

# Bill Summary

## The Insurance Laws (Amendment) Bill, 2008

- The Insurance Laws (Amendment) Bill, 2008 was introduced on Dec 22, 2008 in the Rajya Sabha. The Bill was referred to the Standing Committee on Finance (Chairperson: Shri Ananth Kumar), which is scheduled to submit its report by the first day of the next session
- The Bill amends three Acts: the Insurance Act, 1938; the General Insurance Business (Nationalisation) Act, 1972; and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The amendments include raising the maximum limit for foreign equity in Indian insurance companies, permitting foreign re-insurers to open branches and providing for permanent registration of the insurers.
- The Bill adds, modifies and omits certain definitions in the 1938 Act. It defines “health insurance business” as a contract that provides for sickness benefits and medical expenses on the basis of an indemnity, reimbursement, service or prepaid plan. It amends the definition of “actuary” to bring it in line with definition in the Actuaries Act, 2006.
- The Bill increases the maximum permitted limit of foreign equity in Indian insurance companies from 26% to 49%. The cap of 26% for insurance co-operative societies is not modified.
- Every insurer has to be registered in order to carry on insurance business. In order to be registered, each category of insurer requires a minimum amount of capital: for life insurance or general insurance, the minimum paid up capital required is Rs 100 crore; for health insurance, the minimum paid up capital required is Rs 50 crore; and for re-insurance business, the minimum paid up capital required is Rs 200 crore. A foreign re-insurance business needs to have a minimum of Rs 5000 crore as net owned funds to be registered under the law.
- There is provision for permanent registration of the insurers with annual renewal fee and right to cancel registration if the insurer violates any conditions specified by IRDA.
- The Bill amends the capital structure, voting rights and maintenance of registers of beneficial owners of shares of public limited companies. It also provides for maintenance of accounts and balance sheets, conduct of audits and submission of returns and actuarial reports.
- The Bill seeks to provide for investment of assets in the prescribed manner. It prohibits any insurer from investing funds of policy holders outside India.
- The Bill seeks to facilitate the entry of Lloyd’s of London in the insurance business in India as a foreign company in joint venture with Indian partners and also as a branch of foreign re-insurer.
- Every insurer who conducts business of general insurance shall underwrite a specified percentage of insurance business in third party risks of motor vehicles.
- The Act allows the transfer or assignment of life insurance policy in the specified manner. The Bill amends this provision. It states that an assignment in favour of a person made on certain conditions is valid provided that a conditional assignee shall not be entitled to obtain a loan on the policy or surrender a policy.
- The Act allows the holder of a policy of life insurance to nominate to whom the policy money shall be paid in the event of the holder’s death. The Bill makes provision for the holder to indicate whether a nominee is a “beneficiary nominee” or a “collector nominee”. A “beneficiary nominee” is entitled to receive the entire proceeds payable under the policy. A “collector nominee” is any person other than a beneficiary nominee who is liable to pay benefits arising out of the policy to the beneficiary nominee or legal heirs of the policy holder.
- The Bill makes the insurers responsible for appointing insurance agents and the IRDA for regulating their eligibility and qualifications.
- No life insurance policy shall be questioned on any ground whatsoever after five years from the date of the policy. The Bill also limits the ground for challenge within the period of five years.
- Bill omits provisions related to Tariff Advisory Committee in view of the detariffing of rates and premiums.
- The Bill empowers the Life Insurance Council and General Insurance Council to frame bye laws for elections, meetings, and collection of fees from its members.
- The Bill enhances penalties for offences such as carrying on business of insurance without registration or not complying with the obligation toward rural and social sector and third party insurance of motor vehicles.

- The IRDA shall appoint an adjudicating officer (minimum rank of Joint Director) for holding an inquiry in the prescribed manner. After completion of inquiry, IRDA may impose the specified penalty after giving an opportunity to the concerned person of being heard. Any person aggrieved by an order of IRDA may appeal to the Securities Appellate Tribunal.
- The Bill provides for crediting sums from penalties to the Consolidated Fund of India. It also allows insurance companies to raise capital through new financial instruments on pattern of banks.
- The Bill amends the General Insurance Business (Nationalisation) Act, 1972 by allowing nationalised general insurance companies to raise money from the market with the permission of the central government for increasing their business in the rural and social sector, meeting solvency margins and any other prescribed purposes.
- The Bill amends the Insurance Regulatory and Development Authority Act, 1999 by including “insurance agents” in the definition of “insurance intermediaries”.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research (“PRS”). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.

