

Standing Committee Report Summary

Performance Review and Regulation of Insurance Sector

- The Standing Committee on Finance (Chair: Mr. Jayant Sinha) submitted its report on ‘Performance Review and Regulation of Insurance Sector’ on February 6, 2024. Key observations and recommendations of the Committee include:
 - **Insurance coverage:** In 2021-22, insurance penetration (percentage of insurance premium to GDP) in India was 4.2% as compared to the global average of 7%. Similarly, India’s insurance density (ratio of premium to population) was USD 91, lower than the global average of USD 874. The Committee noted that there is a need to create mass awareness about the need and benefits of having insurance protection and diverse insurance products.
 - **Composite license for insurance business:** The Insurance Act, 1938 and the regulations of the Insurance Regulatory Development Authority of India (IRDAI) do not allow composite licensing to provide life, general, or health insurance under one entity. The Committee noted that providing composite licenses can reduce costs and compliances of insurers. It can also allow customers to access all-in-one insurance from a single insurance provider. The Committee recommended introducing a provision for composite licensing of insurance companies and make related amendments in the legislation.
 - **Health insurance:** The Committee noted that several people in the country are one medical bill away from slipping into poverty. It observed that insurance products with affordable premiums and cashless settlement would encourage more people to opt for health insurance. It recommended that the Ayushman Bharat scheme can be expanded by allowing people who are not covered by the scheme to opt for it on a paid basis. It also recommended that there was a need to reduce the current 18% GST rate on health and term insurance products.
 - **Settlement of claims:** Some private companies are offering heavy discounts on premiums due to competition in the sector. As the premium collected by companies falls short, they resort to repudiation/delay in payment of large claims. The Committee recommended that such cases should be deterred by levying heavy penalties. Any new legislation being considered by the government should also seek to address this issue.
 - **Microinsurance products:** Microinsurance protects low-income people from financial losses by offering affordable products. Promotion of microinsurance
 - faces various challenges such as: (i) small ticket size coupled with high transaction costs, (ii) absence of a business model that can attract good intermediaries, and (iii) lack of knowledge on how insurance works. The Committee recommended that new microinsurance products need to be developed and provided at affordable rates. It recommended that the minimum capital requirement of Rs 100 crore be reduced to encourage small and niche insurance providers.
- **Government insurance schemes:** The central government has been running various microinsurance schemes. These include PM Jeevan Jyoti Bima Yojana, PM Suraksha Bima Yojna, and PM Fasal Bima Yojana. However, some issues have been observed in the operation of these schemes. In PM Fasal Bima Yojana, issues such as high premium rates and delay in processing claim settlements have been observed. As on June 30, 2023, claims worth Rs 2,761 crore were pending under the scheme. The Committee recommended that premium under the scheme should be made affordable to increase reach among farmers.
- **Public sector insurance companies:** The Committee noted that the four public sector general insurance companies witnessed losses worth Rs 26,000 crore between 2016-17 and 2020-21. This was due to their overexposure to health insurance business. Capital worth Rs 17,000 crore has been infused in these companies over the previous few years. Some other measures identified to improve the financial health of these insurers include: (i) exiting unprofitable lines of businesses, (ii) improving the retail business portfolio, and (iii) involving more people in marketing operations. The Committee recommended that a strategic roadmap should be formulated to implement these measures. This should involve timelines for demonstrating improvement in the performance of these companies.
- **Property insurance in disaster prone areas:** India is prone to various natural disasters, mostly floods. Such disasters can damage infrastructure, and many houses are not safe enough to withstand earthquakes and floods. The Committee recommended that the government should explore options to insure homes and properties in areas prone to natural disasters. This may require a specialised insurance business set up by a public sector general insurance company with subsidised premiums. The Committee proposed that IRDAI should form a working group to examine the issue and provide policy recommendations.

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