



बीमा विनियामक और विकास प्राधिकरण

**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

PRESS RELEASE

IRDA's Comments on the Detailed Assessment Report

The insurance sector in India was assessed by the World Bank and International Monetary Fund (IMF) on adherence to the Insurance Core Principles (ICPs) of IAIS in 2011. This was the first such exercise carried out by independent assessors. Prior to this, the insurance sector in India was subjected to self-assessment in the year 2007, under the aegis of the Ministry of Finance jointly with the Reserve Bank of India. The assessment carried out by the IMF/World Bank Team reflects improved level of compliance with the ICPs and significant progress made in the compliance post the self-assessment in 2009.

The Detailed Assessment Report (DAR) has commended the relatively well developed insurance regulation and supervisory architecture in India particularly in the areas of licensing, consumer protection, market oversight and transparency. The report also mentions that IRDA's on-going supervision of insurance companies and market is tight and displayed a strong level of control and that the insurance industry in India has relatively large footprint compared to other forms of financial intermediation given India's income levels, in comparison with analogous developing countries. This is particularly apparent when measured in terms of the total Assets under Management (AUM). The life AUM to GDP figure of 16.8 percent puts India in the same general range as a number of developed countries, although underlying drivers vary. India is a clear outperformer in terms of expected life insurance penetration, and is broadly in line with expectations in the non-life sector. While the preconditions of effective supervision are broadly met, it has been further commended that the IRDA is taking steps to address the various issues raised in the assessment report.

The report has commented on certain inadequacies with regard to incomplete oversight of the Life Insurance Corporation of India (LIC), lack of adequate enforcement powers with respect to monetary sanctions, lack of adequacy of reserves under the Indian Motor Third Party Pool of commercial vehicles, and de jure independence of the regulator. IRDA would like to assert that there is complete oversight on the LIC with regard to both market conduct and prudential regulations and that the Indian Third Party Motor Pool has been dismantled in the year 2012. Simultaneously, the concerns on valuation of non-life liabilities are being addressed by strengthening the stipulations for provisioning for Incurred but not reported (IBNR) and Incurred but not Enough Reported (IBNER) liabilities. With regard to the de jure independence, IRDA would like to assert that there is complete autonomy with regard to supervision and regulation of insurance sector in general and insurance

companies and intermediaries in particular. The enforcement powers are being strengthened in the proposed Insurance Laws (Amendment) Bill.

One of the recommendations of the DAR is putting in place a modern risk based early warning system. Given the high level of solvency at 150 per cent required to be maintained by insurers at all times, the Authority does not envisage the need for a ladder approach to the intervention levels. However, with a view to facilitating a risk based oversight, IRDA is looking at having in place the early warning signals (EWS) for the systemically important insurance groups, and is working closely with other regulators in the financial sector. As regards moving towards the risk based capital approach to solvency, IRDA is presently examining various issues related to the same and would take a view on adopting a standardized framework after deliberations with all stakeholders. As a first step an exposure draft has been released laying down the framework to assign risk weights to financial assets supporting insurance liabilities. While acknowledging that Fraud is a challenge to be met squarely, IRDA has laid down the regulatory framework on detection, classification, monitoring, reporting and mitigation of frauds.

The Insurance Regulatory and Development Authority (IRDA) welcomes the assessment carried out by the IMF-World Bank team. Assessed against the international experience, the observance standard was fairly satisfactory.

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(T.S.Vijayan)
Chairman
