

IRDAI Role in Regulating Health Insurance in India: A Policy and Governance Perspective

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Abstract - The health insurance industry in India has undergone considerable changes in the last twenty years, primarily driven by the regulatory and developmental efforts of the Insurance Regulatory and Development Authority of India (IRDAI). This research intends to thoroughly examine the regulatory framework set forth by IRDAI that oversees the operations of the health insurance sector, ensuring adherence to regulations, financial soundness, and protection for consumers.

Additionally, it investigates the policy measures introduced by IRDAI aimed at increasing health insurance coverage, affordability, and accessibility, as well as initiatives designed to protect the interests of policyholders through standardized products, digital advancements, grievance resolution systems, and clear operational guidelines. Moreover, the study assesses the effectiveness of IRDAI's governance structures in fostering transparency, accountability, and fair practices among insurers. The focus is on the Authority's role in promoting ethical market behavior, standardizing policy formats (such as Arogya Sanjeevani), enforcing portability and renewal standards, and enhancing grievance resolution through the Integrated Grievance Management System (IGMS) and the Insurance Ombudsman.

The research adopts a descriptive methodology, utilizing insights from IRDAI reports, regulatory frameworks, and secondary data sources to evaluate outcomes such as claim settlement ratios, consumer satisfaction, and trends in market growth. The findings indicate that IRDAI's regulatory and policy frameworks have greatly enhanced the credibility, inclusiveness, and transparency of India's health insurance landscape. Nevertheless, challenges remain in achieving greater penetration in rural areas, affordability for low-income populations, and efficient claim processing. The study concludes by emphasizing the necessity for adaptive regulatory reforms, improved digital governance, and increased consumer awareness to ensure sustainable development and equity within the Indian health insurance sector.

Key Words: IRDAI, Regulating Framework and Health Insurance Sector.

I. INTRODUCTION

India's insurance sector is among the fastest-growing industries, propelled by increasing incomes, heightened financial awareness, and favourable regulations. It stands as the fifth largest life insurance market in emerging economies, experiencing an annual growth rate of 32-34%. Over the last nine years (up to March 2024), the sector has drawn nearly US\$ 6.5 billion (Rs. 54,000 crore) in Foreign Direct Investment (FDI), bolstered by progressive policies. The industry consists of 57 companies, including 24 life insurers and 34 non-life insurers, with LIC serving as the only public life insurer and six public sector non-life insurers. GIC Re is recognized as the sole national reinsurer. Distribution channels encompass corporate and individual agents, brokers, surveyors, and third-party administrators, with a rapid expansion in digital adoption.

The Indian health insurance industry has experienced significant growth over the last twenty years, transforming from a limited service primarily provided by public insurers to a varied and competitive marketplace that includes both public and private entities. This change has been propelled by escalating healthcare expenses, heightened awareness regarding health coverage, and policy reforms that promote insurance penetration. At the heart of this regulatory structure is the Insurance Regulatory and Development Authority of India (IRDAI) the statutory organization created under the IRDA Act of 1999, which is tasked with the dual responsibility of regulating and developing the insurance sector.

In the realm of health insurance, the role of IRDAI goes beyond simple regulation; it includes ensuring consumer protection, encouraging fair market practices, enhancing competition, and supporting

innovation. Considering the intricacies of healthcare financing in India, the policies of IRDAI have a substantial impact not only on insurers but also on healthcare providers and the insured populace. This research examines the policy and governance frameworks through which IRDAI oversees the health insurance sector and assesses its effectiveness in reconciling market efficiency with consumer welfare.

II. REVIEW OF LITERATURE

The regulation and advancement of health insurance in India have been extensively examined in academic, policy, and institutional literature. The following review encapsulates significant contributions pertinent to the current study:

Initial studies by Bhat (1999) and Mahal (2002) highlighted the limited penetration of health insurance in India, attributing this to low levels of awareness and insufficient regulatory frameworks. The liberalization of the economy and the formation of the IRDA in 1999 marked a transformative change in the insurance sector.

As noted by Kannan and Pal (2013), the IRDAI has been crucial in fostering transparency and safeguarding consumer interests through the implementation of standardized policies and grievance redressal systems.

Rao (2016) further emphasized that the interventions by IRDAI, including guidelines on health insurance portability, product standardization, and digital initiatives, have bolstered market stability and enhanced consumer confidence.

Singh (2018) pointed out that the “Health Insurance Regulations, 2016” established by IRDAI were vital in outlining essential elements such as claim settlement timelines, disclosure requirements, and equitable underwriting practices. In a similar vein,

Desai (2020) contended that IRDAI’s initiatives regarding standard health policies (such as the Arogya Sanjeevani Policy) have increased accessibility and awareness among middle- and low-income demographics.

