



This is an Open Access article distributed under the terms of the Creative Commons Attribution-Non-Commercial-Share Alike 4.0 International (CC-BY-NC-SA 4.0) License, which permits unrestricted non-commercial use, distribution, and reproduction in any medium provided the original work is properly cited.

---

## Market Failures and Regulatory Oversight in India: A Socio-Legal and Economic Analysis of Judicial Interventions in the Insurance Sector

Ishita Sharma<sup>a</sup>

<sup>a</sup>CHRIST (Deemed to be University), Central Campus, Bangalore, India

*Received 26 May 2025; Accepted 27 June 2025; Published 01 July 2025*

---

*The author of this paper aims to shed light on the economic failures caused by the increase in complex transactions and how intervention by key regulatory bodies in India helps prevent them, specifically in the insurance sector. By scrutinising landmark cases such as National Insurance Company Limited v Competition Commission of India and New India Assurance Co. Ltd. v M/S Mudit Roadways, the study elucidates how regulatory entities, including the Competition Commission of India (CCI), National Consumer Disputes Redressal Commission (NCDRC), and the Supreme Court, address and correct market inefficiencies. Along with deliberating on the critical analysis of these cases, some prevalent economic issues, such as cartelization, collusion, information asymmetry, and the unfairness arising from market dominance, are also discussed, connecting them to foundational economic theories, including game theory, adverse selection, and moral hazard. Furthermore, the inclusion of graphs, in the form of images, has simplified the theoretical underpinnings of the classical economic concepts relevant to the discussion of the case. The analysis underscores the regulators' pivotal role in safeguarding consumer rights, promoting economic justice, and ensuring fair competition. The paper ends by proposing measures to reinforce institutional structures, enhance market transparency, and empower consumers, emphasising that robust regulatory oversight is essential for building trust, promoting efficiency, and ensuring fairness in India's dynamic economic environment.*

**Keywords:** *insurance sector, economic efficiency, consumer empowerment, justice, equity.*

---

## INTRODUCTION

A 'Market' refers to any space, physical or virtual, where buyers and sellers engage in the exchange of goods or services. Classical economic thinkers viewed markets as self-regulating entities governed by the principles of supply and demand. While Keynesian economic thinkers postulate that modern realities expose such a space to frequent distortions and failures.<sup>1</sup> These failures are the result of information asymmetry, moral hazard, adverse selection, and regulatory arbitrage, particularly found in complex economic sectors like insurance.

The insurance industry, by its very nature, relies on trust, risk assessment, and equitable contract enforcement. However, the sector is especially vulnerable to internal rigging, collusion and cartelization, along with manipulation by powerful stakeholders, be it through opaque policy structures, denial of legitimate claims, or unethical premium practices. Although the insurance companies have internal mechanisms such as risk-based pricing, data analytics and actuarial warnings along with underwriting standards of their own, it has mostly failed to address the contemporary failures due to increased internal settings and power play within the workings of such companies. Such internally corruptive instances have led to entrusting external watchdogs to prevent the economic failures that take place within the insurance market.

Bodies like the Competition Commission of India and Consumer Dispute Redressal Commission at the national, state, to local levels ensure that the economic efficiency of the market is preserved and maintained while the consumer interest is safeguarded at all times. These institutions intervene when failures result in denied claims or cartelized pricing. With powers to investigate, penalise, and enforce compliance, they uphold accountability and trust to maintain sustainable growth in a rapidly evolving economic landscape. Such institutions, through their dynamic functioning and righteous approach, instil a sense of hope and trust within the consumer spectrum that their interests and call for justice are not left unheard.

---

<sup>1</sup> Henry Hazlitt, *The Critics of Keynesian Economics* (Kessinger Publishing 1960)

## CASE STUDIES ON MARKET CORRECTIONS THROUGH JUDICIAL AND QUASI-JUDICIAL OVERSIGHT IN INDIA

Market Failure in the insurance industry has emerged as a socio-legal issue since its consequences have led to adverse effects on societal welfare, unfairness, and justice. This section would constitute two prominent cases of market failure and how intervention by the regulatory bodies helps in preventing the abuse of consumers caused due to the internal play of powerful market organisations.

