

OVERVIEW

The insurance industry in India witnessed sweeping changes since 1999, when the Insurance Regulatory and Development Authority Act was enacted. While there were only one life insurer and five public sector non-life insurers at that stage, there were sixteen life and fifteen non-life insurers by August 2007.

The insurance industry today functions in a highly competitive environment, with increasing private participation and an expanding product portfolio. While public sector insurers have been experiencing declines in their market share, they have registered an overall growth in premium incomes. Potential for growth is substantial, given current levels of insurance penetration in India. With tariffs being entirely deregulated with effect from January 2008, except for Motor Third Party premium, there would be considerable change in the insurance markets posing new challenges to the public sector insurers.

A performance audit of the functioning of public sector insurance companies was undertaken, focusing on issues related to Motor Third Party Claims; reinsurance; commission and brokerage payments; and claims settlement and grievance redressal procedures. The primary objective of the audit was to ascertain whether the companies had adequate and effective operating and control systems in these areas and to suggest appropriate measures for improvement.

Motor Third Party business has traditionally been viewed as a loss making segment of the insurance business. The establishment of a centralised database would greatly improve processing of information relating to claims, lower risks related to fraudulent claims, and lead to quicker settlement of claims. There were numerous cases of delayed settlement of Tribunal awards, resulting in additional payment of interest.

The objective of maximising retention levels within the country, in relation to reinsurance, has largely been achieved. Instances were noticed where business was placed with reinsurers who did not enjoy the stipulated ratings, contrary to regulatory directions. Steps also need to be taken to institute a credible system of empanelment of reinsurance brokers.

Claims settlement is an area where improvements need to be effected, especially in the current competitive environment. Numerous claims were outstanding for more than six months. The companies did not institute procedures for the formal and periodic assessment of the work of surveyors and loss assessors. Delays in appointment of surveyors and receipt of survey reports hindered the claims settlement process, with consequent impact on customer satisfaction.

Companies had entered into various agreements with automobile manufacturers, dealers, financiers, etc. as part of their business promotion strategies. However, the contents of the agreements and the nature of payments being released to these entities lack clarity and are not in accordance with either statutory provisions or regulatory stipulations. There were numerous instances of commission being released to agents whose licenses had expired, as well as diversion of commission without appropriate authorisations.