

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
RAJYA SABHA
STARRED QUESTION NO. 76

TO BE ANSWERED ON TUESDAY, 11th FEBRUARY, 2025/MAGHA 22, 1946 (SAKA)

SAFEGUARDING THE INVESTMENTS OF POLICYHOLDERS

***76 Dr. AJEET MADHAVRAO GOPCHADE:**

Will the Minister of FINANCE be pleased to state:

- (a) the action taken by the Ministry in collaboration with all relevant stakeholders to safeguard the investments of policyholders, if a life insurance company faces bankruptcy;
- (b) whether Government has assessed the international regulations concerning this issue, if so, the details thereof;
- (c) whether IRDA is overseeing the activities of domestic life insurance firms, if so, the details thereof; and
- (d) the number of directives issued by IRDA to life insurance companies, the corrective measures taken by the companies in response to these directives over the past three years?

Answer

THE FINANCE MINISTER
(SMT. NIRMALA SITHARAMAN)

(a) to (d) : A Statement is laid on the Table of the House.

Statement as referred to in reply to part (a) to (d) of Rajya Sabha Starred Question No. *76 for February 11, 2025/ 22 Magha, 1946 (Saka) regarding “Safeguarding the Investments of Policyholders” by Dr. Ajeet Madhavrao Gopchade, Hon’ble Members of Parliament

(a) to (d) : In order to protect the interests of policyholders in instances where a life insurance company is facing financial difficulties or bankruptcy, the Insurance Act 1938 and IRDAI regulations inter alia prescribe separation of policyholders’ and shareholders’ funds of an insurance company so that the assets of policyholders’ funds shall be kept distinct and separate from all other assets of the insurer. Policyholders’ funds are meant exclusively for meeting insurance-related obligations, such as claim payments, surrender values, maturity benefits, and bonuses.

The Insurance Act, 1938 provides that every insurer and reinsurer shall at all times maintain solvency margin higher than the controlled levels of solvency, which currently is 150 per cent of Required Solvency Margin. The investment norms prescribed in Insurance Act, 1938 and IRDAI Regulations govern insurers’ investments with an aim to ensure safety and liquidity to protect policyholders’ interests. The aforesaid prescribe the instruments viz- government securities, infrastructure and social sector, corporate bonds etc. wherein the insurer’s assets may be invested and also the limits of such investments.

Regular risk assessment and compliance audits are also conducted by insurance companies as per IRDAI Regulations. IRDAI also seeks submission of various quarterly and annual returns by insurers periodically. Transparency is ensured through public disclosure provisions mandated by IRDAI. Further, IRDAI regularly monitors insurers through supervisory oversight such as off-site and on-site inspections to check solvency ratios, governance practices, and financial health. During last three years, IRDAI has conducted a total of 154 such onsite inspections. Post-inspection, the report is shared with the insurer and responses of the insurer are examined for necessary regulatory actions.

Regulatory action by IRDAI could be in the form of issuance of advisories, corrective actions, cautions, warnings, penalties, directions, based on the submissions made by the insurer and the underlying severity of the issues observed.

Details of Regulatory Actions taken by IRDAI in last 3 years

S. No	Nature of Regulatory Action	No. of Observations		
		2021-22	2022-23	2023-24
1	Advisory	261	322	577
2	Direction	100	42	16
3	Caution	139	142	260
4	Warning	6	0	0
5	Penalty	18	0	3
Total		524	506	856

If IRDAI has reasons to believe that an insurer carrying on life insurance business is acting in a manner likely to be prejudicial to the interests of policyholders, it may, after giving such opportunity to the insurer to be heard, appoint an Administrator to manage the affairs of the insurer under the direction and control of the Authority. IRDAI may further transfer the company’s insurance portfolio to another insurer so as to ensure that policyholders continue to receive services. The regulator also has the power to direct capital infusion, restrict asset disposal and take other appropriate measures to safeguard policyholders.

Further, India, as a member of the Financial Stability Board (FSB) and the G20, is committed to adopting international best practices in a phased manner while taking in to consideration the local conditions. IRDAI actively engages with international regulatory bodies such as the International Association of Insurance Supervisors (IAIS) and participates in standard-setting discussions and peer reviews.