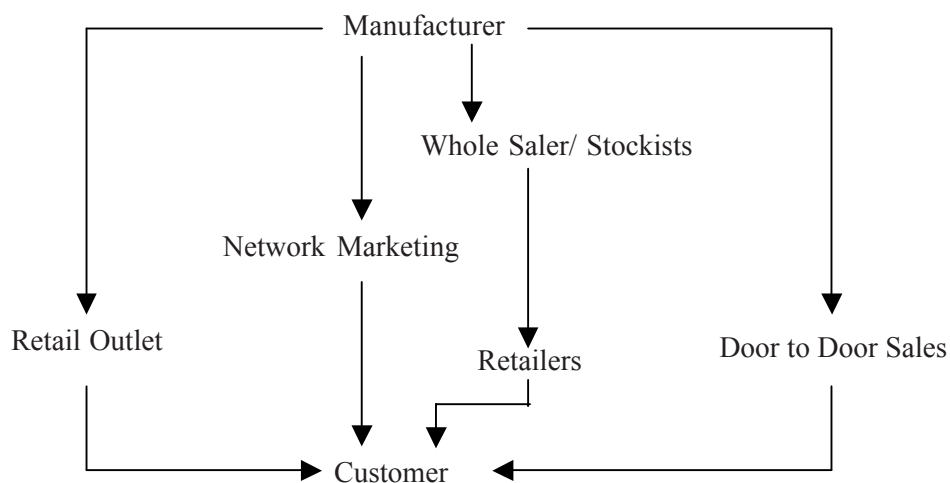
Period of Approval

Within 15 days (earlier 30 days) of the receipt of the application the Authority may seek additional information with regard to the product, and the insurer shall not commence selling the product in respect of which additional information has been sought by the Authority, until the Authority confirms in writing having noted such information. If no such information is sought by the Authority, the insurer can commence selling the product in the market, as set out in the application after the expiry of the said 15 days (earlier 30 days) period. This procedure is known as “File & use.”

2.5 DISTRIBUTION CHANNELS

Distribution refers to the arrangement by which the product, after manufacture is moved till it reaches the customers, the objective is to ensure that the product is available to the customer when he wants to buy it.

Generally for the tangible products the distribution channels is as follows:



Wholesaler/ Stockists: The Wholesaler will buy the goods from the manufacturer in large quantities and hold the stock and distribute them to retailers as per their requirements.



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Retailers: The retailer is one of the last distribution channel, who is selling the product to the customer.

Retail outlet: Sometimes the manufacturer open a retail outlet in each part of country to have a direct access with customer. For e.g.; BATA showroom for shoes, Titan for wrist watches.

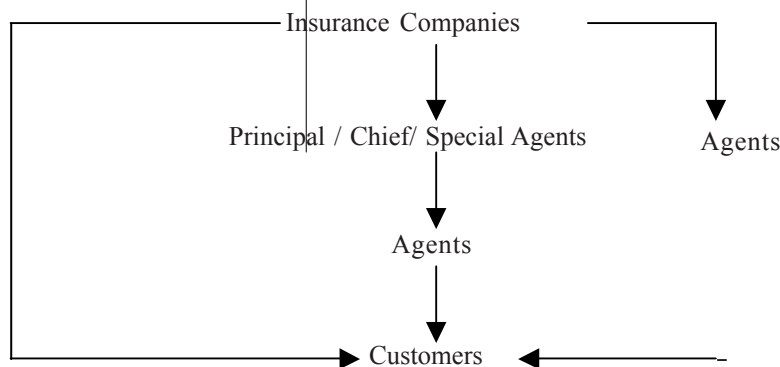
Door to Door Sales: Under this system, the sale is made directly to the customer through the salesman who is visiting at residence of the customer prospects.

For e.g.; Eureka Forbes Products – Water filter, Vacuum Cleaner, Tupperware, Avon Cosmetic.

Network Marketing: This concept of marketing started few years back under which the manufacturer is selling the product to an individual and forms a chain to provide more benefit to the customers. For e.g. **Amway**

If we look at the distribution channel of an Insurance Company, it may be different because the insurance is a intangible product. The distribution channels before nationalization were as follows:

Before Nationalization



The distribution channel of insurance sector is regulated by the Insurance Act 1938.