Recent research, including reports from NITI Aayog (2021) and the IRDAI Annual Reports, underscores IRDAI’s developmental mandate—promoting innovation, digitalization, and micro-insurance offerings. Nevertheless, challenges remain concerning

regulatory adherence, affordability, and the pursuit of universal health coverage.

The literature indicates that while IRDAI has achieved notable advancements in fostering a structured and consumer-centric insurance framework, there are still gaps in coverage, awareness, and policy execution—presenting a research opportunity to assess its effectiveness through a policy and governance lens.

III. NEED FOR THE STUDY

Health insurance in India continues to be underutilized, despite various policy initiatives and regulatory support. Reports from the IRDAI and national health surveys indicate that a significant portion of the population still experiences financial difficulties due to out-of-pocket healthcare costs. This highlights the necessity for effective regulation and policy guidance. Therefore, this study is crucial for policymakers, academics, insurers, and health economists who aim to understand the changing dynamics of India’s health insurance governance framework.

IV. OBJECTIVE OF THE STUDY

The following are main objectives of study

1. To study the regulatory framework established by the IRDAI that governs the health insurance sector in India.
2. To examine the policy initiatives implemented by IRDAI aimed at enhancing health insurance penetration and safeguarding consumer interests.
3. The effectiveness of the governance mechanisms employed by IRDAI in promoting transparency, accountability, and equitable practices.

Research Design:

This research employs a descriptive research design that integrates both qualitative and quantitative methods to examine the regulatory and promotional functions of IRDAI in the health insurance sector. The study is fundamentally descriptive, concentrating on the analysis of policies, regulations, and governance mechanisms that IRDAI has implemented within the health insurance domain. Secondary data has been gathered from IRDAI's annual reports, government publications, policy documents, journal articles, and reputable online databases. The gathered secondary

data is analyzed through content analysis and trend analysis to assess the effects of IRDAI's regulatory actions on market performance, consumer protection, and policy outcomes. The research emphasizes developments from 2000 to 2025, particularly during the post-liberalization period when private sector involvement and IRDAI's policy interventions became increasingly significant.

Regulatory Framework of IRDAI that governs the health insurance sector in India

The regulatory framework governing health insurance under the IRDAI is established by the IRDA Act of 1999 and the Insurance Act of 1938, which ensures transparency and safeguards the interests of policyholders. Key components of this framework include the licensing of insurers, the establishment of standards for product design and claims settlement, the assurance of financial solvency, and the creation of grievance redressal mechanisms. The overarching goal of this framework is to foster competition, promote fair pricing, and encourage innovation, while also increasing insurance penetration in areas that are currently underserved.

Regulatory Functions

- **Licensing and oversight:** The IRDAI is responsible for licensing insurance companies and intermediaries, overseeing their business operations to ensure compliance with financial and conduct-of-business regulations.
- **Product approval:** All health insurance products, along with their terms and conditions, pricing, and exclusions, must receive approval from the IRDAI prior to being offered to the public.
- **Financial solvency:** The IRDAI establishes prudential norms to ensure financial soundness, which includes requirements for capital adequacy, reserve levels, and solvency margins, thereby ensuring that insurers can fulfil their liabilities.
- **Market conduct:** Regulations are in place to govern advertising and marketing practices, aimed at preventing misselling and protecting policyholders from unfair treatment.

Policyholder protection

- **Claims settlement:** The established framework guarantees a swift and effective process for the

resolution of claims and offers a system for the rapid handling of complaints.

- **Policy terms:** It safeguards policyholders by defining standards for essential contract components such as nomination, insurable interest, and the determination of claim values, as stated by Testbook and Bajaj General Insurance.
- **No Denial on Renewal:** After a health insurance policy is issued and consistently renewed without interruption, the insurer is prohibited from denying renewal based on the policyholder's age.

Recent developments and initiatives

- **Increasing penetration:** The IRDAI is dedicated to broadening insurance access to rural and underserved communities.
- **Technological adoption:** Efforts such as regulatory sandboxes and digital platforms are implemented to foster innovation within the sector while ensuring consumer protection.
- **FDI limit increase:** The foreign direct investment (FDI) cap in the insurance industry was elevated from 49% to 74% in 2021, which is anticipated to attract additional capital and technology into the sector.
- **Product simplification:** There has been an initiative to streamline insurance products to enhance public comprehension.