One such prominent case was<sup>2</sup> the National Insurance Company Limited v Competition Commission of India. The facts of the case revolve around how an investigation by the Director General of CCI in September 2013 was conducted based on an anonymous complaint filed against the four major public sector insurance companies, namely, National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited. It was alleged through the complaint that the above four listed companies had manipulated the bidding process for the Rashtriya Swasthya Bima Yojana (RSBY) and the Comprehensive Health Insurance Scheme (CHIS) in Kerala.<sup>3</sup>

The inquiry revealed that the above-listed companies colluded to rig bids in response to the tender issued by the Government of Kerala. They decided to share profits and made the United India Insurance Company Limited the official bidder to secure a higher bid annually from the government to avoid regulatory oversight. They planned a strategy wherein the official bidder (UIIC) would rescind the insurance contract almost every subsequent year to increase the premium amount and charge greater rent from the government instead of continuing to provide affordable insurance to the needy at an affordable rate to gain profits. Consequently, through further evidence finding and investigation, the CCI found the insurers guilty of bid-rigging, violating Section 3(1) read with Section 3(3)(d) of the

---

<sup>2</sup> *In Re: Cartelization by public sector insurance companies in rigging the bids submitted in response to the tenders floated by the Government of Kerala for selecting insurance service provider for Rashtriya Swasthya Bima Yojna. v National Insurance Co. Ltd. and Ors* CCI Suo Moto Case No 02/2014

<sup>3</sup> 'CCI fines 4 PSU insurers ₹671 crore' *The Times of India* (New Delhi, 17 July 2015) <<https://timesofindia.indiatimes.com/business/india-business/cci-fines-4-psu-insurers-rs-671-crore/articleshow/48105849.cms>> accessed 24 May 2025

Competition Act, 2002.<sup>4</sup> The Commission imposed a penalty calculated at 2% of each company's average turnover for the preceding three financial years and directed them to desist from such anti-competitive practices.

Another such prominent case<sup>5</sup> was *The New India Assurance Co. Limited v M/S Mudit Roadways*. The facts of the case centre around an insurance claim dispute following a warehouse fire that ignited in the respondent's warehouse located in the state of Maharashtra. The respondent bought several insurance policies from the appellant, and one of them was the fire insurance policy.

When the respondent filed an insurance claim, the appellant denied such a claim based on two reasons that 1) the warehouse was not covered under the insurance policy in question, and 2) the fire ignited due to the negligence of the respondent's welding operation on the roof of the warehouse and not through the causes covered under the scheme. When the respondent filed a case in the NCDRC, they reasoned through thorough investigations that seven out of nine reports by the insurer revealed that the cause of fire was the short circuit that took place in the warehouse and not the welding operations at the rooftop, hence ordered the appellate court to provide the claimed amount to the respondent. Dissatisfied with the commission's decision, the appellant approached the Supreme Court.

## DISCUSSION ABOUT THE CASE

The case of *National Insurance Company Limited v Competition Commission of India*<sup>6</sup> highlights how just an anonymous complaint filed against the four public insurance companies is considered to be worthy of assessment and investigation. It highlights that the CCI treats PSUs the same way they do private enterprises. Despite the appellants' claims that they formed a single economic entity under common ownership (100% by the government) and should therefore be exempted from Section 3 of the Competition Act,<sup>7</sup> both the CCI and the COMPAT outrightly rejected them, noting that regulatory reforms have ensured

---

<sup>4</sup> Tripti Malu, 'Understanding Section 3 of Competition Act, 2002: Anti-Competitive Agreements' *TaxGuru* (22 September 2023) <<https://taxguru.in/corporate-law/competition-act-2002-section-3-anti-competitive-agreements.html>> accessed 24 May 2025

<sup>5</sup> *The New India Assurance Co. Limited v M/S Mudit Roadways* Civ Appl No 339/2023

<sup>6</sup> *National Insurance Company Limited v CCI* Appl No 94/2015

<sup>7</sup> Competition Act 2002, s 3

operational independence.<sup>8</sup> Further, it reinforces the concept that a parent company and its subsidiaries are not always considered a single entity, particularly if they make independent decisions of their own.