Principle Agent/ Chief/ Special Agents:

These Agents were appointed under Section 42A, 42B and 42C of the Insurance Act 1938. But the appointment of these agents was stopped w.e.f. 1/4/1950 therefore the explanation of these provisions is not given.

After Nationalization

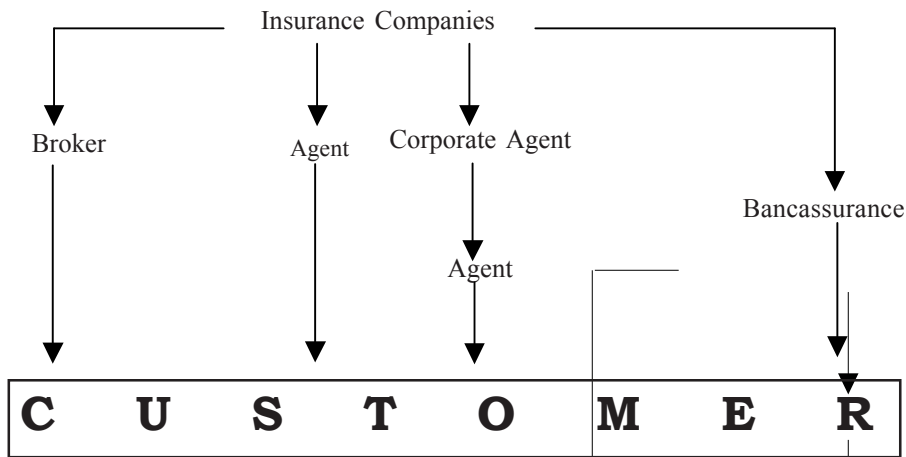
Insurance Companies

Agent

Customers

The Insurance product is being sold either through an agent or directly by the company.

After Privatization of 2000



The Indian Insurance Sector is exposed to various criticisms like :—

- **Relating to service level**
- **Speed of claim settlement**
- **Efficiency**
- **Value for money**
- **Standards of technical competency in staff**

In fact the customer expectations are

Tangible :—

- **Choice**
- **Better cost**
- **Better products**
- **Better administration**



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In fact the customer expectations are intangible:—

- **They want to be treated like individuals**
- **They want attention of their problems**
- **They want to be understood**
- **They expect an ethical approach to business**

In fact the customer wants to be recognized as being a valuable and integral part of insurance business. Insurance companies need innovation and expertise to respond.

The Indian insurance sector has a vast potential considering the country's large population, a growing and affluent middle class, large household saving and increased trade volume. Therefore insurance companies will have to identify the thrust areas i.e. individual or business issues must be involved in marketing services i.e. trained manpower and designing the marketing strategy in the changing scenario that understand the customer needs, identification of features the consumer is looking for in the insurance service and the price the customer is willing to pay for the service. To protect the interest of customers IRDA has set regulations to appoint various distribution channels and in the following paragraphs the regulations related to Agents/Corporate Agent/ Insurance broker are explained:

2.5.1 Agent:

An agent can work for any one life insurance and one general insurance company and the appointment of an agent will be as per regulation prescribed by IRDA as explained below:

Issue of License:

IRDA or an officer authorized by it in this behalf will issue a license. These Regulations specify:

- Authorizes designated persons, being officers of insurers to issue such license for three years
- The license may be to act as an
 - Agent for the “Life Insurer” or
 - Agent for the “General Insurer” or
 - Agent as a “Composite Insurance Agent” means Agent for life insurance as well as general insurance.

- Fee for the license (Rs. 250/-)
- The manner of making an application etc.