Policy Initiatives by IRDAI enhancing Health Insurance Penetration & Consumer Interests

The Insurance Regulatory and Development Authority of India (IRDAI) has launched a series of policy initiatives aimed at significantly enhancing health insurance penetration and fortifying consumer protection. The primary initiatives concentrate on improving accessibility, standardizing products, streamlining claims processes, and increasing transparency.

Initiatives to Promote Health Insurance Penetration

- **"Insurance for All by 2047" Vision:** The overarching objective of IRDAI is to ensure that every citizen has suitable coverage, which drives its reforms with a strong emphasis on reaching under-penetrated rural regions.
- **Removal of Entry Age Limits:** Insurers are now prohibited from imposing an upper age limit for the purchase of new health insurance policies,

thereby making coverage more accessible for senior citizens and the elderly who previously encountered restrictions.

- **Mandatory Coverage for Severe Conditions:** Insurers are not allowed to deny coverage to individuals with severe pre-existing conditions such as cancer, heart disease, renal failure, and AIDS, thereby promoting inclusivity.
- **Standardized Products:** The introduction of standardized products like "Arogya Sanjeevani", which feature uniform terms and conditions across different insurers, simplifies the purchasing decision for first-time buyers and facilitates easier comparison.
- **Rural Outreach Programs:** Initiatives such as "Bima Vahak" aim to engage women entrepreneurs in remote areas to foster trust and awareness, while "Bima Vistaar" is focused on developing affordable, comprehensive coverage for the rural population.
- **Promotion of Government Schemes:** IRDAI endorses the implementation of government-sponsored schemes like Pradhan Mantri Jan Arogya Yojana (PM-JAY), which provide low-cost health coverage to marginalized segments of society, thereby broadening the overall reach.
- **Digital Integration:** By mandating comprehensive technology solutions, including the forthcoming "Bima Sugam" online portal (a centralized platform for policy purchases, claims, etc.), the aim is to streamline processes, reduce operational costs, and enhance digital penetration.

Initiatives for Consumer Protection

- **Reduced Waiting Periods:** The maximum waiting duration for pre-existing conditions and certain procedures has been shortened from four years to a maximum of three years, enabling policyholders to obtain coverage more quickly.
- **"Cashless Everywhere" Initiative:** This initiative permits policyholders to receive cashless treatment at any hospital, not limited to those within the insurer's network, thereby alleviating financial pressure during emergencies.
- **Faster Claim Settlements:** Insurers are now required to make decisions on cashless authorization requests within one hour and to finalize authorization at discharge within three

hours. In instances of delayed claims, insurers are obligated to pay interest.

- **Reduced Moratorium Period:** The moratorium period (after which claims cannot be denied for non-disclosure unless fraud is established) has been decreased from eight years to five years, offering enhanced security to long-term policyholders.
- **Full AYUSH Coverage:** Sub-limits on treatments under AYUSH (Ayurveda, Yoga, Naturopathy, Unani, Siddha, Homoeopathy) have been eliminated, with coverage extended up to the full sum insured, providing more comprehensive healthcare options.
- **Stronger Grievance Redressal:** The IRDAI has mandated a specific support channel for complaints from senior citizens and requires insurers to adhere to Insurance Ombudsman awards within 30 days, or face penalties.
- **Transparency and Standardization of Terms:** By standardizing definitions and policy language and requiring the disclosure of essential performance data (such as claim settlement ratios) on websites, the IRDAI ensures that consumers can make well-informed decisions.

Effectiveness of the Governance Mechanisms employed by IRDAI in Promoting Transparency, Accountability, and Equitable Practices

The governance mechanisms of the Insurance Regulatory and Development Authority of India (IRDAI) are notably effective in promoting transparency, accountability, and equitable practices. By implementing a thorough regulatory framework, exercising stringent enforcement powers, and establishing strong policyholder protection measures, IRDAI has successfully cultivated a more trustworthy and consumer-focused insurance market.

V. MECHANISMS AND THEIR EFFECTIVENESS

Transparency

- **Mandatory Disclosures:** The IRDAI mandates that insurance companies disclose all policy terms, conditions, benefits, exclusions, and charges in a clear and comprehensible manner at the outset. This requirement helps to eliminate

hidden clauses and enables policyholders to make well-informed decisions.

- **Public Reporting:** Insurers are required to publish their annual financial reports and key performance indicators, including the claim settlement ratio (CSR), on their websites. Additionally, the IRDAI publishes these ratios on its official website, facilitating easy comparisons and informed choices for consumers.
- **Product Approval:** All insurance products must receive approval from the IRDAI prior to their market introduction, ensuring that they are fair and not misleading.