Moreover, the market failure highlighted from this case is collusion and cartelization, where the appellants engaged in bid rigging. Despite taking decisions independently or competing against each other, they decided to work together through shared profits, further restricting competition in the insurance market. Along with that, their allocative inefficiency leads to high costs to the consumers due to inflated premium rates, which further defeats the entire purpose of providing affordable medical facilities to the public at large.

The assessment of the facts and the types of market failure caused by the case leads the readers to understand the aptness and appropriateness of the judgment. The initial judgment by the CCI made the four public sector insurance companies guilty of bid-rigging and collusion under Section 3(3)(d)<sup>9</sup>, and imposed a penalty of 2% of their turnover. It was further appealed to the COMPAT by the appellants, who upheld the CCI's findings but reduced the penalty to 1% of their turnover. The penalty was calculated based on the gross premium received by United India, with proportional penalties on the other three companies. COMPAT acknowledged that since the firms were state-owned, the penalty should not overly burden public funds. Along with that, the defence of a single economic entity was also rejected by them. This further reveals that COMPAT, as a regulatory body, completely aligns with the assessment of the CCI but also understands the public faith attached to PSUs at large and how a percentage of 3% to be paid as a penalty would be borne by the ultimate consumers through the internal operations of these insurance companies.

In the other case of the *National India Assurance Limited v M/S Mudit Roadways*,<sup>10</sup> which was regarding a fire insurance claim, it shows how insurance companies are always willing to shove off their burden of paying the claimed amount to the insured through some other reason, regardless of the presence of evidence that validates such a claim. It's pertinent to note that the insurance company conducted a total of 9 checks to find the source of fire, in which 7 such checks resulted in claiming short circuit as the only reason, while the remaining

---

<sup>8</sup> Malu (n 4)

<sup>9</sup> Competition Act 2002, s 3(3)(d)

<sup>10</sup> *New India Assurance Co Ltd v M/s Mudit Roadways* Civ Appl No 339/2023

2 predicted the sparks emerging from the welding operations to be the reason for the same. The insurance company, rather than abiding by the majority evidence, favoured the one that disburdened them from paying the claimed amount. This represents how a lack of accountability and transparency is a major feature of insurance markets today.

Further, this case highlights some major market failures as discussed in the above facts, i.e., information asymmetry, since the insurance company had access to all the technical methods of finding the source of fire but still chose to opt for false means to avoid claim payment. Another such market failure that could be taken into study is the immense market power of the insurance companies, making the claim process lengthy and less approachable even to genuine customers. This further discourages small businesses and policyholders from seeking legal remedies due to unfairness.<sup>11</sup>As part of the judgment of this case, Justice Hrishikesh Roy and Justice Sanjay Karol penned that the precise cause of the fire, whether attributed to a short circuit or any other alternative, remains immaterial, provided the claimant is not the instigator of the fire.

By passing such a verdict, the ruling judges set forth a powerful precedent, especially in the cases of disputed fire insurance contracts, which is pertinent to understand is not how the fire was initiated, but by whom it was instigated. The SC ruled in favour of the appellant, further setting up a strengthened precedent that the insurance companies cannot get away with their responsibility of providing the claimed amount promptly upon basing their decision on inconclusive evidence that further harms small businesses and policyholders. Hence, the judgment seems to be apt and justified.

## **ECONOMIC THEORIES RELATED TO THE CASE**

After a fruitful assessment and analysis of the implications in the form of injustices and social challenges, along with identifying the kind of market failure caused, it's important to cover the economic aspect of the topic concerned to build a complete understanding.