Qualification

A person must:—

1. Be at least 18 years of age.
2. Have passed 12th standard or equivalent examination if he is to be appointed in a place with population of 5,000 and more or 10th standard otherwise.
3. Have undergone practical training in an approved Institute, in life or general insurance as the case may be for 50 hrs. (on renewal for 25 hours) spread over 3 to 4 weeks for either of the licenses, and 75 hours spread over 6 to 8 weeks for composite license There are relaxations in the hours of Training for some Professionals, like CA's, MBA, Associates/Fellows.
4. Have passed the examination conducted by Insurance Institute of India or any other examination body recognized by the authority. He will have to qualify 2 hrs. written test by obtaining 50 marks out of 100 marks.
5. The fees for each license is prescribed as Rs. 250/-. If the application for renewal is late but made before expiry of the license than Rs. 100/- will be charged extra. In case license has expired already then application for renewal will normally be turned down but if hardship is proved then license may be renewed.

Disqualification

A person would be debarred from obtaining a license if he is found to be:—

1. A minor.
2. Of unsound mind declared by court of competent jurisdiction.
3. Guilty of criminal breach of trust, misappropriation, cheating, forgery or abetment or attempt to commit any such offence.

Code of Conduct

- (1) Every person holding a license, shall adhere to the code of conduct as specified like identify himself and the

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insurance company of whom he is an insurance agent, Disclose his license to the prospect on demand, disseminate the requisite information in respect of insurance products offered for sale by his insurer, disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect, indicate the premium to be charged by the insurer for the insurance product offered for sale, about proposal form etc

- (2) No insurance agent shall, like solicit or procure insurance business without holding a valid license; induce the prospect to omit any material information in the proposal form; induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal; behave in a discourteous manner with the prospect; interfere with any proposal introduced by any other insurance agent; offer different rates, advantages, terms and conditions other than those offered by his insurer; etc.

Cancellation of License

The designated person may cancel a license of an insurance agent, if the insurance agent suffers, at any time during the currency of the license, from any of the disqualification as stated above and recover from him the license and the identity card issued earlier. Even on non performance of minimum business expectation by the Insurer the agency can be terminated.

2.5.2 Corporate Agent:

The provisions of appointment of an agent are applicable for the Corporate Agent subject to the additional provisions as explained below:

1. Corporate Agent can be only firm or company.
2. Insurer may decide on case to case basis for having share capital of Rs 15 lakhs.
3. A person known as Principal Officer should be qualified as Associate of Insurance Institute of India Mumbai (AIII) and if a corporate in existence then with in 3 years from the date of renewal the principal office should acquire the said qualifications.



INTEXT QUESTIONS 2.2

1. Minimum qualification to be insurance Agent.
2. How much Share capital is required to become a Corporate Agent?

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2.5.3 Brokers

An insurance broker is a new distribution channel introduced in 2002 by IRDA. The insurance broker is professional & expert organization who deals with all insurance companies and area of operation is on all India bases.

The Brokers are categorized under three types:—

- (a) Direct broker; It means the broker can deal in life and general insurance business.
- (b) Reinsurance broker; It means the broker can deal with reinsurance business.
- (c) Composite broker; It means the broker can deal with reinsurance and life & general insurance business.

Requirements of Capital:—

Any applicant seeking to become an insurance broker should satisfy the following conditions:

- a) It shall have a minimum amount of capital as mentioned below:

Category	Minimum amount (Rupees)
Direct broker	fifty lakhs
Reinsurance broker	two hundred lakhs
Composite broker	two hundred and fifty lakhs

- b) The capital in the case of a company limited by shares and a cooperative society shall be in the form of equity shares.
- c) The capital in the case of other applicants shall be brought in cash.
- d) The applicant shall exclusively carry on the business of an insurance broker as licensed under these regulations.
- e) No part of the capital of an applicant shall be held by a non-Indian interest beyond 26% at any time.
- f) **Principal Officer:** In any insurance broking firm a person called Principal Officer will be responsible for insurance



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business and day to day function of the broking firm. To become the principal officer he should fulfill the following criteria:

- The Principal officer should have minimum qualification of graduation or as prescribed by IRDA
- The principal officer of the applicant has received at least one hundred hours/fifty hours of theoretical and practical training from an institution recognised by the Authority from time to time.
- Has passed an examination, at the end of the period of training conducted by the National Insurance Academy, Pune or any other examining body recognised by the Authority.

Validity of licence:— A licence once issued shall be valid for a period of three years from the date of its issue, unless the same is suspended or cancelled by IRDA.