Accountability:

- **Licensing and Regulation:** Only entities that are financially stable and competent are granted licenses to operate, and these licenses may be suspended or revoked for failure to comply with regulations.
- **Inspections and Audits:** The IRDAI performs regular inspections and audits of insurers' operations and financial status to ensure adherence to regulations and to identify any irregularities or fraudulent activities.
- **Penalties:** The authority possesses the ability to impose severe penalties, ranging from monetary fines to restrictions on business operations, on companies that breach regulations, serving as a significant deterrent against malpractice.
- **Corporate Governance Norms:** The newly established IRDAI (Corporate Governance for Insurers) Regulations, 2024, formalize and enhance the requirements for board independence, risk management, and the responsibilities of key managerial personnel, thereby directly improving internal accountability.

Fair Practices:

- **Grievance Redressal Mechanisms:** The IRDAI requires that all insurers implement dedicated internal grievance redressal systems. Should a policyholder be dissatisfied, they have the option to escalate their complaint to the Integrated Grievance Management System (IGMS) portal or the independent Insurance Ombudsman, whose decisions are binding on the insurer up to a specified claim value.

- **Fair Claims Settlement:** The IRDAI closely supervises the claims settlement process and enforces strict deadlines for claim resolution. Insurers may incur penalties, including interest payments, for unjustified delays.
- **Protection Against Mis-selling:** It is mandated that agents receive adequate training and comply with ethical selling standards, including the provision of "cooling-off periods" that allow policyholders to cancel inappropriate policies.
- **Standardization:** The introduction of standardized terms and definitions for different products (such as health insurance) has been implemented, which minimizes confusion and helps to avoid unfair conditions.

The proactive and adaptive regulatory framework established by IRDAI has greatly improved trust and confidence in the Indian insurance industry by successfully balancing market growth with strong protection for policyholders.

VI. CONCLUSION

The research indicates that the Insurance Regulatory and Development Authority of India (IRDAI) has been instrumental in shaping, regulating, and fortifying the health insurance sector in India. By implementing a comprehensive regulatory framework, IRDAI has set forth explicit guidelines for product design, pricing, claim management, and solvency, thus ensuring stability, accountability, and consumer protection within the insurance market.

The Authority's policy initiatives, including the launch of standard health products (Arogya Sanjeevani Policy), provisions for portability and renewability, COVID-specific insurance schemes, and digitalization efforts such as e-insurance accounts, have greatly improved the accessibility and reliability of health insurance in India. Additionally, grievance redressal mechanisms like the Integrated Grievance Management System (IGMS) and the Insurance Ombudsman have empowered consumers and fostered public trust in the system.

Nevertheless, in spite of these accomplishments, the sector still grapples with challenges such as low rural penetration, affordability issues, limited consumer awareness, and delays in claim settlements. Furthermore, inconsistent enforcement and operational inefficiencies among insurers and

intermediaries frequently undermine the intended effects of IRDAI's reforms. To attain inclusive and sustainable growth, there is a pressing need for ongoing policy refinement, technological advancements, and enhanced consumer education.

VII. RECOMMENDATIONS

- **Enhance Rural and Low-Income Coverage:** Promote micro-insurance and community-based health insurance models to broaden coverage in rural areas and economically disadvantaged groups. Collaborate with state governments and public health initiatives to expand coverage under social insurance programs.
- **Improve Affordability and Product Diversity:** Encourage insurers to create tailored, low-premium plans that include essential benefits. Implement subsidies or tax incentives to make health insurance more accessible for first-time purchasers.
- **Strengthen Digitalization and Data Transparency:** Broaden the use of digital policy issuance, claim tracking, and fraud detection systems by leveraging AI and blockchain technologies. Require public disclosure of insurer performance metrics, including claim settlement ratios, complaint resolution times, and solvency statuses.
- **Streamline Grievance Redressal Mechanisms:** Consolidate IGMS, Ombudsman, and insurer-level grievance systems into a unified online platform. Set strict deadlines for claim settlements and establish penalty measures for unjustified delays.
- **Promote Consumer Awareness and Financial Literacy:** Implement nationwide awareness initiatives through digital and traditional media to inform citizens about policy features, rights, and claims processes. Advocate for the inclusion of insurance education in school and college curricula.
- **Strengthen Governance and Regulatory Oversight:** Conduct regular audits of insurers and intermediaries to ensure adherence to ethical standards. Introduce risk-based supervision and data-driven regulatory monitoring to facilitate early identification of compliance issues.
- **Encourage Innovation and Collaboration:** Support regulatory sandboxes for the experimentation of

new health insurance models, such as telemedicine-linked coverage and pay-as-you-go policies.

Promote collaboration among IRDAI, healthcare providers, and technology companies to develop integrated, transparent, and efficient service networks.

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