The case of National Insurance Company Limited v Competition Commission of India<sup>12</sup> highlights various economic theories that could be inferred through the facts as well as the

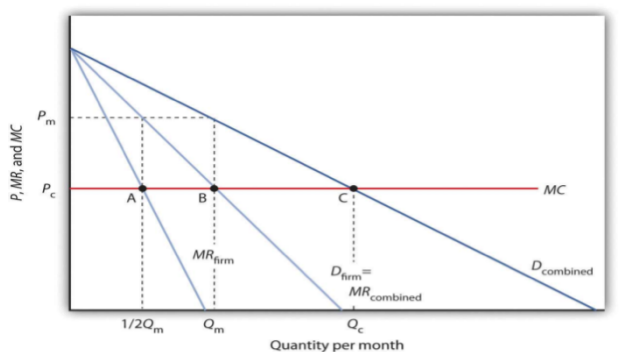
---

<sup>11</sup> *Ibid*

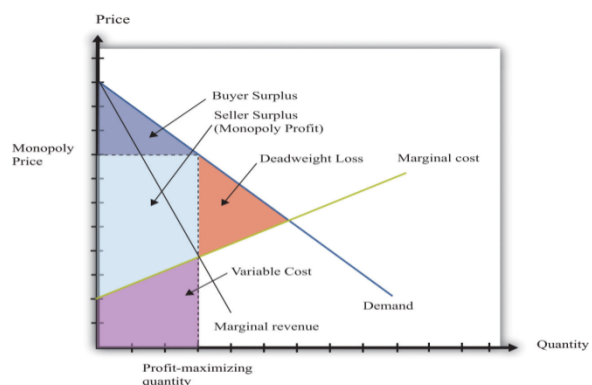
<sup>12</sup> *National Insurance Company Limited v CCI Appl No 94/2015*

investigations undertaken by the CCI. One such theory is the Cartel theory and Collusion.<sup>13</sup> (A cartel refers to a group of independent businesses or organisations that collaborate to manipulate the price of a product or service. Collusion, in this context, is the act of conspiring to increase economic benefit for the colluding parties, here, by fixing an increased premium to extract profits.) The four PSUs engaged in bid rigging and further manipulated the entire process to control the market outcomes. This further aligns with game theory, particularly the prisoner's dilemma, where firms find it easy to come together and share profit among them rather than competing with each other.

Another major economic theory highlighted was the market power and antitrust enforcement; the public insurers used their market position to engage in anti-competitive conduct, leading to inefficient allocation of resources and deadweight loss. The way those insurance companies initiated a tender every subsequent year, along with increased premium amounts, clearly portrays their intent to extract higher rents from the government instead of serving the people through a discounted and state-led insurance policy initiative.



**Cartel Theory and Collusion**

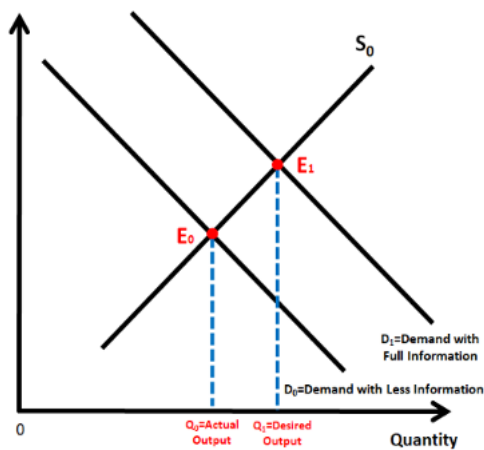


**Deadweight Loss**

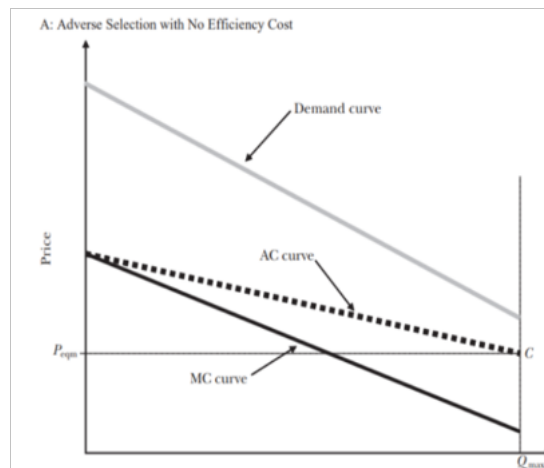
Another case, National India Assurance Limited v M/S Mudit Roadways, highlights some major economic theories that can be inferred from the facts, as well as the investigations undertaken by the NCDRC to provide the necessary claimed amount to the respondent. The economic theories of insurance, risk, and market inefficiency are inferred through this case. It majorly highlights the moral hazard theory, one of the consequences of information asymmetry (refers to limited information on the part of one or the other parties to an