Fees:—

Category	Amount
Direct Broker	Rs 20,000/- at the time of license and every year 0.5% of brokerage earned minimum Rs 25,000/- & maximum Rs 1,00,000/-
Reinsurance Broker	Rs 40,000/- at the time of license and every year 0.5% of brokerage earned minimum Rs 75,000/- & maximum Rs 3,00,000/-
Composite Broker	Rs 50,000/- at the time of licenses and every year 0.5% of brokerage earned minimum Rs 1,25,000/- & maximum Rs 5,00,000/-

Professional indemnity insurance :— Every insurance broker shall take out and maintain and continue to maintain a professional indemnity insurance cover throughout the validity of the period of the licence. The amount of indemnity should be three times of the brokerage earned during last year or Rs 50.00 lakhs which ever is higher.

2.6 SUMMARY

Though the insurance sector is liberalized in the year 2000 but

keeping in view of the nature of product i.e intangible IRDA has full control over the insurance companies/ product approval/Distribution Channels. To start insurance business in India one has to get registered with IRDA and invest minimum Rs 100 crores for life Insurance/general insurance and Rs 200 crores for reinsurance business. Life insurance business cannot be merged with general insurance business therefore two different companies have to be formed for starting both insurance businesses. Apart from the capital requirements a lengthy procedure is to be followed to get a license to start the insurance business. After registration an insurance company needs a product to sell in the market. Again the product should be approved by IRDA and the procedure is simple “file & use”, which means the product features are to be submitted in the prescribed form and market after 15 days if no objection is raised by IRDA.

Being intangible product the trained manpower is required to sell the insurance product. These products can be sold through Agents, Corporate Agents or Broker who are licensed by IRDA. These individuals/Directors will have minimum qualifications and undergo training of 100 hours in IRDA approved institutes and pass the examination conducted by Insurance Institute of India/National Insurance Academy. It is not permitted to sell the insurance product by the persons not qualified as mentioned above. The difference among the different distributions channels is that the Agents and Corporate Agents can sell the product of one insurance company while an insurance broker can sell the product of all the insurance companies. An insurance broker can work on all India basis while an Agent/Corporate Agent can work in particular city and attached with one particular office of the insurer.

2.7 TERMINAL QUESTIONS

- (a) Explain the procedure to obtain a license of an insurance Broker.
- (b) Discuss the code of conduct of an agent.
- (c) Distinguish between an Agent and an Insurance Broker.

**Notes**



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2.8 OBJECTIVE TYPE QUESTIONS

Choose the correct option

1. Who can sell the insurance product other than Insurer ?
 - a. Any person
 - b. A person who is licensed by IRDA
 - c. A person who is authorized by Insurer.
 - d. A person who is authorized by Govt.

2. Choose the correct option

Statement A: The share capital of any Insurance company is Rs 100 crores.

Statement B: The Share capital of Direct Broker is Rs 100 lakhs.

- a. Statement A b. Statement B c. Both d. None

3. Choose the correct option

Statement A: To become an Insurance Agent in rural area minimum qualification is 12th passed.

Statement B: To become an Insurance Broker in rural area minimum qualification is 10th passed.

- a. Statement A b. Statement B c. Both d. None

4. Choose the correct option

Statement A: Insurer can sell any product.

Statement B: Insurer can sell any product with the approval of IRDA.

- a. Statement A b. Statement B c. Both d. None

5. Choose the correct option

Statement A: A Principal Officer is must for all distribution channel of insurance product.

Statement B: A Principal Officer is required only for Insurers.

- a. Statement A b. Statement B c. Both d. None

2.9 ANSWERS TO INTEXT QUESTIONS

2.1

1. Rs 10 crores at the time of registration and 0.25% of premium received or Rs 5 crores which ever is less at the time of renewal of registration.
2. Rs 100 crores.

2.2

1. Have passed 12th standard or equivalent examination and 10th standard to become Insurance Agent in Rural area.
2. Rs 15 lakhs.

2.10 ANSWERS TO OBJECTIVE TYPE QUESTIONS

2.8

1. b
2. a
3. d
4. b
5. none



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