<sup>13</sup> 'The Collusion Model' (Lumen Learning) <https://courses.lumenlearning.com/suny-microeconomics/chapter/the-collusion-model/> accessed 23 May 2025

economic transaction, a result of which leads the party with more information to take significant advantage and hides crucial information to gain benefits),<sup>14</sup> leading to market failure. There lies another consequence of information asymmetry, which is adverse selection.<sup>15</sup> Since the insurance company lacked sufficient knowledge about potential high-risk activities at the warehouse (such as welding on the roof). The economic principle of enforcing contractual obligations to ensure market efficiency was undermined when National India Assurance Limited failed to comply with the terms of a contract, leading to market inefficiency and uncertainty. This was subsequently corrected by the Supreme Court, which ordered the insurance company to pay the respondent the due claim amount.



**Information Asymmetry**



**Adverse Selection**

## CONCLUSION

It can be conclusively asserted from the above analysis that the regulatory agencies constituting the Indian Judiciary, along with the Competition Commission of India and other consumer redressal organisations, play a crucial role in addressing market failures and upholding economic integrity by reinforcing the principles of fairness and justice. The case analysis of National Insurance Company Limited v Competition Commission of India<sup>16</sup> and

<sup>14</sup> Saddique Ansari, 'Asymmetric Information' (*Economics Online*, 26 December 2022)

<<https://www.economicsonline.co.uk/definitions/asymmetric-information.html>> accessed 23 May 2025

<sup>15</sup> Nathaniel Hendren, 'Adverse Selection and Market Failure' (*MIT Economics*, 2023)

<[https://economics.mit.edu/sites/default/files/inline-files/lecture\\_8\\_-\\_adverse\\_selection\\_and\\_market\\_failures.pdf](https://economics.mit.edu/sites/default/files/inline-files/lecture_8_-_adverse_selection_and_market_failures.pdf)> accessed 23 May 2025

<sup>16</sup> *In Re: Cartelization by public sector insurance companies in rigging the bids submitted in response to the tenders floated by the Government of Kerala for selecting insurance service provider for Rashtriya Swasthya Bima Yojna. v National Insurance Co. Ltd. and Ors* (n 2)



National India Assurance Limited v M/S Mudit Roadways<sup>17</sup> highlights the judiciary and quasi-judicial bodies' commitment to mitigating market inefficiencies. Their assessment and decision not only highlight the unethical and opaque working of the insurance companies but also demonstrate their proactive stance and unwavering commitment towards ensuring that the ideals of truth and justice are never compromised.

## RECOMMENDATIONS

**Strengthen Regulatory Institutions:** Enhance the authority of bodies like the Competition Commission of India (CCI) to impose stronger monetary sanctions and conduct proactive scrutiny of enterprises to pre-empt economic failures.

**Foster Competition & Transparency in Insurance:** Implement measures to ensure greater competition and maintain rigorous oversight over both public and private insurance entities to prevent monopolistic or oligopolistic market structures.

**Improve Consumer Disclosure:** Mandate clear and comprehensive disclosure to consumers of key insurance details, including inclusions, exclusions, premium calculations, and claim procedures.

**Enhance Consumer Insurance Literacy:** Increase consumer awareness about insurance, especially in rural areas, through government camps and NGO engagement.

**Promote Legal Redressal Awareness:** Educate consumers on the available legal redressal mechanisms to address grievances related to market failures.

---

<sup>17</sup> *New India Assurance Co Ltd v M/s Mudit Roadways* Civ Appl No 339/2023